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# Copyright Law: An Open Source Casebook

Gary Myers

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# **COPYRIGHT LAW:**

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## **AN OPEN SOURCE CASEBOOK**

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**BY GARY MYERS**  
**UNIVERSITY OF MISSOURI**  
**SCHOOL OF LAW**

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## CHAPTER 1

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### THE SUBJECT MATTER OF COPYRIGHT

■ ■ ■

#### A. USEFUL ARTICLES

##### **MAZER V. STEIN**

347 U.S. 201, 74 S.Ct. 460 (1954).

MR. JUSTICE REED delivered the opinion of the Court.

This case involves the validity of copyrights obtained by respondents for statuettes of male and female dancing figures made of semivitreous china. The controversy centers around the fact that although copyrighted as "works of art," the statuettes were intended for use and used as bases for table lamps, with electric wiring, sockets and lamp shades attached. [The defendant contended that the statuettes were not copyrightable because plaintiff intended to, and did, mass produce them and use them as lamp bases.]

\* \* \*

This Court once essayed to fix the limits of the fine arts. That effort need not be appraised in relation to this copyright issue. It is clear Congress intended the scope of the [1909] copyright statute to include more than the traditional fine arts. Herbert Putnam, Esq., then Librarian of Congress and active in the movement to amend the copyright laws, told the joint meeting of the House and Senate Committees:

\* \* \* "The term 'works of art' is deliberately intended as a broader specification than 'works of the fine arts' in the present statute with the idea that there is subject-matter (for instance, of applied design, not yet within the province of design patents), which may properly be entitled to protection under the copyright law."

The successive acts, the legislative history of the 1909 Act and the practice of the Copyright Office unite to show that "works of art" and "reproductions of works of art" are terms that were intended by Congress to include the authority to copyright these statuettes. Individual perception

of the beautiful is too varied a power to permit a narrow or rigid concept of art. \* \* \*

But petitioners assert that congressional enactment of the design patent laws should be interpreted as denying protection to artistic articles embodied or reproduced in manufactured articles. They say:

“Fundamentally and historically, the Copyright Office is the repository of what each claimant considers to be a cultural treasure, whereas the Patent Office is the repository of what each applicant considers to be evidence of the advance in industrial and technological fields.”

Their argument is that design patents require the critical examination given patents to protect the public against monopoly. Attention is called to *Gorham Mfg. Co. v. White*, 14 Wall. 511, interpreting the design patent law of 1842, 5 Stat. 544, granting a patent to anyone who by “their own industry, genius, efforts, and expense, may have invented or produced any new and original design for a manufacture \* \* \*.” A pattern for flat silver was there upheld. The intermediate and present law differs little. “Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor, . . .” subject generally to the provisions concerning patents for invention. § 171, 66 Stat. 805. As petitioner sees the effect of the design patent law:

“If an industrial designer can not satisfy the novelty requirements of the design patent laws, then his design as used on articles of manufacture can be copied by anyone.”

Petitioner has furnished the Court a booklet of numerous design patents for statuettes, bases for table lamps and similar articles for manufacture, quite indistinguishable in type from the copyrighted statuettes here in issue. Petitioner urges that overlapping of patent and copyright legislation so as to give an author or inventor a choice between patents and copyrights should not be permitted. We assume petitioner takes the position that protection for a statuette for industrial use can only be obtained by patent, if any protection can be given.

As we have held the statuettes here involved copyrightable, we need not decide the question of their patentability. Though other courts have passed upon the issue as to whether allowance by the election of the author or patentee of one bars a grant of the other, we do not. We do hold that the patentability of the statuettes, fitted as lamps or unfitted, does not bar copyright as works of art. Neither the Copyright Statute nor any other says that because a thing is patentable it may not be copyrighted. We should not so hold.

\* \* \* The copyright protects originality rather than novelty or invention—conferring only “the sole right of multiplying copies.” Absent copying there can be no infringement of copyright. Thus, respondents may

not exclude others from using statuettes of human figures in table lamps; they may only prevent use of copies of their statuettes as such or as incorporated in some other article. [Copyright Office] Regulation § 202.8, *supra*, makes clear that artistic articles are protected in “form but not their mechanical or utilitarian aspects.” *See Stein v. Rosenthal*, 103 F.Supp. 227, 231. The dichotomy of protection for the aesthetic is not beauty and utility but art for the copyright and the invention of original and ornamental design for design patents. We find nothing in the copyright statute to support the argument that the intended use or use in industry of an article eligible for copyright bars or invalidates its registration. We do not read such a limitation into the copyright law.

\* \* \*

“The copyright law, like the patent statutes, makes reward to the owner a secondary consideration.” *United States v. Paramount Pictures*, 334 U.S. 131, 158. However, it is “intended definitely to grant valuable, enforceable rights to authors, publishers, etc., without burdensome requirements; ‘to afford greater encouragement to the production of literary [or artistic] works of lasting benefit to the world.’” *Washingtonian Co. v. Pearson*, 306 U.S. 30, 36.

The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in “Science and useful Arts.” Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.

Affirmed.

### **STAR ATHLETICA, L.L.C. v. VARSITY BRANDS, INC.**

137 S. Ct. (2017).

JUSTICE THOMAS delivered the opinion of the Court.

Congress has provided copyright protection for original works of art, but not for industrial designs. The line between art and industrial design, however, is often difficult to draw. This is particularly true when an industrial design incorporates artistic elements. Congress has afforded limited protection for these artistic elements by providing that “pictorial, graphic, or sculptural features” of the “design of a useful article” are eligible for copyright protection as artistic works if those features “can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.” 17 U.S.C. § 101.

We granted certiorari to resolve widespread disagreement over the proper test for implementing § 101’s separate-identification and

independent-existence requirements. We hold that a feature incorporated into the design of a useful article is eligible for copyright protection only if the feature (1) can be perceived as a two- or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work—either on its own or fixed in some other tangible medium of expression—if it were imagined separately from the useful article into which it is incorporated. Because that test is satisfied in this case, we affirm.

## I

Respondents Varsity Brands, Inc., Varsity Spirit Corporation, and Varsity Spirit Fashions & Supplies, Inc., design, make, and sell cheerleading uniforms. Respondents have obtained or acquired more than 200 U.S. copyright registrations for two-dimensional designs appearing on the surface of their uniforms and other garments. These designs are primarily “combinations, positionings, and arrangements of elements” that include “chevrons ..., lines, curves, stripes, angles, diagonals, inverted [chevrons], coloring, and shapes.”

Petitioner Star Athletica, L.L.C., also markets and sells cheerleading uniforms. Respondents sued petitioner for infringing their copyrights in the five designs. The District Court entered summary judgment for petitioner on respondents’ copyright claims on the ground that the designs did not qualify as protectable pictorial, graphic, or sculptural works. It reasoned that the designs served the useful, or “utilitarian,” function of identifying the garments as “cheerleading uniforms” and therefore could not be “physically or conceptually” separated under § 101 “from the utilitarian function” of the uniform.

The Court of Appeals for the Sixth Circuit reversed. In its view, the “graphic designs” were “separately identifiable” because the designs “and a blank cheerleading uniform can appear ‘side by side’—one as a graphic design, and one as a cheerleading uniform.” And it determined that the designs were “‘capable of existing independently’” because they could be incorporated onto the surface of different types of garments, or hung on the wall and framed as art.

Judge McKeague dissented. He would have held that, because “identifying the wearer as a cheerleader” is a utilitarian function of a cheerleading uniform and the surface designs were “integral to” achieving that function, the designs were inseparable from the uniforms.

## II

\* \* \*

“Works of authorship” include “pictorial, graphic, and sculptural works,” § 102(a)(5), which the statute defines to include “two-dimensional and three-dimensional works of fine, graphic, and applied art, photographs, prints and art reproductions, maps, globes, charts, diagrams, models, and technical drawings, including architectural plans,” § 101. And a work of authorship is “‘fixed’ in a tangible medium of expression when it[ is] embodied[ed] in a” “material objec[t] ... from which the work can be perceived, reproduced, or otherwise communicated.” *Ibid.* (definitions of “fixed” and “copies”).

The Copyright Act also establishes a special rule for copyrighting a pictorial, graphic, or sculptural work incorporated into a “useful article,” which is defined as “an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information.” *Ibid.* The statute does not protect useful articles as such. Rather, “the design of a useful article” is “considered a pictorial, graphical, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.” *Ibid.*

Courts, the Copyright Office, and commentators have described the analysis undertaken to determine whether a feature can be separately identified from, and exist independently of, a useful article as “separability.” In this case, our task is to determine whether the arrangements of lines, chevrons, and colorful shapes appearing on the surface of respondents’ cheerleading uniforms are eligible for copyright protection as separable features of the design of those cheerleading uniforms.

## A

As an initial matter, we must address whether separability analysis is necessary in this case.

### 1

Respondents argue that “[s]eparability is only implicated when a [pictorial, graphic, or sculptural] work is the ‘design of a useful article.’” They contend that the surface decorations in this case are “two-dimensional graphic designs that appear on useful articles,” but are not themselves designs of useful articles. Consequently, the surface decorations are protected two-dimensional works of graphic art without

regard to any separability analysis under § 101. See 2 W. Patry, Copyright § 3:151, p. 3–485 (2016) (Patry) (“Courts looking at two-dimensional design claims should not apply the separability analysis regardless of the three-dimensional form that design is embodied in”). Under this theory, two-dimensional artistic features on the surface of useful articles are “inherently separable.”

This argument is inconsistent with the text of § 101. The statute requires separability analysis for any “pictorial, graphic, or sculptural features” incorporated into the “design of a useful article.” “Design” refers here to “the combination” of “details” or “features” that “go to make up” the useful article. 3 Oxford English Dictionary 244 (def. 7, first listing) (1933) (OED). Furthermore, the words “pictorial” and “graphic” include, in this context, two-dimensional features such as pictures, paintings, or drawings. See 4 id., at 359 (defining “[g]raphic” to mean “[o]f or pertaining to drawing or painting”); 7 id., at 830 (defining “[p]ictorial” to mean “of or pertaining to painting or drawing”). And the statute expressly defines “[p]ictorial, graphical, and sculptural works” to include “two-dimensional … works of … art.” § 101. The statute thus provides that the “design of a useful article” can include two-dimensional “pictorial” and “graphic” features, and separability analysis applies to those features just as it does to three-dimensional “sculptural” features.

\* \* \*

## B

We must now decide when a feature incorporated into a useful article “can be identified separately from” and is “capable of existing independently of” “the utilitarian aspects” of the article. This is not a free-ranging search for the best copyright policy, but rather “depends solely on statutory interpretation.” *Mazer v. Stein*, 347 U.S. 201 (1954). “The controlling principle in this case is the basic and unexceptional rule that courts must give effect to the clear meaning of statutes as written.” *Estate of Cowart v. Nicklos Drilling Co.*, 505 U.S. 469, 476 (1992). We thus begin and end our inquiry with the text, giving each word its “ordinary, contemporary, common meaning.” *Walters v. Metropolitan Ed. Enterprises, Inc.*, 519 U.S. 202, 207 (1997) (internal quotation marks omitted). We do not, however, limit this inquiry to the text of § 101 in isolation. “[I]nterpretation of a phrase of uncertain reach is not confined to a single sentence when the text of the whole statute gives instruction as to its meaning.” *Maracich v. Spears*, 133 S.Ct. 2191, 2203 (2013). We thus “look to the provisions of the whole law” to determine § 101’s meaning. *United States v. Heirs of Boisdore*, 8 How. 113, 122 (1849).

The statute provides that a “pictorial, graphic, or sculptural featur[e]” incorporated into the “design of a useful article” is eligible for copyright protection if it (1) “can be identified separately from,” and (2) is “capable of existing independently of, the utilitarian aspects of the article.” § 101. The first requirement—separate identification—is not onerous. The decisionmaker need only be able to look at the useful article and spot some two- or three-dimensional element that appears to have pictorial, graphic, or sculptural qualities. *See* 2 Patry § 3:146, at 3–474 to 3–475.

The independent-existence requirement is ordinarily more difficult to satisfy. The decisionmaker must determine that the separately identified feature has the capacity to exist apart from the utilitarian aspects of the article. *See* 2 OED 88 (def. 5) (defining “[c]apable” of as “[h]aving the needful capacity, power, or fitness for”). In other words, the feature must be able to exist as its own pictorial, graphic, or sculptural work as defined in § 101 once it is imagined apart from the useful article. If the feature is not capable of existing as a pictorial, graphic, or sculptural work once separated from the useful article, then it was not a pictorial, graphic, or sculptural feature of that article, but rather one of its utilitarian aspects.

Of course, to qualify as a pictorial, graphic, or sculptural work on its own, the feature cannot itself be a useful article or “[a]n article that is normally a part of a useful article” (which is itself considered a useful article). § 101. Nor could someone claim a copyright in a useful article merely by creating a replica of that article in some other medium—for example, a cardboard model of a car. Although the replica could itself be copyrightable, it would not give rise to any rights in the useful article that inspired it.

The statute as a whole confirms our interpretation. The Copyright Act provides “the owner of [a] copyright” with the “exclusive righ[t] ... to reproduce the copyrighted work in copies.” § 106(1). The statute clarifies that this right “includes the right to reproduce the [copyrighted] work in or on any kind of article, whether useful or otherwise.” § 113(a). \*1011 Section 101 is, in essence, the mirror image of § 113(a). Whereas § 113(a) protects a work of authorship first fixed in some tangible medium other than a useful article and subsequently applied to a useful article, § 101 protects art first fixed in the medium of a useful article. The two provisions make clear that copyright protection extends to pictorial, graphic, and sculptural works regardless of whether they were created as freestanding art or as features of useful articles. The ultimate separability question, then, is

whether the feature for which copyright protection is claimed would have been eligible for copyright protection as a pictorial, graphic, or sculptural work had it originally been fixed in some tangible medium other than a useful article before being applied to a useful article.

## 3

This interpretation is also consistent with the history of the Copyright Act. In *Mazer*, a case decided under the 1909 Copyright Act, the respondents copyrighted a statuette depicting a dancer. The statuette was intended for use as a lamp base, “with electric wiring, sockets and lamp shades attached.” 347 U.S., at 202, 74 S.Ct. 460. Copies of the statuette were sold both as lamp bases and separately as statuettes. *Id.*, at 203. The petitioners copied the statuette and sold lamps with the statuette as the base. They defended against the respondents’ infringement suit by arguing that the respondents did not have a copyright in a statuette intended for use as a lamp base. *Id.*, at 204–205.

Two of *Mazer*’s holdings are relevant here. First, the Court held that the respondents owned a copyright in the statuette even though it was intended for use as a lamp base. *See id.*, at 214. In doing so, the Court approved the Copyright Office’s regulation extending copyright protection to works of art that might also serve a useful purpose. *See ibid.* (approving 37 C.F.R. § 202.8(a) (1949) (protecting “works of artistic craftsmanship, in so far as their form but not their mechanical or utilitarian aspects are concerned”)).

Second, the Court held that it was irrelevant to the copyright inquiry whether the statuette was initially created as a freestanding sculpture or as a lamp base. 347 U.S., at 218–219 (“Nor do we think the subsequent registration of a work of art published as an element in a manufactured article, is a misuse of copyright. This is not different from the registration of a statuette and its later embodiment in an industrial article”). *Mazer* thus interpreted the 1909 Act consistently with the rule discussed above: If a design would have been copyrightable as a standalone pictorial, graphic, or sculptural work, it is copyrightable if created first as part of a useful article.

Shortly thereafter, the Copyright Office enacted a regulation implementing the holdings of *Mazer*. *See* 1 Nimmer § 2A.08[B][1][b] (2016). As amended, the regulation introduced the modern separability test to copyright law:

“If the sole intrinsic function of an article is its utility, the fact that the article is unique and attractively shaped will not qualify it as a work of

art. However, if the shape of a utilitarian article incorporates features, such as artistic sculpture, carving, or pictorial representation, which can be identified separately and are capable of existing independently as a work of art, such features will be eligible for registration.” 37 C.F.R. § 202.10(c) (1960) (punctuation altered).

Congress essentially lifted the language governing protection for the design of a useful article directly from the post-Mazer regulations and placed it into § 101 of the 1976 Act. Consistent with *Mazer*, the approach we outline today interprets §§ 101 and 113 in a way that would afford copyright protection to the statuette in Mazer regardless of whether it was first created as a standalone sculptural work or as the base of the lamp. *See* 347 U.S., at 218–219.

## C

In sum, a feature of the design of a useful article is eligible for copyright if, when identified and imagined apart from the useful article, it would qualify as a pictorial, graphic, or sculptural work either on its own or when fixed in some other tangible medium.

Applying this test to the surface decorations on the cheerleading uniforms is straightforward. First, one can identify the decorations as features having pictorial, graphic, or sculptural qualities. Second, if the arrangement of colors, shapes, stripes, and chevrons on the surface of the cheerleading uniforms were separated from the uniform and applied in another medium—for example, on a painter’s canvas—they would qualify as “two-dimensional … works of … art,” § 101. And imaginatively removing the surface decorations from the uniforms and applying them in another medium would not replicate the uniform itself. Indeed, respondents have applied the designs in this case to other media of expression—different types of clothing—without replicating the uniform. The decorations are therefore separable from the uniforms and eligible for copyright protection.

The dissent argues that the designs are not separable because imaginatively removing them from the uniforms and placing them in some other medium of expression—a canvas, for example—would create “pictures of cheerleader uniforms.” Post, at 1035 – 1036 (opinion of BREYER, J.). Petitioner similarly argues that the decorations cannot be copyrighted because, even when extracted from the useful article, they retain the outline of a cheerleading uniform.

This is not a bar to copyright. Just as two-dimensional fine art corresponds to the shape of the canvas on which it is painted, two-dimensional applied art correlates to the contours of the article on which it

is applied. A fresco painted on a wall, ceiling panel, or dome would not lose copyright protection, for example, simply because it was designed to track the dimensions of the surface on which it was painted. Or consider, for example, a design etched or painted on the surface of a guitar. If that entire design is imaginatively removed from the guitar's surface and placed on an album cover, it would still resemble the shape of a guitar. But the image on the cover does not "replicate" the guitar as a useful article. Rather, the design is a two-dimensional work of art that corresponds to the shape of the useful article to which it was applied. The statute protects that work of art whether it is first drawn on the album cover and then applied to the guitar's surface, or vice versa. Failing to protect that art would create an anomaly: It would extend protection to two-dimensional designs that cover a part of a useful article but would not protect the same design if it covered the entire article. The statute does not support that distinction, nor can it be reconciled with the dissent's recognition that "artwork printed on a t-shirt" could be protected. Post, at 1019 (internal quotation marks omitted).

To be clear, the only feature of the cheerleading uniform eligible for a copyright in this case is the two-dimensional work of art fixed in the tangible medium of the uniform fabric. Even if respondents ultimately succeed in establishing a valid copyright in the surface decorations at issue here, respondents have no right to prohibit any person from manufacturing a cheerleading uniform of identical shape, cut, and dimensions to the ones on which the decorations in this case appear. They may prohibit only the reproduction of the surface designs in any tangible medium of expression—a uniform or otherwise.

## D

Petitioner and the Government raise several objections to the approach we announce today. None is meritorious.

### 1

Petitioner first argues that our reading of the statute is missing an important step. It contends that a feature may exist independently only if it can stand alone as a copyrightable work and if the useful article from which it was extracted would remain equally useful. In other words, copyright extends only to "solely artistic" features of useful articles. According to petitioner, if a feature of a useful article "advance[s] the utility of the article," then it is categorically beyond the scope of copyright. The designs here are not protected, it argues, because they are necessary to two of the uniforms' "inherent, essential, or natural functions"—identifying the wearer as a cheerleader and enhancing the wearer's physical appearance. Because the uniforms would not be equally useful without the designs,

petitioner contends that the designs are inseparable from the “utilitarian aspects” of the uniform.

The Government raises a similar argument, although it reaches a different result. It suggests that the appropriate test is whether the useful article with the artistic feature removed would “remai[n] similarly useful.” In the view of the United States, however, a plain white cheerleading uniform is “similarly useful” to uniforms with respondents’ designs.

The debate over the relative utility of a plain white cheerleading uniform is unnecessary. The focus of the separability inquiry is on the extracted feature and not on any aspects of the useful article that remain after the imaginary extraction. The statute does not require the decisionmaker to imagine a fully functioning useful article without the artistic feature. Instead, it requires that the separated feature qualify as a nonuseful pictorial, graphic, or sculptural work on its own.

Of course, because the removed feature may not be a useful article—as it would then not qualify as a pictorial, graphic, or sculptural work—there necessarily would be some aspects of the original useful article “left behind” if the feature were conceptually removed. But the statute does not require the imagined remainder to be a fully functioning useful article at all, much less an equally useful one. Indeed, such a requirement would deprive the *Mazer* statuette of protection had it been created first as a lamp base rather than as a statuette. Without the base, the “lamp” would be just a shade, bulb, and wires. The statute does not require that we imagine a nonartistic replacement for the removed feature to determine whether that feature is capable of an independent existence.

Petitioner’s argument follows from its flawed view that the statute protects only “solely artistic” features that have no effect whatsoever on a useful article’s utilitarian function. This view is inconsistent with the statutory text. The statute expressly protects two- and three-dimensional “applied art.” § 101. “Applied art” is art “employed in the decoration, design, or execution of useful objects,” Webster’s Third New International Dictionary 105 (1976) (emphasis added), or “those arts or crafts that have a primarily utilitarian function, or ... the designs and decorations used in these arts,” Random House Dictionary 73 (1966) (emphasis added); see also 1 OED 576 (2d ed. 1989) (defining “applied” as “[p]ut to practical use”). An artistic feature that would be eligible for copyright protection on its own cannot lose that protection simply because it was first created as a feature of the design of a useful article, even if it makes that article more useful.

Indeed, this has been the rule since *Mazer*. In holding that the statuette was protected, the Court emphasized that the 1909 Act abandoned any

“distinctions between purely aesthetic articles and useful works of art.” 347 U.S., at 211. Congress did not enact such a distinction in the 1976 Act. Were we to accept petitioner’s argument that the only protectable features are those that play absolutely no role in an article’s function, we would effectively abrogate the rule of Mazer and read “applied art” out of the statute.

Because we reject the view that a useful article must remain after the artistic feature has been imaginatively separated from the article, we necessarily abandon the distinction between “physical” and “conceptual” separability, which some courts and commentators have adopted based on the Copyright Act’s legislative history. *See H.R. Rep. No. 94–1476*, p. 55 (1976). According to this view, a feature is physically separable from the underlying useful article if it can “be physically separated from the article by ordinary means while leaving the utilitarian aspects of the article completely intact.” Compendium § 924.2(A); *see also Chosun Int’l, Inc. v. Chrisha Creations, Ltd.*, 413 F.3d 324, 329 (C.A.2 2005). Conceptual separability applies if the feature physically could not be removed from the useful article by ordinary means. *See Compendium § 924.2(B); but see* 1 P. Goldstein, Copyright § 2.5.3, p. 2:77 (3d ed. 2016) (explaining that the lower courts have been unable to agree on a single conceptual separability test); 2 Patry §§ 3:140–3:144.40 (surveying the various approaches in the lower courts).

The statutory text indicates that separability is a conceptual undertaking. Because separability does not require the underlying useful article to remain, the physical-conceptual distinction is unnecessary.

## 2

Petitioner next argues that we should incorporate two “objective” components into our test to provide guidance to the lower courts: (1) “whether the design elements can be identified as reflecting the designer’s artistic judgment exercised independently of functional influence,” and (2) whether “there is [a] substantial likelihood that the pictorial, graphic, or sculptural feature would still be marketable to some significant segment of the community without its utilitarian function.”

We reject this argument because neither consideration is grounded in the text of the statute. The first would require the decisionmaker to consider evidence of the creator’s design methods, purposes, and reasons. *Id.*, at 48. The statute’s text makes clear, however, that our inquiry is limited to how the article and feature are perceived, not how or why they were designed. *See Brandir Int’l, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142, 1152 (C.A.2 1987) (Winter, J., concurring in part and dissenting

in part) (The statute “expressly states that the legal test is how the final article is perceived, not how it was developed through various stages”).

The same is true of marketability. Nothing in the statute suggests that copyrightability depends on market surveys. Moreover, asking whether some segment of the market would be interested in a given work threatens to prize popular art over other forms, or to substitute judicial aesthetic preferences for the policy choices embodied in the Copyright Act. See *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 251 (1903) (“It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside of the narrowest and most obvious limits”).

## 3

Finally, petitioner argues that allowing the surface decorations to qualify as a “work of authorship” is inconsistent with Congress’ intent to entirely exclude industrial design from copyright. Petitioner notes that Congress refused to pass a provision that would have provided limited copyright protection for industrial designs, including clothing, when it enacted the 1976 Act, *see S. 22*, Tit. II, 94th Cong., 2d Sess., 122 Cong. Rec. 3856–3859 (1976), and that it has enacted laws protecting designs for specific useful articles—semiconductor chips and boat hulls, *see 17 U.S.C. §§ 901–914, 1301–1332*—while declining to enact other industrial design statutes. From this history of failed legislation petitioner reasons that Congress intends to channel intellectual property claims for industrial design into design patents. It therefore urges us to approach this question with a presumption against copyrightability.

We do not share petitioner’s concern. As an initial matter, “[c]ongressional inaction lacks persuasive significance” in most circumstances. *Pension Benefit Guaranty Corporation v. LTV Corp.*, 496 U.S. 633, 650 (1990) (internal quotation marks omitted). Moreover, we have long held that design patent and copyright are not mutually exclusive. *See Mazer*, 347 U.S., at 217. Congress has provided for limited copyright protection for certain features of industrial design, and approaching the statute with presumptive hostility toward protection for industrial design would undermine Congress’ choice. In any event, as explained above, our test does not render the shape, cut, and physical dimensions of the cheerleading uniforms eligible for copyright protection.

## III

We hold that an artistic feature of the design of a useful article is eligible for copyright protection if the feature (1) can be perceived as a two-

or three-dimensional work of art separate from the useful article and (2) would qualify as a protectable pictorial, graphic, or sculptural work either on its own or in some other medium if imagined separately from the useful article. Because the designs on the surface of respondents' cheerleading uniforms in this case satisfy these requirements, the judgment of the Court of Appeals is affirmed.

JUSTICE GINSBURG, concurring in the judgment.

I concur in the Court's judgment but not in its opinion. Unlike the majority, I would not take up in this case the separability test appropriate under 17 U.S.C. § 101. Consideration of that test is unwarranted because the designs at issue are not designs of useful articles. Instead, the designs are themselves copyrightable pictorial or graphic works reproduced on useful articles.

\* \* \*

The designs here in controversy are standalone pictorial and graphic works that respondents Varsity Brands, Inc., et al. (Varsity) reproduce on cheerleading uniforms. Varsity's designs first appeared as pictorial and graphic works that Varsity's design team sketched on paper. \* \* \*

In short, Varsity's designs are not themselves useful articles meet for separability determination under § 101; they are standalone PGS works that may gain copyright protection as such, including the exclusive right to reproduce the designs on useful articles.

JUSTICE BREYER, with whom JUSTICE KENNEDY joins, dissenting.

I agree with much in the Court's opinion. But I do not agree that the designs that Varsity Brands, Inc., submitted to the Copyright Office are eligible for copyright protection. Even applying the majority's test, the designs cannot "be perceived as ... two- or three-dimensional work[s] of art separate from the useful article."

Look at the designs that Varsity submitted to the Copyright Office. See Appendix to opinion of the Court, ante. You will see only pictures of cheerleader uniforms. And cheerleader uniforms are useful articles. A picture of the relevant design features, whether separately "perceived" on paper or in the imagination, is a picture of, and thereby "replicate[s]," the underlying useful article of which they are a part. Hence the design features that Varsity seeks to protect are not "capable of existing independently o[f] the utilitarian aspects of the article."

\* \* \*

## CHAPTER 2

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### OWNERSHIP, ASSIGNMENT, AND LICENSING OF COPYRIGHTS

#### CHILDRESS V. TAYLOR

945 F.2d 500 (2d Cir. 1991).

NEWMAN, CIRCUIT JUDGE.

This appeal requires consideration of the standards for determining when a contributor to a copyrighted work is entitled to be regarded as a joint author. The work in question is a play about the legendary Black comedienne Jackie “Moms” Mabley. The plaintiff-appellee Alice Childress claims to be the sole author of the play. Her claim is disputed by defendant-appellant Clarice Taylor, who asserts that she is a joint author of the play.  
\* \* \*

#### Facts

[Actress Taylor asked playwright Childress to write her a play based on the life of legendary black comedienne Jackie “Moms” Mabley. While Childress was writing the play, the two spoke regularly about its progress, and Taylor contributed her own research and ideas. Childress registered the script’s copyright in her own name, and declined to enter an agreement for co-ownership with Taylor. Taylor then hired another writer, Caldwell, to revise the play without Childress’s consent.]

\* \* \*

Taylor identifies the following as her major contributions to the play: (1) she learned through interviews that “Moms” Mabley called all of her piano players “Luther,” so Taylor suggested that the play include such a character; (2) Taylor and Childress together interviewed Carey Jordan, “Moms” Mabley’s housekeeper, and upon leaving the interview they came to the conclusion that she would be a good character for the play, but Taylor could not recall whether she or Childress suggested it; (3) Taylor informed Childress that “Moms” Mabley made a weekly trip to Harlem to do ethnic food shopping; (4) Taylor suggested a street scene in Harlem with speakers because she recalled having seen or listened to such a scene many times; (5) the idea of using a minstrel scene came out of Taylor’s research; (6) the idea of a card game scene also came out of Taylor’s research, although

Taylor could not recall who specifically suggested the scene; (7) some of the jokes used in the play came from Taylor's research; and (8) the characteristics of "Moms" Mabley's personality portrayed in the play emerged from Taylor's research. Essentially, Taylor contributed facts and details about "Moms" Mabley's life and discussed some of them with Childress. However, Childress was responsible for the actual structure of the play and the dialogue.

\* \* \*

Childress sued Taylor and other defendants alleging violations of the Copyright Act, 17 U.S.C. § 101 et seq. (1988) \* \* \*. Taylor contended that she was a joint author with Childress, and therefore shared the rights to the play. Childress moved for summary judgment, which the District Court granted. The Court concluded that Taylor was not a joint author of Childress's play and that Caldwell's play was substantially similar to and infringed Childress's play. In rejecting Taylor's claim of joint authorship, Judge Haight ruled (a) that a work qualifies as a "joint work" under the definition section of the Copyright Act, 17 U.S.C. § 101, only when both authors intended, at the time the work was created, "that their contributions be merged into inseparable or interdependent parts of a unitary whole," *id.*, and (b) that there was insufficient evidence to permit a reasonable trier to find that Childress had the requisite intent. The Court further ruled that copyright law requires the contributions of both authors to be independently copyrightable, and that Taylor's contributions, which consisted of ideas and research, were not copyrightable.

#### Discussion

In common with many issues arising in the domain of copyrights, the determination of whether to recognize joint authorship in a particular case requires a sensitive accommodation of competing demands advanced by at least two persons, both of whom have normally contributed in some way to the creation of a work of value. Care must be taken to ensure that true collaborators in the creative process are accorded the perquisites of co-authorship and to guard against the risk that a sole author is denied exclusive authorship status simply because another person rendered some form of assistance. Copyright law best serves the interests of creativity when it carefully draws the bounds of "joint authorship" so as to protect the legitimate claims of both sole authors and co-authors.

\* \* \*

The Copyright Act defines a "joint work" as

a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.

17 U.S.C. § 101. As Professor Nimmer has pointed out, this definition is really the definition of a work of joint authorship. *See* 1 NIMMER ON COPYRIGHT § 6.01 (1991). The definition concerns the creation of the work by the joint authors, not the circumstances, in addition to joint authorship, under which a work may be jointly owned, for example, by assignment of an undivided interest. The distinction affects the rights that are acquired. Joint authors hold undivided interests in a work, like all joint owners of a work, but joint authors, unlike other joint owners, also enjoy all the rights of authorship, including the renewal rights applicable to works in which a statutory copyright subsisted prior to January 1, 1978. *See* 17 U.S.C. § 304.

\* \* \*

The legislative history also clarifies other aspects of the statutory definition, but leaves some matters in doubt. Endeavoring to flesh out the definition, the committee reports state:

[A] work is “joint” if the authors collaborated with each other, or if *each* of the authors prepared his or her contribution with the knowledge and *intention* that it would be merged with the contributions of other authors as “inseparable or interdependent parts of a unitary whole.” The touchstone here is the *intention, at the time the writing is done*, that the parts be absorbed or combined into an integrated unit. . . .

House Report at 120; Senate Report at 103 (emphasis added). This passage appears to state two alternative criteria—one focusing on the act of collaboration and the other on the parties’ intent. However, it is hard to imagine activity that would constitute meaningful “collaboration” unaccompanied by the requisite intent on the part of both participants that their contributions be merged into a unitary whole, and the case law has read the statutory language literally so that the intent requirement applies to all works of joint authorship. *See, e.g., Weissmann v. Freeman*, 868 F.2d 1313, 1317–19 (2d Cir.1989); *Eckert v. Hurley Chicago Co., Inc.*, 638 F. Supp. 699, 702–03 (N.D.Ill.1986).

A more substantial issue arising under the statutory definition of “joint work” is whether the contribution of each joint author must be copyrightable or only the combined result of their joint efforts must be copyrightable. The Nimmer treatise argues against a requirement of copyrightability of each author’s contribution, *see* 1 NIMMER ON COPYRIGHT § 6.07; Professor Goldstein takes the contrary view, *see* 1 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 4.2.1.2 (1989), with the apparent agreement of the Latman treatise, *see* WILLIAM F. PATRY, LATMAN’S THE COPYRIGHT LAW 116 (6th ed. 1986). The case law supports a requirement of copyrightability of each contribution. \* \* \* The Register of Copyrights strongly supports this view, arguing that it is required by the statutory standard of “authorship” and perhaps by the Constitution. *See* Moral Rights in Our Copyright Laws: Hearings on S. 1198 and S. 1253

Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary, 101st Cong., 1st Sess. 210–11 (1989) (statement of Ralph Oman).

The issue, apparently open in this Circuit, is troublesome. If the focus is solely on the objective of copyright law to encourage the production of creative works, it is difficult to see why the contributions of all joint authors need be copyrightable. An individual creates a copyrightable work by combining a non-copyrightable idea with a copyrightable form of expression; the resulting work is no less a valuable result of the creative process simply because the idea and the expression came from two different individuals. Indeed, it is not unimaginable that there exists a skilled writer who might never have produced a significant work until some other person supplied the idea. The textual argument from the statute is not convincing. The Act surely does not say that each contribution to a joint work must be copyrightable, and the specification that there be “authors” does not necessarily require a copyrightable contribution. “Author” is not defined in the Act and appears to be used only in its ordinary sense of an originator. The “author” of an uncopyrightable idea is nonetheless its author even though, for entirely valid reasons, the law properly denies him a copyright on the result of his creativity. And the Register’s tentative constitutional argument seems questionable. It has not been supposed that the statutory grant of “authorship” status to the employer of a work made for hire exceeds the Constitution, though the employer has shown skill only in selecting employees, not in creating protectable expression.

Nevertheless, we are persuaded to side with the position taken by the case law and endorsed by the agency administering the Copyright Act. The insistence on copyrightable contributions by all putative joint authors might serve to prevent some spurious claims by those who might otherwise try to share the fruits of the efforts of a sole author of a copyrightable work, even though a claim of having contributed copyrightable material could be asserted by those so inclined. More important, the prevailing view strikes an appropriate balance in the domains of both copyright and contract law. In the absence of contract, the copyright remains with the one or more persons who created copyrightable material. Contract law enables a person to hire another to create a copyrightable work, and the copyright law will recognize the employer as “author.” 17 U.S.C. § 201(b). Similarly, the person with non-copyrightable material who proposes to join forces with a skilled writer to produce a copyrightable work is free to make a contract to disclose his or her material in return for assignment of part ownership of the resulting copyright. *Id.* § 201(d). And, as with all contract matters, the parties may minimize subsequent disputes by formalizing their agreement in a written contract. *Cf.* 17 U.S.C. § 101 (“work made for hire” definition of “specially ordered” or “commissioned” work includes requirement of written agreement). It seems more consistent with the spirit of copyright law to oblige all joint authors to make copyrightable contributions, leaving

those with non-copyrightable contributions to protect their rights through contract.

There remains for consideration the crucial aspect of joint authorship—the nature of the intent that must be entertained by each putative joint author at the time the contribution of each was created. The wording of the statutory definition appears to make relevant only the state of mind regarding the unitary nature of the finished work—an intention “that their contributions be merged into inseparable or interdependent parts of a unitary whole.” However, an inquiry so limited would extend joint author status to many persons who are not likely to have been within the contemplation of Congress. For example, a writer frequently works with an editor who makes numerous useful revisions to the first draft, some of which will consist of additions of copyrightable expression. Both intend their contributions to be merged into inseparable parts of a unitary whole, yet very few editors and even fewer writers would expect the editor to be accorded the status of joint author, enjoying an undivided half interest in the copyright in the published work. Similarly, research assistants may on occasion contribute to an author some protectable expression or merely a sufficiently original selection of factual material as would be entitled to a copyright, yet not be entitled to be regarded as a joint author of the work in which the contributed material appears. What distinguishes the writer-editor relationship and the writer-researcher relationship from the true joint author relationship is the lack of intent of both participants in the venture to regard themselves as joint authors.

Focusing on whether the putative joint authors regarded themselves as joint authors is especially important in circumstances, such as the instant case, where one person (Childress) is indisputably the dominant author of the work and the only issue is whether that person is the sole author or she and another (Taylor) are joint authors. \* \* \* This concern requires less exacting consideration in the context of traditional forms of collaboration, such as between the creators of the words and music of a song.

In this case, appellant contends that Judge Haight’s observation that “Childress never shared Taylor’s notion that they were co-authors of the play” misapplies the statutory standard by focusing on whether Childress “intended the legal consequences which flowed from her prior acts.” \* \* \* We do not think Judge Haight went so far. He did not inquire whether Childress intended that she and Taylor would hold equal undivided interests in the play. But he properly insisted that they entertain in their minds the concept of joint authorship, whether or not they understood precisely the legal consequences of that relationship. Though joint authorship does not require an understanding by the co-authors of the legal consequences of their relationship, obviously some distinguishing characteristic of the relationship must be understood in order for it to be

the subject of their intent. In many instances, a useful test will be whether, in the absence of contractual agreements concerning listed authorship, each participant intended that all would be identified as co-authors. Though “billing” or “credit” is not decisive in all cases and joint authorship can exist without any explicit discussion of this topic by the parties, consideration of the topic helpfully serves to focus the fact-finder’s attention on how the parties implicitly regarded their undertaking.

\* \* \*

Examination of whether the putative co-authors ever shared an intent to be co-authors serves the valuable purpose of appropriately confining the bounds of joint authorship arising by operation of copyright law, while leaving those not in a true joint authorship relationship with an author free to bargain for an arrangement that will be recognized as a matter of both copyright and contract law. Joint authorship entitles the co-authors to equal undivided interests in the work, *see 17 U.S.C. § 201(a); Community for Creative Non-Violence v. Reid*, 846 F.2d 1485, 1498 (D.C.Cir.1988), *aff'd without consideration of this point*, 490 U.S. 730 (1989). That equal sharing of rights should be reserved for relationships in which all participants fully intend to be joint authors. The sharing of benefits in other relationships involving assistance in the creation of a copyrightable work can be more precisely calibrated by the participants in their contract negotiations regarding division of royalties or assignment of shares of ownership of the copyright, *see 17 U.S.C. § 201(d)*.

In this case, the issue is not only whether Judge Haight applied the correct standard for determining joint authorship but also whether he was entitled to conclude that the record warranted a summary judgment in favor of Childress. We are satisfied that Judge Haight was correct as to both issues. We need not determine whether we agree with his conclusion that Taylor’s contributions were not independently copyrightable since, even if they were protectable as expression or as an original selection of facts, we agree that there is no evidence from which a trier could infer that Childress had the state of mind required for joint authorship. As Judge Haight observed, whatever thought of co-authorship might have existed in Taylor’s mind “was emphatically not shared by the purported co-author.” There is no evidence that Childress ever contemplated, much less would have accepted, crediting the play as “written by Alice Childress and Clarice Taylor.”

Childress was asked to write a play about “Moms” Mabley and did so. To facilitate her writing task, she accepted the assistance that Taylor provided, which consisted largely of furnishing the results of research concerning the life of “Moms” Mabley. As the actress expected to portray the leading role, Taylor also made some incidental suggestions, contributing ideas about the presentation of the play’s subject and possibly some minor bits of expression. But there is no evidence that these aspects

of Taylor's role ever evolved into more than the helpful advice that might come from the cast, the directors, or the producers of any play. A playwright does not so easily acquire a co-author.

\* \* \*

### b. Works Made for Hire

#### **COMMUNITY FOR CREATIVE NON-VIOLENCE ET AL. V. REID**

[490 U.S. 730, 109 S.Ct. 2166 \(1989\).](#)

JUSTICE MARSHALL delivered the opinion of the Court.

In this case, an artist and the organization that hired him to produce a sculpture contest the ownership of the copyright in that work. To resolve this dispute, we must construe the "work made for hire" provisions of the Copyright Act of 1976 (Act or 1976 Act), 17 U.S.C. §§ 101 and 201(b), and in particular, the provision in § 101, which defines as a "work made for hire" a "work prepared by an employee within the scope of his or her employment" (hereinafter § 101(1)).

#### I

[Petitioners are the Community for Creative Non-Violence ("CCNV"), an organization dedicated to helping the homeless, and Mitch Snyder, a member and trustee of CCNV. CCNV conceived the idea of commissioning, as a Christmastime display, a modern Nativity scene titled "Third World America," which featured a sculpture of a homeless family on a steam grate.]

\* \* \*

Snyder made inquiries to locate an artist to produce the sculpture. He was referred to respondent James Earl Reid, a Baltimore, Maryland, sculptor. In the course of two telephone calls, Reid agreed to sculpt the three human figures. CCNV agreed to make the steam grate and pedestal for the statue. Reid proposed that the work be cast in bronze, at a total cost of approximately \$100,000 and taking six to eight months to complete. Snyder rejected that proposal because CCNV did not have sufficient funds, and because the statue had to be completed by December 12 to be included in the pageant. Reid then suggested, and Snyder agreed, that the sculpture would be made of a material known as "Design Cast 62," a synthetic substance that could meet CCNV's monetary and time constraints, could be tinted to resemble bronze, and could withstand the elements. The parties agreed that the project would cost no more than \$15,000, not including Reid's services, which he offered to donate. The parties did not sign a written agreement. Neither party mentioned copyright.

After Reid received an advance of \$3,000, he made several sketches of figures in various poses. At Snyder's request, Reid sent CCNV a sketch of

a proposed sculpture showing the family in a crechelike setting: the mother seated, cradling a baby in her lap; the father standing behind her, bending over her shoulder to touch the baby's foot. Reid testified that Snyder asked for the sketch to use in raising funds for the sculpture. Snyder testified that it was also for his approval. Reid sought a black family to serve as a model for the sculpture. Upon Snyder's suggestion, Reid visited a family living at CCNV's Washington shelter but decided that only their newly born child was a suitable model. While Reid was in Washington, Snyder took him to see homeless people living on the streets. Snyder pointed out that they tended to recline on steam grates, rather than sit or stand, in order to warm their bodies. From that time on, Reid's sketches contained only reclining figures.

Throughout November and the first two weeks of December 1985, Reid worked exclusively on the statue, assisted at various times by a dozen different people who were paid with funds provided in installments by CCNV. On a number of occasions, CCNV members visited Reid to check on his progress and to coordinate CCNV's construction of the base. CCNV rejected Reid's proposal to use suitcases or shopping bags to hold the family's personal belongings, insisting instead on a shopping cart. Reid and CCNV members did not discuss copyright ownership on any of these visits.

On December 24, 1985, 12 days after the agreed-upon date, Reid delivered the completed statue to Washington. There it was joined to the steam grate and pedestal prepared by CCNV and placed on display near the site of the pageant. Snyder paid Reid the final installment of the \$15,000. \* \* \*

[When a dispute over copyright in the statue arose, both Reid and CCNV filed certificates of copyright registration, and petitioners commenced this action. The District Court held that CCNV owned the copyright under the "work made for hire" doctrine, because Reid had acted as an employee of CCNV.]

The Court of Appeals for the District of Columbia Circuit reversed and remanded, holding that Reid owned the copyright because "Third World America" was not a work for hire. 846 F.2d 1485, 1494 (1988). Adopting what it termed the "literal interpretation" of the Act as articulated by the Fifth Circuit in *Easter Seal Society for Crippled Children & Adults of Louisiana, Inc. v. Playboy Enterprises*, 815 F.2d 323, 329 (1987), the court read § 101 as creating "a simple dichotomy in fact between employees and independent contractors." Because, under agency law, Reid was an independent contractor, the court concluded that the work was not "prepared by an employee" under § 101(1). Nor was the sculpture a "work made for hire" under the second subsection of § 101 (hereinafter § 101(2)): sculpture is not one of the nine categories of works enumerated in that subsection, and the parties had not agreed in writing that the sculpture would be a work for hire. The court suggested that the sculpture

nevertheless may have been jointly authored by CCNV and Reid, and remanded for a determination whether the sculpture is indeed a joint work under the Act.

We granted certiorari to resolve a conflict among the Courts of Appeals over the proper construction of the “work made for hire” provisions of the Act. \*\*\* We now affirm.

## II

### A

The Copyright Act of 1976 provides that copyright ownership “vests initially in the author or authors of the work.” 17 U.S.C. § 201(a). As a general rule, the author is the party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to copyright protection. § 102. The Act carves out an important exception, however, for “works made for hire.” If the work is for hire, “the employer or other person for whom the work was prepared is considered the author” and owns the copyright, unless there is a written agreement to the contrary. § 201(b). Classifying a work as “made for hire” determines not only the initial ownership of its copyright, but also the copyright’s duration, § 302(c), and the owners’ renewal rights, § 304(a), [and] termination rights, § 203(a) \*\*\*. The contours of the work for hire doctrine therefore carry profound significance for freelance creators—including artists, writers, photographers, designers, composers, and computer programmers—and for the publishing, advertising, music, and other industries which commission their works.

Section 101 of the 1976 Act provides that a work is “for hire” under two sets of circumstances \*\*\*. Petitioners do not claim that the statue satisfies the terms of § 101(2). Quite clearly, it does not. Sculpture does not fit within any of the nine categories of “specially ordered or commissioned” works enumerated in that subsection, and no written agreement between the parties establishes “Third World America” as a work for hire.

The dispositive inquiry in this case therefore is whether “Third World America” is “a work prepared by an employee within the scope of his or her employment” under § 101(1). The Act does not define these terms. In the absence of such guidance, four interpretations have emerged. The first holds that a work is prepared by an employee whenever the hiring party retains the right to control the product. Petitioners take this view. A second, and closely related, view is that a work is prepared by an employee under § 101(1) when the hiring party has actually wielded control with respect to the creation of a particular work. This approach was formulated by the Court of Appeals for the Second Circuit, *Aldon Accessories Ltd. v. Spiegel, Inc.*, 738 F.2d 548 (1984), and adopted by the Fourth Circuit, *Brunswick Beacon, Inc. v. Schock-Hopchas Publishing Co.*, 810 F.2d 410 (1987), the Seventh Circuit, *Evans Newton Inc. v. Chicago Systems*

*Software*, 793 F.2d 889 (1986), and, at times, by petitioners. A third view is that the term “employee” within § 101(1) carries its common-law agency law meaning. This view was endorsed by the Fifth Circuit in *Easter Seal Society for Crippled Children & Adults of Louisiana, Inc. v. Playboy Enterprises*, 815 F.2d 323 (1987), and by the Court of Appeals below. Finally, respondent and numerous amici curiae contend that the term “employee” only refers to “formal, salaried” employees. \* \* \* The Court of Appeals for the Ninth Circuit recently adopted this view. See *Dumas v. Gommerman*, 865 F.2d 1093 (1989).

The starting point for our interpretation of a statute is always its language. The Act nowhere defines the terms “employee” or “scope of employment.” It is, however, well established that “[w]here 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 these terms.” *NLRB v. Amax Coal Co.*, 453 U.S. 322, 329 (1981). In the past, when Congress has used the term “employee” without defining it, we have concluded that Congress intended to describe the conventional master-servant relationship as understood by common-law agency doctrine. See, e.g., *Kelley v. Southern Pacific Co.*, 419 U.S. 318, 322–323 (1974); *Baker v. Texas & Pacific R. Co.*, 359 U.S. 227, 228 (1959) (per curiam); *Robinson v. Baltimore & Ohio R. Co.*, 237 U.S. 84, 94 (1915). Nothing in the text of the work for hire provisions indicates that Congress used the words “employee” and “employment” to describe anything other than “the conventional relation of employer and employee.” *Kelley, supra*, at 323, quoting *Robinson, supra*, at 94 \* \* \*.

In past cases of statutory interpretation, when we have concluded that Congress intended terms such as “employee,” “employer,” and “scope of employment” to be understood in light of agency law, we have relied on the general common law of agency, rather than on the law of any particular State, to give meaning to these terms. This practice reflects the fact that “federal statutes are generally intended to have uniform nationwide application.” *Mississippi Band of Choctaw Indians v. Holyfield*, [490 U.S. 30 (1989)] at 43. Establishment of a federal rule of agency, rather than reliance on state agency law, is particularly appropriate here given the Act’s express objective of creating national, uniform copyright law by broadly pre-empting state statutory and common-law copyright regulation. See 17 U.S.C. § 301(a). We thus agree with the Court of Appeals that the term “employee” should be understood in light of the general common law of agency.

In contrast, neither test proposed by petitioners is consistent with the text of the Act. The exclusive focus of the right to control the product test on the relationship between the hiring party and the product clashes with the language of § 101(1), which focuses on the relationship between the

hired and hiring parties. The right to control the product test also would distort the meaning of the ensuing subsection, § 101(2). Section 101 plainly creates two distinct ways in which a work can be deemed for hire: one for works prepared by employees, the other for those specially ordered or commissioned works which fall within one of the nine enumerated categories and are the subject of a written agreement. The right to control the product test ignores this dichotomy by transforming into a work for hire under § 101(1) any “specially ordered or commissioned” work that is subject to the supervision and control of the hiring party. Because a party who hires a “specially ordered or commissioned” work by definition has a right to specify the characteristics of the product desired, at the time the commission is accepted, and frequently until it is completed, the right to control the product test would mean that many works that could satisfy § 101(2) would already have been deemed works for hire under § 101(1). Petitioners’ interpretation is particularly hard to square with § 101(2)’s enumeration of the nine specific categories of specially ordered or commissioned works eligible to be works for hire, e.g., “a contribution to a collective work,” “a part of a motion picture,” and “answer material for a test.” The unifying feature of these works is that they are usually prepared at the instance, direction, and risk of a publisher or producer. By their very nature, therefore, these types of works would be works by an employee under petitioners’ right to control the product test.

The actual control test, articulated by the Second Circuit in *Aldon Accessories*, fares only marginally better when measured against the language and structure of § 101. Under this test, independent contractors who are so controlled and supervised in the creation of a particular work are deemed “employees” under § 101(1). Thus work for hire status under § 101(1) depends on a hiring party’s *actual* control of, rather than *right to* control, the product. Under the actual control test, a work for hire could arise under § 101(2), but not under § 101(1), where a party commissions, but does not actually control, a product which falls into one of the nine enumerated categories. Nonetheless, we agree with the Court of Appeals for the Fifth Circuit that “[t]here is simply no way to milk the ‘actual control’ test of *Aldon Accessories* from the language of the statute.” *Easter Seal Society*, 815 F.2d, at 334. Section 101 clearly delineates between works prepared by an employee and commissioned works. Sound though other distinctions might be as a matter of copyright policy, there is no statutory support for an additional dichotomy between commissioned works that are actually controlled and supervised by the hiring party and those that are not.

We therefore conclude that the language and structure of § 101 of the Act do not support either the right to control the product or the actual

control approaches.<sup>8</sup> The structure of § 101 indicates that a work for hire can arise through one of two mutually exclusive means, one for employees and one for independent contractors, and ordinary canons of statutory interpretation indicate that the classification of a particular hired party should be made with reference to agency law.

[The Court also examined the legislative history of the “work made for hire” definition and found no support there for a “control” test of employment status.]

\* \* \*

Finally, petitioners’ construction of the work for hire provisions would impede Congress’ paramount goal in revising the 1976 Act of enhancing predictability and certainty of copyright ownership. In a “copyright marketplace,” the parties negotiate with an expectation that one of them will own the copyright in the completed work. With that expectation, the parties at the outset can settle on relevant contractual terms, such as the price for the work and the ownership of reproduction rights.

To the extent that petitioners endorse an actual control test, CCNV’s construction of the work for hire provisions prevents such planning. Because that test turns on whether the hiring party has closely monitored the production process, the parties would not know until late in the process, if not until the work is completed, whether a work will ultimately fall within § 101(1). Under petitioners’ approach, therefore, parties would have to predict in advance whether the hiring party will sufficiently control a given work to make it the author. “If they guess incorrectly, their reliance on ‘work for hire’ or an assignment may give them a copyright interest that they did not bargain for.” *Easter Seal Society*, 815 F.2d, at 333. This understanding of the work for hire provisions clearly thwarts Congress’ goal of ensuring predictability through advance planning. Moreover, petitioners’ interpretation “leaves the door open for hiring parties, who have failed to get a full assignment of copyright rights from independent contractors falling outside the subdivision (2) guidelines, to unilaterally obtain work-made-for-hire rights years after the work has been completed as long as they directed or supervised the work, a standard that is hard not to meet when one is a hiring party.” Hamilton, *Commissioned Works as Works Made for Hire Under the 1976 Copyright Act: Misinterpretation and Injustice*, 135 U. PA. L. REV. 1281, 1304 (1987).

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<sup>8</sup> We also reject the suggestion of respondent and amici that the § 101(1) term “employee” refers only to formal, salaried employees. While there is some support for such a definition in the legislative history, \* \* \* the language of § 101(1) cannot support it. The Act does not say “formal” or “salaried” employee, but simply “employee.” Moreover, respondent and those amici who endorse a formal, salaried employee test do not agree upon the content of this test. \* \* \* Even the one Court of Appeals to adopt what it termed a formal, salaried employee test in fact embraced an approach incorporating numerous factors drawn from the agency law definition of employee which we endorse. See *Dumas*, 865 F.2d, at 1104.

In sum, we must reject petitioners' argument. Transforming a commissioned work into a work by an employee on the basis of the hiring party's right to control, or actual control of, the work is inconsistent with the language, structure, and legislative history of the work for hire provisions. To determine whether a work is for hire under the Act, a court first should ascertain, using principles of general common law of agency, whether the work was prepared by an employee or an independent contractor. After making this determination, the court can apply the appropriate subsection of § 101.

## B

We turn, finally, to an application of § 101 to Reid's production of "Third World America." In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party's right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party's discretion over when and how long to work; the method of payment; the hired party's role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party. See Restatement § 220(2) (setting forth a nonexhaustive list of factors relevant to determining whether a hired party is an employee). No one of these factors is determinative.

Examining the circumstances of this case in light of these factors, we agree with the Court of Appeals that Reid was not an employee of CCNV but an independent contractor. True, CCNV members directed enough of Reid's work to ensure that he produced a sculpture that met their specifications. But the extent of control the hiring party exercises over the details of the product is not dispositive. Indeed, all the other circumstances weigh heavily against finding an employment relationship. Reid is a sculptor, a skilled occupation. Reid supplied his own tools. He worked in his own studio in Baltimore, making daily supervision of his activities from Washington practicably impossible. Reid was retained for less than two months, a relatively short period of time. During and after this time, CCNV had no right to assign additional projects to Reid. Apart from the deadline for completing the sculpture, Reid had absolute freedom to decide when and how long to work. CCNV paid Reid \$15,000, a sum dependent on "completion of a specific job, a method by which independent contractors are often compensated." *Holt v. Winpisinger*, 811 F.2d 1532, 1540 (1987). Reid had total discretion in hiring and paying assistants. "Creating sculptures was hardly 'regular business' for CCNV." 846 F.2d, at 1494, n.

11. Indeed, CCNV is not a business at all. Finally, CCNV did not pay payroll or Social Security taxes, provide any employee benefits, or contribute to unemployment insurance or workers' compensation funds.

Because Reid was an independent contractor, whether "Third World America" is a work for hire depends on whether it satisfies the terms of § 101(2). This petitioners concede it cannot do. Thus, CCNV is not the author of "Third World America" by virtue of the work for hire provisions of the Act. However, as the Court of Appeals made clear, CCNV nevertheless may be a joint author of the sculpture if, on remand, the District Court determines that CCNV and Reid prepared the work "with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole." 17 U.S.C. § 101. In that case, CCNV and Reid would be co-owners of the copyright in the work. *See* § 201(a).

For the aforesigned reasons, we affirm the judgment of the Court of Appeals for the District of Columbia Circuit.

\* \* \*

#### COPYRIGHT TRANSFER/LICENSING

##### EFFECTS ASSOCIATES, INC. v. COHEN

[908 F.2d 555 \(9th Cir. 1990\).](#)

KOZINSKI, CIRCUIT JUDGE.

What we have here is a failure to compensate. Larry Cohen, a low-budget horror movie mogul, paid less than the agreed price for special effects footage he had commissioned from Effects Associates. Cohen then used this footage without first obtaining a written license or assignment of the copyright; Effects sued for copyright infringement. We consider whether a transfer of copyright without a written agreement, an arrangement apparently not uncommon in the motion picture industry, conforms with the requirements of the Copyright Act.

[When Effects orally agreed to provide special effects footage for Cohen's film, the parties never discussed who would own the copyright in the commissioned footage. When Effects sued Cohen for infringement (after Cohen failed to tender full payment), the district court granted summary judgment, holding that Effects had granted Cohen an implied license to use the footage. On appeal, the Ninth Circuit held that Effects (which both parties agree is the initial copyright owner) had not transferred the copyright to Cohen, because an oral transfer of copyright ownership is invalid under 17 U.S.C. § 204(a). However, because a "transfer" of copyright is defined by 17 U.S.C. § 101 to include an exclusive license but not a nonexclusive license, the court then addressed the

question whether Cohen had acquired an oral nonexclusive license to use the footage.]

\* \* \*

Although we reject any suggestion that moviemakers are immune to section 204, we note that there is a narrow exception to the writing requirement that may apply here. Section 204 provides that all transfers of copyright ownership must be in writing; section 101 defines transfers of ownership broadly, but expressly removes from the scope of section 204 a “nonexclusive license.” The sole issue that remains, then, is whether Cohen had a nonexclusive license to use plaintiff’s special effects footage.

The leading treatise on copyright law states that “[a] nonexclusive license may be granted orally, or may even be implied from conduct.” 3 M. NIMMER & D. NIMMER, NIMMER ON COPYRIGHT § 10.03[A], at 10–36 (1989). Cohen relies on the latter proposition; he insists that, although Effects never gave him a written or oral license, Effects’s conduct created an implied license to use the footage in “The Stuff.”

Cohen relies largely on our decision in *Oddo v. Ries*, 743 F.2d 630 (9th Cir. 1984). There, we held that Oddo, the author of a series of articles on how to restore Ford F-100 pickup trucks, had impliedly granted a limited non-exclusive license to Ries, a publisher, to use plaintiff’s articles in a book on the same topic. We relied on the fact that Oddo and Ries had formed a partnership to create and publish the book, with Oddo writing and Ries providing capital. *Id.* at 632 & n. 1. Oddo prepared a manuscript consisting partly of material taken from his prior articles and submitted it to Ries. *Id.* at 632. Because the manuscript incorporated pre-existing material, it was a derivative work; by publishing it, Ries would have necessarily infringed the copyright in Oddo’s articles, unless Oddo had granted him a license. *Id.* at 634. We concluded that, in preparing and handing over to Ries a manuscript intended for publication that, if published, would infringe Oddo’s copyright, Oddo “impliedly gave the partnership a license to use the articles insofar as they were incorporated in the manuscript, for without such a license, Oddo’s contribution to the partnership venture would have been of minimal value.” *Id.*<sup>5</sup>

The district court agreed with Cohen, and we agree with the district court: *Oddo* controls here. Like the plaintiff in *Oddo*, Effects created a work at defendant’s request and handed it over, intending that defendant copy

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<sup>5</sup> Oddo did nevertheless prevail, but on other grounds. Ries was unhappy with Oddo’s manuscript and hired another writer to do the job right. This writer added much new material, but also used large chunks of Oddo’s manuscript, thereby incorporating portions of Oddo’s pre-existing articles. 743 F.2d at 632. By publishing the other writer’s book, Ries exceeded the scope of his implied license to use Oddo’s articles and was liable for copyright infringement. *Id.* at 634.

and distribute it.<sup>6</sup> To hold that Effects did not at the same time convey a license to use the footage in “The Stuff” would mean that plaintiff’s contribution to the film was “of minimal value,” a conclusion that can’t be squared with the fact that Cohen paid Effects almost \$56,000 for this footage. Accordingly, we conclude that Effects impliedly granted nonexclusive licenses to Cohen and his production company to incorporate the special effects footage into “The Stuff” and to New World Entertainment to distribute the film.

Nor can we construe payment in full as a condition precedent to implying a license. Conditions precedent are disfavored and will not be read into a contract unless required by plain, unambiguous language. *Sulmeyer v. United States (In re Bubble Up Delaware, Inc.)*, 684 F.2d 1259, 1264 (9th Cir.1982). The language of the October 29, 1984, agreement doesn’t support a conclusion that full payment was a condition precedent to Cohen’s use of the footage. Moreover, Effects’s president conceded at his deposition that he never told Cohen that a failure to pay would be viewed as copyright infringement. \* \* \*

#### Conclusion

We affirm the district court’s grant of summary judgment in favor of Cohen and the other defendants. We note, however, that plaintiff doesn’t leave this court empty-handed. Copyright ownership is comprised of a bundle of rights; in granting a nonexclusive license to Cohen, Effects has given up only one stick from that bundle—the right to sue Cohen for copyright infringement. It retains the right to sue him in state court on a variety of other grounds, including breach of contract. Additionally, Effects may license, sell or give away for nothing its remaining rights in the special effects footage. \* \* \*

#### NEW YORK TIMES CO., INC. V. TASINI

[533 U.S. 483, 121 S.Ct. 2381 \(2001\).](#)

JUSTICE GINSBURG delivered the opinion of the Court.

This copyright case concerns the rights of freelance authors and a presumptive privilege of their publishers. The litigation was initiated by six freelance authors and relates to articles they contributed to three print periodicals (two newspapers and one magazine). Under agreements with the periodicals’ publishers, but without the freelancers’ consent, two

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<sup>6</sup> As the district court found, “every objective fact concerning the transaction at issue supports a finding that an implied license existed.” Effects’s copyright registration certificate states that the footage is to be used in “The Stuff,” so does the letter agreement of October 29, 1984, and Effects’s President James Danforth agreed at his deposition that this was his understanding. Also, Effects delivered the film negatives to Cohen, never warning him that cutting the negatives into the film would constitute copyright infringement. While delivery of a copy “does not of itself convey any rights in the copyrighted work,” 17 U.S.C. § 202 (1988) (emphasis added), it is one factor that may be relied upon in determining that an implied license has been granted.

computer database companies placed copies of the freelancers' articles—along with all other articles from the periodicals in which the freelancers' work appeared—into three databases. Whether written by a freelancer or staff member, each article is presented to, and retrievable by, the user in isolation, clear of the context the original print publication presented.

The freelance authors' complaint alleged that their copyrights had been infringed by the inclusion of their articles in the databases. The publishers, in response, relied on the privilege of reproduction and distribution accorded them by § 201(c) of the Copyright Act \*\*\*. Specifically, the publishers maintained that, as copyright owners of collective works, *i.e.*, the original print publications, they had merely exercised "the privilege" § 201(c) accords them to "reproduc[e] and distribut[e]" the author's discretely copyrighted contribution.

In agreement with the Second Circuit, we hold that § 201(c) does not authorize the copying at issue here. The publishers are not sheltered by § 201(c), we conclude, because the databases reproduce and distribute articles standing alone and not in context, not "as part of that particular collective work" to which the author contributed, "as part of . . . any revision" thereof, or "as part of . . . any later collective work in the same series." Both the print publishers and the electronic publishers, we rule, have infringed the copyrights of the freelance authors.

## I

### A

\*\*\* The Authors registered copyrights in each of the[ir] Articles. The Times, Newsday, and Time (Print Publishers) registered collective work copyrights in each periodical edition in which an Article originally appeared. The Print Publishers engaged the Authors as independent contractors (freelancers) under contracts that in no instance secured consent from an Author to placement of an Article in an electronic database.

At the time the Articles were published, all three Print Publishers had agreements with petitioner LEXIS/NEXIS (formerly Mead Data Central Corp.), owner and operator of NEXIS, a computerized database that stores information in a text-only format. NEXIS contains articles from hundreds of journals (newspapers and periodicals) spanning many years. The Print Publishers have licensed to LEXIS/NEXIS the text of articles appearing in the three periodicals. The licenses authorize LEXIS/NEXIS to copy and sell any portion of those texts.

Pursuant to the licensing agreements, the Print Publishers regularly provide LEXIS/NEXIS with a batch of all the articles published in each periodical edition. The Print Publisher codes each article to facilitate computerized retrieval, then transmits it in a separate file. After further coding, LEXIS/NEXIS places the article in the central discs of its database.

Subscribers to NEXIS, accessing the system through a computer, may search for articles by author, subject, date, publication, headline, key term, words in text, or other criteria. \* \* \* Each article appears as a separate, isolated “story”—without any visible link to the other stories originally published in the same newspaper or magazine edition. NEXIS does not contain pictures or advertisements, and it does not reproduce the original print publication’s formatting features such as headline size, page placement (e.g., above or below the fold for newspapers), or location of continuation pages.

\* \* \*

We granted certiorari to determine whether the copying of the Authors’ Articles in the Databases is privileged by 17 U.S.C. § 201(c). Like the Court of Appeals, we conclude that the § 201(c) privilege does not override the Authors’ copyrights, for the Databases do not reproduce and distribute the Articles as part of a collective work privileged by § 201(c). Accordingly, and again like the Court of Appeals, we find it unnecessary to determine whether the privilege is transferable.

## II

\* \* \*

Section 201(c) both describes and circumscribes the “privilege” a publisher acquires regarding an author’s contribution to a collective work:

“In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work is presumed to have acquired *only* the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.” (Emphasis added.)

A newspaper or magazine publisher is thus privileged to reproduce or distribute an article contributed by a freelance author, absent a contract otherwise providing, only “as part of” any (or all) of three categories of collective works: (a) “that collective work” to which the author contributed her work, (b) “any revision of that collective work,” or (c) “any later collective work in the same series.” In accord with Congress’ prescription, a “publishing company could reprint a contribution from one issue in a later issue of its magazine, and could reprint an article from a 1980 edition of an encyclopedia in a 1990 revision of it; the publisher could not revise the contribution itself or include it in a new anthology or an entirely different magazine or other collective work.” H.R. Rep. 122–123, U.S.Code Cong. & Admin.News 1976, pp. 5659, 5738.

Essentially, § 201(c) adjusts a publisher’s copyright in its collective work to accommodate a freelancer’s copyright in her contribution. If there is demand for a freelance article standing alone or in a new collection, the

Copyright Act allows the freelancer to benefit from that demand; after authorizing initial publication, the freelancer may also sell the article to others. \* \* \* It would scarcely “preserve the author’s copyright in a contribution” as contemplated by Congress, H.R. Rep. 122, U.S. Code Cong. & Admin. News 1976, pp. 5659, 5738, if a newspaper or magazine publisher were permitted to reproduce or distribute copies of the author’s contribution in isolation or within new collective works. \* \* \*

### III

In the instant case, the Authors wrote several Articles and gave the Print Publishers permission to publish the Articles in certain newspapers and magazines. It is undisputed that the Authors hold copyrights and, therefore, exclusive rights in the Articles.<sup>1</sup> It is clear, moreover, that the Print and Electronic Publishers have exercised at least some rights that § 106 initially assigns exclusively to the Authors \* \* \*.

Against the Authors’ charge of infringement, the Publishers do not here contend the Authors entered into an agreement authorizing reproduction of the Articles in the Databases. \* \* \* Each discrete edition of the periodicals in which the Articles appeared is a “collective work,” the Publishers agree. They contend, however, that reproduction and distribution of each Article by the Databases lie within the “privilege of reproducing and distributing the [Articles] as part of . . . [a] revision of that collective work,” § 201(c). The Publishers’ encompassing construction of the § 201(c) privilege is unacceptable, we conclude, for it would diminish the Authors’ exclusive rights in the Articles.

In determining whether the Articles have been reproduced and distributed “as part of” a “revision” of the collective works in issue, we focus on the Articles as presented to, and perceptible by, the user of the Databases. In this case, the three Databases present articles to users clear of the context provided either by the original periodical editions or by any revision of those editions. \* \* \* When the user conducts a search, each article appears as a separate item within the search result. [The] article appears to a user without the graphics, formatting, or other articles with which the article was initially published. \* \* \* [W]e cannot see how the Database perceptibly reproduces and distributes the article “as part of” either the original edition or a “revision” of that edition.

\* \* \*

The Publishers press an analogy between the Databases, on the one hand, and microfilm and microfiche, on the other. We find the analogy

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<sup>1</sup> The Publishers do not claim that the Articles are “work[s] made for hire.” 17 U.S.C. § 201(b). As to such works, the employer or person for whom a work was prepared is treated as the author. *Ibid.* The Print Publishers, however, neither engaged the Authors to write the Articles as “employee[s]” nor “commissioned” the Articles through “a written instrument signed by [both parties]” indicating that the Articles shall be considered “work[s] made for hire.” § 101 (1994 ed., Supp. V) (defining “work made for hire”).

wanting. Microforms typically contain continuous photographic reproductions of a periodical in the medium of miniaturized film. Accordingly, articles appear on the microforms, writ very small, in precisely the position in which the articles appeared in the newspaper. \* \* \* True, the microfilm roll contains multiple editions, and the microfilm user can adjust the machine lens to focus only on the Article, to the exclusion of surrounding material. Nonetheless, the user first encounters the Article in context. In the Databases, by contrast, the Articles appear disconnected from their original context. \* \* \* In short, unlike microforms, the Databases do not perceptibly reproduce articles as part of the collective work to which the author contributed or as part of any “revision” thereof.

\* \* \*

#### IV

The Publishers warn that a ruling for the Authors will have “devastating” consequences. The Databases, the Publishers note, provide easy access to complete newspaper texts going back decades. A ruling for the Authors, the Publishers suggest, will punch gaping holes in the electronic record of history. \* \* \*

Notwithstanding the dire predictions from some quarters, it hardly follows from today’s decision that an injunction against the inclusion of these Articles in the Databases (much less all freelance articles in any databases) must issue. The parties (Authors and Publishers) may enter into an agreement allowing continued electronic reproduction of the Authors’ works; they, and if necessary the courts and Congress, may draw on numerous models for distributing copyrighted works and remunerating authors for their distribution. In any event, speculation about future harms is no basis for this Court to shrink authorial rights Congress established in § 201(c). Agreeing with the Court of Appeals that the Publishers are liable for infringement, we leave remedial issues open for initial airing and decision in the District Court.

\* \* \*

We conclude that the Electronic Publishers infringed the Authors’ copyrights by reproducing and distributing the Articles in a manner not authorized by the Authors and not privileged by § 201(c). We further conclude that the Print Publishers infringed the Authors’ copyrights by authorizing the Electronic Publishers to place the Articles in the Databases and by aiding the Electronic Publishers in that endeavor. We therefore affirm the judgment of the Court of Appeals.

*It is so ordered.*

**MILNE v. STEPHEN SLESINGER, INC.**

430 F.3d 1036 (9th Cir. 2005).

CALLAHAN, CIRCUIT JUDGE:

This copyright action arises from a termination notice sent by the appellant to the appellee, seeking to recapture rights to various characters created by her grandfather, Alan Alexander Milne, who authored the “Winnie-the-Pooh” children’s books. Milne originally granted various rights in those works to the appellee in 1930. Then, in 1983, due to a change in copyright law in 1976, Milne’s heirs considered terminating the 1930 grant outright, but instead entered into a new agreement that revoked the original grant and re-issued rights in the works to the appellee. The appellant seeks to invalidate the 1983 agreement based on 1998 legislation. The 1998 legislation only authorizes the termination of copyright agreements executed before 1978. Because the 1983 revocation and re-grant were valid, we affirm the district court’s decision.

\* \* \*

In the 1920s, Alan Alexander Milne (“the author”) created in his classic children’s books the characters of the boy Christopher Robin and his stuffed bear, Winnie-the-Pooh, as well as their friends Eeyore, Owl, Piglet, Rabbit, Kanga, Roo, and Tigger. Four of those works are involved in this action: (1) *When We Were Very Young*; (2) *Winnie-the-Pooh*; (3) *Now We Are Six*; and (4) *House at Pooh Corner* (collectively, “Pooh works”). U.S. copyrights in the Pooh works were registered between 1924 and 1928, and renewed between 1952 and 1956.

[In 1930, the author granted exclusive merchandising and other rights in the Pooh works, throughout the U.S. and Canada, to Stephen Slesinger, Inc. (SSI) for the entire period of copyright and any renewal thereof, in exchange for royalties.]

\* \* \*

In 1956, the author passed away and was survived by his widow and their son, Christopher Robin Milne. The author’s will bequeathed all beneficial interests in the Pooh works to a trust for the benefit of his widow during her lifetime (“Milne Trust”), and, after her death, to other beneficiaries (“Pooh Properties Trust”), which included his son, Christopher, and Christopher’s daughter, Clare. Clare is the author’s sole grandchild and the plaintiff-appellant in this case.

In 1961, SSI granted exclusively to Walt Disney Productions (“Disney”) the rights it had acquired in the 1930 grant, and Disney agreed to pay certain royalties to SSI. Around the same time, Disney also entered into a similar agreement with the author’s widow and the Milne Trust, granting Disney exclusive motion-picture rights, foreign-merchandising

rights, and other exclusive rights in the Pooh works in exchange for royalties

In 1971, the author's widow passed away and, in 1972, her beneficial interests under the Milne Trust were assigned to the Pooh Properties Trust in accordance with the author's will. This meant that the Pooh Properties Trust would receive the author's copyright interest in the Pooh works plus the royalties payable under the 1961 Milne-Disney agreement.

\* \* \*

In 1983, faced with the possibility that Christopher might seek to terminate the rights Disney had received in 1961 from SSI, Disney proposed that the parties renegotiate the rights to the Pooh works. Christopher accepted Disney's proposal and, using the bargaining power conferred by his termination right, negotiated and signed on April 1, 1983 a more lucrative deal with SSI and Disney that would benefit the Pooh Properties Trust and its beneficiaries.

The new agreement acknowledged the 1930 grant and the 1961 assignment of rights to Disney, and observed that although ownership of the copyrights had been transferred to the Pooh Properties Trust, there were "disputes[which] had existed[.]". Recognizing that the author's heir, Christopher, may well have a right of termination under the 1976 Copyright Act, the agreement declared that the parties were resolved to "clarify certain aspects of their contractual arrangements and to settle revised agreements." Christopher therefore agreed not to seek termination of the existing arrangements in return for executing the new agreement. The agreement then provided for the revocation of the 1930 and 1961 agreements in favor of the new agreement, followed by the re-granting (on the same page) of the rights in the Pooh works to SSI. In exchange for royalties, SSI turned around and granted Disney the radio, television, motion-picture, and merchandising rights to those works.

One result of the 1983 agreement was an increase of the amounts that the Pooh Properties Trust received over the sums that had been payable under the 1961 Milne-Disney agreement. The Pooh Properties Trust now received double SSI's share of the royalties, compared to about half of SSI's share before the 1983 agreement. Thus, the renegotiations between the parties resulted, by some estimates, in a net gain of hundreds of millions of dollars to the Pooh Properties Trust, which included Clare as a prime beneficiary.

On November 4, 2002, motivated by the recent enactment of the CTEA and its favorable treatment of authors' heirs, Clare set out to recapture the rights to the Pooh works. Toward that end, she served SSI with a notice of termination, which referenced November 5, 2004 as the effective date for termination of the 1930 grant of rights to SSI. The same day that she

served the termination notice, Clare entered into an agreement with Disney, assigning the rights expected to revert to her in 2004.

[Clare sought a declaratory judgment that her termination was effective to terminate SSI's rights in the Pooh works. SSI argued that the notice was invalid because the 1930 grant was revoked by the 1983 agreement. The District Court held the notice invalid, and Clare appealed.]

\* \* \*

#### A. Right of Termination Under the CTEA

Clare argues that she properly terminated SSI's rights in the Pooh works. We hold that the district court's contrary conclusion is correct.

In a copyright case, as in most cases, the language of the statute provides the starting point for our analysis. The CTEA provides in relevant part:

In the case of any copyright other than a work made for hire, subsisting in its renewal term on the effective date of the Sonny Bono Copyright Term Extension Act [effective October 27, 1998] for which the termination right provided in subsection (c) [of this section] has expired by such date, where the author or owner of the termination right has not previously exercised such termination right, the exclusive or nonexclusive grant of a transfer or license of the renewal copyright or any right under it, *executed before January 1, 1978*, by any of the persons designated in subsection (a)(1)(C) of this section, other than by will, is subject to termination. . . .

17 U.S.C. § 304(d).

Although Clare's termination notice purports to terminate the 1930 grant under the CTEA (section 304(d)), that statute provides a termination right to only those transfers or licences “executed *before January 1, 1978*[.]” *Id.* (emphasis added). The only pre-1978 grant of rights to SSI, and the only grant to SSI specified in the termination notice, was the 1930 grant made by the author to Slesinger. The 1930 grant, however, was terminated by the beneficiaries of the Pooh Properties Trust upon the execution of the 1983 agreement. Accordingly, there was no pre-1978 grant of rights to SSI in existence when Congress enacted the CTEA in 1998.

The sole grant of rights to SSI, either at the time of the CTEA's enactment or when Clare served her termination notice, was the grant of rights embodied in the 1983 agreement. As the district court correctly explained, however, this grant is not subject to termination under section 304(d) because it was not “executed before January 1, 1978,” as the statute expressly requires. 17 U.S.C. § 304(d).

### 1. “Agreement to the Contrary”

Faced with the reality that she is dealing with a post-1978 agreement, Clare attempts to circumvent the 1983 agreement by claiming that another provision of the CTEA, 17 U.S.C. § 304(c)(5), requires this court to regard the 1983 agreement as an “agreement to the contrary” that does not prevent her from terminating SSI’s rights to the Pooh works. Section 304(c)(5) states that a “[t]ermination . . . may be effected notwithstanding any agreement to the contrary, including any agreement to make a will or to make any future grant.” 17 U.S.C. § 304(c)(5).

The statute does not define the phrase “agreement to the contrary,” although it does provide two examples of agreements that would constitute an “agreement to the contrary”: “an agreement to make a will” and an agreement “to make any future grant.” *Id.* The undisputed fact that the 1983 agreement does not fall into either category supports the district court’s finding that the 1983 agreement is not “an agreement to the contrary.”

\* \* \*

Clare also relies on the Second Circuit’s decision in *Marvel Characters, Inc. v. Simon*, 310 F.3d 280 (2d Cir. 2002), to support her claim that the 1983 agreement is an “agreement to the contrary” under section 304(c)(5). The contract at issue there was a settlement agreement between the parties, which ended a series of lawsuits filed in the 1960s by the creator of a copyrighted work. The creator argued that the settlement agreement should not be given effect because it contractually changed the nature of the copyrighted work, labeling it as a “work made for hire” many years after its creation. The effects of this after-the-fact label were to make the creator an “employee for hire” rather than the author of the copyrighted work, and to foreclose his right to terminate the grant he had made in the copyrighted work. Thus, unlike the issue presented in the case at bar, the issue facing the Second Circuit was “whether § 304(c)(5)’s phrase ‘any agreement to the contrary’ includes a settlement agreement stating that a work was created for hire[.]” *Id.* at 290.

After examining the legislative history and considering the purpose of section 304(c), the court concluded “that an agreement made subsequent to a work’s creation which retroactively deems it a work for hire constitutes an agreement to the contrary under § 304(c)(5) of the 1976 Act.” *Id.* at 292. The Second Circuit held that an employer cannot contractually transform a creator or author of a copyrighted work into an “employee for hire.” *Id.* The court expressed concern that if it held otherwise, works not satisfying the relationship-based “for hire” test could be coerced by post-facto agreements that designate such works to be something they are not: “works for hire.”

The facts, reasoning, and holding of *Marvel* have little relevance to this case because, here, there is no after-the-fact attempt to recharacterize the work or a prior agreement. Instead, the 1983 agreement involves contractual provisions that operated prospectively through the revocation of an existing grant and the making of a new one. As the district court recognized, “[t]he parties in the 1983 [a]greement did not attempt to change or modify the nature of their association with one another, or alter the character of their long-standing author/grantee relationship.”

Reinforcing this reasoning are the undisputed facts that the 1930 grant was expressly revoked by the Pooh Properties Trust, which made a new grant of rights to SSI that, *inter alia*, was more lucrative for the author’s heirs. The fact that the 1983 agreement was meant to protect the continuing viability of the author’s grant of rights to SSI is evident from the agreement itself. In that vein, it is important to note that the parties describe their 1983 agreement as a “new agreement *for the future* which the parties believe would not be subject to any right of termination under 17 U.S.C. Secs. 203 or 304(c).”

Neither *Marvel* nor any other of Clare’s cited authority supplies a basis for us to question the district court’s decision or to undo the 1983 agreement, which was freely and intelligently entered into by the parties. The beneficiaries of the Pooh Properties Trust were able to obtain considerably more money as a result of the bargaining power wielded by the author’s son, Christopher, who was believed to own a statutory right to terminate the 1930 grant under section 304(c) of the 1976 Copyright Act. Although Christopher presumably could have served a termination notice, he elected instead to use his leverage to obtain a better deal for the Pooh Properties Trust. His daughter, Clare, was a beneficiary of this new arrangement, and her current dissatisfaction provides no reason to discredit the validity of the 1983 agreement and the rights conferred thereby.

## 2. Legislative History of Section 304(c)

\* \* \*

After more than 50 years of advancement of the Pooh works in the marketplace, their value was sufficiently demonstrated, and the 1976 Copyright Act provided Christopher a window for termination. The Pooh Properties Trust recognized the perceived right to terminate as a valuable bargaining chip, and used it to obtain an advantageous agreement that doubled its royalty share relative to SSI’s share. Thus, the 1983 agreement exemplifies the increased bargaining power that Congress intended to bestow on authors and their heirs by creating the termination right under the 1976 Copyright Act. As the 1983 agreement appears to be the type expressly contemplated and endorsed by Congress, we do not consider it to be a prohibited “agreement to the contrary” under section 304(c)(5).

\* \* \*

### B. “Moment of Freedom”

Clare also advances the theory that the 1983 agreement did not serve to revoke the 1930 grant to Slesinger because no “moment of freedom” was built in between the agreement’s simultaneous revocation and re-granting of rights in the Pooh works. She claims that section 304(c)(6)(D) requires such a “moment of freedom” before a re-grant of rights may take place, and that without such a moment of freedom, the 1983 agreement is nothing more than an amendment to the original 1930 agreement, one that is terminable under the CTEA.

Section 304(c)(6)(D) reads as follows:

A further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid *only if it is made after the effective date of the termination*. As an exception, however, an agreement for such a further grant may be made between the author [or statutory heir(s)] . . . and the original grantee or such grantee’s successor in title, after the notice of termination has been served. . . .

17 U.S.C. § 304(c)(6)(D). This provision sets forth the proper timing mechanism for grants and agreements to make grants where the statutory termination under section 304(c)(5) has been exercised. But Clare does not contend and cannot contend that in 1983 anyone exercised a *statutory* right of termination with respect to the Pooh works.

Clare’s sole support for her position is found in a treatise authored by the late-Professor Melville Nimmer. In his treatise, Professor Nimmer expressed his *assumption* that this subsection—which on its face applies only to the statutory termination of a prior copyright grant—is intended to benefit authors and should therefore be extended to prohibit a simultaneous contractual termination and re-grant of copyright rights. See 3 M. NIMMER, NIMMER ON COPYRIGHT § 11.07(6th ed.1978). \*\*\*

We note that the district court reasonably posited that if Congress intended to require a “moment of freedom,” it would have clearly said so. After all, such an implied condition is difficult to harmonize with the statute’s purpose of benefitting the original grantee or with other provisions of Title 17. For example, three other statutory provisions require advance notice of termination to be served at least two years before the effective date of the termination. 17 U.S.C. §§ 203(a)(4)(A), 304(c)(4)(A), 304(d)(1).

During the two-year period between service of the notice and the termination’s effective date, the original grant remains in effect so that the holder of the termination right is no freer to walk away from the to-be-terminated grant than he was before he served the notice. Thus, contrary

to the argument advanced by Clare and the Nimmer treatise, section 304(c)(6)(D) does not require a “moment of freedom” between termination of a grant and the creation of a new grant in its place because it allows the author or his heirs to enter into a binding agreement with the original grantee after service of the termination notice but before its effective date.

\* \* \*

### III

For the foregoing reasons, the district court correctly declared Clare’s termination notice ineffective. The CTEA’s termination provision does not apply to post-1978 agreements such as the parties’ 1983 agreement, which continues to control the parties’ rights and royalty shares in the Pooh works. In addition, Clare is unable to show that the 1983 agreement constitutes an “agreement to the contrary” under section 304(c)(5), and thus the courts cannot disregard the 1983 agreement. Nor are we persuaded by Clare’s “moment of freedom” argument. Quite simply, there is no principle of logic, canon of statutory construction, or consideration of fairness that supports Clare’s reading of the CTEA. Accordingly, the decision of the district court is AFFIRMED.

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## CHAPTER 3

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### EXCLUSIVE RIGHTS

## A. THE SECTION 106 RIGHTS

### 1. REPRODUCTION

#### HORGAN V. MACMILLAN, INC.

[789 F.2d 157 \(2d Cir. 1986\).](#)

FEINBERG, CHIEF JUDGE:

This appeal presents the novel question whether still photographs of a ballet can infringe the copyright on the choreography for the ballet. Barbara Horgan, executrix of the estate of the renowned choreographer George Balanchine, appeals from a judgment of the United States District Court for the Southern District of New York, Richard Owen, J., denying her motion for a preliminary injunction. Appellant Horgan sought to enjoin the publication of a book entitled "The Nutcracker: A Story & a Ballet," which portrays, in text and photographs, the New York City Ballet Company's production of The Nutcracker ballet, choreographed by Balanchine. Defendant Macmillan is the publisher, and defendant Ellen Switzer the author, of the book; defendants Steven Caras and Costas provided the photographs. The district court held that the book did not infringe Balanchine's copyright because choreography is the flow of steps in a ballet, which could not be reproduced from the still photographs in the book. 621 F. Supp. 1169 (S.D.N.Y.1985). \* \* \*

#### I.

[In 1954, Balanchine choreographed his now-classic version of the ballet The Nutcracker, an adaptation of a folk tale set to music by Tchaikovsky. Balanchine's version of the ballet also incorporates elements of a previous version by Russian choreographer Ivanov. The New York City Ballet Company and other entities pay Balanchine's estate a royalty or other consideration in exchange for a license to publicly perform his copyrighted choreography.]

In December 1981, Balanchine registered his claim to copyright in the choreography of The Nutcracker with the United States Copyright Office. As part of his claim, he deposited with the Copyright Office a videotape of a New York City Ballet Company dress rehearsal of the ballet. \* \* \*

In early April 1985, appellant Horgan learned for the first time that Macmillan was planning to publish, under its Atheneum imprint, a book about the New York City Ballet/Balanchine version of The Nutcracker. \* \* \*

The book is designed primarily for an audience of young people. The title page displays three black and white photographs of George Balanchine directing a rehearsal of the ballet. The book begins with a 15-page text by defendant Switzer regarding the origins of The Nutcracker as

a story and as a ballet. The remainder of the book is introduced by a second title page, as follows:

The Balanchine Ballet

*As Performed by the Dancers of the New York City Ballet Company*

The principal section of the book consists of 60 color photographs by Caras and Costas of scenes from the New York City Ballet Company production of The Nutcracker, following the sequence of the ballet's story and dances. The photographs are interspersed with Switzer's narration of the story, including those portions not portrayed visually. The final section of the book contains interviews with ten of the dancers, with black and white photographs of them out of costume. Defendants Switzer, Caras and Costas obtained this material through their access to company rehearsals and performances. Switzer is a free lance journalist who was apparently given such access by the press liaison for the Company. Caras and Costas are considered "official photographers" of the New York City Ballet. According to appellant, this means that Balanchine authorized them to take photographs of the Company, some of which might be purchased by the Company for publicity and related purposes.

\* \* \*

On October 11, 1985, Horgan brought suit on behalf of the estate, seeking declaratory relief and both a preliminary and permanent injunction against publication of the book. \* \* \* [T]he judge denied Horgan's motion for a preliminary injunction. The judge stated, in an opinion and order substantially similar to his earlier memorandum, that the book did not infringe the copyright on Balanchine's choreography because

choreography has to do with the flow of the steps in a ballet. The still photographs in the Nutcracker book, numerous though they are, catch dancers in various attitudes at specific instants of time; they do not, nor do they intend to, take or use the underlying choreography. The staged performance could not be recreated from them.

621 F. Supp. at 1170 [(adding in a footnote: "Just as a Beethoven symphony could not be recreated from a document containing only every twenty-fifth chord of the symphony.")]. \* \* \*

II.

The principal question on appeal, whether still photographs of a ballet can infringe the copyright on the choreography for the ballet, is a matter of first impression. Explicit federal copyright protection for choreography is a fairly recent development, and the scope of that protection is an uncharted area of the law. The 1976 Copyright Act (the Act), 17 U.S.C. § 101 et seq.,

was the first federal copyright statute expressly to include “choreographic works” as a subject of protection. \* \* \*

The Act does not define choreography, and the legislative reports on the bill indicate only that “social dance steps and simple routines” are not included. *See, e.g.*, H.R. Rep. No. 1476, 94th Cong., 2d Sess. 53–54. The Compendium of Copyright Office Practices, Compendium II (1984), which is issued by that office, defines choreographic works as follows:

Choreography is the composition and arrangement of dance movements and patterns, and is usually intended to be accompanied by music. Dance is static and kinetic successions of bodily movement in certain rhythmic and spatial relationships. Choreographic works need not tell a story in order to be protected by copyright.

Section 450.01. Under “Characteristics of choreographic works,” Compendium II states that

Choreography represents a related series of dance movements and patterns organized into a coherent whole.

Section 450.03(a). \* \* \* The Act grants the owner of a copyrighted original work that is “fixed in any tangible medium of expression,” 17 U.S.C. § 102(a), the exclusive right “to reproduce the copyrighted work in copies . . . ,” “to prepare derivative works based upon the copyrighted work” and, “in the case of . . . choreographic works, . . . to display the copyrighted work publicly.” 17 U.S.C. § 106(1), (2) & (5). Appellant claims that the Switzer book is a “copy” of Balanchine’s copyrighted work because it portrays the essence of the Balanchine Nutcracker, or, in the alternative, that the book is an infringing “derivative work.” \* \* \*

In response, appellees assert that the photographs in the Switzer book do not capture the flow of movement, which is the essence of dance, and thus cannot possibly be substantially similar to the choreographic component of the production of the ballet. Appellees rely on the various definitions of choreography in Compendium II, quoted above, to support their position that the central characteristic of choreography is “movement.” According to appellees, since each photograph in the book captures only a fraction of an instant, even the combined effect of 60 color photographs does not reproduce the choreography itself, nor provide sufficient details of movement to enable a choreographic work to be reproduced from the photographs.

\* \* \* [T]he district judge took a far too limited view of the extent to which choreographic material may be conveyed in the medium of still photography. A snapshot of a single moment in a dance sequence may communicate a great deal. It may, for example, capture a gesture, the composition of dancers’ bodies or the placement of dancers on the stage. Such freezing of a choreographic moment is shown in a number of the

photographs in the Switzer book \* \* \*. A photograph may also convey to the viewer's imagination the moments before and after the split second recorded. On page 76–77 of the Switzer book, for example, there is a two-page photograph of the "Sugar Canes," one of the troupes that perform in The Nutcracker. In this photograph, the Sugar Canes are a foot or more off the ground, holding large hoops above their heads. One member of the ensemble is jumping through a hoop, which is held extended in front of the dancer. The dancer's legs are thrust forward, parallel to the stage and several feet off the ground. The viewer understands instinctively, based simply on the laws of gravity, that the Sugar Canes jumped up from the floor only a moment earlier, and came down shortly after the photographed moment. An ordinary observer, who had only recently seen a performance of The Nutcracker, could probably perceive even more from this photograph. The single instant thus communicates far more than a single chord of a Beethoven symphony—the analogy suggested by the district judge.

It may be that all of the photographs mentioned above are of insufficient quantity or sequencing to constitute infringement; it may also be that they do copy but also are protected as fair use. But that is not what the district judge said in denying a preliminary injunction. The judge erroneously held that still photographs cannot infringe choreography. Since the judge applied the wrong test in evaluating appellant's likelihood of success on the preliminary injunction, we believe that a remand is appropriate. \* \* \*

We reverse and remand for further proceedings consistent with this opinion.

### **WALT DISNEY PRODUCTIONS V. FILMATION ASSOCIATES**

[628 F.Supp. 871 \(C.D. Cal. 1986\).](#)

STOTLER, UNITED STATES DISTRICT JUDGE:

#### Introduction

\* \* \*

[Plaintiff Walt Disney Productions ("Disney") alleges that Filmation Associates ("Filmation") copied cartoon figures from Disney's animated film "Pinocchio" and has begun to use them in producing an animated film entitled "The New Adventures of Pinocchio."]

\* \* \* In the course of production, Filmation has produced a script, "story board," "story reel,"<sup>5</sup> models, and designs, which are said to be

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<sup>5</sup> A "story reel" is a working model used to create the final animated product. To create a story reel, Filmation first records a reading of the script. It then creates a "story board" comprising sketches of the various scenes in the film set in the order in which they will be portrayed and

tangible and permanent reproductions of characters and scenes, “constituting copies of material” copyrighted by Disney. *Id.*, para. 61.

It is undisputed that Filmation has generated a substantial body of work preliminary to a “finished film.” It is also undisputed, however, that it has not completed its film “The New Adventures of Pinocchio.” Filmation contends that Count Six is not actionable until it has completed work on its motion picture. Alternatively, Filmation asserts it is entitled to judgment because any articles so far produced are not substantially similar to Disney’s copyrighted expressions.

### 1. Actionable “Copies”

Filmation argues that the materials so far created are only transitory steps en route to a fixed product, and that until its film is completed and ready for distribution, there exists no article that could be said to infringe any of Disney’s copyrights.

Filmation’s argument is refuted by the provisions of the 1976 Copyright Act, 17 U.S.C. §§ 101–914 (the “Act”). Under the Act, “‘copies’ are material objects . . . in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” 17 U.S.C. § 101. The definition “includes the material object . . . in which the work is first fixed.” *Id.* Further, a work is “‘fixed’ in a tangible medium of expression when its embodiment in a copy . . . is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” *Id.* When the work is “prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.” *Id.* To constitute an actionable copy, therefore, an expression need only be a material object permanently cast in some intelligible form.

The articles created by Filmation in the production of its film, including a script, story board, story reel, and promotional “trailer,” satisfy this definition, and thus can constitute copies for purposes of the Act. Because the right of reproduction affords a copyright owner protection against an infringer even if he does not also infringe the § 106(3) right of distribution, *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 474 (1984) (Blackmun, J., dissenting); House Report No. 94–1476, 94th Cong., 2d Sess. (1976), p. 61, the fact that the articles may never be published or, indeed, may be prepared only for the use of Filmation’s animators, does not obviate the possibility of infringement. See *Harper & Row v. Nation*

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“shoots” the sketches to synchronize with the recorded dialogue track and a rough music track. By viewing the reel, the director can get a “feel” for the story line and pacing of the anticipated picture and can begin allocating responsibility for its animation. \* \* \*

*Enterprises*, 471 U.S. 539 (1985) (noting that the Act “eliminated publication ‘as a dividing line between common law and statutory protection,’ . . . extending statutory protection to all works from the time of their creation”). As explained by Professor Nimmer, “subject to the privilege of fair use, and subject to certain other exemptions, copyright infringement occurs whenever an unauthorized copy . . . is made, even if it is used solely for the private purposes of the reproducer.” 2 NIMMER, § 8.02(C), p. 8–26. It is thus irrelevant that Filmation has not concluded or “realized” what it considers to be a final motion picture: the Act prohibits the creation of copies, even if the creator considers those copies mere interim steps toward some final goal.

It is similarly no defense to copying that some of Filmation’s expressions may be embodied in a medium different from that of plaintiff’s. *Berkic v. Crichton*, 761 F.2d 1289, 1292 (9th Cir.1985) (“in comparing . . . a film with a written work, the proper question . . . is whether the ordinary, reasonable audience would recognize the defendant’s work as a ‘dramatization’ or ‘picturization’ of the plaintiff’s work”). *See also Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27 (2d Cir.1982) (copying from gift wrapping paper to clothing actionable). *But see Sid & Marty Krofft Television v. McDonald’s Corp.*, 562 F.2d 1157, 1164 (9th Cir.1977) (observing, in dicta, that a painting of a nude would not infringe a statue of a nude). Thus, Filmation’s materials, including scripts and story outlines, can infringe Disney’s copyright on “Pinocchio” even though they are not rendered as a motion picture.

This had been the law in the Ninth Circuit even under the Copyright Act of 1909. In *Walker v. University Books, Inc.*, 602 F.2d 859 (9th Cir.1979), plaintiff had copyrighted a set of fortune telling cards. She attempted unsuccessfully to strike a marketing deal with defendants, submitting to them a sample of her deck in the process. Afterward, she assigned her copyright to a third party. Plaintiff subsequently discovered that defendant planned to market a deck of cards similar to the ones she had supplied them in the course of negotiations. She received from defendants “certain blueprints,” which were produced before the date of the assignment (*id.* at 863), but could adduce no evidence of a completed deck of cards produced and sold during the period in which she owned the copyright.

On appeal from summary judgment in defendant’s favor, the court of appeals rejected defendant’s argument that the blueprints were not themselves copies:

The district court viewed the making of the blueprints as merely a preliminary step or process directed towards the manufacture of [defendants’] finished product, their set of [cards]. . . . However, the fact that an allegedly infringing copy of a protected work may itself be only an inchoate representation of some final product to

be marketed commercially does not in itself negate the possibility of infringement.

*Walker*, 602 F.2d at 864. According to the *Walker* court, the operative question was not whether defendants considered the article a final product, but “whether they unauthorizedly utilized [plaintiff’s] work in the manufacture of their blueprints.” *Id.*

Finally, the absence of a completed motion picture does not preclude meaningful comparison of Disney’s character depictions and film with Filmation’s materials. Although Filmation contends that copyright infringement of a cartoon character cannot be based on a mere sketch that is not part of a story, there is no support for this proposition. It is true that courts generally have considered “not only the visual resemblances but also the totality of the characters’ attributes and traits,” 1 Nimmer § 2.12, p. 175, n. 16.2, and, thus, that the trier of fact would ordinarily evaluate a character in the context of a story. But where the work sued upon is not a “completed” story, but a series of depictions and other works, comparison of the expressions may be made in the form in which they are presented. *Walt Disney Productions v. Air Pirates*, 581 F.2d 751, 756 (9th Cir.1978) (comparison of graphic images of cartoon characters sufficient to allow action for copyright infringement).

\* \* \*

## CARTOON NETWORK LP v. CSC HOLDINGS, INC.

[536 F.3d 121 \(2d Cir. 2008\)](#).

JOHN M. WALKER, JR., CIRCUIT JUDGE.

Defendant-Appellant Cablevision Systems Corporation (“Cablevision”) wants to market a new “Remote Storage” Digital Video Recorder system (“RS-DVR”), using a technology akin to both traditional, set-top digital video recorders, like TiVo (“DVRs”), and the video-on-demand (“VOD”) services provided by many cable companies. Plaintiffs-Appellees produce copyrighted movies and television programs that they provide to Cablevision pursuant to numerous licensing agreements. They contend that Cablevision, through the operation of its RS-DVR system as proposed, would directly infringe their copyrights both by making unauthorized reproductions, and by engaging in public performances, of their copyrighted works. \* \* \*

In the district court, plaintiffs successfully argued that Cablevision’s proposed system would directly infringe their copyrights \* \* \*. First, by briefly storing data in the primary ingest buffer and other data buffers integral to the function of the RS-DVR, Cablevision would make copies of protected works and thereby directly infringe plaintiffs’ exclusive right of reproduction under the Copyright Act. Second, by copying programs onto the Arroyo Server hard disks (the “playback copies”), Cablevision would

again directly infringe the reproduction right. \* \* \* Agreeing with [plaintiffs,] the 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.

As to the buffer data, the district court rejected defendants' arguments 1) that the data were not "fixed" and therefore were not "copies" as defined in the Copyright Act, and 2) that any buffer copying was de minimis because the buffers stored only small amounts of data for very short periods of time. In rejecting the latter argument, the district court noted that the "aggregate effect of the buffering" was to reproduce the entirety of Cablevision's programming, and such copying "can hardly be called de minimis."

\* \* \*

## I. The Buffer Data

It is undisputed that Cablevision, not any customer or other entity, takes the content from one stream of programming, after the split, and stores it, one small piece at a time, in the BMR buffer and the primary ingest buffer. As a result, the information is buffered before any customer requests a recording, and would be buffered even if no such request were made. The question is whether, by buffering the data that make up a given work, Cablevision "reproduce[s]" that work "in copies," 17 U.S.C. § 106(1), and thereby infringes the copyright holder's reproduction right.

"Copies," as defined in the Copyright Act, "are material objects . . . in which a work is fixed by any method . . . and from which the work can be . . . reproduced." *Id.* § 101. The Act also provides that a work is "'fixed' in a tangible medium of expression when its embodiment . . . is sufficiently permanent or stable to permit it to be . . . reproduced . . . *for a period of more than transitory duration.*" *Id.* (emphasis added). We believe that this language plainly imposes two distinct but related requirements: the work must be embodied in a medium, i.e., placed in a medium such that it can be perceived, reproduced, etc., from that medium (the "embodiment requirement"), and it must remain thus embodied "for a period of more than transitory duration" (the "duration requirement"). Unless both requirements are met, the work is not "fixed" in the buffer, and, as a result, the buffer data is not a "copy" of the original work whose data is buffered.

The district court mistakenly limited its analysis primarily to the embodiment requirement. As a result of this error, once it determined that the buffer data was "[c]learly . . . capable of being reproduced," i.e., that the work was embodied in the buffer, the district court concluded that the work was therefore "fixed" in the buffer, and that a copy had thus been made. In doing so, it relied on a line of cases beginning with *MAI Systems Corp. v. Peak Computer Inc.*, 991 F.2d 511 (9th Cir.1993). It also relied on the United States Copyright Office's 2001 report on the Digital Millennium

Copyright Act, which states, in essence, that an embodiment is fixed “[u]nless a reproduction manifests itself so fleetingly that *it cannot be copied.*” U.S. Copyright Office, *DMCA Section 104 Report* 111 (Aug.2001) (“*DMCA Report*”) (emphasis added).

The district court’s reliance on cases like *MAI Systems* is misplaced. In general, those cases conclude that an alleged copy is fixed without addressing the duration requirement; it does not follow, however, that those cases assume, much less establish, that such a requirement does not exist. Indeed, the duration requirement, by itself, was not at issue in *MAI Systems* and its progeny. As a result, they do not speak to the issues squarely before us here: If a work is only “embodied” in a medium for a period of transitory duration, can it be “fixed” in that medium, and thus a copy? And what constitutes a period “of more than transitory duration”?

\* \* \*

The *MAI Systems* court referenced the “transitory duration” language but did not discuss or analyze it. The opinion notes that the defendants “vigorously” argued that the program’s embodiment in the RAM was not a copy, but it does not specify the arguments defendants made. This omission suggests that the parties did not litigate the significance of the “transitory duration” language, and the court therefore had no occasion to address it. This is unsurprising, because it seems fair to assume that in these cases the program was embodied in the RAM for at least several minutes.

Accordingly, we construe *MAI Systems* and its progeny as holding that loading a program into a computer’s RAM *can* result in copying that program. We do not read *MAI Systems* as holding that, as a matter of law, loading a program into a form of RAM *always* results in copying. Such a holding would read the “transitory duration” language out of the definition, and we do not believe our sister circuit would dismiss this statutory language without even discussing it. It appears the parties in *MAI Systems* simply did not dispute that the duration requirement was satisfied; this line of cases simply concludes that when a program is loaded into RAM, the embodiment requirement is satisfied—an important holding in itself, and one we see no reason to quibble with here.

At least one court, relying on *MAI Systems* in a highly similar factual setting, has made this point explicitly. In *Advanced Computer Services of Michigan, Inc. v. MAI Systems Corp.*, the district court expressly noted that the unlicensed user in that case ran copyrighted diagnostic software “for minutes or longer,” but that the program’s embodiment in the computer’s RAM might be too ephemeral to be fixed if the computer had been shut down “within seconds or fractions of a second” after loading the copyrighted program. 845 F.Supp. 356, 363 (E.D.Va. 1994). We have no quarrel with this reasoning; it merely makes explicit the reasoning that is implicit in the other *MAI Systems* cases. Accordingly, those cases provide no support

for the conclusion that the definition of “fixed” does not include a duration requirement. \* \* \*

Nor does the Copyright Office’s 2001 DMCA Report, also relied on by the district court in this case, explicitly suggest that the definition of “fixed” does not contain a duration requirement. However, as noted above, it does suggest that an embodiment is fixed “[u]nless a reproduction manifests itself so fleetingly that it cannot be copied, perceived or communicated.” *DMCA Report, supra*, at 111. As we have stated, to determine whether a work is “fixed” in a given medium, the statutory language directs us to ask not only 1) whether a work is “embodied” in that medium, but also 2) whether it is embodied in the medium “for a period of more than transitory duration.” According to the Copyright Office, if the work is capable of being copied from that medium *for any amount of time*, the answer to both questions is “yes.” The problem with this interpretation is that it reads the “transitory duration” language out of the statute.

\* \* \*

In sum, no case law or other authority dissuades us from concluding that the definition of “fixed” imposes both an embodiment requirement and a duration requirement. *Accord CoStar Group Inc. v. LoopNet, Inc.*, 373 F.3d 544, 551 (4th Cir. 2004) (while temporary reproductions “may be made in this transmission process, they would appear not to be ‘fixed’ in the sense that they are ‘of more than transitory duration’ ”). We now turn to whether, in this case, those requirements are met by the buffer data.

Cablevision does not seriously dispute that copyrighted works are “embodied” in the buffer. Data in the BMR buffer can be reformatted and transmitted to the other components of the RS-DVR system. Data in the primary ingest buffer can be copied onto the Arroyo hard disks if a user has requested a recording of that data. Thus, a work’s “embodiment” in either buffer “is sufficiently permanent or stable to permit it to be perceived, reproduced,” (as in the case of the ingest buffer) “or otherwise communicated” (as in the BMR buffer). 17 U.S.C. § 101. The result might be different if only a single second of a much longer work was placed in the buffer in isolation. In such a situation, it might be reasonable to conclude that only a minuscule portion of a work, rather than “a work” was embodied in the buffer. Here, however, where every second of an entire work is placed, one second at a time, in the buffer, we conclude that the work is embodied in the buffer.

Does any such embodiment last “for a period of more than transitory duration”? *Id.* No bit of data remains in any buffer for more than a fleeting 1.2 seconds. And unlike the data in cases like *MAI Systems*, which remained embodied in the computer’s RAM memory until the user turned the computer off, each bit of data here is rapidly and automatically overwritten as soon as it is processed. While our inquiry is necessarily fact-specific, and other factors not present here may alter the duration analysis

significantly, these facts strongly suggest that the works in this case are embodied in the buffer for only a “transitory” period, thus failing the duration requirement.

Against this evidence, plaintiffs argue only that the duration is not transitory because the data persist “long enough for Cablevision to make reproductions from them.” As we have explained above, however, this reasoning impermissibly reads the duration language out of the statute, and we reject it. Given that the data reside in no buffer for more than 1.2 seconds before being automatically overwritten, and in the absence of compelling arguments to the contrary, we believe that the copyrighted works here are not “embodied” in the buffers for a period of more than transitory duration, and are therefore not “fixed” in the buffers. Accordingly, the acts of buffering in the operation of the RS-DVR do not create copies, as the Copyright Act defines that term. Our resolution of this issue renders it unnecessary for us to determine whether any copies produced by buffering data would be de minimis, and we express no opinion on that question.

## II. Direct Liability for Creating the Playback Copies

In most copyright disputes, the allegedly infringing act and the identity of the infringer are never in doubt. These cases turn on whether the conduct in question does, in fact, infringe the plaintiff’s copyright. In this case, however, the core of the dispute is over the authorship of the infringing conduct. After an RS-DVR subscriber selects a program to record, and that program airs, a copy of the program—a copyrighted work—resides on the hard disks of Cablevision’s Arroyo Server, its creation unauthorized by the copyright holder. The question is *who* made this copy. If it is Cablevision, plaintiffs’ theory of direct infringement succeeds; if it is the customer, plaintiffs’ theory fails because Cablevision would then face, at most, secondary liability, a theory of liability expressly disavowed by plaintiffs.

Few cases examine the line between direct and contributory liability. Both parties cite a line of cases beginning with *Religious Technology Center v. Netcom On-Line Communication Services*, 907 F.Supp. 1361 (N.D.Cal.1995). In *Netcom*, a third-party customer of the defendant Internet service provider (“ISP”) posted a copyrighted work that was automatically reproduced by the defendant’s computer. The district court refused to impose direct liability on the ISP, reasoning that “[a]lthough copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant’s system is merely used to create a copy by a third party.” *Id.* at 1370. Recently, the Fourth Circuit endorsed the *Netcom* decision, noting that

to establish *direct* liability under . . . the Act, something more must be shown than mere ownership of a machine used by others to make illegal copies. There must be actual infringing conduct

with a nexus sufficiently close and causal to the illegal copying that one could conclude that the machine owner himself trespassed on the exclusive domain of the copyright owner.

*CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir.2004).

Here, the district court pigeon-holed the conclusions reached in *Netcom* and its progeny as “premised on the unique attributes of the Internet.” *Cablevision I*, 478 F.Supp.2d at 620. While the *Netcom* court was plainly concerned with a theory of direct liability that would effectively “hold the entire Internet liable” for the conduct of a single user, 907 F.Supp. at 1372, its reasoning and conclusions, consistent with precedents of this court and the Supreme Court, and with the text of the Copyright Act, transcend the Internet. Like the Fourth Circuit, we reject the contention that “the *Netcom* decision was driven by expedience and that its holding is inconsistent with the established law of copyright,” *CoStar*, 373 F.3d at 549, and we find it “a particularly rational interpretation of § 106,” *id.* at 551, rather than a special-purpose rule applicable only to ISPs.

When there is a dispute as to the author of an allegedly infringing instance of reproduction, *Netcom* and its progeny direct our attention to the volitional conduct that causes the copy to be made. There are only two instances of volitional conduct in this case: Cablevision’s conduct in designing, housing, and maintaining a system that exists only to produce a copy, and a customer’s conduct in ordering that system to produce a copy of a specific program. In the case of a VCR, it seems clear—and we know of no case holding otherwise—that the operator of the VCR, the person who actually presses the button to make the recording, supplies the necessary element of volition, not the person who manufactures, maintains, or, if distinct from the operator, owns the machine. We do not believe that an RS-DVR customer is sufficiently distinguishable from a VCR user to impose liability as a direct infringer on a different party for copies that are made automatically upon that customer’s command.

The district court emphasized the fact that copying is “instrumental” rather than “incidental” to the function of the RS-DVR system. *Cablevision I*, 478 F.Supp.2d at 620. While that may distinguish the RS-DVR from the ISPs in *Netcom* and *CoStar*, it does not distinguish the RS-DVR from a VCR, a photocopier, or even a typical copy shop. And the parties do not seem to contest that a company that merely makes photocopiers available to the public on its premises, without more, is not subject to liability for direct infringement for reproductions made by customers using those copiers. They only dispute whether Cablevision is similarly situated to such a proprietor.

The district court found Cablevision analogous to a copy shop that makes course packs for college professors. In the leading case involving such a shop, for example, “[t]he professor [gave] the copyshop the materials of which the coursepack [was] to be made up, and the copyshop [did] the

rest.” *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1384 (6th Cir.1996) (en banc). There did not appear to be any serious dispute in that case that the shop itself was directly liable for reproducing copyrighted works. The district court here found that Cablevision, like this copy shop, would be “doing” the copying, albeit “at the customer’s behest.” *Cablevision I*, 478 F.Supp.2d at 620.

But because volitional conduct is an important element of direct liability, the district court’s analogy is flawed. In determining who actually “makes” a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct. In cases like *Princeton University Press*, the defendants operated a copying device and sold the product they made using that device. *See* 99 F.3d at 1383 (“The corporate defendant . . . is a commercial copyshop that reproduced substantial segments of copyrighted works of scholarship, bound the copies into ‘coursepacks,’ and sold the coursepacks to students. . . .”). Here, by selling access to a system that automatically produces copies on command, Cablevision more closely resembles a store proprietor who charges customers to use a photocopier on his premises, and it seems incorrect to say, without more, that such a proprietor “makes” any copies when his machines are actually operated by his customers. *See Netcom*, 907 F.Supp. at 1369. Some courts have held to the contrary, but they do not explicitly explain why, and we find them unconvincing. *See, e.g., Elektra Records Co. v. Gem Elec. Distrib., Inc.*, 360 F.Supp. 821, 823 (E.D.N.Y.1973) (concluding that, “regardless” of whether customers or defendants’ employees operated the tape-copying machines at defendants’ stores, defendant had actively infringed copyrights).

\* \* \*

## 2. PREPARATION OF DERIVATIVE WORKS

### **LEWIS GALOOB TOYS, INC. v. NINTENDO OF AMERICA, INC.**

[964 F.2d 965 \(9th Cir. 1992\).](#)

FARRIS, CIRCUIT JUDGE:

Nintendo of America appeals the district court’s judgment following a bench trial (1) declaring that Lewis Galoob Toys’ Game Genie does not violate any Nintendo copyrights and dissolving a temporary injunction and (2) denying Nintendo’s request for a permanent injunction enjoining Galoob from marketing the Game Genie. \* \* \* We affirm.

## Facts

The Nintendo Entertainment System is a home video game system marketed by Nintendo. To use the system, the player inserts a cartridge containing a video game that Nintendo produces or licenses others to produce. By pressing buttons and manipulating a control pad, the player controls one of the game's characters and progresses through the game. The games are protected as audiovisual works under 17 U.S.C. § 102(a)(6).

The Game Genie is a device manufactured by Galoob that allows the player to alter up to three features of a Nintendo game. For example, the Game Genie can increase the number of lives of the player's character, increase the speed at which the character moves, and allow the character to float above obstacles. The player controls the changes made by the Game Genie by entering codes provided by the Game Genie Programming Manual and Code Book. The player also can experiment with variations of these codes.

The Game Genie functions by blocking the value for a single data byte sent by the game cartridge to the central processing unit in the Nintendo Entertainment System and replacing it with a new value. If that value controls the character's strength, for example, then the character can be made invincible by increasing the value sufficiently. The Game Genie is inserted between a game cartridge and the Nintendo Entertainment System. The Game Genie does not alter the data that is stored in the game cartridge. Its effects are temporary.

## Discussion

### 1. *Derivative work*

The Copyright Act of 1976 confers upon copyright holders the exclusive right to prepare and authorize others to prepare derivative works based on their copyrighted works. *See* 17 U.S.C. § 106(2). Nintendo argues that the district court erred in concluding that the audiovisual displays created by the Game Genie are not derivative works. \* \* \*

A derivative work must incorporate a protected work in some concrete or permanent "form." \* \* \*

Our analysis is not controlled by the Copyright Act's definition of "fixed." The Act defines copies as "material objects, other than phonorecords, in which a work is *fixed* by any method." 17 U.S.C. § 101 (emphasis added). The Act's definition of "derivative work," in contrast, lacks any such reference to fixation. *See id.* Further, we have held in a copyright infringement action that "it makes no difference that the derivation may not satisfy certain requirements for statutory copyright registration itself." *Lone Ranger Television v. Program Radio Corp.*, 740 F.2d 718, 722 (9th Cir.1984). *See also* Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. COPYRIGHT SOC'Y U.S.A. 209, 231

n.75 (1983) (“the Act does not require that the derivative work be protectable for its preparation to infringe”). *Cf. Kalem Co. v. Harper Bros.*, 222 U.S. 55, 61 (1911) (finding the movie “Ben Hur” infringed copyright in the book Ben Hur even though Copyright Act did not yet include movies as protectable works). A derivative work must be fixed to be *protected* under the Act, *see* 17 U.S.C. § 102(a), but not to *infringe*.

The argument that a derivative work must be fixed because “[a] ‘derivative work’ is a work,” 17 U.S.C. § 101, and “[a] work is ‘created’ when it is fixed in a copy or phonorecord for the first time,” *id.*, relies on a misapplication of the Copyright Act’s definition of “created”:

A work is ‘created’ when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.

*Id.* The definition clarifies the *time* at which a work is *created*. If the provision were a definition of “work,” it would not use that term in such a casual manner. The Act does not contain a definition of “work.” Rather, it contains specific definitions: “audiovisual works,” “literary works,” and “pictorial, graphic and sculptural works,” for example. The definition of “derivative work” does not require fixation.

The district court’s finding that no independent work is created, see *Galoob*, 780 F. Supp. at 1291, is supported by the record. The Game Genie merely enhances the audiovisual displays (or underlying data bytes) that originate in Nintendo game cartridges. The altered displays do not incorporate a portion of a copyrighted work in some concrete or permanent form. Nintendo argues that the Game Genie’s displays are as fixed in the hardware and software used to create them as Nintendo’s original displays. Nintendo’s argument ignores the fact that the Game Genie cannot produce an audiovisual display; the underlying display must be produced by a Nintendo Entertainment System and game cartridge. Even if we were to rely on the Copyright Act’s definition of “fixed,” we would similarly conclude that the resulting display is not “embodied,” *see* 17 U.S.C. § 101, in the Game Genie. It cannot be a derivative work.

*Mirage Editions* is illustrative. Albuquerque A.R.T. transferred artworks from a commemorative book to individual ceramic tiles. *See Mirage Editions*, 856 F.2d at 1342. We held that “by borrowing and mounting the preexisting, copyrighted individual art images without the consent of the copyright proprietors . . . [Albuquerque A.R.T.] has prepared a derivative work and infringed the subject copyrights.” *Id.* at 1343. The ceramic tiles *physically* incorporated the copyrighted works in a form that could be sold. Perhaps more importantly, sales of the tiles supplanted purchasers’ demand for the underlying works. Our holding in *Mirage Editions* would have been much different if Albuquerque A.R.T. had

distributed lenses that merely enabled users to view several artworks simultaneously.

Nintendo asserted at oral argument that the existence of a \$150 million market for the Game Genie indicates that its audiovisual display must be fixed. We understand Nintendo's argument; consumers clearly would not purchase the Game Genie if its display was not "sufficiently permanent or stable to permit it to be perceived . . . for a period of more than transitory duration." 17 U.S.C. § 101. But, Nintendo's reliance on the Copyright Act's definition of "fixed" is misplaced. Nintendo's argument also proves too much; the existence of a market does not, and cannot, determine conclusively whether a work is an infringing derivative work. For example, although there is a market for kaleidoscopes, it does not necessarily follow that kaleidoscopes create unlawful derivative works when pointed at protected artwork. The same can be said of countless other products that enhance, but do not replace, copyrighted works.

Nintendo also argues that our analysis should focus exclusively on the audiovisual displays created by the Game Genie, i.e., that we should compare the altered displays to Nintendo's original displays. Nintendo emphasizes that "'audiovisual works' are works that consist of a series of related images . . . regardless of the nature of the material objects . . . in which the works are embodied." 17 U.S.C. § 101 (emphasis added). The Copyright Act's definition of "audiovisual works" is inapposite; the *only* question before us is whether the audiovisual displays created by the Game Genie are "derivative works." The Act does not similarly provide that a work can be a derivative work regardless of the nature of the material objects in which the work is embodied. A derivative work must incorporate a protected work in some concrete or permanent form. We cannot ignore the actual source of the Game Genie's display.

Nintendo relies heavily on *Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009 (7th Cir. 1983). *Midway* can be distinguished. The defendant in *Midway*, Artic International, marketed a computer chip that could be inserted in Galaxian video games to speed up the rate of play. The Seventh Circuit held that the speeded-up version of Galaxian was a derivative work. *Id.* at 1013–14. Artic's chip substantially copied and replaced the chip that was originally distributed by Midway. Purchasers of Artic's chip also benefited economically by offering the altered game for use by the general public. The Game Genie does not physically incorporate a portion of a copyrighted work, nor does it supplant demand for a component of that work. The court in *Midway* acknowledged that the Copyright Act's definition of "derivative work" "must be stretched to accommodate speeded-up video games." *Id.* at 1014. Stretching that definition further would chill innovation and fail to protect "society's competing interest in the free flow of ideas, information, and commerce." *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 429 (1984).

In holding that the audiovisual displays created by the Game Genie are not derivative works, we recognize that technology often advances by improvement rather than replacement. \* \* \* Some time ago, for example, computer companies began marketing spell-checkers that operate within existing word processors by signalling the writer when a word is misspelled. These applications, as well as countless others, could not be produced and marketed if courts were to conclude that the word processor and spell-checker combination is a derivative work based on the word processor alone. The Game Genie is useless by itself. It can only enhance, and cannot duplicate or recast, a Nintendo game's output. It does not contain or produce a Nintendo game's output in some concrete or permanent form, nor does it supplant demand for Nintendo game cartridges. Such innovations rarely will constitute infringing derivative works under the Copyright Act. \* \* \*

Galoob has not violated the Copyright Act. Nintendo therefore is not entitled to a temporary or permanent injunction.

AFFIRMED.

**LEE V. A.R.T. CO.**

125 F.3d 580 (7th Cir. 1997).

EASTERBROOK, CIRCUIT JUDGE.

Annie Lee creates works of art, which she sells through her firm Annie Lee & Friends. Deck the Walls, a chain of outlets for modestly priced art, is among the buyers of her works, which have been registered with the Register of Copyrights. One Deck the Walls store sold some of Lee's notecards and small lithographs to A.R.T. Company, which mounted the works on ceramic tiles (covering the art with transparent epoxy resin in the process) and resold the tiles. Lee contends that these tiles are derivative works, which under 17 U.S.C. § 106(2) may not be prepared without the permission of the copyright proprietor. She seeks both monetary and injunctive relief. Her position has the support of two cases holding that A.R.T.'s business violates the copyright laws. *Munoz v. Albuquerque A.R.T. Co.*, 38 F.3d 1218 (9th Cir.1994), *affirming without published opinion*, 829 F. Supp. 309 (D.Alaska 1993); *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341 (9th Cir.1988). *Mirage Editions*, the only full appellate discussion, dealt with pages cut from books and mounted on tiles; the court of appeals' brief order in Munoz concludes that the reasoning of *Mirage Editions* is equally applicable to works of art that were sold loose. Our district court disagreed with these decisions and entered summary judgment for the defendant. 925 F.Supp. 576 (N.D.Ill.1996).

Now one might suppose that this is an open and shut case under the doctrine of first sale, codified at 17 U.S.C. § 109(a). A.R.T. bought the work

legitimately, mounted it on a tile, and resold what it had purchased. Because the artist could capture the value of her art's contribution to the finished product as part of the price for the original transaction, the economic rationale for protecting an adaptation as "derivative" is absent. An alteration that includes (or consumes) a complete copy of the original lacks economic significance. One work changes hands multiple times, exactly what sec. 109(a) permits, so it may lack legal significance too. But sec. 106(2) creates a separate exclusive right, to "prepare derivative works", and Lee believes that affixing the art to the tile is "preparation," so that A.R.T. would have violated sec. 106(2) even if it had dumped the finished tiles into the Marianas Trench. For the sake of argument we assume that this is so and ask whether card-on-a-tile is a "derivative work" in the first place.

"Derivative work" is a defined term:

A "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work".

17 U.S.C. § 101. The district court concluded that A.R.T.'s mounting of Lee's works on tile is not an "original work of authorship" because it is no different in form or function from displaying a painting in a frame or placing a medallion in a velvet case. No one believes that a museum violates sec. 106(2) every time it changes the frame of a painting that is still under copyright, although the choice of frame or glazing affects the impression the art conveys, and many artists specify frames (or pedestals for sculptures) in detail. *Munoz* and *Mirage Editions* acknowledge that framing and other traditional means of mounting and displaying art do not infringe authors' exclusive right to make derivative works. Nonetheless, the Ninth Circuit held, what A.R.T. does creates a derivative work because the epoxy resin bonds the art to the tile. Our district judge thought this a distinction without a difference, and we agree. If changing the way in which a work of art will be displayed creates a derivative work, and if Lee is right about what "prepared" means, then the derivative work is "prepared" when the art is mounted; what happens later is not relevant, because the violation of the sec. 106(2) right has already occurred. If the framing process does not create a derivative work, then mounting art on a tile, which serves as a flush frame, does not create a derivative work. What is more, the Ninth Circuit erred in assuming that normal means of mounting and displaying art are easily reversible. A painting is placed in a wooden "stretcher" as part of the framing process; this leads to some punctures

(commonly tacks or staples), may entail trimming the edges of the canvas, and may affect the surface of the painting as well. Works by Jackson Pollock are notoriously hard to mount without damage, given the thickness of their paint. As a prelude to framing, photographs, prints, and posters may be mounted on stiff boards using wax sheets, but sometimes glue or another more durable substance is employed to create the bond.

Lee wages a vigorous attack on the district court's conclusion that A.R.T.'s mounting process cannot create a derivative work because the change to the work "as a whole" is not sufficiently original to support a copyright. Cases such as *Gracen v. The Bradford Exchange, Inc.*, 698 F.2d 300 (7th Cir.1983), show that neither A.R.T. nor Lee herself could have obtained a copyright in the card-on-a-tile, thereby not only extending the period of protection for the images but also eliminating competition in one medium of display. After the Ninth Circuit held that its mounting process created derivative works, A.R.T. tried to obtain a copyright in one of its products; the Register of Copyrights sensibly informed A.R.T. that the card-on-a-tile could not be copyrighted independently of the note card itself. But Lee says that this is irrelevant—that a change in a work's appearance may infringe the exclusive right under sec. 106(2) even if the alteration is too trivial to support an independent copyright. Pointing to the word "original" in the second sentence of the statutory definition, the district judge held that "originality" is essential to a derivative work. This understanding has the support of both cases and respected commentators. E.g., *L. Batlin & Son, Inc. v. Snyder*, 536 F.2d 486 (2d Cir.1976); MELVILLE B. NIMMER & DAVID NIMMER, 1 NIMMER ON COPYRIGHTS sec. 3.03 (1997). Pointing to the fact that the first sentence in the statutory definition omits any reference to originality, Lee insists that a work may be derivative despite the mechanical nature of the transformation. This view, too, has the support of both cases and respected commentators. E.g., *Lone Ranger Television, Inc. v. Program Radio Corp.*, 740 F.2d 718, 722 (9th Cir.1984); PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE sec. 5.3.1 (2d ed.1996) (suggesting that a transformation is covered by sec. 106(2) whenever it creates a "new work for a different market").

Fortunately, it is not necessary for us to choose sides. Assume for the moment that the first sentence recognizes a set of non-original derivative works. To prevail, then, Lee must show that A.R.T. altered her works in one of the ways mentioned in the first sentence. The tile is not an "art reproduction"; A.R.T. purchased and mounted Lee's original works. That leaves the residual clause: "any other form in which a work may be recast, transformed, or adapted." None of these words fits what A.R.T. did. Lee's works were not "recast" or "adapted". "Transformed" comes closer and gives the Ninth Circuit some purchase for its view that the permanence of the bond between art and base matters. Yet the copyrighted note cards and lithographs were not "transformed" in the slightest. The art was bonded to a slab of ceramic, but it was not changed in the process. It still depicts

exactly what it depicted when it left Lee's studio. If mounting works a "transformation," then changing a painting's frame or a photograph's mat equally produces a derivative work. Indeed, if Lee is right about the meaning of the definition's first sentence, then any alteration of a work, however slight, requires the author's permission. We asked at oral argument what would happen if a purchaser jotted a note on one of the note cards, or used it as a coaster for a drink, or cut it in half, or if a collector applied his seal (as is common in Japan); Lee's counsel replied that such changes prepare derivative works, but that as a practical matter artists would not file suit. A definition of derivative work that makes criminals out of art collectors and tourists is jarring despite Lee's gracious offer not to commence civil litigation.

If Lee (and the Ninth Circuit) are right about what counts as a derivative work, then the United States has established through the back door an extraordinarily broad version of authors' moral rights, under which artists may block any modification of their works of which they disapprove. No European version of droit moral goes this far. Until recently it was accepted wisdom that the United States did not enforce any claim of moral rights; even bowdlerization of a work was permitted unless the modifications produced a new work so different that it infringed the exclusive right under sec. 106(2). Compare *WGN Continental Broadcasting Co. v. United Video, Inc.*, 693 F.2d 622 (7th Cir.1982), with *Gilliam v. American Broadcasting Companies, Inc.*, 538 F.2d 14, 24 (2d Cir.1976). The Visual Artists Rights Act of 1990, Pub.L. 101-650, 104 Stat. 5089, 5123-33, moves federal law in the direction of moral rights, but the cornerstone of the new statute, 17 U.S.C. § 106A, does not assist Lee. Section 106A(a)(3)(A) gives an artist the right to "prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation". At oral argument Lee's lawyer disclaimed any contention that the sale of her works on tile has damaged her honor or reputation. What is more, sec. 106A applies only to a "work of visual art", a new term defined in sec. 101 to mean either a unique work or part of a limited edition (200 copies or fewer) that has been "signed and consecutively numbered by the author". Lee's note cards and lithographs are not works of visual art under this definition, so she could not invoke sec. 106A even if A.R.T.'s use of her works to produce kitsch had damaged her reputation. It would not be sound to use sec. 106(2) to provide artists with exclusive rights deliberately omitted from the Visual Artists Rights Act. We therefore decline to follow *Munoz* and *Mirage Editions*.

Affirmed.

### 3. PUBLIC DISTRIBUTION

#### **WALT DISNEY Co. v. VIDEO 47, INC.**

972 F.Supp. 595 (S.D. Fla. 1996).

UNGARO-BENAGES, UNITED STATES DISTRICT JUDGE.

\* \* \*

[Upon learning that defendants' video stores rented to the public unauthorized copies of plaintiffs' copyrighted motion picture videocassettes, plaintiffs filed an action for infringement. Pursuant to a court order, the videotapes were seized and, upon examination, were determined to be counterfeit. The district court then entered a Consent Decree and Final Judgment pursuant to a settlement agreement. Upon learning that the defendants were continuing to rent counterfeit tapes, the plaintiffs filed this action for contempt.]

#### Findings of Fact

\* \* \*

3. Plaintiffs are the lawful owners of the exclusive right under the United States Copyright Act to reproduce, to distribute and to authorize the reproduction and distribution of thirteen (13) motion picture titles at issue in this action. \* \* \*

4. Plaintiffs are members of the Motion Picture Association of America (MPAA), a trade association whose film security office investigates unlawful duplication and distribution of videocassette tapes whose copyrights are owned by members of the MPAA.

5. Based upon a tip to the MPAA, an investigation of Defendants was conducted from October 10, 1995 to October 11, 1995 as testified to by Robert W. Butler ("Butler"), presently a field representative for the Film Security office of the MPAA and formerly a Special Agent in Charge of the Tampa Office for the Federal Bureau of Investigation ("FBI").

6. The investigation of VIDEO 47 was conducted by Patrick R. Cooney ("Cooney"), a former FBI agent who currently works for the anti-piracy office of the MPAA. Cooney employed a "stringer" from the neighborhood to rent tapes from VIDEO 47. Initially, six (6) tapes were rented and five (5) were counterfeit \* \* \*.

14. Defendants did not produce any documentation that showed any authorization by Plaintiffs or any of their distributors to distribute copies of the Plaintiffs' copyrighted motion pictures.

15. Defendant Eduardo Celorio testified and stated that he \* \* \* purchased tapes from individuals who sold videocassettes from their cars and that he contacted his distributors by beeper.

16. Defendant Eduardo Celorio testified that the 16 videocassettes at issue were not available for rental to the public, whereas Mr. Cooney testified that these videocassettes were seized from the portion of the store where the videocassettes were available for rental. The Court rejects the testimony of Defendant Eduardo Celorio and accepts the testimony of Mr. Cooney on this factual issue.

\* \* \*

#### Conclusions of Law

\* \* \* [T]his Court entered a Consent Decree and Final Judgment in this case on or about August 4, 1994, pursuant to which the Defendants were permanently enjoined from infringing or participating in the infringement by others of Plaintiffs' rights in any motion pictures as to which Plaintiffs own the copyrights or other exclusive interests. \* \* \* Plaintiffs now move to hold the Defendants in contempt for violation of such Final Judgment. Therefore, the Court must determine whether Defendants have violated Plaintiffs' rights under the copyright laws, and whether Defendants are liable for contempt for violation of this Court's prior Orders.

##### *1. Copyright*

\* \* \* Plaintiffs' copyright registrations give Plaintiffs the exclusive right to reproduce, distribute and sell videotape copies of the movie titles at issue in this litigation. 17 U.S.C. § 106. The Court finds that Defendants infringed Plaintiffs' rights in the titles at issue in this litigation by renting counterfeit videotape copies without Plaintiffs' authorization to do so. 17 U.S.C. § 501. Plaintiffs need not demonstrate knowledge or intent on the part of the Defendants. \* \* \*

As the Court finds that Defendants have violated Plaintiffs' rights in the motion pictures at issue here, it follows that Defendants are in direct violation of this Court's Consent Decree and Final Judgment dated August 4, 1994, which permanently enjoined Defendants from:

- (a) manufacturing, duplicating or performing publicly, without authorization, any motion picture as to which any Plaintiff holds legal or beneficial ownership of the copyright or other exclusive interest; (b) in any manner infringing or contributing to or participating in the infringement by others of any copyright or other exclusive interest owned by any Plaintiff in, for or to any motion picture; or (c) acting in concert or confederacy with, or aiding or abetting others to infringe in any way any copyright or other exclusive interest owned by any Plaintiff.

\* \* \*

[The court therefore held the defendants in contempt.]

**RELIGIOUS TECHNOLOGY CENTER V. NETCOM  
ON-LINE COMMUNICATION SERVICES, INC.**

907 F.Supp. 1361 (N.D. Cal. 1995).

WHYTE, UNITED STATES DISTRICT JUDGE.

\* \* \*

Plaintiffs Religious Technology Center (“RTC”) and Bridge Publications, Inc. (“BPI”) hold copyrights in the unpublished and published works of L. Ron Hubbard, the late founder of the Church of Scientology (“the Church”). Defendant Dennis Erlich (“Erlich”) is a former minister of Scientology turned vocal critic of the Church, whose pulpit is now the Usenet newsgroup alt.religion.scientology (“a.r.s.”), an on-line forum for discussion and criticism of Scientology. Plaintiffs maintain that Erlich infringed their copyrights when he posted portions of their works on a.r.s. Erlich gained his access to the Internet through defendant Thomas Klemesrud’s (“Klemesrud’s”) BBS [bulletin board service] “support.com.” Klemesrud is the operator of the BBS, which is run out of his home and has approximately 500 paying users. Klemesrud’s BBS is not directly linked to the Internet, but gains its connection through the facilities of defendant Netcom On-Line Communications, Inc. (“Netcom”), one of the largest providers of Internet access in the United States.

\* \* \*

*Playboy Enterprises, Inc. v. Frena* involved a suit against the operator of a small BBS whose system contained files of erotic pictures. 839 F. Supp. 1552, 1554 (M.D.Fla.1993). A subscriber of the defendant’s BBS had uploaded files containing digitized pictures copied from the plaintiff’s copyrighted magazine, which files remained on the BBS for other subscribers to download. *Id.* The court did not conclude, as plaintiffs suggest in this case, that the BBS is itself liable for the unauthorized reproduction of plaintiffs’ work; instead, the court concluded that the BBS operator was liable for violating the plaintiff’s right to publicly distribute and display copies of its work. *Id.* at 1556–57.

\* \* \*

Plaintiffs allege that Netcom is directly liable for making copies of their works. They also allege that Netcom violated their exclusive rights to publicly display copies of their works. There are no allegations that Netcom violated plaintiffs’ exclusive right to publicly distribute their works. However, in their discussion of direct infringement, plaintiffs insist that Netcom is liable for “maintaining copies of [Erlich’s] messages on its server for eleven days for access by its subscribers and ‘USENET neighbors’” and they compare this case to the *Playboy* case, which discussed the right of public distribution. Plaintiffs also argued this theory of infringement at oral argument. Because this could be an attempt to argue that Netcom has

infringed plaintiffs' rights of public distribution and display, the court will address these arguments.

*Playboy* concluded that the defendant infringed the plaintiff's exclusive rights to publicly distribute and display copies of its works. 839 F. Supp. at 1556–57. The court is not entirely convinced that the mere possession of a digital copy on a BBS that is accessible to some members of the public constitutes direct infringement by the BBS operator. Such a holding suffers from the same problem of causation as the reproduction argument. Only the subscriber should be liable for causing the distribution of plaintiffs' work, as the contributing actions of the BBS provider are automatic and indiscriminate. Erlich could have posted his messages through countless access providers and the outcome would be the same: anyone with access to Usenet newsgroups would be able to read his messages. There is no logical reason to draw a line around Netcom and Klemesrud and say that they are uniquely responsible for distributing Erlich's messages. Netcom is not even the first link in the chain of distribution—Erlich had no direct relationship with Netcom but dealt solely with Klemesrud's BBS, which used Netcom to gain its Internet access. Every Usenet server has a role in the distribution, so plaintiffs' argument would create unreasonable liability. Where the BBS merely stores and passes along all messages sent by its subscribers and others, the BBS should not be seen as causing these works to be publicly distributed or displayed.

Even accepting the *Playboy* court's holding, the case is factually distinguishable. Unlike the BBS in that case, Netcom does not maintain an archive of files for its users. Thus, it cannot be said to be "supplying a product." In contrast to some of its larger competitors, Netcom does not create or control the content of the information available to its subscribers; it merely provides access to the Internet, whose content is controlled by no single entity. Although the Internet consists of many different computers networked together, some of which may contain infringing files, it does not make sense to hold the operator of each computer liable as an infringer merely because his or her computer is linked to a computer with an infringing file. It would be especially inappropriate to hold liable a service that acts more like a conduit, in other words, one that does not itself keep an archive of files for more than a short duration. Finding such a service liable would involve an unreasonably broad construction of public distribution and display rights. No purpose would be served by holding liable those who have no ability to control the information to which their subscribers have access, even though they might be in some sense helping to achieve the Internet's automatic "public distribution" and the users' "public" display of files.

\* \* \*

#### 4. PUBLIC PERFORMANCE AND PUBLIC DISPLAY

##### ON COMMAND VIDEO CORPORATION V. COLUMBIA PICTURES INDUSTRIES

[777 F.Supp. 787 \(N.D. Cal. 1991\).](#)

WEIGEL, DISTRICT JUDGE:

Plaintiff seeks a declaratory judgment that its hotel video-movie viewing system does not infringe defendants' copyrights in the movies shown through the system. \* \* \* Plaintiff, the designer and builder of an innovative video viewing system currently installed in a number of hotels, insists that a hotel occupant's viewing of one or more of defendants' movies through its system does not constitute a "public performance" under the 1976 Copyright Act, 17 U.S.C. § 101 et seq. Defendants, seven major United States movie companies, contend that such viewings do constitute public performances and that plaintiff's system therefore violates defendants' exclusive right of public performance under § 106(4) of the Act.

##### I. Facts

The material facts of this case are not in dispute. On Command has developed a system for the electronic delivery of movie video tapes. The system consists of a computer program, a sophisticated electronic switch, and a bank of video cassette players ("VCPs"), all of which are centrally located in a hotel equipment room. The VCPs are connected to the hotel's guest rooms by wiring. The computer program directs the electronic switches so that a particular VCP will be dedicated to the guest room where a particular movie is requested. Each VCP contains a video tape. When a guest requests a particular movie, the computer identifies the VCP containing that movie, switches the VCP to that particular room, and starts the movie video.

A hotel guest operates the system from his or her room by remote control. After the television is turned on, the screen lists a menu of available movies. The guest selects a movie by entering the appropriate code on the remote control. Once a particular video is selected, that video selection disappears from the menu of available videos displayed on all other television sets in the hotel. The video is seen only in the room where it was selected by the guest. It cannot be seen in any other guest room or in any other location in the hotel. The viewer cannot pause, rewind, or fast-forward the video. When the movie ends, it is automatically rewound and then immediately available for viewing by another hotel guest.

The only components of the system installed in the guest rooms are the hand-held remote control and a microprocessor in the television set. When a guest checks in to the hotel, the hotel clerk uses a front-desk terminal connected to the On Command computer program to activate movie transmission to the appropriate room. At the guest's request, the

clerk can prevent the transmission of adult movies to a room or deactivate service to a room altogether. The apparent advantages On Command's system enjoys over existing closed-circuit hotel video systems with pre-set movie times, such as "Spectravision," are the larger variety of movies available for viewing and the guests' freedom to watch them on their own schedule. On Command's system also eliminates the effort and potential guest embarrassment of in-house hotel video rental programs, in which VCPs are installed in individual rooms and guests must physically rent videos from the hotel staff.

## II. Discussion

A copyright owner has the exclusive right "to perform the copyrighted work publicly" or to authorize any such public performance. 17 U.S.C. § 106(4). What constitutes a public performance is defined by the Copyright Act in two clauses. Under clause (1), the "public place" clause, a performance is public if it occurs

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.

17 U.S.C. § 101. Under clause (2), the "transmit" clause, a performance is public if someone

transmits or otherwise communicates 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.

*Id.* Under the transmit clause, a performance is public "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." *Id.*

Both plaintiff and defendants base their motions for summary judgment on favorable interpretations of these clauses. Both also rely heavily on the Ninth Circuit's decision in *Columbia Pictures v. Professional Real Estate*, 866 F.2d 278 (9th Cir.1989). This Court must therefore determine whether On Command's system results in the public performance of defendants' movies under the statutory clauses and Professional Real Estate.

### A. The Public Place Clause.

*Professional Real Estate* held that hotel guest rooms are not "public places" for the purposes of the Copyright Act. Defendants do not challenge this holding. Rather, defendants argue that because On Command's system comprises components dispersed throughout a hotel—i.e., the command center is located in a hotel equipment room, the hotel operator's terminal is in the front lobby, the transmission wiring is installed throughout the walls and ceilings—the relevant place of performance is not the individual

hotel rooms but the entire hotel, which defendants contend is a public place under the language of the Act. This argument is unavailing. At least for the purposes of public place analysis, a performance of a work does not occur every place a wire carrying the performance passes through; a performance occurs where it is received. Accepting defendants' argument would eviscerate both the concepts of "performance" and "public place." The Act defines the performance of a motion picture as the "showing of its images in any sequence or to make the sounds accompanying it audible." 17 U.S.C. § 101. A movie video is thus performed only when it is visible and audible. In On Command's system, this viewing and hearing occurs only in an individual guest room. That can be the only relevant place of performance for public place analysis. Since hotel guest rooms are indisputably not public places for copyright purposes, On Command's system results in no public performances under the public place clause.

#### B. The Transmit Clause.

Public performance of defendants' movies under this clause occurs if On Command "transmits" the movies "to the public." Under the Copyright Act, to "transmit" a performance is

to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.

*Id.* Plaintiff's argument that On Command's system involves not "transmissions" but "electronic rentals" similar to patrons' physical borrowing of videotapes is without merit. On Command transmits movie performances directly under the language of the definition. The system "communicates" the motion picture "images and sounds" by a "device or process"—the equipment and wiring network—from a central console in a hotel to individual guest rooms, where the images and sounds are received "beyond the place from which they are sent." The fact that hotel guests initiate this transmission by turning on the television and choosing a video is immaterial.

On Command's video transmissions are also "to the public" for the purposes of the transmit clause. Hotel guests watching a video movie in their room through On Command's system are not watching it in a "public place" but they are nonetheless members of "the public." See *Columbia Pictures Industries, Inc. v. Redd Horne*, 568 F.Supp. 494 (W.D.Pa.1983), aff'd 749 F.2d 154, 159 (3d Cir.1984) ("the transmission of a performance to members of the public, even in private settings such as hotel rooms . . . constitutes a public performance") (citing H.R. Rep. No. 1476, 94th Cong., 2d Sess. at 64 (1976) ("1976 House Report")); *ESPN Inc. v. Edinburg Community Hotel, Inc.*, 735 F.Supp. 1334, 1340 (S.D.Tex.1986) ("The [1976] House Report . . . on the Copyright Act makes explicit that performances to occupants of hotel rooms fall within the definition of a public performance"). This is because the relationship between the transmitter of the performance, On Command, and the audience, hotel guests, is a

commercial, “public” one regardless of where the viewing takes place. The non-public nature of the place of the performance has no bearing on whether or not those who enjoy the performance constitute “the public” under the transmit clause.

A performance may still be public under the transmit clause “whether the members of the public . . . receive it in the same place or in separate places and at the same time or at different times.” 17 U.S.C. § 101. A 1967 Report by the House of Representatives reveals that Congress added this language to the transmit clause to cover precisely the sort of single-viewer system developed by plaintiff:

[This language makes doubly clear that] 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 direct 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. . . .; they are also applicable 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. 83, 90th Cong., 1st Sess. at 29 (1967). Thus, whether the number of hotel guests viewing an On Command transmission is one or one hundred, and whether these guests view the transmission simultaneously or sequentially, the transmission is still a public performance since it goes to members of the public. *See also Redd Horne*, 749 F.2d at 159 (transmissions of videos to private viewing booths occupied by one to four persons infringing under transmit clause); *Paramount Pictures Corp. v. Labus*, 16 U.S.P.Q. 2d (BNA) 1142, 1147 (W.D. Wisc. 1990) (hotel’s distribution of unauthorized copies of video cassettes to single guest violated copyright owner’s exclusive right to distribute work to “the public”). On Command therefore “publicly performs” defendants’ movies under the meaning of the transmit clause.

\* \* \*

### CARTOON NETWORK LP V. CSC HOLDINGS, INC.

[536 F.3d 121 \(2d Cir. 2008\).](#)

JOHN M. WALKER, JR., CIRCUIT JUDGE:

[The facts and background for this case can be found in part A.1. of this chapter, *supra*]

\* \* \*

## DISCUSSION

\* \* \* [T]he district court found that Cablevision would infringe the public performance right by transmitting a program to an RS-DVR customer in response to that customer's playback request. \* \* \*

\* \* \* 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). Section 101, the definitional section of the Act, explains that

[t]o 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.

*Id.* § 101.

The parties agree that this case does not implicate clause (1). 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"? *Id.* 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 (1) the RS-DVR customer, rather than Cablevision, does the transmitting and thus the performing and (2) the transmission is not "to the public" under the transmit clause.

As to Cablevision's first argument, we note that our conclusion in Part II [*see excerpt, supra* page \_\_\_\_] that the customer, not Cablevision, "does" the copying does not dictate a parallel conclusion that the customer, and not Cablevision, "performs" the copyrighted work. The definitions that delineate the contours of the reproduction and public performance rights vary in significant ways. For example, the statute defines the verb "perform" and the noun "copies," but not the verbs "reproduce" or "copy." *Id.* We need not address Cablevision's first argument further because, even if we assume that Cablevision makes the transmission when an RS-DVR playback occurs, we find that the RS-DVR playback, as described here, does not involve the transmission of a performance "to the public."

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. *Cf. Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 197–98 (1931).

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) (emphases added).

\* \* \*

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. We are unpersuaded by the district court’s reasoning and the plaintiffs’ arguments that we should consider a larger potential audience in determining whether a transmission is “to the public.”

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.” *Cablevision I*, 478 F.Supp.2d at 623 (emphasis added). 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.

\* \* \*

Given that each RS-DVR transmission is made to a given subscriber using a copy made by that subscriber, we conclude that such a transmission is not “to the public,” without analyzing the contours of that phrase in great detail. No authority cited by the parties or the district court persuades us to the contrary.

\* \* \*

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.

In sum, because we find, on undisputed facts, that Cablevision’s proposed RS-DVR system would not directly infringe plaintiffs’ exclusive rights to reproduce and publicly perform their copyrighted works, we grant summary judgment in favor of Cablevision with respect to both rights.

\* \* \*

### **AMERICAN BROADCASTING COS., INC. v. AEREO, INC.**

— U.S. \_\_\_, 134 S.Ct. 2498 (2014).

JUSTICE BREYER delivered the opinion of the Court.

The Copyright Act of 1976 gives a copyright owner the “exclusive right[t]” to “perform the copyrighted work publicly.” 17 U.S.C. § 106(4). The Act’s Transmit Clause defines that exclusive right as including the right to

“transmit or otherwise communicate a performance . . . of the [copyrighted] work . . . to the public, by means of any device or process, 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.” § 101.

We must decide whether respondent Aereo, Inc., infringes this exclusive right by selling its subscribers a technologically complex service that allows them to watch television programs over the Internet at about

the same time as the programs are broadcast over the air. We conclude that it does.

## I

## A

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. *See A DICTIONARY OF COMPUTING* 494 (6th ed. 2008) (defining “streaming” as “[t]he process of providing a steady flow of audio or video data so that an Internet user is able to access it as it is transmitted”).

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 Second Circuit affirmed the District Court’s denial of a preliminary injunction, relying on *Cartoon Network* (excerpted at page \_\_\_, *supra*).] \* \* \* In the Second Circuit’s view, Aereo does not perform publicly within the meaning of the Transmit Clause because it does not transmit “to the public.” Rather, each time Aereo streams a program to a subscriber, it sends a *private* transmission that is available only to that subscriber.  
\* \* \*

## 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.

Does Aereo “perform”? See § 106(4) (“[T]he owner of [a] copyright . . . has the exclusive righ[t] . . . to *perform* the copyrighted work publicly” (emphasis added)); § 101 (“To *perform* . . . a work ‘publicly’ means [among other things] to transmit . . . a performance . . . of the work . . . to the public . . .” (emphasis added)). Phrased another way, does Aereo “transmit . . . a performance” when a subscriber watches a show using Aereo’s system, or is it only the subscriber who transmits? 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)].” 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. The system amplified and modulated the signals in order to improve their strength and efficiently transmit them to subscribers. A subscriber "could choose any of the . . . programs he wished to view by simply turning the knob on his own television set." The CATV provider "neither edited the programs received nor originated any programs of its own."

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." And a CATV provider "falls on the viewer's side of the line."

The Court reasoned that CATV providers were unlike broadcasters:

"Broadcasters select the programs to be viewed; CATV systems simply carry, without editing, whatever programs they receive. Broadcasters procure programs and propagate them to the public; CATV systems receive programs that have been released to the public and carry them by private channels to additional viewers."

Instead, CATV providers were more like viewers, for "the basic function [their] equipment serves is little different from that served by the equipment generally furnished by" viewers. "Essentially," the Court said, "a CATV system no more than enhances the viewer's capacity to receive the broadcaster's signals [by] provid[ing] a well-located antenna with an efficient connection to the viewer's television set." Viewers do not become performers by using "amplifying equipment," and a CATV provider should not be treated differently for providing viewers the same equipment.

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. 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."

The Court also recognized that the CATV system exercised some measure of choice over what to transmit. But that fact did not transform the CATV system into a broadcaster. A broadcaster exercises significant creativity in choosing what to air, the Court reasoned. In contrast, the CATV provider makes an initial choice about which broadcast stations to retransmit, but then “‘simply carr[ies], without editing, whatever programs [it] receive[s].’”

## 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.) (The 1976 amendments “completely overturned” this Court’s narrow construction of the Act in *Fortnightly* and *Teleprompter*). 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; see *ibid.* (defining “[a]udiovisual works” as “works that consist of a series of related images which are intrinsically intended to be shown by the use of machines . . . , together with accompanying sounds”). 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. See H.R. REP., at 63 (“[A] broadcasting network is performing when it transmits [a singer’s performance of a song] . . . and any individual is performing whenever he or she . . . communicates the performance by turning on a receiving set”).

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. 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. *See id.*, at 89 (“[C]able systems are commercial enterprises whose basic retransmission operations are based on the carriage of copyrighted program material”). Aereo sells a service that allows subscribers to watch television programs, many of which are copyrighted, almost as they are being broadcast. In providing this service, Aereo uses its own equipment, housed in a centralized warehouse, outside of its users’ homes. 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, and Aereo and the dissent emphasize, 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.

This is a critical difference, says the dissent. It means that Aereo’s subscribers, not Aereo, “selec[t] the copyrighted content” that is “perform[ed]”, (opinion of SCALIA, J.), and for that reason they, not Aereo, “transmit” the performance. Aereo is thus like “a copy shop that provides its patrons with a library card.” A copy shop is not directly liable whenever a patron uses the shop’s machines to “reproduce” copyrighted materials found in that library. *See* § 106(1) (“exclusive righ[t] . . . to reproduce the copyrighted work”). And by the same token, Aereo should not be directly liable whenever its patrons use its equipment to “transmit” copyrighted television programs to their screens.

In our view, however, the dissent’s copy shop argument, in whatever form, makes too much out of too little. 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. The subscribers of the *Fortnightly*

and *Teleprompter* cable systems also selected what programs to display on their receiving sets. Indeed, as we explained in *Fortnightly*, such a subscriber “could choose any of the . . . programs he wished to view by simply turning the knob on his own television set.” The same is true of an Aereo subscriber. 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. We do not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into “a copy shop that provides its patrons with a library card.”

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. \*\*\* 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. Aereo denies that it satisfies this definition. It reasons as follows: First, the “performance” it “transmit[s]” is the performance created by its act of transmitting. And second, because each of these performances is capable of being received by one and only one subscriber, Aereo transmits privately, not publicly. Even assuming Aereo’s first argument is correct, its second does not follow.

We begin with Aereo’s first argument. What performance does Aereo transmit? Under the Act, “[t]o ‘transmit’ a performance . . . is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.” *Ibid.* And “[t]o ‘perform’” an audiovisual work means “to show its images in any sequence or to make the sounds accompanying it audible.” *Ibid.*

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, as discussed above, 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. *Cf. United States v. American Soc. of Composers, Authors and Publishers*, 627 F.3d 64, 73 (2d Cir. 2010) (holding that a download of a work is not a performance because the data transmitted are not "contemporaneously perceptible"). 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. 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. Why would a subscriber who wishes to watch a television show care much whether images and sounds are delivered to his screen via a large multisubscriber antenna or one small dedicated antenna, whether they arrive instantaneously or after a few seconds' delay, or whether they are transmitted directly or after a personal copy is made? And why, 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? Congress would as much have intended to protect a copyright holder from the unlicensed activities of Aereo as from those of cable companies.

The text of the Clause effectuates Congress' intent. Aereo's argument to the contrary relies on the premise that "to transmit . . . a performance" means to make a single transmission. But the 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. Similarly, one’s colleagues may watch a performance of a particular play—say, this season’s modern-dress version of “Measure for Measure”—whether they do so at separate or at the same showings. 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.” And retransmitting a television program using user-specific copies is a “process” of transmitting a performance. A “cop[y]” of a work is simply a “material objec[t] . . . in which a work is fixed . . . and from which the work can be perceived, reproduced, or otherwise communicated.” *Ibid.* So whether Aereo transmits from the same or separate copies, it performs the same work; it shows the same images and makes audible the same sounds. Therefore, when Aereo streams the same television program to multiple subscribers, it “transmit[s] . . . a performance” to all of them.

\* \* \*

For these reasons, we conclude that Aereo transmits a performance of petitioners’ copyrighted works to the public, within the meaning of the Transmit Clause.

## 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.

\* \* \*

We cannot now answer more precisely how the Transmit Clause or other provisions of the Copyright Act will apply to technologies not before us. We agree with the Solicitor General that “[q]uestions involving cloud computing, [remote storage] DVRs, and other novel issues not before the Court, as to which ‘Congress has not plainly marked [the] course,’ should await a case in which they are squarely presented.” 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.

3

In sum, having considered the details of Aereo's practices, we find them highly similar to those of the CATV systems in *Fortnightly* and *Teleprompter*. And those are activities that the 1976 amendments sought to bring within the scope of the Copyright Act. Insofar as there are differences, those differences concern not the nature of the service that Aereo provides so much as the technological manner in which it provides the service. We conclude that those differences are not adequate to place Aereo's activities outside the scope of the Act.

For these reasons, we conclude that Aereo “perform[s]” petitioners' copyrighted works “publicly,” as those terms are defined by the Transmit Clause. We therefore reverse the contrary judgment of the Court of Appeals, and we remand the case for further proceedings consistent with this opinion.

*It is so ordered.*

JUSTICE SCALIA, with whom JUSTICE THOMAS and JUSTICE ALITO join, dissenting.

This case is the latest skirmish in the long-running copyright battle over the delivery of television programming. \* \* \* The Networks sued Aereo for several forms of copyright infringement, but we are here concerned with a single claim: that Aereo violates the Networks' “exclusive righ[t]” to “perform” their programs “publicly.” 17 U.S.C. § 106(4). That claim fails at

the very outset because Aereo does not “perform” at all. The Court manages to reach the opposite conclusion only by disregarding widely accepted rules for service-provider liability and adopting in their place an improvised standard (“looks-like-cable-TV”) that will sow confusion for years to come.

### 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. *See Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984). Secondary liability, by contrast, is a means of holding defendants responsible for infringement by third parties, even when the defendants “have not themselves engaged in the infringing activity.” *Id.*, at 435. It applies when a defendant “intentionally induc[es] or encourag[es]” infringing acts by others or profits from such acts “while declining to exercise a right to stop or limit [them].” *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005).

Most suits against equipment manufacturers and service providers involve secondary-liability claims. For example, when movie studios sued to block the sale of Sony’s Betamax videocassette recorder (VCR), they argued that Sony was liable because *its customers* were making unauthorized copies. Record labels and movie studios relied on a similar theory when they sued Grokster and StreamCast, two providers of peer-to-peer file-sharing software. *See Grokster, supra*, at 920–921, 927.

This suit, or rather the portion of it before us here, is fundamentally different. The Networks claim that Aereo *directly* infringes their public-performance right. Accordingly, the Networks must prove that Aereo “perform[s]” copyrighted works, § 106(4), when its subscribers log in, select a channel, and push the “watch” button. That process undoubtedly results in a performance; the question is *who* does the performing. If Aereo’s subscribers perform but Aereo does not, the claim necessarily fails.

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: One “perform[s]” a copyrighted “audiovisual work,” such as a movie or news broadcast, by “show[ing] its images in any sequence” or “mak[ing] the sounds accompanying it audible.” § 101. And since the Act makes it unlawful to copy or perform copyrighted works, not to copy or perform in general, *see* § 501(a), the 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 that rule. *See Fox Broadcasting Co. v. Dish Network LLC*, 747 F.3d 1060, 1066–1068 (9th Cir. 2014); *Cartoon Network, supra*, at 130–131 (2d Cir. 2008); *CoStar Group, Inc. v. LoopNet*,

*Inc.*, 373 F.3d 544, 549–550 (4th Cir. 2004). Although we have not opined on the issue, our cases are fully consistent with a volitional-conduct requirement. For example, we gave several examples of direct infringement in *Sony*, each of which involved a volitional act directed to the plaintiff’s copyrighted material. See 464 U.S., at 437, n. 18.

The volitional-conduct requirement is not at issue in most direct-infringement cases; the usual point of dispute is whether the defendant’s conduct is infringing (*e.g.*, Does the defendant’s design copy the plaintiff’s?), rather than whether the defendant has acted at all (*e.g.*, Did this defendant create the infringing design?). But it comes right to the fore when a direct-infringement claim is lodged against a defendant who does nothing more than operate an automated, user-controlled system. Internet-service providers are a prime example. When one user sends data to another, the provider’s equipment facilitates the transfer automatically. Does that mean that the provider is directly liable when the transmission happens to result in the “reproduc[tion],” § 106(1), of a copyrighted work? It does not. The provider’s system is “totally indifferent to the material’s content,” whereas courts require “some aspect of volition” directed at the copyrighted material before direct liability may be imposed. *CoStar*, 373 F.3d, at 550–551.<sup>2</sup> The defendant may be held directly liable only if the defendant *itself* “trespassed on the exclusive domain of the copyright owner.” *Id.*, at 550. Most of the time that issue will come down to who selects the copyrighted content: the defendant or its customers.

A comparison between copy shops and video-on-demand services illustrates the point. A copy shop rents out photocopiers on a per-use basis. One customer might copy his 10-year-old’s drawings—a perfectly lawful thing to do—while another might duplicate a famous artist’s copyrighted photographs—a use clearly prohibited by § 106(1). Either way, *the customer* chooses the content and activates the copying function; the photocopier does nothing except in response to the customer’s commands. Because the shop plays no role in selecting the content, it cannot be held directly liable when a customer makes an infringing copy.

Video-on-demand services, like photocopiers, respond automatically to user input, but they differ in one crucial respect: *They choose the content.* \* \* \* That selection and arrangement by the service provider constitutes a volitional act directed to specific copyrighted works and thus serves as a basis for direct liability.

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

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<sup>2</sup> Congress has enacted several safe-harbor provisions applicable to automated network processes, *see, e.g.*, 17 U.S.C. § 512(a)–(b), but those provisions do not foreclose “any other defense,” § 512(l), including a volitional-conduct defense.

to channel the claims against them into the correct analytical track. Thus, in the example given above, the fact that the copy shop does not choose the content simply means that its culpability will be assessed using secondary-liability rules rather than direct-liability rules.

## II. Application to Aereo

So which is Aereo: the copy shop or the video-on-demand service? In truth, it is neither. Rather, it is akin to a copy shop that provides its patrons with a library card. Aereo offers access to an automated system consisting of routers, servers, transcoders, and dime-sized antennae. Like a photocopier or VCR, that system lies dormant until a subscriber activates it. When a subscriber selects a program, Aereo's system picks up the relevant broadcast signal, translates its audio and video components into digital data, stores the data in a user-specific file, and transmits that file's contents to the subscriber via the Internet—at which point the subscriber's laptop, tablet, or other device displays the broadcast just as an ordinary television would. The result of that process fits the statutory definition of a performance to a tee: The subscriber's device “show[s]” the broadcast's “images” and “make[s] the sounds accompanying” the broadcast “audible.” § 101. The only question is whether those performances are the product of Aereo's volitional conduct.

They are not. 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: Aereo's automated system does not relay any program, copyrighted or not, until a subscriber selects the program and tells Aereo to relay it. Aereo's operation of that system is a volitional act and a but-for cause of the resulting performances, but, as in the case of the copy shop, that degree of involvement is not enough for direct liability. *See Grokster*, 545 U.S., at 960 (BREYER, J., concurring) (“[T]he producer of a technology which *permits* unlawful copying does not himself *engage* in unlawful copying”).

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)). Their request for a preliminary injunction—the only issue before this Court—is based exclusively on the direct-liability portion of the public-performance claim (and further limited to Aereo's “watch” function, as opposed to its “record” function). 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. \* \* \*

\* \* \*

\* \* \* The Court vows that its ruling will not affect cloud-storage providers and cable-television systems, but it cannot deliver on that promise given the imprecision of its result-driven rule. Indeed, the difficulties inherent in the Court's makeshift approach will become apparent in this very case. Today's decision addresses the legality of Aereo's "watch" function, which provides nearly contemporaneous access to live broadcasts. On remand, one of the first questions the lower courts will face is whether Aereo's "record" function, which allows subscribers to save a program while it is airing and watch it later, infringes the Networks' public-performance right. The volitional-conduct rule provides a clear answer to that question: Because Aereo does not select the programs viewed by its users, it does not perform. But it is impossible to say how the issue will come out under the Court's analysis, since cable companies did not offer remote recording and playback services when Congress amended the Copyright Act in 1976.

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. \* \* \*

### UNITED STATES V. AMERICAN SOCIETY OF COMPOSERS, AUTHORS AND PUBLISHERS

627 F.3d 64 (2d Cir. 2010).

JOHN M. WALKER, JR., CIRCUIT JUDGE:

This case presents two distinct questions that arise from the transmittal of musical works over the Internet: First, whether a download of a digital file containing a musical work constitutes a public performance of that musical work; and, second, whether the district court, acting in its capacity as the rate court, was reasonable in its assessment of the blanket license fees of Yahoo! Inc. and RealNetworks, Inc. (collectively, "the Internet Companies") to publicly perform any of the millions of musical

compositions in the American Society of Composers, Authors and Publishers (“ASCAP”) repertory.

For the reasons set forth below, we affirm the district court’s ruling that a download of a musical work does not constitute a public performance of that work \* \* \*.

### I. Public Performance Right as Applied to Downloads

The Copyright Act confers upon the owner of a copyright “a bundle of discrete exclusive rights,” each of which may be transferred or retained separately by the copyright owner. *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 495–96 (2001). Section 106 of the Copyright Act sets forth these various rights, including the right “to reproduce the copyrighted work in copies” and the right “to perform the copyrighted work publicly.” 17 U.S.C. §§ 106(1), (4). In this case, the Internet Companies offer their customers the ability to download musical works over the Internet. It is undisputed that these downloads create copies of the musical works, for which the parties agree the copyright owners must be compensated. However, the parties dispute whether these downloads are also public performances of the musical works, for which the copyright owners must separately and additionally be compensated. The district court held that these downloads are not public performances, and we agree.

In answering the question of whether a download is a public performance, we turn to Section 101 of the Copyright Act, which states that “[t]o ‘perform’ a work means to recite, render, play, dance, or act it, either directly or by means of any device or process.” 17 U.S.C. § 101. A download plainly is neither a “dance” nor an “act.” Thus, we must determine whether a download of a musical work falls within the meaning of the terms “recite,” “render,” or “play.”

\* \* \*

The ordinary sense of the words “recite,” “render,” and “play” refer to actions that can be perceived contemporaneously. To “recite” is “to repeat from memory or read aloud esp[ecially] before an audience,” WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY 1895 (1981); to “render” is to “say over: recite, repeat,” *id.* at 1922; and to “play” is to “perform on a musical instrument,” “sound in performance,” “reproduce sound of recorded material,” or “act on a stage or in some other dramatic medium,” *id.* at 1737. All three actions entail contemporaneous perceptibility.

These definitions comport with our common-sense understandings of these words. Itzakh Perlman gives a “recital” of Beethoven’s Violin Concerto in D Major when he performs it aloud before an audience. Jimmy Hendrix memorably (or not, depending on one’s sensibility) offered a “rendition” of the Star-Spangled Banner at Woodstock when he performed it aloud in 1969. Yo-Yo Ma “plays” the Cello Suite No. 1 when he draws the bow across his cello strings to audibly reproduce the notes that Bach

inscribed. Music is neither recited, rendered, nor played when a recording (electronic or otherwise) is simply delivered to a potential listener.

The final clause of the § 101 definition of “to perform” further confirms our interpretation. It states that “[t]o ‘perform’ . . . a motion picture or other audiovisual work . . . [is] to show its images in any sequence or to make the sounds accompanying it audible.” 17 U.S.C. § 101. The fact that the statute defines performance in the audio-visual context as “show[ing]” the work or making it “audible” reinforces the conclusion that “to perform” a musical work entails contemporaneous perceptibility. ASCAP has provided no reason, and we can surmise none, why the statute would require a contemporaneously perceptible event in the context of an audio-visual work, but not in the context of a musical work.

The downloads at issue in this appeal are not musical performances that are contemporaneously perceived by the listener. They are simply transfers of electronic files containing digital copies from an on-line server to a local hard drive. The downloaded songs are not performed in any perceptible manner during the transfers; the user must take some further action to play the songs after they are downloaded. Because the electronic download itself involves no recitation, rendering, or playing of the musical work encoded in the digital transmission, we hold that such a download is not a performance of that work, as defined by § 101.

ASCAP, pointing to the definition of “publicly” in § 101, argues that a download constitutes a public performance. Section 101 defines “[t]o perform or display a work ‘publicly’ ” as follows:

- (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.

*Id.* § 101. ASCAP argues that downloads fall under clause (2) of this definition because downloads “transmit or otherwise communicate a performance,” *id.*, namely the initial or underlying performance of the copyrighted work, to the public. We find this argument unavailing. The definition of “publicly” simply defines the circumstances under which a performance will be considered public; it does not define the meaning of “performance.” Moreover, ASCAP’s proposed interpretation misreads the definition of “publicly.” As we concluded in *Cartoon Network LP v. CSC Holdings, Inc.*, “when Congress speaks of transmitting a performance to the public, it refers to the performance created by the act of transmission,” not simply to transmitting a recording of a performance. 536 F.3d 121, 136

(2d Cir.2008). ASCAP’s alternative interpretation is flawed because, in disaggregating the “transmission” from the simultaneous “performance” and treating the transmission itself as a performance, ASCAP renders superfluous the subsequent “a performance . . . of the work” as the object of the transmittal. *See Duncan v. Walker*, 533 U.S. 167, 174 (2001) (“It is our duty to give effect, if possible, to every clause and word of a statute.”). In contrast, our interpretation in *Cartoon Network* recognizes that a “transmittal of a work” is distinct from a transmittal of “a performance”—the former being a transmittal of the underlying work and the latter being a transmittal that is itself a performance of the underlying work. *See* 536 F.3d at 134 (“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 Internet Companies’ stream transmissions, which all parties agree constitute public performances, illustrate why a download is not a public performance. A stream is an electronic transmission that renders the musical work audible as it is received by the client-computer’s temporary memory. This transmission, like a television or radio broadcast, is a performance because there is a playing of the song that is perceived simultaneously with the transmission. In contrast, downloads do not immediately produce sound; only after a file has been downloaded on a user’s hard drive can he perceive a performance by playing the downloaded song. Unlike musical works played during radio broadcasts and stream transmissions, downloaded musical works are transmitted at one point in time and performed at another. Transmittal without a performance does not constitute a “public performance.” *Cf. Columbia Pictures Indus., Inc., v. Prof'l Real Estate Investors, Inc.*, 866 F.2d 278, 282 (9th Cir.1989) (holding that renting videodiscs to a hotel guest for playback in the guest’s room does not constitute the “transmission” of a public performance).

ASCAP misreads our opinion in *NFL v. PrimeTime 24 Joint Venture*, 211 F.3d 10, 11–13 (2d Cir.2000), to hold that the Copyright Act does not, in fact, require a contemporaneously perceptible performance to infringe on the public performance right. In *NFL*, defendant PrimeTime, a satellite television provider, 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 had a license to transmit NFL games to its subscribers in the United States but not to Canada. The NFL sought to enjoin the transmissions sent to Canada by arguing that the uplink in the United States constituted unauthorized public performances of the games in the United States. The relevant issue was whether the uplink transmission was a public performance even though the uplink was only to a satellite and could not, itself, be perceived by viewers. We determined that PrimeTime’s uplink transmission of signals captured in

the United States amounted to a public performance because it was an integral part of the larger process by which the NFL's protected work was delivered to a public audience.

ASCAP seizes on the fact that the uplink to the satellite was not contemporaneously perceptible to argue against a contemporaneous perceptibility requirement in this case. ASCAP's argument, however, fails to accord controlling significance to the fact that the immediately sequential downlink from the satellite to Canadian PrimeTime subscribers was a public performance of the games. *Id.* at 11–13; *see also David v. Showtime/The Movie Channel, Inc.*, 697 F.Supp. 752, 758–60 (S.D.N.Y.1988) (finding that because "Showtime and The Movie Channel both broadcast television programming . . . to cable system operators," which, in turn, "pass[ed] the signal along to their individual customers," the initial transmissions constituted public performances because they were a "step in the process by which a protected work wends its way to its audience"); MELVILLE B. NIMMER & DAVID NIMMER, 2 NIMMER ON COPYRIGHT § 8.14[C][2] at 190.6 & n. 63 (2009) (explaining that when a transmission is made "to cable systems that will in turn transmit directly to the public," the earlier transmission is a public performance despite the absence of any contemporaneous perceptibility). In holding the transmission in *Cartoon Network* not to be a public performance, we distinguished *NFL* on the basis that in that case the final act in the sequence of transmissions was a public performance. That same distinction applies here. Just as in *Cartoon Network*, the Internet Companies transmit a copy of the work to the user, who then plays his unique copy of the song whenever he wants to hear it; because the performance is made by a unique reproduction of the song that was sold to the user, the ultimate performance of the song is not "to the public." *See id.* at 137, 138.

Accordingly, we affirm the district court's grant of partial summary judgment on the basis that downloads do not constitute public performances of the downloaded musical works.

[Discussion of royalty rates omitted.]

\* \* \*

## 5. THE SCOPE OF EXCLUSIVE RIGHTS IN SOUND RECORDINGS

Statutes: 17 U.S.C. §§ 106(6), 114–15

In the case of sound recordings, section 114 defines the exclusive rights to reproduce a work and to incorporate it in derivative works more narrowly than in the case of other copyrightable works. In addition, section 114(a) clarifies that there is no exclusive public performance right in sound recordings under section 106(4). Sound recordings are one instance in

which the classification of a work under section 102(a) significantly affects the scope of the copyright owner's rights.

Until 1995, the United States did not recognize performance rights in sound recordings at all. However, the Digital Performance Right in Sound Recordings Act, Pub. L. 104–39 (1995), added new section 106(6), giving the owners of copyrights in sound recordings a public performance right limited to performances via transmission by digital subscription services. In 1998, the right was extended to encompass certain nonsubscription services, most notably webcasting. The Act reflected the concern that digital transmissions have the potential to supplant record sales, thus reducing the revenues which those sales previously generated for the owners of sound recording copyrights. In addition, any decrease in record sales will reduce the mechanical royalties payable by record companies to composers, publishers, and performers according to their contracts.

The new law benefits recording artists regardless of whether they own copyright interests in the recordings on which they perform; new section 114(g) allocates a portion of the digital licensing revenues to the recording artists.

Section 114(d)(3) limits the right of the sound recording copyright owner to grant exclusive licenses of the section 106(6) right to interactive subscription services (where the user selects the recording to be performed), in response to the concern expressed by composers and publishers “that the copyright owners of sound recordings might become ‘gatekeepers’ and limit opportunities for public performances of the musical works embodied in the sound recordings.” S. Rep. No. 104–128, 104th Cong., 1st Sess. 25 (1995). No restrictions are imposed on the granting of nonexclusive licenses for section 106(6) rights. New sections 114(e) through (i) establish licensing rules and statutory royalty rates for digital performance rights.

Nations that recognize broader performance rights in sound recordings have in the past refused to allow United States persons owning sound recording copyrights to collect royalties for public performances in those countries, because the United States did not reciprocate. Most nations have continued this practice in spite of the enactment of Pub. L. 104–39, although some nations will remit royalties for digital performances.

## B. LIMITS ON SECTION 106 RIGHTS

### 1. SECTION 117: COMPUTER SOFTWARE

#### VAULT CORP. V. QUAID SOFTWARE LTD.

[847 F.2d 255 \(5th Cir. 1988\).](#)

REAVLEY, CIRCUIT JUDGE:

[Plaintiff Vault manufactured and marketed PROLOK computer diskettes containing Vault's copyrighted copy-protection software, which prevented persons from making fully functional copies of any other computer programs contained on those diskettes. Vault sold its diskettes to software makers who would place their own copyrighted programs on the copy-protected diskettes in order to prevent unauthorized copying. Defendant Quaid manufactured and sold CopyWrite diskettes, which contained software with a feature known as "RAMKEY" that could "unlock" the PROLOK copy protection. Buyers of Copywrite diskettes could use them to make fully functional copies of any software contained in a PROLOK diskette.]

\* \* \* Vault claims that Quaid infringed its copyright under § 501(a) by: (1) directly copying Vault's program into the memory of Quaid's computer; (2) contributing to the unauthorized copying of Vault's program and the programs Vault's customers place on PROLOK diskettes; and (3) preparing derivative works of Vault's program.

Section 117 of the Copyright Act limits a copyright owner's exclusive rights under § 106 by permitting an owner of a computer program to make certain copies of that program without obtaining permission from the program's copyright owner. With respect to Vault's first two claims of copyright infringement, Quaid contends that its activities fall within the § 117 exceptions and that it has, therefore, not infringed Vault's exclusive rights under § 501(a). To appreciate the arguments of the parties, we examine the legislative history of § 117.

#### A. Background

In 1974 Congress established the National Commission on New Technological Uses of Copyrighted Works (the "CONTU") to perform research and make recommendations concerning copyright protection for computer programs. Before receiving the CONTU's recommendations, Congress amended the Copyright Act in 1976 to include computer programs in the definition of protectable literary works and to establish that a program copied into a computer's memory constitutes a reproduction. \* \* \*

In 1978 the CONTU issued its final report in which it recognized that “the cost of developing computer programs is far greater than the cost of their duplication,” CONTU Report at 26, and concluded that “some form of protection is necessary to encourage the creation and broad distribution of computer programs in a competitive market,” *id.* at 27. After acknowledging the importance of balancing the interest of proprietors in obtaining “reasonable protection” against the risks of “unduly burdening users of programs and the general public,” *id.* at 29, the Report recommended \*\*\* the enactment of a new section 117 which would proscribe the unauthorized copying of computer programs but permit a “rightful possessor” of a program

to make or authorize the making of another copy or adaptation of that computer program *provided:*

- (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or
- (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

*Id.* at 30 (emphasis in original).

Because the act of loading a program from a medium of storage into a computer’s memory creates a copy of the program, the CONTU reasoned that “one who rightfully possesses a copy of a program . . . should be provided with a legal right to copy it to that extent which will permit its use by the possessor,” and drafted proposed § 117(1) to “provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability.” *Id.* at 31. With respect to proposed section 117(2), the “archival exception,” the Report explained that a person in rightful possession of a program should have the right “to prepare archival copies of it to guard against destruction or damage by mechanical or electrical failure. But this permission would not extend to other copies of the program. Thus one could not, for example, make archival copies of a program and later sell some to another while retaining some for use.” *Id.*

In 1980, Congress enacted the Computer Software Copyright Act which adopted the recommendations contained in the CONTU Report. Section 117<sup>11</sup> \*\*\* was enacted, and the proposed definition of “computer program” was added to section 101. The Act’s legislative history, contained

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<sup>11</sup> In enacting the new section 117, Congress adopted the proposed section with only one change. The final version grants “owners,” as opposed to “rightful possessors,” a limited right to copy and adapt their software. \*\*\*

in a short paragraph in a committee report, merely states that the Act, “embodies the recommendations of [the CONTU] with respect to clarifying the law of copyright of computer software.” H.R. Rep. No. 1307, 96th Cong., 2d Sess., pt. 1, at 23. The absence of an extensive legislative history and the fact that Congress enacted proposed section 117 with only one change have prompted courts to rely on the CONTU Report as an expression of legislative intent.

#### B. Direct Copying

In order to develop RAMKEY, Quaid analyzed Vault’s program by copying it into its computer’s memory. Vault contends that, by making this unauthorized copy, Quaid directly infringed upon Vault’s copyright. The district court held that “Quaid’s actions clearly fall within [the § 117(1)] exemption. The loading of [Vault’s] program into the [memory] of a computer is an ‘essential step in the utilization’ of [Vault’s] program. Therefore, Quaid has not infringed Vault’s copyright by loading [Vault’s program] into [its computer’s memory].” *Vault*, 655 F. Supp. at 758.

Section 117(1) permits an owner of a program to make a copy of that program provided that the copy “is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner.” Congress recognized that a computer program cannot be used unless it is first copied into a computer’s memory, and thus provided the § 117(1) exception to permit copying for this essential purpose. See CONTU Report at 31. Vault contends that, due to the inclusion of the phrase “and that it is used in no other manner,” this exception should be interpreted to permit only the copying of a computer program for the purpose of using it for its intended purpose. Because Quaid copied Vault’s program into its computer’s memory for the express purpose of devising a means of defeating its protective function, Vault contends that § 117(1) is not applicable.

We decline to construe § 117(1) in this manner. Even though the copy of Vault’s program made by Quaid was not used to prevent the copying of the program placed on the PROLOK diskette by one of Vault’s customers (which is the purpose of Vault’s program), and was, indeed, made for the express purpose of devising a means of defeating its protective function, the copy made by Quaid was “created as an essential step in the utilization” of Vault’s program. Section 117(1) contains no language to suggest that the copy it permits must be employed for a use intended by the copyright owner, and, absent clear congressional guidance to the contrary, we refuse to read such limiting language into this exception. We therefore hold that Quaid did not infringe Vault’s exclusive right to reproduce its program in copies under § 106(1).

\* \* \*

### C. Contributory Infringement

Vault contends that, because purchasers of programs placed on PROLOK diskettes use the RAMKEY feature of CopyWrite to make unauthorized copies, Quaid's advertisement and sale of CopyWrite diskettes with the RAMKEY feature violate the Copyright Act by contributing to the infringement of Vault's copyright and the copyrights owned by Vault's customers. Vault asserts that it lost customers and substantial revenue as a result of Quaid's contributory infringement because software companies which previously relied on PROLOK diskettes to protect their programs from unauthorized copying have discontinued their use.

\* \* \*

[The court reviewed the test for contributory copyright infringement (*see Chapter 20.C.2, infra*) and determined that Quaid could not be held liable for the infringing acts of RAMKEY customers if RAMKEY also had substantial "commercially significant" noninfringing uses.]

Quaid asserts that RAMKEY serves the legitimate purpose of permitting purchasers of programs recorded on PROLOK diskettes to make archival copies under § 117(2) and that this purpose constitutes a substantial noninfringing use. At trial, witnesses for Quaid testified that software programs placed on floppy diskettes are subject to damage by physical and human mishap and that RAMKEY protects a purchaser's investment by providing a fully functional archival copy that can be used if the original program on the PROLOK protected diskette, or the diskette itself, is destroyed. Quaid contends that an archival copy of a PROLOK protected program, made without RAMKEY, does not serve to protect against these forms of damage because a computer will not read the program into its memory from the copy unless the PROLOK diskette containing the original undamaged program is also in one of its disk drives, which is impossible if the PROLOK diskette, or the program placed thereon, has been destroyed due to physical or human mishap.

Computer programs can be stored on a variety of mediums, including floppy diskettes, hard disks, non-erasable read only memory ("ROM") chips, and a computer's random access memory, and may appear only as printed instructions on a sheet of paper. Vault contends that the archival exception was designed to permit *only* the copying of programs which are subject to "destruction or damage by *mechanical or electrical failure*." CONTU Report at 31 (emphasis added). While programs stored on all mediums may be subject to damage due to physical abuse or human error, programs stored on certain mediums are not subject to damage by mechanical or electrical failure. Therefore, Vault argues, the medium of storage determines whether the archival exception applies, thus providing only owners of programs, placed on mediums of storage which subject them to damage by mechanical or electrical failure, the right to make back-up

copies. To support its construction of § 117(2), Vault notes that one court has held that the archival exception does not apply to the copying of programs stored on ROM chips where there was no evidence that programs stored on this medium were subject to damage by mechanical or electrical failure, *Atari[ , Inc. v. JS & A Group, Inc.*, 597 F. Supp. 5, 9–10 (N.D.Ill.1983)], and another court has likewise held that the archival exception does not apply to the copying of programs which appear only in the form of printed instructions in a magazine, *Micro-Sparc, Inc. v. Amtype Corp.*, 592 F. Supp. 33, 35–36 (D.Mass.1984).

Vault contends that the district court's finding that programs stored on floppy diskettes are subject to damage by mechanical or electrical failure is erroneous because there was insufficient evidence presented at trial to support it, and, based on this contention, Vault asserts that the archival exception does not apply to permit the unauthorized copying of these programs. Vault performed a trial demonstration to prove that even if a program on an original PROLOK diskette, and Vault's protective program, were completely erased from this diskette, these programs could be restored on the original diskette using a copy made without RAMKEY. Therefore, Vault argues that even if a program recorded on a PROLOK diskette is subject to damage by mechanical or electrical failure, the non-operational copy of a PROLOK protected program made without RAMKEY is sufficient to protect against this type of damage. Vault concludes that, in light of the fact that RAMKEY facilitates the making of unauthorized copies and owners of PROLOK protected programs can make copies to protect against damage by mechanical and electrical failure without RAMKEY, the RAMKEY feature is not capable of substantial noninfringing uses.

\*\*\* We read the stated causes of damage [in CONTU] to be illustrative only, and not exclusive. Similarly, the statement follows with the prohibited use of the archival copies which does not include a prohibition against copying for purposes other than to protect against "mechanical or electrical failure." The Report, or Congress, could have easily limited the scope of § 117(2) to authorize the making of archival copies of programs subject to damage, and to guard against, only mechanical or electrical failure. CONTU did not recommend that language, nor did Congress enact it. Congress, following CONTU's advice, provided that an owner of a computer program may make a copy of that program provided that "such new copy . . . is for archival purposes only." 17 U.S.C. § 117(2). Congress did not choose to spell out detailed restrictions on the copying as was done in sections 108 and 112. Congress imposed no restriction upon the purpose or reason of the owner in making the archival copy; only the use made of that copy is restricted. See CONTU Report at 31 ("one could not, for example, make archival copies of a program and later sell some to another while retaining some for use"). An owner of a program is entitled, under § 117(2), to make an archival copy of that program in

order to guard against all types of risks, including physical and human mishap as well as mechanical and electrical failure.

A copy of a PROLOK protected program made with RAMKEY protects an owner from all types of damage to the original program, while a copy made without RAMKEY only serves the limited function of protecting against damage to the original program by mechanical and electrical failure. Because § 117(2) permits the making of fully functional archival copies, it follows that RAMKEY is capable of substantial noninfringing uses. Quaid's advertisement and sale of CopyWrite diskettes with the RAMKEY feature does not constitute contributory infringement.

\* \* \*

## 2. SECTION 109: THE FIRST SALE DOCTRINE

### a. Sale vs. License

#### VERNOR V. AUTODESK, INC.

[621 F.3d 1102 \(9th Cir. 2010\).](#)

CALLAHAN, CIRCUIT JUDGE:

Timothy Vernor purchased several used copies of Autodesk, Inc.'s AutoCAD Release 14 software from one of Autodesk's direct customers, and he resold the Release 14 copies on eBay. Vernor brought this declaratory judgment action against Autodesk to establish that these resales did not infringe Autodesk's copyright. The district court issued the requested declaratory judgment, holding that Vernor's sales were lawful because of two of the Copyright Act's affirmative defenses that apply to owners of copies of copyrighted works, the first sale doctrine and the essential step defense.

Autodesk distributes Release 14 pursuant to a limited license agreement in which it reserves title to the software copies and imposes significant use and transfer restrictions on its customers. We determine that Autodesk's direct customers are licensees of their copies of the software rather than owners, which has two ramifications. Because Vernor did not purchase the Release 14 copies from an owner, he may not invoke the first sale doctrine, and he also may not assert an essential step defense on behalf of his customers. For these reasons, we vacate the district court's grant of summary judgment to Vernor and remand for further proceedings.

### I.

#### A. Autodesk's Release 14 software and licensing practices

\* \* \*

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 copy-protection 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 [then the customer must destroy its copies of the previous version.]

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. \* \* \*

#### B. Autodesk’s provision of Release 14 software to CTA

[Autodesk customer CTA acquired Release 14 and agreed to the terms of the SLA. However, when it later upgraded to Release 15, CTA did not destroy its copies of Release 14 as the SLA required, but sold them to Vernor along with the activation codes. Vernor acquired an additional copy from another source. While Vernor was aware of the SLA’s existence, he never agreed to its terms. Vernor offered his copies for sale on eBay. When Autodesk alleged that these sales were infringing, Vernor sought and obtained a declaratory judgment of non-infringement. Autodesk appealed.]

### III.

Copyright is a federal law protection provided to the authors of “original works of authorship,” including software programs. 17 U.S.C. §§ 101–103. The Copyright Act confers several exclusive rights on copyright owners, including the exclusive rights to reproduce their works and to distribute their works by sale or rental. *Id.* § 106(1), (3). The 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.

This case requires us to decide whether Autodesk sold Release 14 copies to its customers or licensed the copies to its customers. If CTA owned its copies of Release 14, then both its sales to Vernor and Vernor’s subsequent sales were non-infringing under the first sale doctrine.<sup>6</sup> However, if Autodesk only licensed CTA to use copies of Release 14, then CTA’s and Vernor’s sales of those copies are not protected by the first sale doctrine and would therefore infringe Autodesk’s exclusive distribution right.

#### A. The first sale doctrine

The Supreme Court articulated the first sale doctrine in 1908, holding that a copyright owner’s exclusive distribution right is exhausted after the owner’s first sale of a particular copy of the copyrighted work. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908). In *Bobbs-Merrill*, the plaintiff-copyright owner sold its book with a printed notice announcing that any retailer who sold the book for less than one dollar was responsible for copyright infringement. Plaintiff sought injunctive relief against defendants-bookellers who failed to comply with the price restriction. The Supreme Court rejected the plaintiff’s claim, holding that its exclusive distribution right applied only to first sales of copies of the work. The distribution right did not permit plaintiff to dictate that subsequent sales of the work below a particular price were infringing. The Court noted that its decision solely applied to the rights of a copyright owner that distributed its work without a license agreement. *Id.* at 350 (“There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”).

Congress codified the first sale doctrine the following year. *See* 17 U.S.C. § 41 (1909). In its current form, it allows the “owner of a particular

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<sup>6</sup> If Autodesk’s transfer of Release 14 copies to CTA was a first sale, then CTA’s resale of the software in violation of the SLA’s terms would be a breach of contract, but would not result in copyright liability.

copy” of a copyrighted work to sell or dispose of his copy without the copyright owner’s authorization. *Id.* § 109(a) (enacted 1976). The first sale doctrine does not apply to a person who possesses a copy of the copyrighted work without owning it, such as a licensee. *See id.* § 109(d); *cf. Quality King Distrib., Inc. v. L’anza Research Int’l Inc.*, 523 U.S. 135, 146–47 (1998) (“[T]he first sale doctrine would not provide a defense to . . . any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.”).

### B. 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. We then apply those precedents to CTA’s and Vernor’s possession of Release 14 copies.

#### 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. The defendant was found guilty of copyright infringement based on his for-profit sales of motion picture prints. The copyright owners distributed their films to third parties pursuant to written agreements that restricted their use and transfer. 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. \* \* \*

#### 2. 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. 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).

The Copyright Act provides that an "owner of a copy" of copyrighted software may claim the essential step defense, and the "owner of a particular copy" of copyrighted software may claim the first sale doctrine. 17 U.S.C. §§ 109(a), 117(a)(1). The *MAI* trio construed the phrase "owner of a copy" for essential step defense purposes. Neither Vernor nor Autodesk contends that the first sale doctrine's inclusion of the word "particular" alters the phrase's meaning, and we "presume that words used more than once in the same statute have the same meaning throughout." *Moldo v. Matsco, Inc.* (*In re Cybernetic Servs., Inc.*), 252 F.3d 1039, 1051 (9th Cir. 2001). Accordingly, we consider the *MAI* trio's construction of "owner of a copy" controlling in our analysis of whether CTA and Vernor became "owner[s] of a particular copy" of Release 14 software.

In *MAI* and *Triad*, the defendants maintained computers that ran the plaintiffs' operating system software. When the defendants ran the computers, the computers automatically loaded plaintiffs' software into RAM. 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. In *Triad*, the plaintiff had earlier sold software outright to some customers. 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.

In *Wall Data*, plaintiff sold 3,663 software licenses to the defendant. 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. 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.

The plaintiff sued for copyright infringement, contending that the defendant violated the license by “over-installing” the software. The defendant raised an essential step defense, contending that its hard drive imaging was a necessary step of installation. \* \* \* 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. 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.

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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*.

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#### IV.

\* \* \*

##### A. Analysis

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.<sup>13</sup> 17 U.S.C. §§ 106(1), 117(a)(1).

Although unnecessary to our resolution of the case, we address the legislative history in order to address the arguments raised by the parties and amici. That legislative history supports our conclusion that licensees such as CTA are not entitled to claim the first sale doctrine. The House Report for § 109 underscores Congress’ view that the first sale doctrine is available only to a person who has acquired a copy via an “outright sale”. H.R. Rep. No. 94–1476, at 79 (1976). The report also asserts that the first sale doctrine does not “apply to someone who merely possesses a copy or phonorecord without having acquired ownership of it.” *Id.*

Our conclusion that those who rightfully possess, but do not own, a copy of copyrighted software are not entitled to claim the essential step defense is also supported by the legislative history. Congress enacted § 117 following a report from the National Commission on New Technological Uses of Copyrighted Works (“CONTU”) proposing Copyright Act amendments. CONTU’s proposed version of § 117 was identical to the version that Congress enacted with one exception. CONTU’s version provided, “[I]t is not an infringement for the rightful possessor of a copy of a computer program to make or authorize the making of another copy or adaptation of that program...” *Id.* Without explanation, Congress substituted “owner” for “rightful possessor.” This modification suggests that more than rightful possession is required for § 117 to apply—i.e., that Congress did not intend licensees subject to significant transfer and use restrictions to receive the benefit of the essential step defense.

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<sup>13</sup> 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.

## 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.

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 below-retail 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.

\* \* \*

### b. Importing Copies

#### **KIRTSANG V. JOHN WILEY & SONS, INC.**

[568 U.S. 519, 133 S.Ct. 1351 \(2013\).](#)

JUSTICE BREYER delivered the opinion of the Court.

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, for example, the principle of “fair use” (§ 107), permission for limited library archival reproduction (§ 108), and 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.

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*, Netcom does not maintain an archive of files for its users. Thus, it cannot be said to be "supplying a product." In contrast to some of its larger competitors, Netcom does not create or control the content of the information available to its subscribers; it merely provides access to the Internet, whose content is controlled by no single entity. Although the Internet consists of many different computers networked together, some of which may contain infringing files, it does not make sense to hold the operator of each computer liable as an infringer merely because his or her computer is linked to a computer with an infringing file. It would be especially inappropriate to hold liable a service that acts more like a conduit, in other words, one that does not itself keep an archive of files for more than a short duration. Finding such a service liable would involve an unreasonably broad construction of public distribution and display rights. No purpose would be served by holding liable those who have no ability to control the information to which their subscribers have access, even though they might be in some sense helping to achieve the Internet's automatic "public distribution" and the users' "public" display of files. . . ."

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. L'anza 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.

Putting section numbers to the side, we ask whether the “first sale” doctrine applies to protect a buyer or other lawful owner of a copy (of a copyrighted work) lawfully manufactured abroad. Can that buyer bring that copy into the United States (and sell it or give it away) without obtaining permission to do so from the copyright owner? Can, for example, someone who purchases, say at a used bookstore, a book printed abroad subsequently resell it without the copyright owner’s permission?

In our view, the answers to these questions are, yes. We hold that the “first sale” doctrine applies to copies of a copyrighted work lawfully made abroad.

I

A

\* \* \*

\* \* \* [T]here are two essentially equivalent versions of a Wiley textbook, each version manufactured and sold with Wiley’s permission: (1) an American version printed and sold in the United States, and (2) a foreign version manufactured and sold abroad. And Wiley makes certain that copies of the second version state that they are not to be taken (without permission) into the United States.

Petitioner, Supap Kirtsaeng, a citizen of Thailand, moved to the United States in 1997 to study mathematics at Cornell University. He paid for his education with the help of a Thai Government scholarship which required him to teach in Thailand for 10 years on his return. Kirtsaeng successfully completed his undergraduate courses at Cornell, successfully completed a Ph.D. program in mathematics at the University of Southern California, and then, as promised, returned to Thailand to teach. 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.

\* \* \*

## II

We must decide whether the words "lawfully made under this title" restrict the scope of § 109(a)'s "first sale" doctrine geographically. The Second Circuit, the Ninth Circuit, Wiley, and the Solicitor General (as amicus) all read those words as imposing a form of geographical limitation. The Second Circuit held that they limit the "first sale" doctrine to particular copies "made in territories in which the Copyright Act is law," which (the Circuit says) are copies "manufactured domestically," not "outside of the United States." \* \* \* And the Ninth Circuit has held that those words limit the "first sale" doctrine's applicability (1) to copies lawfully made in the United States, and (2) to copies lawfully made outside the United States but initially sold in the United States with the copyright owner's permission. *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1149–1150 (1996).

Under any of these geographical interpretations, § 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.

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, namely, that "lawfully made under this title" means made "in accordance with" or "in compliance with" the Copyright Act. The language of § 109(a) says nothing about geography. The word "under" can mean "[i]n accordance with." 18 OXFORD ENGLISH DICTIONARY 950 (2d ed.1989). 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.

The geographical interpretation, however, bristles with linguistic difficulties. It gives the word "lawfully" little, if any, linguistic work to do. (How could a book be unlawfully "made under this title"? ) It imports geography into a statutory provision that says nothing explicitly about it. And it is far more complex than may at first appear.

To read the clause geographically, Wiley, like the Second Circuit and the Solicitor General, 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. And the Solicitor General must do the same.

One difficulty is that neither "under" nor any other word in the phrase means "where." See, e.g., 18 OXFORD ENGLISH DICTIONARY, *supra*, at 947–952 (definition of "under"). It might mean "subject to," but as this Court has repeatedly acknowledged, the word 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. \* \* \*

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.

The Ninth Circuit’s geographical interpretation produces still greater linguistic difficulty. As we said, that 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. *Denbicare U.S.A.*, 84 F.3d, at 1149–1150.

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, 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-nongeographical interpretation with the language of the phrase, “lawfully made under 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). 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. The predecessor says that the “first sale” doctrine protects “the transfer of any copy *the possession of which has been lawfully obtained.*” The present version says that “*the owner* of a particular copy or phonorecord lawfully made under this title is entitled to sell or otherwise dispose of the possession of that copy or phonorecord.” What does this change in language accomplish?

The language of the former version referred to those who are not owners of a copy, but mere possessors who “lawfully obtained” a copy. The present version covers only those who are owners of a “lawfully made” copy. Whom does the change leave out? Who might have lawfully obtained a copy of a copyrighted work but not owned that copy? One answer is owners of movie theaters, who during the 1970’s (and before) often *leased* films from movie distributors or filmmakers. Because the theater owners had “lawfully obtained” their copies, the earlier version could be read as allowing them to sell that copy, *i.e.*, it might have given them “first sale” protection. Because the theater owners were lessees, not owners, of their copies, the change in language makes clear that they (like bailees and other lessees) cannot take advantage of the “first sale” doctrine. \* \* \*

This objective perfectly well explains the new language of the present version, including the five words here at issue. Section 109(a) now makes clear that a lessee of a copy will *not* receive “first sale” protection but one who *owns* a copy *will* receive “first sale” protection, *provided*, of course, that the copy was “*lawfully made*” and not pirated. The new language also takes into account that a copy may be “lawfully made under this title” when the copy, say of a phonorecord, comes into its owner’s possession through use of a compulsory license, which “this title” provides for elsewhere, namely, in § 115. \* \* \*

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.

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. \* \* \*

Finally, we normally presume that the words “lawfully made under this title” carry the same meaning when they appear in different but related sections. But doing so here produces surprising consequences. Consider:

- (1) Section 109(c) says that, despite the copyright owner’s exclusive right “to display” a copyrighted work (provided in § 106(5)), the owner of a particular copy “lawfully made under this title” may publicly display it without further authorization. To interpret these words geographically would mean that one who buys a copyrighted work of art, a poster, or even a bumper sticker, in Canada, in Europe, in Asia, could not display it in America without the copyright owner’s further authorization.
- (2) Section 109(e) specifically provides that the owner of a particular copy of a copyrighted video arcade game “lawfully made under this title” may “publicly perform or display that game in coin-operated equipment” without the authorization of the copyright owner. To interpret these words geographically means that an arcade owner could not (“without the authority of the copyright owner”) perform or display arcade games (whether new or used) originally made in Japan.
- (3) Section 110(1) says that a teacher, without the copyright owner’s authorization, is allowed to perform or display a copyrighted work (say, an audiovisual work) “in the course of face-to-face teaching activities”—unless the teacher knowingly used “a copy that was not lawfully made under this title.” To interpret these words geographically would mean that the teacher could not (without further authorization) use a copy of a film during class if the copy was lawfully made in Canada, Mexico, Europe, Africa, or Asia.
- (4) In its introductory sentence, § 106 provides the Act’s basic exclusive rights to an “owner of a copyright under this title.” The last three words cannot support a geographic interpretation.

Wiley basically accepts the first three readings, but argues that Congress intended the restrictive consequences. And it argues that context simply requires that the words of the fourth example receive a different interpretation. Leaving the fourth example to the side, we shall explain in Part II-D why we find it unlikely that Congress would have intended these, and other related consequences.

## 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. 305, 319 n. 13 (2010).

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. Referring to Littleton, who wrote in the 15th century, Lord Coke wrote:

“[If] a man be possessed of . . . a horse, or of any other chattell . . . and give or sell his whole interest . . . therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest . . . is out of him, so as he hath no possiblity of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him.”

1 E. COKE, INSTITUTES OF THE LAWS OF ENGLAND § 360, p. 223 (1628).

A law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly “against Trade and Traffi[c], and bargaining and contracting.” *Id.*

With these last few words, 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. Rather, as the Solicitor General acknowledges, “a straightforward application of *Bobbs-Merrill*” would not preclude the “first sale” defense from applying to authorized copies made overseas. And we can find no language, context, purpose, or history that would rebut a “straightforward 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.

How, the American Library Association asks, are the libraries to obtain permission to distribute these millions of books? \* \* \* Are the libraries to stop circulating or distributing or displaying the millions of books in their collections that were printed abroad?

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. The dealers say that they have “operat[ed]. . . for centuries” under the assumption that the “first sale” doctrine applies. 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 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. Yet there is no reason to believe that foreign auto manufacturers regularly obtain this kind of permission from their software component suppliers, and Wiley did not indicate to the contrary when asked. Without that permission a foreign car owner could not sell his or her used car.

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 for [the use of] everyday packaged goods from floor cleaners and health and beauty products to breakfast cereals.” 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. 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, Rene 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. What are the museums to do, they ask, if the artist retained the copyright, if the artist cannot be found, or if a group of heirs is arguing about who owns which copyright?

\* \* \*

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).

\* \* \*

\* \* \* 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.

\* \* \*

For these reasons we conclude that the considerations supporting Kirtsaeng’s nongeographical interpretation of the words “lawfully made under this title” are the more persuasive. The judgment of the Court of Appeals is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

JUSTICE KAGAN, with whom JUSTICE ALITO joins, concurring.

I concur fully in the Court’s opinion. Neither the text nor the history of 17 U.S.C. § 109(a) supports removing first-sale protection from every copy of a protected work manufactured abroad. I recognize, however, that the combination of today’s decision and *Quality King Distributors, Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135 (1998), constricts the scope of § 602(a)(1)’s ban on unauthorized importation. I write to suggest that any problems associated with that limitation come not from our reading of § 109(a) here, but from *Quality King*’s holding that § 109(a) limits § 602(a)(1). \* \* \* In now holding that copies “lawfully made under this title” include copies manufactured abroad, we unavoidably diminish § 602(a)(1)’s scope—indeed, limit it to a fairly esoteric set of applications.

But if Congress views the shrinking of § 602(a)(1) as a problem, it should recognize *Quality King*—not our decision today—as the culprit. Here, after all, we merely construe § 109(a); *Quality King* is the decision holding that § 109(a) limits § 602(a)(1). Had we come out the opposite way in that case, § 602(a)(1) would allow a copyright owner to restrict the importation of copies irrespective of the first-sale doctrine.<sup>1</sup> That result would enable the copyright owner to 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 the Court today 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),

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<sup>1</sup> Although *Quality King* concluded that the statute’s text foreclosed that outcome, the Solicitor General offered a cogent argument to the contrary. He reasoned that § 109(a) does not limit § 602(a)(1) because the former authorizes owners only to “sell or ‘dispose’ of copies—not to import them: The Act’s first-sale provision and its importation ban thus regulate separate, non-overlapping spheres of conduct. That reading remains the Government’s preferred way of construing the statute.

but by enabling the copyright holder to control imports even when the first-sale doctrine applies (as *Quality King* now prevents).<sup>2</sup>

At bottom, John Wiley (together with the dissent) asks us to misconstrue § 109(a) in order to restore § 602(a)(1) to its purportedly rightful function of enabling copyright holders to segment international markets. I think John Wiley may have a point about what § 602(a)(1) was designed to do; that gives me pause about *Quality King*'s holding that the first-sale doctrine limits the importation ban's scope. But the Court today correctly declines the invitation to save § 602(a)(1) from *Quality King* by destroying the first-sale protection that § 109(a) gives to every owner of a copy manufactured abroad. That would swap one (possible) mistake for a much worse one, and make our reading of the statute only less reflective of Congressional intent. If Congress thinks copyright owners need greater power to restrict importation and thus divide markets, a ready solution is at hand—not the one John Wiley offers in this case, but the one the Court rejected in *Quality King*.

JUSTICE GINSBURG, with whom JUSTICE KENNEDY joins, and with whom JUSTICE SCALIA joins except as to Parts III and V-B-1, dissenting.

"In the interpretation of statutes, the function of the courts is easily stated. It is to construe the language so as to give effect to the intent of Congress." *United States v. American Trucking Assns., Inc.*, 310 U.S. 534, 542 (1940). Instead of adhering to the Legislature's design, the Court today adopts an interpretation of the Copyright Act at odds with Congress' aim to protect copyright owners against the unauthorized importation of low-priced, foreign-made copies of their copyrighted works. \* \* \*

To justify a holding that shrinks to insignificance copyright protection against the unauthorized importation of foreign-made copies, the Court identifies several "practical problems." The Court's parade of horribles, however, is largely imaginary. Congress' objective in enacting 17 U.S.C. § 602(a)(1)'s importation prohibition can be honored without generating the absurd consequences hypothesized in the Court's opinion. I dissent from the Court's embrace of "international exhaustion," and would affirm the sound judgment of the Court of Appeals.

\* \* \*

## II

The text of the Copyright Act demonstrates that Congress intended to provide copyright owners with a potent remedy against the importation of foreign-made copies of their copyrighted works. As the Court recognizes this case turns on the meaning of the phrase "lawfully made under this title" in § 109(a). In my view, that phrase is most sensibly read as referring

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<sup>2</sup> \* \* \* I can see no reason why Congress would have conditioned a copyright owner's power to divide markets on outsourcing its manufacturing to a foreign country.

to instances in which a copy's creation is governed by, and conducted in compliance with, Title 17 of the U.S. Code. \* \* \*

Section 109(a), properly read, affords Kirtsaeng no defense against Wiley's claim of copyright infringement. The Copyright Act, it has been observed time and again, does not apply extraterritorially. The printing of Wiley's foreign-manufactured textbooks therefore was not governed by Title 17. The textbooks thus were not "lawfully made under [Title 17]," the crucial precondition for application of § 109(a). And if § 109(a) does not apply, there is no dispute that Kirtsaeng's conduct constituted copyright infringement under § 602(a)(1).

The Court's point of departure is similar to mine. According to the Court, the phrase "'lawfully made under this title' means made 'in accordance with' or 'in compliance with' the Copyright Act." But the Court overlooks that, according to the very dictionaries it cites, the word "under" commonly signals a relationship of subjection, where one thing is governed or regulated by another. See BLACK'S LAW DICTIONARY 1525 (6th ed.1990) ("under "frequently" means "inferior" or "subordinate" (internal quotation marks omitted)); 18 OXFORD ENGLISH DICTIONARY 950 (2d ed.1989) ("under" means, among other things, "[i]n accordance with (some regulative power or principle)" (emphasis added)). Only by disregarding this established meaning of "under" can the Court arrive at the conclusion that Wiley's foreign-manufactured textbooks were "lawfully made under" U.S. copyright law, even though that law did not govern their creation. \* \* \*

\* \* \*

### III

The history of § 602(a)(1) reinforces the conclusion I draw from the text of the relevant provisions: § 109(a) does not apply to copies manufactured abroad.

\* \* \*

The current text of § 602(a)(1) was finally enacted into law in 1976. The House and Senate Committee Reports on the 1976 Act demonstrate that Congress understood, as did the Copyright Office, just what that text meant. Both Reports state:

"Section 602 [deals] with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made. The general approach of section 602 is to make unauthorized importation an act of infringement in both cases, but to permit the Bureau of Customs to prohibit importation only of 'piratical' articles."

S. REP. NO. 94-473, p. 151 (1975).

In sum, the legislative history of the Copyright Act of 1976 is hardly “inconclusive.” To the contrary, it confirms what the plain text of the Act conveys: Congress intended § 602(a)(1) to provide copyright owners with a remedy against the unauthorized importation of foreign-made copies of their works, even if those copies were made and sold abroad with the copyright owner’s authorization.

\* \* \*

## V

I turn now to the Court’s justifications for a decision difficult to reconcile with the Copyright Act’s text and history.

\* \* \*

## B

The Court sees many “horribles” following from a holding that the § 109(a) phrase “lawfully made under this title” does not encompass foreign-made copies. If § 109(a) excluded foreign-made copies, the Court fears, then copyright owners could exercise perpetual control over the downstream distribution or public display of such copies. A ruling in Wiley’s favor, the Court asserts, would shutter libraries, put used-book dealers out of business, cripple art museums, and prevent the resale of a wide range of consumer goods, from cars to calculators. Copyright law and precedent, however, erect barriers to the anticipated horribles.

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Under the logic of *Bobbs-Merrill*, the sale of a foreign-manufactured copy in the United States carried out with the copyright owner’s authorization would exhaust the copyright owner’s right to “vend” that copy. The copy could thenceforth be resold, lent out, or otherwise redistributed without further authorization from the copyright owner. Although § 106(3) uses the word “distribute” rather than “vend,” there is no reason to think Congress intended the word “distribute” to bear a meaning different from the construction the Court gave to the word “vend” in *Bobbs-Merrill*. Thus, in accord with *Bobbs-Merrill*, the first authorized distribution of a foreign-made copy in the United States exhausts the copyright owner’s distribution right under § 106(3). After such an authorized distribution, a library may lend, or a used-book dealer may resell, the foreign-made copy without seeking the copyright owner’s permission.

For example, if Wiley, rather than Kirtsaeng, had imported into the United States and then sold the foreign-made textbooks at issue in this case, Wiley’s § 106(3) distribution right would have been exhausted under the rationale of *Bobbs-Merrill*. Purchasers of the textbooks would thus be

free to dispose of the books as they wished without first gaining a license from Wiley.

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Other statutory prescriptions provide further protection against the absurd consequences imagined by the Court. For example, § 602(a)(3)(C) permits “an organization operated for scholarly, educational, or religious purposes” to import, without the copyright owner’s authorization, up to five foreign-made copies of a non-audiovisual work—notably, a book—for “library lending or archival purposes.”

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Limiting § 109(c) to U.S.-made works, however, does not bar art museums from lawfully displaying works made in other countries. Museums can, of course, seek the copyright owner’s permission to display a work. Furthermore, the sale of a work of art to a U.S. museum may carry with it an implied license to publicly display the work. Displaying a work of art as part of a museum exhibition might also qualify as a “fair use” under 17 U.S.C. § 107.

The Court worries about the resale of foreign-made consumer goods “contain[ing] copyrightable software programs or packaging.” For example, the Court observes that a car might be programmed with diverse forms of software, the copyrights to which might be owned by individuals or entities other than the manufacturer of the car. Must a car owner, the Court asks, obtain permission from all of these various copyright owners before reselling her car?

Although this question strays far from the one presented in this case and briefed by the parties, principles of fair use and implied license (to the extent that express licenses do not exist) would likely permit the car to be resold without the copyright owners’ authorization.<sup>25</sup>

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## CAMBRIDGE UNIVERSITY PRESS V. PATTON

United States Court of Appeals, Eleventh Circuit

Oct. 17, 2014.

769 F.3d 1232

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<sup>25</sup> Principles of fair use and implied license may also allow a U.S. tourist “who buys a copyrighted work of art, a poster, or . . . a bumper sticker” abroad to publicly “display it in America without the copyright owner’s further authorization.” (The tourist could lawfully bring the work of art, poster, or bumper sticker into the United States under 17 U.S.C. § 602(a)(3)(B), which provides that § 602(a)(1)’s importation ban does not apply to “importation . . . by any person arriving from outside the United States . . . with respect to copies . . . forming part of such person’s personal baggage.”). \* \* \*

TJOFLAT, Circuit Judge:

Three publishing houses, Cambridge University Press, Oxford University Press, and Sage Publications, Inc. (collectively, “Plaintiffs”) allege that members of the Board of Regents of the University System of Georgia and officials at Georgia State University (“GSU”) (collectively, “Defendants”) infringed Plaintiffs’ copyrights by maintaining a policy which allows GSU professors to make digital copies of excerpts of Plaintiffs’ books available to students without paying Plaintiffs. Plaintiffs alleged seventy-four individual instances of infringement, which took place during three academic terms in 2009. The District Court issued an order finding that Plaintiffs failed to establish a *prima facie* case of infringement in twenty-six instances, that the fair use defense applied in forty-three instances, and that Defendants had infringed Plaintiffs’ copyrights in the remaining five instances.

Finding that GSU’s policy caused the five instances of infringement, the District Court granted declaratory and injunctive relief to Plaintiffs. Nevertheless, the District Court found that Defendants were the prevailing party and awarded them costs and attorneys’ fees. Because we find that the District Court’s fair use analysis was in part erroneous, we reverse the District Court’s judgment; vacate the injunction, declaratory relief, and award of costs and fees; and remand for further proceedings consistent with this opinion.

I.

A.

Like many recent issues in copyright law, this is a case in which technological advances have created a new, more efficient means of delivery for copyrighted works, causing copyright owners and consumers to struggle to define the appropriate boundaries of copyright protection in the new digital marketplace. These boundaries must be drawn carefully in order to assure that copyright law serves its intended purpose, which is to promote the creation of new works for the public good by providing authors and other creators with an economic incentive to create. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, 95 S.Ct. 2040, 2044, 45 L.Ed.2d 84 (1975). If copyright’s utilitarian goal is to be met, we must be careful not to place overbroad restrictions on the use of copyrighted works, because to do so would prevent would-be authors from effectively building on the ideas of others. Some unpaid use of copyrighted materials must be allowed in order to prevent copyright from functioning as a straightjacket that stifles the very creative activity it seeks to foster. If we allow too much unpaid copying, however, we risk extinguishing the economic incentive to create that copyright is intended to provide.

\*\*\* Here, we are called upon to determine whether the unpaid copying of scholarly works by a university for use by students—facilitated by the development of systems for digital delivery over the Internet—should be excused under the doctrine of fair use.

Plaintiffs are three publishing houses that specialize in academic works. Plaintiff Cambridge University Press (“Cambridge”) is the not-for-profit publishing house of the University of Cambridge in England, having an American branch headquartered in New York City. Plaintiff Oxford University Press, Inc. (“Oxford”) is a not-for-profit United States corporation associated with Oxford University in England and headquartered in New York City. Plaintiff Sage Publications, Inc. (“Sage”) is a for-profit Delaware corporation, headquartered in Sherman Oaks, California.

Plaintiffs do not publish the large, general textbooks commonly used in entry-level university courses. Rather, Plaintiffs publish advanced scholarly works, which might be used in upper-level undergraduate and graduate courses. Cambridge and Oxford publish scholarly books and journals on niche subject areas. Their works involved in this case include research-based monographs, which are “small, single author books which give in-depth analysis of a narrow topic,” Cambridge Univ. Press v. Becker, 863 F.Supp.2d 1190, 1212 (N.D.Ga.2012) (footnote omitted), instructional books, trade books, and other works on academic topics. Sage primarily publishes books on the social sciences. All three plaintiffs publish, in addition to works by a single author, “edited books” which feature the contributions of multiple authors. *Id.*

Plaintiffs market their books to professors who teach at universities and colleges. Cambridge and Oxford regularly send complimentary copies of their publications to professors. Sage provides trial copies upon request. Plaintiffs intend that professors use Plaintiffs’ publications in their work and assign them as required reading so that students will purchase them. Rather than assigning whole books, some professors assign or suggest excerpts from Plaintiffs’ books as part of the curriculum for their courses. Professors might do this by putting the work on reserve at the university library so that students can visit the library to read an assigned excerpt. Or, professors might prepare a bound, photocopied, paper “coursepack” containing excerpts from several works for a particular course. Often, a third-party copy shop assembles these coursepacks, performing the copying and binding, obtaining the necessary licenses from publishers, and charging students a fee for the finished coursepack. In recent years, however, universities—following the trend with regard to distribution of

many forms of media the world over—have increasingly abandoned paper coursepacks in favor of digital distribution of excerpts over the Internet. GSU is a public university in Atlanta, Georgia. It is part of the University System of Georgia, and is overseen by the Board of Regents of the University System of Georgia. GSU maintains two on-campus systems known as “ERes” and “uLearn” for digital distribution of course materials to students.

ERes (short for “E–Reserves”) is an “electronic reserve system” hosted on servers maintained by GSU and managed by GSU’s library staff. Since 2004, GSU has used ERes to allow GSU students to access course materials—including course syllabi, class notes, sample exams, and excerpts from books and journals—on the Internet via a web browser. In order to place an excerpt from a book or journal on ERes, a professor must either provide a personal copy of the work to the GSU library staff or indicate that the GSU library owns a copy. A member of the library staff then scans the excerpt to convert it to a digital format and posts the scanned copy to ERes. GSU students are given access to an ERes website specific to the courses in which they are enrolled. On each course-specific ERes website, students find their reading assignments listed by title. The scanned excerpts are accessible via hyperlink. When a student clicks a link for a particular assignment, the student receives a digital copy of a scanned excerpt that the student may view, print, save to his or her computer, and potentially keep indefinitely. ERes course websites are password-protected in order to limit access to the students in the particular course. Once a course ends, students no longer have access to the ERes website for that course.

uLearn is a “course management system” hosted on servers maintained by the Board of Regents. Like ERes, uLearn provides course-specific webpages through which professors may make course material available, including digital copies of excerpts from books, which students in the course may view, print, or save. The most significant difference between the ERes and uLearn systems is that uLearn allows professors to upload digital copies of reading material directly to their course websites while ERes forces professors to rely on GSU library personnel to upload reading material for them.

ERes and uLearn have been popular at GSU. For example, during the Spring 2009 term, paper coursepacks were offered for only about fifteen courses, while instructors in hundreds of courses made readings available on ERes. Thus, the excerpts from larger works that make up some portion of course readings at GSU, and which were once distributed to students via a paper coursepack purchased at the university bookstore, are now largely

distributed to students via digital download on the Internet, that the students pay for only indirectly via tuition and fees.

There exists a well-established system for the licensing of excerpts of copyrighted works. Copyright Clearance Center (“CCC”) is a not-for-profit corporation with headquarters in Danvers, Massachusetts. CCC licenses excerpts from copyrighted works for a fee, acting on behalf of publishers who choose to make their works available through CCC. These licenses are called “permissions.” All three Plaintiffs offer excerpt-specific permissions to photocopy or digitally reproduce portions of their works, which may be obtained directly from Plaintiffs or through CCC. Permissions are not, however, available for licensed copying of excerpts from all of Plaintiffs’ works.

CCC offers a variety of permissions services to various categories of users, including corporate, educational, and institutional users. One such service, the Academic Permissions Service (“APS”), licenses educational users to make print copies on a per-use basis. CCC also offers an electronic course content service (“ECCS”) for licensing of digital excerpts by educational users on a per-use basis, that—in 2008, the year for which evidence on the question was presented—offered only a small percentage of the works that were available through APS. ECCS is designed for electronic reserve systems such as ERes and uLearn. Software is available that would allow GSU library personnel to place an order with CCC for a permission to provide students with a digital copy of an excerpt via ERes. CCC also offers an Academic Repertory License Service (“ARLS”) which affords subscribers access to excerpts from a set group of about nine million titles, approximately 17 percent of which are available in digital format. Sage participates in ARLS and did so in 2009, Oxford participated in 2009 with regard to journals but not books, and Cambridge does not participate. GSU did not and does not subscribe to this program.

When the GSU bookstore assembles and sells a paper coursepack containing excerpts from copyrighted works, GSU pays permissions fees for use of the excerpts. The central issue in this case is under what circumstances GSU must pay permissions fees to post a digital copy of an excerpt of Plaintiffs’ works to ERes or uLearn.

## B.

On April 15, 2008, Plaintiffs filed their original complaint in the United States District Court for the Northern District of Georgia. Plaintiffs alleged that hundreds of GSU professors have made thousands of copyrighted works—including works owned or controlled by Plaintiffs—available on GSU’s electronic reserve systems without obtaining permissions from

copyright holders, and that GSU's administration facilitated, encouraged, and induced this practice. Plaintiffs sued Defendants in their official capacities as GSU officials, claiming (1) direct copyright infringement caused by the officials "scanning, copying, displaying, and distributing Plaintiffs' copyrighted material," (2) contributory copyright infringement caused by the officials' "facilitating, encouraging, and inducing librarians and professors to scan, copy, display, and distribute Plaintiffs' copyrighted material" and "students to view, download, copy and further distribute [Plaintiffs'] copyrighted material;" and (3) vicarious copyright infringement caused by the officials' inducing GSU employees and students to copy Plaintiffs' copyrighted material, profiting from this practice, and failing to stop it despite having the right and ability to do so. Plaintiffs sought declaratory and injunctive relief. Plaintiffs supported their allegations with numerous examples of GSU professors posting excerpts of Plaintiffs' works on GSU's electronic reserve systems. Defendants filed an Answer, denying Plaintiffs' allegations of infringement; claiming sovereign immunity and Eleventh Amendment immunity based on Defendants' status as state officials; and asserting a defense of fair use because "any alleged use of copyrighted materials was for the purpose of teaching, scholarship or research and for nonprofit educational purposes."

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In late December 2008, the University System of Georgia convened a Select Committee on Copyright to review GSU's then-existing copyright policy, which was called the "Regents' Guide to Understanding Copyright & Educational Fair Use." On February 17, 2009, the Select Committee announced a new copyright policy for GSU (the "2009 Policy"), which went into effect the same day. Under the 2009 Policy, a revised version of which remains in effect today, GSU professors who wish to post an excerpt of a copyrighted work on ERes or uLearn for distribution to their students must first determine whether they believe that doing so would be fair use. In order to make this determination, professors must fill out a "Fair Use Checklist" for each excerpt.

The Checklist allows GSU professors to perform a version of the analysis a court might perform should the professor claim fair use in a subsequent copyright infringement suit. As described above, see *supra* part I.A, the fair use analysis involves a consideration of whether allowing the unpaid use in a given case would be equitable and serve the objectives of copyright in light of four statutory factors, see 17 U.S.C. § 107. For each factor, the Checklist provides several criteria that purportedly weigh either for or against a finding of fair use, each with a corresponding checkbox. The Checklist instructs professors to check each criterion that applies, and then add up the checks to determine whether the factor weighs in favor of or

against a finding of fair use. After making this tally, the Checklist explains that “[w]here the factors favoring fair use outnumber those against it, reliance on fair use is justified. Where fewer than half the factors favor fair use, instructors should seek permission from the rights holder.” Thus, under the 2009 Policy, a GSU professor may post an excerpt of a copyrighted work on ERes or uLearn without obtaining a permission from the copyright holder if the professor first decides that doing so would be protected by the doctrine of fair use, according to the criteria set forth in the Checklist.

After completing an initial round of discovery, both parties moved for summary judgment on February 26, 2010. Plaintiffs alleged that the 2009 Policy had failed to curb the alleged infringement of their copyrighted works, and argued that they were entitled to summary judgment on all claims. Plaintiffs argued that they were entitled to an injunction based on the alleged infringements listed in their First Amended Complaint, that had occurred prior to enactment of the 2009 Policy, and added allegations regarding new instances of infringement, which also occurred prior to enactment of the 2009 Policy. Plaintiffs also argued that injunctive relief was appropriate as to Defendants under *Ex parte Young*, 209 U.S. 123, 28 S.Ct. 441, 52 L.Ed. 714 (1908), which permits prospective injunctive relief against state officers in their official capacities.

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### III.

#### A.

As an initial matter, we must dispose of Defendants’ contention that they are immune from suit pursuant to the Eleventh Amendment. Because this argument is outside the scope of Plaintiffs’ brief and was not raised by Defendants on cross-appeal, we find that the argument is not properly raised. As we have previously explained, “a party who has not appealed may not bring an argument in opposition to a judgment or attack the judgment in any respect, or hitch a ride on his adversary’s notice of appeal to enlarge his rights under the judgment or diminish those of the opposing party.” *Lawhorn v. Allen*, 519 F.3d 1272, 1286 n. 20 (11th Cir.2008) (citations omitted) (quotation marks omitted). An argument that the District Court’s ruling must be vacated because suit is barred by Eleventh Amendment immunity is not excepted from this rule. *Majette v. O’Connor*, 811 F.2d 1416, 1419 n. 3 (11th Cir.1987). Accordingly, we decline to address Defendants’ Eleventh Amendment argument.

#### B.

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How much unpaid use should be allowed is the bailiwick of the fair use doctrine. To further the purpose of copyright, we must provide for some fair use taking of copyrighted material. This may be viewed as a transaction cost, incidental to the business of authorship. But if we set this transaction cost too high by allowing too much taking, we run the risk of eliminating the economic incentive for the creation of original works that is at the core of copyright and—by driving creators out of the market—killing the proverbial goose that laid the golden egg.

Thus, the proper scope of the fair use doctrine in a given case boils down to an evidentiary question. As a conceptual matter, in making fair use determinations, we must conjure up a hypothetical perfect market for the work in question, consisting of the whole universe of those who might buy it, in which everyone involved has perfect knowledge of the value of the work to its author and to potential buyers, and excluding for the moment any potential fair uses of the work. Then, keeping in mind the purposes animating copyright law—the fostering of learning and the creation of new works—we must determine how much of that value the implied licensee-fair users can capture before the value of the remaining market is so diminished that it no longer makes economic sense for the author—or a subsequent holder of the copyright—to propagate the work in the first place.

In most instances, licensors (authors and copyright holders) and licensees (both paying licensees, and implied-by-law fair use licensees) will independently perform some version of this analysis in order to reach a mutually equitable arrangement. Ideally, a copyright holder will sell his or her works to buyers who pay the price that the market will bear and will routinely tolerate secondary uses which do not adversely impact that market. However, in the event of a disagreement, the copyright holder can file an infringement suit and the secondary user may invoke the fair use defense. In so doing, the parties essentially turn to a court to make a determination for them as to the appropriate boundaries of the secondary user's implied license.

The fair use doctrine, as codified by Congress, furnishes judges with a laboratory within which to work to answer this question. \*\*\*

In drafting § 107, Congress “resisted pressures from special interest groups to create presumptive categories of fair use, but structured the provision as an affirmative defense requiring a case-by-case analysis.” Harper & Row, 471 U.S. at 561, 105 S.Ct. at 2231 (citing H.R.Rep. No. 83, 90th Cong., 1st Sess., 37 (1967)). Accordingly, the fair use inquiry is a flexible one. The

four statutory factors provide courts with tools to determine—through a weighing of the four factors in light of the facts of a given case—whether a finding of fair use is warranted in that particular instance.

\* \* \* Furthermore, because fair use is an affirmative defense, its proponent bears the burden of proof in demonstrating that it applies. See *Campbell*, 510 U.S. at 590, 114 S.Ct. at 1177; *Harper & Row*, 471 U.S. at 561, 105 S.Ct. at 2231.

### C.

Before we turn to the District Court’s analysis of each of the four fair use factors, we must first address the District Court’s overarching fair use methodology. Plaintiffs make two broad arguments that the District Court’s methodology was flawed, only one of which is persuasive.

Plaintiffs contend that the District Court erred by performing a work-by-work analysis that focused on whether the use of each individual work was fair use rather than on the broader context of ongoing practices at GSU. We disagree. Fair use must be determined on a case-by-case basis, by applying the four factors to each work at issue. See *Campbell*, 510 U.S. at 577, 114 S.Ct. at 1170. Were we to accept Plaintiffs’ argument, the District Court would have no principled method of determining whether a nebulous cloud of infringements purportedly caused by GSU’s “ongoing practices” should be excused by the defense of fair use. Thus, we find that the District Court’s work-by-work approach—in which the District Court considered whether the fair use defense excused a representative sample of instances of alleged infringement in order to determine the need for injunctive relief—was the proper one.

Plaintiffs also argue that the District Court erred in giving each of the four factors equal weight, essentially taking a mechanical “add up the factors” approach, finding fair use if three factors weighed in favor of fair use and one against and vice versa, and only performing further analysis in case of a “tie.” We agree that the District Court’s arithmetic approach was improper.

Congress, in the Copyright Act, spoke neither to the relative weight courts should attach to each of the four factors nor to precisely how the factors ought to be balanced. However, the Supreme Court has explained that “the four statutory factors [may not] be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright.” *Id.* at 578, 114 S.Ct. at 1170–71. In keeping with this approach, a given factor may be more or less important in determining whether a particular use should be considered fair under the specific

circumstances of the case. See *id.* at 586, 114 S.Ct. at 1175 (noting that the second factor is generally not important in determining whether a finding of fair use is justified in the case of a parody). As such, the four factors “do not mechanistically resolve fair use issues.” *Harper & Row*, 471 U.S. at 588, 105 S.Ct. at 2245 (Brennan, J., dissenting). “Because [fair use] is not a mechanical determination, a party need not ‘shut-out’ her opponent on the four factor tally to prevail.” *Wright v. Warner Books, Inc.*, 953 F.2d 731, 740 (2d Cir.1991). Accordingly, we find that the District Court erred in giving each of the four factors equal weight, and in treating the four factors as a simple mathematical formula. As we will explain, because of the circumstances of this case, some of the factors weigh more heavily on the fair use determination than others.

#### D.

We now turn to the District Court’s analysis of each individual fair use factor. Although we have found that the District Court’s method for weighing the four factors against one another was erroneous, this does not mean that the District Court’s reasoning under each of the four factors is also necessarily flawed. Rather, we must determine the correct analysis under each factor and then ascertain whether the District Court properly applied that analysis.

Plaintiffs argue that the District Court erred in its application of each of the four fair use factors. Plaintiffs’ argument centers on a comparison of the circumstances of the instant case to those of the so-called “coursepack cases,” in which courts rejected a defense of fair use for commercial copyshops that assembled paper coursepacks containing unlicensed excerpts of copyrighted works for use in university courses.

In *Basic Books, Inc. v. Kinko’s Graphics Corp.*, publishing houses sued Kinko’s, a commercial copyshop, alleging that Kinko’s infringed the publishers’ copyrights when it copied excerpts from the publishers’ books, without permission and without payment of a license fee, and sold the copies for profit in bound, paper coursepacks to students for use in college courses. 758 F.Supp. 1522, 1526 (S.D.N.Y.1991). The District Court rejected Kinko’s claim that its use of the excerpts was fair use, and granted injunctive relief to the publishers.

Similarly, in *Princeton University Press v. Michigan Document Services, Inc.*, the Sixth Circuit upheld the District Court’s ruling that Michigan Document Services, a commercial copyshop, was not entitled to a fair use defense when it reproduced substantial portions of copyrighted academic works and sold the copies in bound, paper coursepacks to students for use in courses at the University of Michigan, without obtaining permission

from the copyright holder. 99 F.3d 1381, 1383 (6th Cir.1996) (en banc). The Sixth Circuit held that injunctive relief was therefore warranted.

In essence, Plaintiffs argue that the coursepack cases should have guided the District Court's analysis in this case, because GSU cannot alter the fair use calculus simply by choosing to distribute course readings in an electronic rather than paper format. In making this argument, Plaintiffs invoke the "media neutrality" principle, which "mandates that the 'transfer of a work between media does not alter the character of that work for copyright purposes.'" See *Greenberg v. Nat'l Geographic Soc.*, 533 F.3d 1244, 1257 (11th Cir.2008) (en banc) (quoting *N.Y. Times Co., Inc. v. Tasini*, 533 U.S. 483, 502, 121 S.Ct. 2381, 2392, 150 L.Ed.2d 500 (2001)).

Plaintiffs' reliance on the media neutrality doctrine is misplaced. Congress established that doctrine to ensure that works created with new technologies, perhaps not in existence at the time of the Copyright Act of 1976, would qualify for copyright protection. See *id.* (citing 17 U.S.C. § 102(a) ("Copyright protection subsists ... in original works of authorship fixed in any tangible medium of expression, now known or later developed...." (emphasis added))); see also H.R. Rep. No. 94-1476, at 52 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5665 ("This broad language is intended to avoid the artificial and largely unjustifiable distinctions ... under which statutory copyrightability in certain cases has been made to depend upon the form or medium in which the work is fixed."). The media neutrality doctrine concerns copyrightability and does not dictate the result in a fair use inquiry. Congress would not have intended this doctrine to effectively displace the flexible work-by-work fair use analysis in favor of a one dimensional analysis as to whether the case involves a transfer of a work between media.

Likewise, because the fair use analysis is highly fact-specific and must be performed on a work-by-work basis, see *Cariou*, 714 F.3d at 694, the coursepack cases provide guidance but do not dictate the results here, which must be based upon a careful consideration of the circumstances of the individual instances of alleged infringement involved in this case.

## 1.

The first fair use 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). The inquiry under the first factor has several facets, including (1) the extent to which the use is a "transformative" rather than merely superseding use of the original work and (2) whether the use is for a nonprofit educational purpose, as opposed to a commercial purpose "Before illumining these facets, however, we observe that the Supreme

Court has cautioned against the use of the facets to create ‘hard evidentiary presumption [s]’ or ‘categories of presumptively fair use.’” Id. (alteration in original) (citing *Campbell*, 510 U.S. at 584, 114 S.Ct. at 1174 (“[T]he mere fact that a use is educational and not for profit does not insulate it from a finding of infringement, any more than the commercial character of a use bars a finding of fairness.”)).

Our initial inquiry under the first factor asks whether Defendants’ use is transformative, i.e., “whether the new work merely supersede [s] 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.” *Campbell*, 510 U.S. at 579, 114 S.Ct. at 1171 (alteration in original) (citations omitted) (quotation marks omitted). For example, a parody transforms a work by appropriating elements of the work for purposes of comment or criticism, and thus “reflects transformative value because it ‘can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one.’” *Suntrust Bank*, 268 F.3d at 1271 (quoting *Campbell*, 510 U.S. at 579, 114 S.Ct. at 1171). A nontransformative use, on the other hand, is one which serves the same “overall function” as the original work.

Even verbatim copying “may be transformative so long as the copy serves a different function than the original work.” *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir.2007) (finding a search engine’s copying of website images in order to create an Internet search index transformative because the original works “serve[d] an entertainment, aesthetic, or informative function, [whereas the] search engine transforms the image into a pointer directing a user to a source of information”); *A.V. v. iParadigms, LLC*, 562 F.3d 630, 640 (4th Cir.2009) (finding use of student papers in an online plagiarism detection database transformative because the database used the papers not for their original purpose as schoolwork, but rather to automatically detect plagiarism in the works of other student authors); *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 609 (2d Cir.2006) (finding use by publishers of concert posters reproduced in full, although in reduced size, in a biography of a musical group transformative because the use was for historical and educational purposes, rather than advertising and informational purposes).

Allowing would-be fair users latitude for transformative uses furthers “the goal of copyright, to promote science and the arts.” See *Campbell*, 510 U.S. at 579, 114 S.Ct. at 1171. This is because transformative works possess a comparatively large share of the novelty copyright seeks to foster. At the same time, transformative uses are less likely, generally speaking, to negatively impact the original creator’s bottom line, because they do not “merely supersede the objects of the original creation” and therefore are

less likely to “‘supplant’ the market for the copyrighted work [by] ‘fulfilling demand for the original.’” See Peter Letterese & Assocs., 533 F.3d at 1310 (alteration omitted) (quoting Campbell, 510 U.S. at 579, 588, 114 S.Ct. at 1171, 1176).

Here, Defendants’ use of excerpts of Plaintiffs’ works is not transformative. The excerpts of Plaintiffs’ works posted on GSU’s electronic reserve system are verbatim copies of portions of the original books which have merely been converted into a digital format. Although a professor may arrange these excerpts into a particular order or combination for use in a college course, this does not imbue the excerpts themselves with any more than a de minimis amount of new meaning. See Princeton University Press, 99 F.3d at 1389 (“[I]f you make verbatim copies of 95 pages of a 316–page book, you have not transformed the 95 pages very much—even if you juxtapose them to excerpts from other works.”).

Nor do Defendants use the excerpts for anything other than the same intrinsic purpose—or at least one of the purposes—served by Plaintiffs’ works: reading material for students in university courses. Although an electronic reserve system may facilitate easy access to excerpts of Plaintiffs’ works, it does nothing to transform those works. But see Authors Guild, Inc. v. HathiTrust, 755 F.3d 87, 97 (2d Cir.2014) (holding that universities’ systematic digitization of copyrighted books was transformative because the digital copies were used to create a searchable database which supplied users with lists of page numbers and not with copies of the original works, and so the copies served a different purpose than the original works). Rather, Defendants’ use of excerpts of Plaintiffs’ works “supersede[s] the objects of the original creation.” See Campbell, 510 U.S. at 579, 114 S.Ct. at 1171 (alteration in original) (quotation marks omitted). Were this element by itself dispositive, we would be compelled to find that the first factor weighs against a finding of fair use.

However, we must also consider under the first factor whether Defendants’ use is for a nonprofit educational purpose, as opposed to a commercial purpose. “[T]he commercial or non-transformative uses of a work are to be regarded as ‘separate factor[s] that tend[ ] to weigh against a finding of fair use,’ and ‘the force of that tendency will vary with the context.’” Peter Letterese & Assocs., 533 F.3d at 1309 (alteration in original) (quoting Campbell, 510 U.S. at 585, 114 S.Ct. at 1174). Indeed, the Supreme Court has recognized in dicta that nonprofit educational use may weigh in favor of a finding of fair use under the first factor, even when nontransformative. Campbell, 510 U.S. at 579 n. 11, 114 S.Ct. at 1171 n. 11 (“The obvious statutory exception to this focus on transformative uses is the straight reproduction of multiple copies for classroom distribution.”).

Because “copyright has always been used to promote learning,” Suntrust Bank, 268 F.3d at 1261, allowing some leeway for educational fair use furthers the purpose of copyright by providing students and teachers with a means to lawfully access works in order to further their learning in circumstances where it would be unreasonable to require permission. But, as always, care must be taken not to allow too much educational use, lest we undermine the goals of copyright by enervating the incentive for authors to create the works upon which students and teachers depend.

In the coursepack cases, Princeton University Press, 99 F.3d at 1389, and Basic Books, 758 F.Supp. at 1531–32, the first factor weighed against a finding of fair use when the nontransformative, educational use in question was performed by a for-profit copyshop, and was therefore commercial. In a more recent case, a district court refused to allow a commercial copyshop to sidestep the outcome of the coursepack cases by requiring its student customers to perform the photocopying themselves (for a fee) when assembling paper coursepacks from master copies held by the copyshop. *Blackwell Publ'g, Inc. v. Excel Research Grp., LLC*, 661 F.Supp.2d 786, 794 (E.D.Mich.2009). In all three instances, the court refused to allow the defendants, who were engaged in commercial operations, to stand in the shoes of students and professors in claiming that their making of multiple copies of scholarly works was for nonprofit educational purposes.

However, in both of the coursepack cases, the courts expressly declined to conclude that the copying would fall outside the boundaries of fair use if conducted by professors, students, or academic institutions. See Princeton University Press, 99 F.3d at 1389 (“As to the proposition that it would be fair use for the students or professors to make their own copies, the issue is by no means free from doubt. We need not decide this question, however, for the fact is that the copying complained of here was performed on a profit-making basis by a commercial enterprise.”); Basic Books, 758 F.Supp. at 1536 n. 13 (“Expressly, the decision of this court does not consider copying performed by students, libraries, nor on-campus copyshops, whether conducted for-profit or not.”). In *Blackwell Publishing*, the District Court noted that, conversely, “the fact that students do the copying does not ipso facto mean that a commercial use cannot be found.” 661 F.Supp.2d at 793.

Furthermore, where we previously held that the first factor weighed against a finding of fair use in a case involving use that was nontransformative but educational, the use in question was commercial. *Peter Letterese & Assocs.*, 533 F.3d at 1309–12 (finding that the first factor weighed against a finding of fair use in a case involving the verbatim use of copyrighted material in an instructional coursepack for use by the Church of Scientology, where defendants charged a fee or obtained a

promissory note in exchange for the coursepacks and hence the use was for commercial purposes).

Thus, the question becomes whether Defendants' use of Plaintiffs' works is truly a nonprofit educational use under § 107(1), and if so, whether this places sufficient weight on the first factor scales to justify a finding that this factor favors fair use despite the nontransformativeness of Defendants' use.

GSU is a nonprofit educational institution. While this is relevant, our inquiry does not end there: we must consider not only the nature of the user, but the use itself. See *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 921–22 (2d Cir.1994) (“[A] court’s focus should be on the use of the copyrighted material and not simply on the user, [although] it is overly simplistic to suggest that the ‘purpose and character of the use’ can be fully discerned without considering the nature and objectives of the user.”).

Defendants' use of Plaintiffs' works in the teaching of university courses is clearly for educational purposes. Nevertheless, it is not entirely clear that use by a nonprofit entity for educational purposes is always a “nonprofit” use as contemplated by § 107(1). The Supreme Court has explained that “[t]he crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.” *Harper & Row*, 471 U.S. at 562, 105 S.Ct. at 2231. Plaintiffs point to several cases in which courts have found that educational use of copyrighted works by a nonprofit entity (or an individual associated with such an entity) was commercial even though the secondary user was not selling the items in question, in which “profit” took the form of an indirect economic benefit or a nonmonetary, professional benefit. See, e.g., *Soc'y of Holy Transfiguration Monastery, Inc. v. Gregory*, 689 F.3d 29, 61 (1st Cir.2012), cert. denied, — U.S. —, 133 S.Ct. 1315, 185 L.Ed.2d 195 (2013) (finding that the first factor weighed against fair use where an archbishop used copyrighted translations of a religious text on his website; although the use was educational, the archbishop profited from the use, in part, in the form of enhanced professional reputation); *Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d 1110, 1118 (9th Cir.2000) (finding the first factor weighed against fair use where a religious organization distributed copies of a copyrighted book for use in its religious observance; the use was nontransformative, and although the use was educational, the organization profited indirectly by using the work to attract new members who would tithe ten percent of their income); *Weissmann v. Freeman*, 868 F.2d 1313, 1324 (2d Cir.1989) (finding that the first factor weighed against fair use where a professor claimed an assistant's paper as his own work and copied it for use in his class, under

the professor's name, because the professor profited from the use by enhancing his professional reputation and gaining a valuable authorship credit).

Under this line of reasoning, Defendants' educational use of Plaintiffs' works is a for-profit use despite GSU's status as a nonprofit educational institution, and despite the fact that GSU does not directly sell access to Plaintiffs' works on Eres and uLearn. Defendants "exploited" Plaintiffs' copyrighted material for use in university courses without "paying the customary price"—a licensing fee. Defendants profited from the use of excerpts of Plaintiffs' works—however indirectly—because GSU collects money from students in the form of tuition and fees (which students pay in part for access to ERes and uLearn) and reduces its costs by avoiding fees it might have otherwise paid for the excerpts.

However, this reasoning is somewhat circular, and hence of limited usefulness to our fair use inquiry. Of course, any unlicensed use of copyrighted material profits the user in the sense that the user does not pay a potential licensing fee, allowing the user to keep his or her money. If this analysis were persuasive, no use could qualify as "nonprofit" under the first factor. Moreover, if the use is a fair use, then the copyright owner is not entitled to charge for the use, and there is no "customary price" to be paid in the first place.

Accordingly, evaluating the indirect profit GSU gained by refusing to pay to license Plaintiffs' works provides little useful guidance under the first factor. Simply put, the greater the amount of a work taken by the secondary user (or the more valuable the portion taken), the more the user "profits" by not paying for the use. Thus, the concern we have identified with profit in this sense is better dealt with under the third factor, which directs us to consider the amount of the original work that the secondary user appropriated, and the substantiality of the portion used.

Defendants' use of Plaintiffs' works does not provide GSU with a noneconomic but measurable professional benefit, such as an enhanced reputation. *Contra Soc'y of Holy Transfiguration Monastery*, 689 F.3d at 61. Although GSU students are likely pleased with the convenience of ERes and uLearn, there is no evidence that the presence of excerpts of Plaintiffs' works on these electronic reserve systems enhances GSU's reputation in any meaningful sense. There is no evidence that GSU gains any other measurable, indirect benefit by distributing Plaintiffs' works to students, such as a valuable authorship credit either. *Contra Weissmann*, 868 F.2d at 1324.

Ultimately, we agree with the Second Circuit's assessment that

[t]he commercial/nonprofit dichotomy concerns the unfairness that arises when a secondary user makes unauthorized use of copyrighted material to capture significant revenues as a direct consequence of copying the original work.

Consistent with these principles, courts will not sustain a claimed defense of fair use when the secondary use can fairly be characterized as a form of “commercial exploitation,” i.e., when the copier directly and exclusively acquires conspicuous financial rewards from its use of the copyrighted material. Conversely, courts are more willing to find a secondary use fair when it produces a value that benefits the broader public interest. The greater the private economic rewards reaped by the secondary user (to the exclusion of broader public benefits), the more likely the first factor will favor the copyright holder and the less likely the use will be considered fair. *Texaco*, 60 F.3d at 922 (2d Cir.1994) (citations omitted).

Although GSU certainly benefits from its use of Plaintiffs’ works by being able to provide the works conveniently to students, and profits in the sense that it avoids paying licensing fees, Defendants’ use is not fairly characterized as “commercial exploitation.” Even if Defendants’ use profits GSU in some sense, we are not convinced that this type of benefit is indicative of “commercial” use. There is no evidence that Defendants capture significant revenues as a direct consequence of copying Plaintiffs’ works. At the same time, the use provides a broader public benefit—furthering the education of students at a public university.

Thus, we find that Defendants’ use of Plaintiffs’ works is of the nonprofit educational nature that Congress intended the fair use defense to allow under certain circumstances. Furthermore, we find this sufficiently weighty that the first factor favors a finding of fair use despite the nontransformative nature of the use.

The text of the fair use statute highlights the importance Congress placed on educational use. The preamble to the statute provides that fair uses may include “teaching (including multiple copies for classroom use), scholarship, or research” and the first factor singles out “nonprofit educational purposes.” 17 U.S.C. § 107. The legislative history of § 107 further demonstrates that Congress singled out educational purposes for special consideration. In the years leading up to passage of the Copyright Act of 1976 (which introduced § 107), Congress devoted considerable attention to working out the proper scope of the fair use defense as applied to copying for educational and classroom purposes, going so far as to include in a final report the Classroom Guidelines developed by representatives of educator, author, and publisher groups at the urging of Congress. See H.R.Rep. No. 2237, at 59–66 (1966); S.Rep. No. 93–983, at

116–19 (1974); S.Rep. No. 94–473, at 63–65 (1975); H.R.Rep. No. 94–1476, at 66–70 (1976).

Notably, early drafts of § 107 did not include the parenthetical “including multiple copies for classroom use” or the specific direction to consider “whether [the] use is of a commercial nature or is for nonprofit educational purposes.” See S. 3008, H.R. 11947, H.R. 12354, 88th Cong. (1st Sess.1964); S. 1006, H.R. 4347, H.R. 5680, H.R. 6831, H.R. 6835, 89th Cong. (1st Sess.1965); S. 597, H.R. 2512, H.R. 5650, 90th Cong. (1st Sess.1967). This language was not inserted until one month before the passage of the Copyright Act of 1976. See S. 22, 94th Cong. (2d Sess.1976).

In sum, Congress devoted extensive effort to ensure that fair use would allow for educational copying under the proper circumstances and was sufficiently determined to achieve this goal that it amended the text of the statute at the eleventh hour in order to expressly state it. Furthermore, as described above, allowing latitude for educational fair use promotes the goals of copyright. Thus, we are persuaded that, despite the recent focus on transformativeness under the first factor, use for teaching purposes by a nonprofit, educational institution such as Defendants’ favors a finding of fair use under the first factor, despite the nontransformative nature of the use.

Accordingly, we find that the District Court did not err in holding that the first factor favors a finding of fair use. Nevertheless, because Defendants’ use of Plaintiffs’ works is nontransformative, the threat of market substitution is significant. We note that insofar as the first factor is concerned with uses that supplant demand for the original, this factor is “closely related” to “[t]he fourth fair use factor, the effect on the potential market for the work.” See Pac. & S. Co., 744 F.2d at 1496. We will thus revisit this concern when we analyze the fourth factor. See *infra* part III.D.4.

## 2.

The second fair use factor, “the nature of the copyrighted work,” 17 U.S.C. § 107(2), “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, 114 S.Ct. at 1175. The inquiry under the second factor generally focuses on two criteria. First, because works that are highly creative are closer to the core of copyright—that is, such works contain the most originality and inventiveness—the law affords such works maximal protection, and hence it is less likely that use of such works will be fair use.. In contrast, “[t]he law generally recognizes a greater need to

disseminate factual works than works of fiction or fantasy,” and so it is more likely that the use of a factual or informational work will be fair use. *Harper & Row*, 471 U.S. at 563, 105 S.Ct. at 2232; see also *Stewart v. Abend*, 495 U.S. 207, 237, 110 S.Ct. 1750, 1769, 109 L.Ed.2d 184 (1990). Second, because an “author’s right to control the first public appearance of his expression weighs against such use of the work before its release,” use of an unpublished work is less likely to be fair use. *Harper & Row*, 471 U.S. at 564, 105 S.Ct. at 2232. Because all of Plaintiffs’ works in question here are published, we will focus on the creative/factual distinction.

A paradigmatic example of a creative work, the use of which will disfavor fair use under the second factor, is “[a] motion picture based on a fictional short story.” *Abend*, 495 U.S. at 238, 110 S.Ct. at 1769. On the factual end of the spectrum, secondary use of a “bare factual compilation[ ]” favors fair use under the second factor. *Campbell*, 510 U.S. at 586, 114 S.Ct. at 1175 (citing *Feist*, 499 U.S. at 348–51, 111 S.Ct. at 1289–91). However, “[e]ven within the field of fact[ual] works, there are gradations as to the relative proportion of fact and fancy. One may move from sparsely embellished maps and directories to elegantly written biography.” *Harper & Row*, 471 U.S. at 563, 105 S.Ct. at 2232 (quoting Robert A. Gorman, *Fact or Fancy? The Implications for Copyright*, 29 J. Copyright Soc’y 560, 561 (1982)).

The coursepack cases—which involved copying of academic works similar to those involved here—reached opposite conclusions as to the effect of the second factor. Compare *Princeton Univ. Press*, 99 F.3d at 1389 (“[T]he excerpts copied for the coursepacks contained creative material, or ‘expression,’ it was certainly not telephone book listings that the defendants were reproducing. This factor ... cuts against a finding of fair use.”), with *Basic Books*, 758 F.Supp. at 1533 (“The books infringed in suit were factual in nature. This factor weighs in favor of defendant.”).

Nevertheless, relevant precedent indicates the proper approach. In *Harper & Row*, a publisher holding exclusive rights to President Ford’s unpublished memoirs sued *The Nation* magazine after *The Nation* published portions of the memoirs. 471 U.S. at 543, 105 S.Ct. at 2221–22. Although it focused on the unpublished nature of the memoir, the Court held that the second factor disfavored fair use in part because “The Nation did not stop at isolated phrases and instead excerpted subjective descriptions and portraits of public figures whose power lies in the author’s individualized expression. Such use, focusing on the most expressive elements of the work, exceeds that necessary to disseminate the facts.” Id. at 563–64, 105 S.Ct. at 2232.

In *Peter Letterese & Associates*, the holder of the copyright on a book about sales techniques sued several entities associated with the Church of

Scientology after the entities used portions of the book in materials prepared for Church training courses. 533 F.3d at 1294–96. We held that the second factor was neutral—i.e., did not weigh for or against fair use—in part because, although the book

[fell] roughly under the rubric of a factual work[.] ... [it] contain[ed] a significant “proportion of fact and fancy,” and not merely in the subjective selection and arrangement of sales techniques; [the author] utilize[d] original expression that surpasses the bare facts necessary to communicate the underlying technique. Although the techniques are presented by way of personal anecdote, it is hard to believe that such anecdotes feature actual persons and actual retellings of past events and conversations, as opposed to composite characters and experiences served with a healthy dose of fiction.

*Id.* at 1312–13.

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Here, the District Court held that “[b]ecause all of the excerpts are informational and educational in nature and none are fictional, fair use factor two weighs in favor of Defendants.” Cambridge Univ. Press, 863 F.Supp.2d at 1242. We disagree.

The District Court found that “[s]ome of the books [at issue] are not merely descriptive; they contain material of an evaluative nature, giving the authors’ perspectives and opinions.” *Id.* at 1226. Such material might involve “subjective descriptions [that rely on] the author’s individualized expression,” Harper & Row, 471 U.S. at 563, 105 S.Ct. at 2232, may “surpass[ ] the bare facts necessary to communicate the underlying” information, Peter Letterese & Assocs., 533 F.3d at 1312, or may be “derived from [the author’s] own experiences,” Rowley, 695 F.2d at 1176. Although there appears to be no evidence that any of the non-fiction works in question here are “served with a healthy dose of fiction,” neither are all of the works mere “factual compilation[s].” Peter Letterese & Assocs., 533 F.3d at 1312–13.

Defendants argue that GSU professors chose the excerpts of Plaintiffs’ works for their factual content, not for any expressive content the works may contain, noting that several professors testified that if the use of a particular excerpt was not a fair use, they would have found another source. Of course, other professors testified that they chose particular excerpts because of the author’s interpretative originality and significance. Regardless of whether GSU faculty chose the excerpts for their expressive

or factual content, the excerpts were copied wholesale—facts, ideas, and original expression alike. Which aspect the secondary user was interested in is irrelevant to the disposition of the second factor.

Accordingly, we find that the District Court erred in holding that the second factor favored fair use in every instance. Where the excerpts of Plaintiffs' works contained evaluative, analytical, or subjectively descriptive material that surpasses the bare facts necessary to communicate information, or derives from the author's experiences or opinions, the District Court should have held that the second factor was neutral, or even weighed against fair use in cases of excerpts that were dominated by such material. That being said, the second fair use factor is of relatively little importance in this case.

### 3.

The third fair use factor is “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.” 17 U.S.C. § 107(3). “[T]his third factor examines whether defendants have ‘helped themselves overmuch’ of the copyrighted work in light of the purpose and character of the use.” Peter Letterese & Assocs., 533 F.3d at 1314 (quoting *Campbell*, 510 U.S. at 587, 114 S.Ct. at 1175). Thus, this factor is intertwined with the first factor.

“[T]his factor is [also] intertwined with the fourth factor and partly functions as a heuristic to determine the impact on the market for the original.” Id. (footnote omitted). As we have explained,

A book reviewer who copies snippets of a book is likely to increase the demand for the book, but “were a book reviewer to quote the entire book in his review, or so much of the book as to make the review a substitute for the book itself, he would be cutting into the publisher’s market, and the defense of fair use would fail.” Id. (quoting *Ty, Inc. v. Publ’ns Int’l Ltd.*, 292 F.3d 512, 517 (7th Cir.2002)). Thus, “[t]he inquiry is whether the amount taken is reasonable in light of the purpose of the use and the likelihood of market substitution.” Id. at 1314 n. 30 (citing *Campbell*, 510 U.S. at 588, 114 S.Ct. at 1176).

In making this determination, we must consider “not only … the quantity of the materials used, but … their quality and importance, too.” *Campbell*, 510 U.S. at 587, 114 S.Ct. at 1175; see also *Harper & Row*, 471 U.S. at 565, 105 S.Ct. at 2233 (holding that the third factor disfavored fair use because the defendant copied a qualitatively substantial portion of the original work—“the most interesting and moving parts of the entire manuscript” or “the heart of the book”—even though the defendants copied only

approximately 300 words out of the 200,000 words in the plaintiffs' work (quotation marks omitted)).

Here, the District Court found that the third factor favored fair use in instances where Defendants copied no more than 10 percent of a work, or one chapter in case of a book with ten or more chapters. Cambridge Univ. Press, 863 F.Supp.2d at 1243. The District Court's blanket 10 percent-or-one-chapter benchmark was improper. The fair use analysis must be performed on a case-by-case/work-by-work basis. *Campbell*, 510 U.S. at 577, 114 S.Ct. at 1170; see *supra* discussion accompanying note 20. We must avoid "hard evidentiary presumption[s] ... and 'eschew[ ] a rigid, bright-line approach to fair use.'" *Campbell*, 510 U.S. at 584–85, 114 S.Ct. at 1174 (quoting *Sony*, 464 U.S. at 449 n. 31, 104 S.Ct. at 792 n. 31). By holding that the third factor favored fair use whenever the amount of copying fell within a 10 percent-or-one-chapter baseline, the District Court abdicated its duty to analyze the third factor for each instance of alleged infringement individually.

Defendants argue that the District Court's 10 percent-or-one-chapter baseline served as a starting point only. However, this "starting point" in fact served as a substantive safe harbor in the third factor analysis, an approach which is incompatible with the prescribed work-by-work analysis. Even if we consider the baseline as a starting point only, application of the same non-statutory starting point to each instance of infringement is not a feature of a proper work-by-work analysis under the third fair use factor.

Defendants also argue that the District Court's 10 percent-or-one-chapter approach is supported by the record. Defendants' explain that a CCC white paper, *Using Electronic Reserves: Guidelines and Best Practices for Copyright Compliance* (2011), identifies "best practices" for electronic reserves, stating that electronic reserve materials should be limited to "small excerpts" and that "[m]ost experts advise using a single article or ... chapter of a copyrighted work...." See Defendants' Trial Ex. 906, at 2. However, even if we accept that the 10 percent-or-one-chapter approach represents a general industry "best practice" for electronic reserves, this is not relevant to an individualized fair use analysis.

Plaintiffs offer four additional critiques of the District Court's analysis under the third factor. First, Plaintiffs argue that the District Court erred in focusing its inquiry on whether the amount copied suited GSU's pedagogical purposes. \*\*\*. Thus, we find that the District Court properly took into account whether the amount copied suited GSU's pedagogical purposes.

Second, Plaintiffs argue that the District Court erred in measuring the amount taken based on the length of the entire book even where the copied material was an independently authored chapter in an edited volume. Rather, Plaintiffs contend, the relevant “work” in the case of an edited volume is the chapter copied, not the entire book; to conclude otherwise would create the anomalous result that a work bound with other works in an edited volume would enjoy less copyright protection than if the same work were published in a journal. See Texaco, 60 F.3d at 926 (treating individual articles in a journal as discrete works of authorship for purposes of third factor analysis).

As noted earlier, the District Court declined to consider this argument because Plaintiffs raised it late in the proceedings. The decision whether to hear an argument raised late in litigation is squarely within the discretion of the District Court. \*\*\*

Third, Plaintiffs argue that the copying permitted by the District Court exceeds the amounts outlined in the Classroom Guidelines. We note that the Classroom Guidelines, although part of the legislative history of the Copyright Act, do not carry force of law. In any case, to treat the Classroom Guidelines as indicative of what is allowable would be to create the type of “hard evidentiary presumption” that the Supreme Court has cautioned against, because fair use must operate as a “‘sensitive balancing of interests.’” Campbell, 510 U.S. at 584, 114 S.Ct. at 1174 (quoting Sony, 464 U.S. at 455, n. 40, 104 S.Ct. at 795, n. 40). As discussed, the fair use analysis must be performed on a work-by-work basis, and so we must not give undue weight to the amounts of copying set forth in the Classroom Guidelines.

Furthermore, although Plaintiffs characterize the amounts set forth in the Classroom Guidelines as “limits,” the Classroom Guidelines were intended to suggest a minimum, not maximum, amount of allowable educational copying that might be fair use, and were not intended to limit fair use in any way:

The purpose of the [Classroom] [G]uidelines is to state the minimum and not the maximum standards of educational fair use....

Moreover, the following statement of guidelines is not intended to limit the types of copying permitted under the standards of fair use under judicial decision and which are stated in Section 107 of the Copyright Revision Bill. H.R.Rep. No. 94–1476, at 68 (1976), reprinted in U.S.C.C.A.N. 5659, 5681. Thus, while the Classroom Guidelines may be seen to represent Congress’ tentative view of the permissible amount of educational copying in 1976, we are not persuaded by the Plaintiffs’ argument that the Classroom Guidelines should control the analysis under factor three in this case.

Finally, Plaintiffs argue that the District Court allowed excessive taking as a percentage of the entire book compared to the amounts held to be “over the line” in the coursepack cases. \*\*\*

We first note that the coursepack cases are not binding authority on this Court. Furthermore, because the four factors must be “weighed together” and not “treated in isolation,” Campbell, 510 U.S. at 578, 114 S.Ct. at 1171, it is appropriate for the District Court to take the educational purpose of the use into consideration when analyzing how much copying is permissible under the third factor. This must be done on a work-by-work basis in a case such as this. While this type of analysis necessarily precludes hard-and-fast evidentiary presumptions, the wholesale reproduction of an entire work will not generally be considered fair unless the use is highly transformative.

Accordingly, we find that the District Court properly considered whether the individual instances of alleged infringement were excessive in relation to Defendants’ pedagogical purpose, properly measured the amounts taken in all cases based on the length of the entire book, and properly declined to tie its analysis under the third factor to the Classroom Guidelines or to the coursepack cases. However, we find that the District Court erred in applying a 10 percent-or-one-chapter safe harbor in its analysis of the individual instances of alleged infringement. The District Court should have analyzed each instance of alleged copying individually, considering the quantity and the quality of the material taken—including whether the material taken constituted the heart of the work—and whether that taking was excessive in light of the educational purpose of the use and the threat of market substitution.

#### 4.

The fourth fair use factor is “the effect of the use upon the potential market for or value of the copyrighted work.” 17 U.S.C. § 107(4). “We must consider two inquiries: (1) ‘the extent of the market harm caused by the particular actions of the alleged infringer,’ and (2) ‘whether unrestricted and widespread conduct of the sort engaged in by the defendant [] would result in a substantially adverse impact on the potential market.’ ” Peter Letterese & Assocs., 533 F.3d at 1315 (alteration in original) (quoting Campbell, 510 U.S. at 590, 114 S.Ct. at 1177 (quotation marks omitted)). The adverse impact we are “primarily concerned [with] is that of market substitution.” Id.; see also Harper & Row, 471 U.S. at 568, 105 S.Ct. at 2235 (explaining that the fourth factor is concerned with “use that supplants any part of the normal market for a copyrighted work” (quoting S.Rep. No. 94–473, at 65 (1975))). Furthermore, “[m]arket harm is a matter of degree, and

the importance of [the fourth] factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors.” Campbell, 510 U.S. at 590 n. 21, 114 S.Ct. at 1177 n. 21. Because Defendants’ use is nontransformative and fulfills the educational purposes that Plaintiffs, at least in part, market their works for, the threat of market substitution here is great and thus the fourth factor looms large in the overall fair use analysis.

The central question under the fourth factor is not whether Defendants’ use of Plaintiffs’ works caused Plaintiffs to lose some potential revenue. Rather, it is whether Defendants’ use—taking into account the damage that might occur if “everybody did it”—would cause substantial economic harm such that allowing it would frustrate the purposes of copyright by materially impairing Defendants’ incentive to publish the work. See Harper & Row, 471 U.S. at 566–67, 105 S.Ct. at 2234 (“Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied.” (emphasis added) (quotation marks omitted)).

We agree with the District Court that the small excerpts Defendants used do not substitute for the full books from which they were drawn. “Plaintiffs offered no trial testimony or evidence showing that they lost any book sales in or after 2009 on account of any actions by anyone at Georgia State.” Cambridge Univ. Press, 863 F.Supp.2d at 1217. Thus, the District Court did not err in finding that “Defendants’ use of small excerpts did not affect Plaintiffs’ actual or potential sales of books.” Id. at 1236.

However, CCC’s various programs for academic permissions—and Plaintiffs’ own permissions programs—constitute a workable market through which universities like GSU may purchase licenses to use excerpts of Plaintiffs’ works. Plaintiffs contend that, by failing to purchase digital permissions to use excerpts of Plaintiffs’ works on ERes and uLearn, Defendants caused substantial harm to the market for licenses, and that widespread adoption of this practice would cause substantial harm to the potential market. Plaintiffs also argue that, even if a license for a digital excerpt of a work was unavailable, this should not weigh in favor of fair use because the copyright owner is not obliged to accommodate prospective users.

Defendants argue that, because permissions income for academic books represents a minuscule percentage of Plaintiffs’ overall revenue, Defendants’ practices have not caused substantial harm to the market for Plaintiffs works, and would not do so even if widely adopted. Defendants further argue that unavailability of licensing opportunities for particular works should weigh in favor of fair use.

We note that it is not determinative that programs exist through which universities may license excerpts of Plaintiffs' works. In other words, the fact that Plaintiffs have made paying easier does not automatically dictate a right to payment. “[A] copyright holder can always assert some degree of adverse [effect] on its potential licensing revenues as a consequence of the secondary use at issue simply because the copyright holder has not been paid a fee to permit that particular use.” Texaco, 60 F.3d at 929 n. 17 (citations omitted). The goal of copyright is to stimulate the creation of new works, not to furnish copyright holders with control over all markets. Accordingly, the ability to license does not demand a finding against fair use.

Nevertheless, “it is sensible that a particular unauthorized use should be considered ‘more fair’ when there is no ready market or means to pay for the use, while such an unauthorized use should be considered ‘less fair’ when there is a ready market or means to pay for the use. The vice of circular reasoning arises only if the availability of payment is conclusive against fair use.” Id. at 931. Put simply, absent evidence to the contrary, if a copyright holder has not made a license available to use a particular work in a particular manner, the inference is that the author or publisher did not think that there would be enough such use to bother making a license available. In such a case, there is little damage to the publisher’s market when someone makes use of the work in that way without obtaining a license, and hence the fourth factor should generally weigh in favor of fair use. This is true of Plaintiffs’ works for which no license for a digital excerpt was available.

Plaintiffs argue that even though a use is less fair when licensing is readily available, it does not follow that a use becomes more fair if, for a legitimate reason, the copyright holder has not offered to license the work. Plaintiffs cite several cases which have found that the fourth factor weighs against fair use even though the copyright holder was not actively marketing the work in question because the secondary use negatively impacted the potential market for the work. We note that our own precedent also supports this theory in some circumstances. See Pac. & S. Co., 744 F.2d at 1496 (finding harm to the potential market for plaintiff’s news broadcasts where a defendant videotaped the broadcasts and sold tapes to the subjects of the news reports because “[c]opyrights protect owners who immediately market a work no more stringently than owners who delay before entering the market” and so “[t]he fact that [the plaintiff] does not actively market copies of the news programs does not matter, for Section 107 looks to the ‘potential market’ in analyzing the effects of an alleged infringement”). However, this reasoning need not dictate the result in this case, which concerns not the market for Plaintiffs’ original works themselves or for

derivative works based upon those works, but rather a market for licenses to use Plaintiffs' works in a particular way. As previously explained, licensing poses a particular threat that the fair use analysis will become circular, and Plaintiffs may not head off a defense of fair use by complaining that every potential licensing opportunity represents a potential market for purposes of the fourth fair use factor.

An analogy is helpful. A publisher acts like a securities underwriter. A publisher determines the value of a work, which is set by the anticipated demand for the work. Thus, the greater the demand for the work—the greater the market—the more the publisher will pay the author of the work up front, and the more the publisher will endeavor to make the work widely available. If a publisher makes licenses available for some uses but not for others, this indicates that the publisher has likely made a reasoned decision not to enter the licensing market for those uses, which implies that the value of that market is minimal.

With regard to the works for which digital permissions were unavailable, Plaintiffs choose to enter those works into some markets—print copies of the whole work, or perhaps licenses for paper copies of excerpts—but not the digital permission market. This tells us that Plaintiffs likely anticipated that there would be little to no demand for digital excerpts of the excluded works and thus saw the value of that market as de minimis or zero. If the market for digital excerpts were in fact de minimis or zero, then neither Defendants' particular use nor a widespread use of similar kind would be likely to cause significant market harm. Of course, if publishers choose to participate in the market the calculation will change. In its individual analysis under the fourth factor of each of the forty-eight works for which it found Plaintiffs had made a *prima facie* case of infringement, the District Court performed a sufficiently nuanced review of the evidence regarding license availability. Where the evidence showed that there was a ready market for digital excerpts of a work in 2009, the time of the purported infringements, the District Court found that there was small—due to the amount of money involved—but actual damage to the value of Plaintiffs' copyright. The District Court also properly took into account that widespread use of similar unlicensed excerpts could cause substantial harm to the potential market. Thus, where there was a license for digital excerpts available, the District Court generally held that the fourth factor weighed against a finding of fair use. In close cases, the District Court went further and examined the amount of permissions income a work had generated in order to determine how much this particular revenue source contributed to the value of the copyright in the work, noting that where there is no significant demand for excerpts, the likelihood of repetitive unpaid use is diminished. Where there was no evidence in the record to show that a license for digital excerpts was

available—as was the case for seventeen works published by Oxford and Cambridge—the District Court held that the fourth factor weighted in favor of fair use. We find that the District Court’s analysis under the fourth factor was correct, and that the District Court properly took license availability into account in determining whether the fourth factor weighted for or against fair use.

Plaintiffs argue that the District Court erred by placing the burden on Plaintiffs to show that digital licenses for the particular works in question were reasonably available through CCC in 2009. Cognizant that fair use is an affirmative defense, the District Court kept the overall burden on Defendants to show that “no substantial damage was caused to the potential market for or the value of Plaintiffs’ works” in order to prevail on the question of whether the fourth factor should favor fair use. Cambridge Univ. Press, 863 F.Supp.2d at 1237. However, the District Court found that because Plaintiffs were “advocates of the theory that the availability of licenses shifts the factor four fair use analysis in their favor ... it is appropriate for them to be called upon to show that CCC provided in 2009 reasonably efficient, reasonably priced, convenient access to the particular excerpts which are in question in this case.” Id. Plaintiffs argue that this amounted to relieving the Defendants of their burden of proof on the fourth factor.

We disagree. Fair use is an affirmative defense, and the evidentiary burden on all four of its factors rests on the alleged infringer. See *Campbell*, 510 U.S. at 590, 114 S.Ct. at 1177. However, Plaintiffs—as publishers—can reasonably be expected to have the evidence as to availability of licenses for their own works. It is therefore reasonable to place on Plaintiffs the burden of going forward with the evidence on this question.

\*\*\* This is reasonable, because if a license was available during the relevant time period, Plaintiffs can rebut the presumption of no market by going forward with evidence of license availability. If there is evidence of a potential, future market, Plaintiffs can rebut the presumption by going forward with that. Then, Defendants—retaining the overall burden of persuasion on the fourth factor—must demonstrate that their use does not materially impair the existing or potential market in order to prevail.

Although the District Court did not articulate its approach to the evidentiary burden on license availability in exactly this manner, the District Court did essentially what we have described. The District Court required Plaintiffs to put on evidence as to the availability of digital permissions in 2009, and Plaintiffs provided such evidence for some of the works in question but not for others. For those seventeen works for which Plaintiffs presented no evidence that digital permissions were available, the District Court—noting that, because access was limited to particular

classes, it was unlikely that Defendants' use would result in exposure of the works to the general public and so there was little risk of widespread market substitution for excerpts of the works—held that there was no harm to the actual or potential market. For those works for which Plaintiffs demonstrated that digital permissions were available, the District Court considered the evidence demonstrating that the actual harm to the value of Plaintiffs' copyright was minor (because the fees Defendants would have paid for a small number of licenses for the works in question amounted to a relatively small amount), but reasonably concluded that widespread conduct of the sort engaged in by Defendants would cause substantial harm. Thus, although the District Court required Plaintiffs to go forward with evidence of license availability, the District Court properly kept the ultimate burden of persuasion on Defendants on the question of market harm under the fourth factor. Accordingly, the District Court did not engage in improper burden shifting.

Finally, Plaintiffs argue that the District Court erred in finding that digital licenses for many of the works in question were unavailable in 2009. Plaintiffs point to the joint exhibit enumerating the allegations of infringement which were to be the basis of the trial, filed on March 15, 2011. Plaintiffs note that this document identified what it would have cost in 2009 to license each of the works at issue through CCC. Defendants, however, argue that the joint exhibit merely depicts what the permission fee for each work might have been using the standard per-page rates charged by CCC for each publisher. The District Court accepted this argument, noting that “[t]he fact that a license to copy an excerpt of an individual work would have cost a particular amount is not a substitute for evidence that the license was actually available.”

Given the evidence in the record, it was reasonable for the District Court to find that a lack of direct evidence of availability indicated that licenses were unavailable. Cambridge's representative testified that Cambridge does not allow excerpts of certain categories of books to be licensed through CCC, including reference and language books (as several of the works at issue here are). Representatives of Oxford, Cambridge, and CCC testified, but did not explain whether digital licenses for excerpts were available in 2009 for the books at issue in this case.<sup>37</sup> The District Court also noted that the record shows that Cambridge and Oxford have been reluctant to make digital excerpts available. Thus, the District Court's findings of fact regarding license availability are not clearly erroneous.

The District Court engaged in a careful investigation of the evidence in the record, properly considered the availability of digital permissions in 2009, and appropriately placed the burden of going forward with the evidence on this issue on Plaintiffs. Accordingly, we find that the District Court did not

err in its application of the fourth factor. However, because Defendants' copying was nontransformative and the threat of market substitution was therefore serious, the District Court erred by not affording the fourth factor additional weight in its overall fair use calculus.

5.

The District Court enumerated two additional, purportedly non-statutory considerations which it held favored fair use: (1) that “[l]imited unpaid copying of excerpts will not deter academic authors from creating new academic works,” and (2) that “[t]he slight limitation of permissions income caused by the fair use authorized by this Order will not appreciably diminish Plaintiffs’ ability to publish scholarly works and will promote the spread of knowledge.” Id. at 1240. Although it is within the District Court’s discretion to go beyond the considerations set forth in the four factors, see Harper & Row, 471 U.S. at 549, 105 S.Ct. at 2225 (explaining that the four statutory fair use factors are nonexclusive), the District Court’s supplemental considerations are not actually supplemental, and as such should have instead been considered within the existing statutory framework.

The District Court’s first additional consideration was more properly considered under the first fair use factor—“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). Nonprofit educational uses are more likely to be fair because they promote the ultimate aims of copyright—the creation and dissemination of knowledge. Both of these aims must be kept in mind when evaluating a claim of fair use. Thus, whether the limited unpaid copying of excerpts will deter academic authors from creating is relevant. Nevertheless, it is the publishers—not academic authors—that are the holders of the copyrights at issue here. Publishers—not authors—are claiming infringement. Thus, when determining whether Defendants’ unpaid copying should be excused under the doctrine of fair use in this case, we are primarily concerned with the effect of Defendants’ copying on Plaintiffs’ incentive to publish, not on academic authors’ incentive to write.

The District Court’s second additional consideration may be divided into two findings. First, the District Court found that a slight diminution of Plaintiffs’ permissions income caused by Defendants’ fair use would not appreciably harm Plaintiffs’ ability to publish scholarly works. However, this consideration is adequately dealt with under the fourth factor, which, as we have explained, asks whether the market harm caused by Defendants’ unpaid copying will materially impair Plaintiffs’ incentive to publish.

Second, the District Court found that that “it is consistent with the principles of copyright to apply the fair use doctrine in a way that promotes the dissemination of knowledge, and not simply its creation,” and treated this as a basis to allow the slight diminution of Plaintiffs’ permissions income caused by Defendants’ unpaid copying. Cambridge Univ. Press, 863 F.Supp.2d at 1241. We agree with the proposition that applying fair use in a manner which promotes the dissemination of knowledge is consistent with the goals of copyright. See *Golan v. Holder*, — U.S. —, 132 S.Ct. 873, 888, 181 L.Ed.2d 835 (2012) (explaining that the Progress of Science, which Congress is empowered to promote pursuant to the Copyright Clause, “refers broadly to the creation and spread of knowledge and learning” (emphasis added) (quotation marks omitted)). However, all unpaid copying could be said to promote the spread of knowledge, so this principal is not particularly helpful in “separating the fair use sheep from the infringing goats.” See *Campbell*, 510 U.S. at 586, 114 S.Ct. at 1175. To the extent that it is relevant here, this consideration is more neatly dealt with under the first factor, which teaches that educational uses—which certainly promote the dissemination of knowledge—are more likely to be fair.

Accordingly, we hold that the District Court erred by separating the following considerations from its analysis of the first and fourth factors: (1) whether limited unpaid copying of excerpts will deter authors from creating new academic works, and (2) whether the slight limitation of permissions income caused by Defendants’ use would promote the spread of knowledge and would not appreciably diminish Plaintiffs’ ability to publish scholarly works

#### E.

In sum, we hold that the District Court did not err in performing a work-by-work analysis of individual instances of alleged infringement in order to determine the need for injunctive relief. However, the District Court did err by giving each of the four fair use factors equal weight, and by treating the four factors mechanistically. The District Court should have undertaken a holistic analysis which carefully balanced the four factors in the manner we have explained.

The District Court did not err in holding that the first factor—the purpose and character of the use—favors fair use. Although Defendants’ use was nontransformative, it was also for nonprofit educational purposes, which are favored under the fair use statute. However, the District Court did err in holding that the second fair use factor—the nature of the copyrighted work—favors fair use in every case. Though this factor is of comparatively

little weight in this case, particularly because the works at issue are neither fictional nor unpublished, where the excerpt in question contained evaluative, analytical, or subjectively descriptive material that surpasses the bare facts, or derive from the author's own experiences or opinions, the District Court should have held that the second factor was neutral or even weighed against fair use where such material dominated.

With regard to the third factor—the amount used in relation to the copyrighted work as a whole—the District Court erred in setting a 10 percent-or-one-chapter benchmark. The District Court should have performed this analysis on a work-by-work basis, taking into account whether the amount taken—qualitatively and quantitatively—was reasonable in light of the pedagogical purpose of the use and the threat of market substitution. However, the District Court appropriately measured the amount copied based on the length of the entire book in all cases, declined to give much weight to the Classroom Guidelines, and found that the Defendants' educational purpose may increase the amount of permissible copying.

With regard to the fourth factor—the effect of Defendants' use on the market for the original—the District Court did not err. However, because Defendants' unpaid copying was nontransformative and they used Plaintiffs' works for one of the purposes for which they are marketed, the threat of market substitution is severe. Therefore, the District Court should have afforded the fourth fair use factor more significant weight in its overall fair use analysis. Finally, the District Court erred by separating two considerations from its analysis of the first and fourth fair use factors, as described above *supra* part III.D.5.

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Accordingly, we REVERSE the judgment of the District Court. We VACATE the injunction, declaratory relief, and award of fees and costs to Defendants, and REMAND for further proceedings consistent with this opinion.

## THE AUTHORS GUILD V. GOOGLE, INC.

United States Court of Appeals, Second Circuit

Oct. 16, 2015

804 F.3d 202

[LEVAL](#), Circuit Judge:

This copyright dispute tests the boundaries of fair use. Plaintiffs, who are authors of published books under copyright, sued Google, Inc. (“Google”) for copyright infringement in the United States District Court for the Southern District of New York (Chin, *J.*). They appeal from the grant of summary judgment in Google’s favor. Through its Library Project and its Google Books project, acting without permission of rights holders, Google has made digital copies of tens of millions of books, including Plaintiffs’, that were submitted to it for that purpose by major libraries. Google has scanned the digital copies and established a publicly available search function. An Internet user can use this function to search without charge to determine whether the book contains a specified word or term and also see “snippets” of text containing the searched-for terms. In addition, Google has allowed the participating libraries to download and retain digital copies of the books they submit, under agreements which commit the libraries not to use their digital copies in violation of the copyright laws. These activities of Google are alleged to constitute infringement of Plaintiffs’ copyrights. Plaintiffs sought injunctive and declaratory relief as well as damages.

Google defended on the ground that its actions constitute “fair use,” which, under [17 U.S.C. § 107](#), is “not an infringement.” The district court agreed. Plaintiffs brought this appeal.

Plaintiffs contend the district court’s ruling was flawed in several respects. They argue: (1) Google’s digital copying of entire books, allowing users through the snippet function to read portions, is not a “transformative use” within the meaning of *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578–585, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994), and provides a substitute for Plaintiffs’ works; (2) notwithstanding that Google provides public access to the search and snippet functions without charge and without advertising, its ultimate commercial profit motivation and its derivation of revenue from its dominance of the world-wide Internet search market to which the books project contributes, preclude a finding of fair use; (3) even if Google’s copying and revelations of text do not infringe plaintiffs’ *books*, they infringe Plaintiffs’ *derivative rights* in search functions, depriving Plaintiffs of revenues or other benefits they would gain from licensed search markets; (4) Google’s storage of digital copies exposes Plaintiffs to the risk that hackers will make their books freely (or cheaply) available on the Internet, destroying the value of their copyrights; and (5) Google’s distribution of digital copies to participant libraries is not a transformative use, and it subjects Plaintiffs to the risk of loss of copyright revenues through access allowed by libraries. We reject these arguments and conclude that the district court correctly sustained Google’s fair use defense.

Google’s making of a digital copy to provide a search function is a transformative use, which augments public knowledge by making available information *about* Plaintiffs’ books without providing the public with a substantial substitute for matter protected by the Plaintiffs’ copyright

interests in the original works or derivatives of them. The same is true, at least under present conditions, of Google's provision of the snippet function. Plaintiffs' contention that Google has usurped their opportunity to access paid and unpaid licensing markets for substantially the same functions that Google provides fails, in part because the licensing markets in fact involve very different functions than those that Google provides, and in part because an author's derivative rights do not include an exclusive right to supply information (of the sort provided by Google) about her works. Google's profit motivation does not in these circumstances justify denial of fair use. Google's program does not, at this time and on the record before us, expose Plaintiffs to an unreasonable risk of loss of copyright value through incursions of hackers. Finally, Google's provision of digital copies to participating libraries, authorizing them to make non-infringing uses, is non-infringing, and the mere speculative possibility that the libraries might allow use of their copies in an infringing manner does not make Google a contributory infringer. Plaintiffs have failed to show a material issue of fact in dispute.

We affirm the judgment.

## BACKGROUND

### I. Plaintiffs

The author-plaintiffs are Jim Bouton, author of *Ball Four*; Betty Miles, author of *The Trouble with Thirteen*; and Joseph Goulden, author of *The Superlawyers: The Small and Powerful World of the Great Washington Law Firms*. Each of them has a legal or beneficial ownership in the copyright for his or her book. Their books have been scanned without their permission by Google, which made them available to Internet users for search and snippet view on Google's website.

### II. Google Books and the Google Library Project

Google's Library Project, which began in 2004, involves bi-lateral agreements between Google and a number of the world's major research libraries. Under these agreements, the participating libraries select books from their collections to submit to Google for inclusion in the project. Google makes a digital scan of each book, extracts a machine-readable text, and creates an index of the machine-readable text of each book. Google retains the original scanned image of each book, in part so as to improve the accuracy of the machine-readable texts and indices as image-to-text conversion technologies improve.

Since 2004, Google has scanned, rendered machine-readable, and indexed more than 20 million books, including both copyrighted works and works in the public domain. The vast majority of the books are non-fiction, and most are out of print. All of the digital information created by Google in the process is

stored on servers protected by the same security systems Google uses to shield its own confidential information.

The digital corpus created by the scanning of these millions of books enables the Google Books search engine. Members of the public who access the Google Books website can enter search words or terms of their own choice, receiving in response a list of all books in the database in which those terms appear, as well as the number of times the term appears in each book. A brief description of each book, entitled “About the Book,” gives some rudimentary additional information, including a list of the words and terms that appear with most frequency in the book. It sometimes provides links to buy the book online and identifies libraries where the book can be found. The search tool permits a researcher to identify those books, out of millions, that do, as well as those that do not, use the terms selected by the researcher. Google notes that this identifying information instantaneously supplied would otherwise not be obtainable in lifetimes of searching.

No advertising is displayed to a user of the search function. Nor does Google receive payment by reason of the searcher’s use of Google’s link to purchase the book.

The search engine also makes possible new forms of research, known as “text mining” and “data mining.” Google’s “ngrams” research tool draws on the Google Library Project corpus to furnish statistical information to Internet users about the frequency of word and phrase usage over centuries. This tool permits users to discern fluctuations of interest in a particular subject over time and space by showing increases and decreases in the frequency of reference and usage in different periods and different linguistic regions. It also allows researchers to comb over the tens of millions of books Google has scanned in order to examine “word frequencies, syntactic patterns, and thematic markers” and to derive information on how nomenclature, linguistic usage, and literary style have changed over time. The district court gave as an example “track[ing] 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 Google Books search function also allows the user a limited viewing of text. In addition to telling the number of times the word or term selected by the searcher appears in the book, the search function will display a maximum of three “snippets” containing it. A snippet is a horizontal segment comprising ordinarily an eighth of a page. Each page of a conventionally formatted book in the Google Books database is divided into eight non-overlapping horizontal segments, each such horizontal segment being a snippet. (Thus, for such a book with 24 lines to a page, each snippet is comprised of three lines of text.) Each search for a particular word or term within a book will reveal the same three snippets, regardless of the number of computers from which the search is launched. Only the first usage of the term on a given page is displayed. Thus,

if the top snippet of a page contains two (or more) words for which the user searches, and Google's program is fixed to reveal that particular snippet in response to a search for either term, the second search will duplicate the snippet already revealed by the first search, rather than moving to reveal a different snippet containing the word because the first snippet was already revealed. Google's program does not allow a searcher to increase the number of snippets revealed by repeated entry of the same search term or by entering searches from different computers. A searcher can view more than three snippets of a book by entering additional searches for different terms. However, Google makes permanently unavailable for snippet view one snippet on each page and one complete page out of every ten—a process Google calls "blacklisting."

Google also disables snippet view entirely for types of books for which a single snippet is likely to satisfy the searcher's present need for the book, such as dictionaries, cookbooks, and books of short poems. Finally, since 2005, Google will exclude any book altogether from snippet view at the request of the rights holder by the submission of an online form.

Under its contracts with the participating libraries, Google allows each library to download copies—of both the digital image and machine-readable versions—of the books that library submitted to Google for scanning (but not of books submitted by other libraries). This is done by giving each participating library access to the Google Return Interface ("GRIN"). The agreements between Google and the libraries, although not in all respects uniform, require the libraries to abide by copyright law in utilizing the digital copies they download and to take precautions to prevent dissemination of their digital copies to the public at large. Through the GRIN facility, participant libraries have downloaded at least 2.7 million digital copies of their own volumes.

### **III. Procedural History**

Plaintiffs brought this suit on September 20, 2005, as a putative class action on behalf of similarly situated, rights-owning authors. After several years of negotiation, the parties reached a proposed settlement that would have resolved the claims on a class-wide basis. The proposed settlement allowed Google to make substantially more extensive use of its scans of copyrighted books than contemplated under the present judgment, and provided that Google would make payments to the rights holders in return. On March 22, 2011, however, the district court rejected the proposed settlement as unfair to the class members who relied on the named plaintiffs to represent their interests.

On October 14, 2011, Plaintiffs filed a fourth amended class action complaint, which is the operative complaint for this appeal. The district court certified a class on May 31, 2012. Google appealed from the certification, and moved in

the district court for summary judgment on its fair use defense. Plaintiffs cross-moved in the district court for summary judgment. On the appeal from the class certification, our court—questioning whether it was reasonable to infer that the putative class of authors favored the relief sought by the named plaintiffs—provisionally vacated that class certification without addressing the merits of the issue, concluding instead that “resolution of Google’s fair use defense in the first instance will necessarily inform and perhaps moot our analysis of many class certification issues.” *Authors Guild, Inc. v. Google Inc.*, 721 F.3d 132, 134 (2d Cir.2013).

On November 14, 2013, the district court granted Google’s motion for summary judgment, concluding that the uses made by Google of copyrighted books were fair uses, protected by § 107. Upon consideration of the four statutory factors of § 107, the district court found that Google’s uses were transformative, that its display of copyrighted material was properly limited, and that the Google Books program did not impermissibly serve as a market substitute for the original works. The court entered judgment initially on November 27, 2013, followed by an amended judgment on December 10, 2013, dismissing Plaintiffs’ claims with prejudice. Plaintiffs filed timely notice of appeal.

## DISCUSSION

### *I. The Law of Fair Use*

The ultimate goal of copyright is to expand public knowledge and understanding, which copyright seeks to achieve by giving potential creators exclusive control over copying of their works, thus giving them a financial incentive to create informative, intellectually enriching works for public consumption. This objective is clearly reflected in the Constitution’s empowerment of Congress “*To promote the Progress of Science ... by securing for limited Times to Authors ... the exclusive Right to their respective Writings.*” U.S. Const., Art. I, § 8, cl. 8 (emphasis added). Thus, while authors are undoubtedly important intended beneficiaries of copyright, the ultimate, primary intended beneficiary is the public, whose access to knowledge copyright seeks to advance by providing rewards for authorship.

For nearly three hundred years, since shortly after the birth of copyright in England in 1710, courts have recognized that, in certain circumstances, giving authors *absolute* control over all copying from their works would tend in some circumstances to limit, rather than expand, public knowledge. In the words of Lord Ellenborough, “[W]hile I shall think myself bound to secure every man in the enjoyment of his copy-right, one must not put manacles upon science.” *Cary v. Kearsley*, 170 Eng. Rep. 679, 681, 4 Esp. 168, 170 (1802). Courts thus developed the doctrine, eventually named fair use, which permits unauthorized copying in some circumstances, so as to further “copyright’s very purpose, ‘[t]o promote the Progress of Science and useful Arts.’ ” *Campbell v.*

*Acuff-Rose Music, Inc.*, 510 U.S. 569, 575, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994) (quoting U.S. Const., Art. I, § 8, cl. 8). Although well established in the common law development of copyright, fair use was not recognized in the terms of our statute until the adoption of § 107 in the Copyright Act of 1976. 17 U.S.C. §§ 101 *et seq.*

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The *Campbell* Court undertook a comprehensive analysis of fair use's requirements, discussing every segment of § 107. Beginning with the examples of purposes set forth in the statute's preamble, the Court made clear that they are "illustrative and not limitative" and "provide only general guidance about the sorts of copying that courts and Congress most commonly ha[ve] found to be fair uses." 510 U.S. at 577–578, 114 S.Ct. 1164 (internal quotations and citations omitted). The statute "calls for case-by-case analysis" and "is not to be simplified with bright-line rules." *Id.* at 577, 114 S.Ct. 1164. Section 107's four factors are not to "be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright." *Id.* at 578, 114 S.Ct. 1164. Each factor thus stands as part of a multifaceted assessment of the crucial question: how to define the boundary limit of the original author's exclusive rights in order to best serve the overall objectives of the copyright law to expand public learning while protecting the incentives of authors to create for the public good.

At the same time, the Supreme Court has made clear that some of the statute's four listed factors are more significant than others. The Court observed in *Harper & Row Publishers, Inc. v. Nation Enterprises* that the fourth factor, which assesses the harm the secondary use can cause to the market for, or the value of, the copyright for the original, "is undoubtedly the single most important element of fair use." 471 U.S. 539, 566, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985) (citing MELVILLE B. NIMMER, 3 NIMMER ON COPYRIGHT § 13.05[A], at 13–76 (1984)). This is consistent with the fact that the copyright is a commercial right, intended to protect the ability of authors to profit from the exclusive right to merchandise their own work.

In *Campbell*, the Court stressed also the importance of the first factor, the "purpose and character of the secondary use." 17 U.S.C. § 107(1). The more the appropriator is using the copied material for new, transformative purposes, the more it serves copyright's goal of enriching public knowledge and the less likely it is that the appropriation will serve as a substitute for the original or its plausible derivatives, shrinking the protected market opportunities of the copyrighted work. 510 U.S. at 591, 114 S.Ct. 1164 (noting that, when the secondary use is transformative, "market substitution is at least less certain, and market harm may not be so readily inferred.").

With this background, we proceed to discuss each of the statutory factors, as illuminated by *Campbell* and subsequent case law, in relation to the issues

here in dispute.

## *II. The Search and Snippet View Functions*

### *A. Factor One*

(1) *Transformative purpose.* *Campbell*’s explanation of the first factor’s inquiry into the “purpose and character” of the secondary use focuses on whether the new work, “in Justice Story’s words, ... merely ‘supersede[s] the objects’ of the original creation, ... or instead adds something new, with a further purpose.... [I]t asks, in other words, whether and to what extent the new work is ‘transformative.’ ” 510 U.S. at 578–579, 114 S.Ct. 1164 (citations omitted). While recognizing that a transformative use is “not absolutely necessary for a finding of fair use,” the opinion further explains that the “goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works” and that “[s]uch works thus lie at the heart of the fair use doctrine’s guarantee of breathing space within the confines of copyright.” *Id.* at 579, 114 S.Ct. 1164. In other words, transformative uses tend to favor a fair use finding because a transformative use is one that communicates something new and different from the original or expands its utility, thus serving copyright’s overall objective of contributing to public knowledge.

The word “transformative” cannot be taken too literally as a sufficient key to understanding the elements of fair use. It is rather a suggestive symbol for a complex thought, and does not mean that any and all changes made to an author’s original text will necessarily support a finding of fair use. The Supreme Court’s discussion in *Campbell* gave important guidance on assessing when a transformative use tends to support a conclusion of fair use. The defendant in that case defended on the ground that its work was a parody of the original and that parody is a time-honored category of fair use. Explaining why parody makes a stronger, or in any event more obvious, claim of fair use than satire, the Court stated,

[T]he heart of any parodist’s claim to quote from existing material ... is the use of ... a prior author’s composition to ... comment[] on that author’s works.... If, on the contrary, the commentary has no critical bearing on the substance or style of the original composition, which the alleged infringer merely uses to get attention or to avoid the drudgery in working up something fresh, the claim to fairness in borrowing from another’s work diminishes accordingly (if it does not vanish).... Parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim’s ... imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing.

*Id.* at 580–81, 114 S.Ct. 1164 (emphasis added). In other words, the would-be fair user of another’s work must have justification for the taking. A secondary author is not necessarily at liberty to make wholesale takings of the original author’s expression merely because of how well the original author’s expression would convey the secondary author’s different message. Among the best recognized justifications for copying from another’s work is to provide comment on it or criticism of it. A taking from another author’s work for the purpose of making points that have no bearing on the original may well be fair use, but the taker would need to show a justification. This part of the Supreme Court’s discussion is significant in assessing Google’s claim of fair use because, as discussed extensively below, Google’s claim of transformative purpose for copying from the works of others is to provide otherwise unavailable information about the originals.

A further complication that can result from oversimplified reliance on whether the copying involves transformation is that the word “transform” also plays a role in defining “derivative works,” over which the original rights holder retains exclusive control. Section 106 of the Act specifies the “exclusive right[ ]” of the copyright owner “(2) to prepare derivative works based upon the copyrighted work.” See 17 U.S.C. § 106. The statute defines derivative works largely by example, rather than explanation. The examples include “translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation,” to which list the statute adds “any other form in which a work may be ... transformed.” 17 U.S.C. § 101 (emphasis added). As we noted in *Authors Guild, Inc. v. HathiTrust*, “[p]aradigmatic examples of derivative works include the translation of a novel into another language, the adaptation of a novel into a movie or play, or the recasting of a novel as an e-book or an audiobook.” 755 F.3d 87, 95 (2d Cir. 2014). While such changes can be described as transformations, they do not involve the kind of transformative purpose that favors a fair use finding. The statutory definition suggests that derivative works generally involve transformations in the nature of *changes of form*. 17 U.S.C. § 101. By contrast, copying from an original for the purpose of criticism or commentary on the original or provision of information about it, tends most clearly to satisfy *Campbell*’s notion of the “transformative” purpose involved in the analysis of Factor One.

With these considerations in mind, we first consider whether Google’s search and snippet views functions satisfy the first fair use factor with respect to Plaintiffs’ rights in their books. (The question whether these functions might infringe upon Plaintiffs’ derivative rights is discussed in the next Part.)

(2) *Search Function.* We have no difficulty concluding that Google’s making of a digital copy of Plaintiffs’ books for the purpose of enabling a search for identification of books containing a term of interest to the searcher involves a highly transformative purpose, in the sense intended by *Campbell*. Our court’s exemplary discussion in *HathiTrust* informs our ruling. That case involved a

dispute that is closely related, although not identical, to this one. Authors brought claims of copyright infringement against HathiTrust, an entity formed by libraries participating in the Google Library Project to pool the digital copies of their books created for them by Google. The suit challenged various usages HathiTrust made of the digital copies. Among the challenged uses was HathiTrust's offer to its patrons of "full-text searches," which, very much like the search offered by Google Books to Internet users, permitted patrons of the libraries to locate in which of the digitized books specific words or phrases appeared. [755 F.3d at 98](#). (HathiTrust's search facility did not include the snippet view function, or any other display of text.) We concluded that both the making of the digital copies and the use of those copies to offer the search tool were fair uses. [Id. at 105](#).

Notwithstanding that the libraries had downloaded and stored complete digital copies of entire books, we noted that such copying was essential to permit searchers to identify and locate the books in which words or phrases of interest to them appeared. [Id. at 97](#). We concluded "that the creation of a full-text searchable database is a quintessentially transformative use ... [as] 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." [Id.](#) We cited [A.V. ex rel. Vanderhye v. iParadigms, LLC](#), 562 F.3d 630, 639–40 (4th Cir.2009), [Perfect 10, Inc. v. Amazon.com, Inc.](#), 508 F.3d 1146, 1165 (9th Cir.2007), and [Kelly v. Arriba Soft Corp.](#), 336 F.3d 811, 819 (9th Cir.2003) as examples of cases in which courts had similarly found the creation of complete digital copies of copyrighted works to be transformative fair uses when the copies "served a different function from the original." [HathiTrust](#), [755 F.3d at 97](#).

As with *HathiTrust* (and *iParadigms* ), the purpose of Google's copying of the original copyrighted books is to make available significant information *about those books*, permitting a searcher to identify those that contain a word or term of interest, as well as those that do not include reference to it. In addition, through the ngrams tool, Google allows readers to learn the frequency of usage of selected words in the aggregate corpus of published books in different historical periods. We have no doubt that the purpose of this copying is the sort of transformative purpose described in *Campbell* as strongly favoring satisfaction of the first factor.

We recognize that our case differs from *HathiTrust* in two potentially significant respects. First, HathiTrust did not "display to the user any text from the underlying copyrighted work," [755 F.3d at 91](#), whereas Google Books provides the searcher with snippets containing the word that is the subject of the search. Second, HathiTrust was a nonprofit educational entity, while Google is a profit-motivated commercial corporation. We discuss those differences below.

(3) *Snippet View*. Plaintiffs correctly point out that this case is significantly

different from *HathiTrust* in that the Google Books search function allows searchers to read snippets from the book searched, whereas *HathiTrust* did not allow searchers to view any part of the book. Snippet view adds important value to the basic transformative search function, which tells only whether and how often the searched term appears in the book. Merely knowing that a term of interest appears in a book does not necessarily tell the searcher whether she needs to obtain the book, because it does not reveal whether the term is discussed in a manner or context falling within the scope of the searcher's interest. For example, a searcher seeking books that explore Einstein's theories, who finds that a particular book includes 39 usages of "Einstein," will nonetheless conclude she can skip that book if the snippets reveal that the book speaks of "Einstein" because that is the name of the author's cat. In contrast, the snippet will tell the searcher that this is a book she needs to obtain if the snippet shows that the author is engaging with Einstein's theories.

Google's division of the page into tiny snippets is designed to show the searcher just enough context surrounding the searched term to help her evaluate whether the book falls within the scope of her interest (without revealing so much as to threaten the author's copyright interests). Snippet view thus adds importantly to the highly transformative purpose of identifying books of interest to the searcher. With respect to the first factor test, it favors a finding of fair use (unless the value of its transformative purpose is overcome by its providing text in a manner that offers a competing substitute for Plaintiffs' books, which we discuss under factors three and four below).

(4) *Google's Commercial Motivation.* Plaintiffs also contend that Google's commercial motivation weighs in their favor under the first factor. Google's commercial motivation distinguishes this case from *HathiTrust*, as the defendant in that case was a non-profit entity founded by, and acting as the representative of, libraries. Although Google has no revenues flowing directly from its operation of the Google Books functions, Plaintiffs stress that Google is profit-motivated and seeks to use its dominance of book search to fortify its overall dominance of the Internet search market, and that thereby Google indirectly reaps profits from the Google Books functions.

For these arguments Plaintiffs rely primarily on two sources. First is Congress's specification in spelling out the first fair use factor in the text of § 107 that consideration of the "purpose and character of the [secondary] use" should "include[e] whether such use is of a commercial nature or is for nonprofit educational purposes." Second is the Supreme Court's assertion in *Sony Corporation of America v. Universal City Studios, Inc.*, that "every commercial use of copyrighted material is presumptively ... unfair." 464 U.S. 417, 451, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). If that were the extent of precedential authority on the relevance of commercial motivation, Plaintiffs' arguments would muster impressive support. However, while the commercial motivation of the secondary use can undoubtedly weigh against a finding of fair use in some circumstances, the Supreme Court, our court, and others have

eventually recognized that the *Sony* dictum was enormously overstated.

The Sixth Circuit took the *Sony* dictum at its word in *Acuff-Rose Music, Inc. v. Campbell*, concluding that, because the defendant rap music group's spoof of the plaintiff's ballad was done for profit, it could not be fair use. [972 F.2d 1429, 1436–1437 \(6th Cir.1992\)](#). The Supreme Court reversed on this very point, observing that “Congress could not have intended” such a broad presumption against commercial fair uses, as “nearly all of the illustrative uses listed in the preamble paragraph of § 107 … are generally conducted for profit in this country.” *Campbell*, 510 U.S. at 584, 114 S.Ct. 1164 (internal quotation marks and citations omitted). The Court emphasized Congress’s statement in the House Report to the effect that the commercial or nonprofit character of a work is “not conclusive” but merely “a fact to be ‘weighed along with other[s] in fair use decisions.’” *Id.* at 585, 114 S.Ct. 1164 (quoting H.R.Rep. No. 94-1476, at 66 (1976)). In explaining the first fair use factor, the Court clarified that “the more transformative the [secondary] work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.” *Id.* at 579, 114 S.Ct. 1164.

Our court has since repeatedly rejected the contention that commercial motivation should outweigh a convincing transformative purpose and absence of significant substitutive competition with the original. See *Cariou v. Prince*, 714 F.3d 694, 708 (2d Cir.2013), cert. denied, —U.S.—, 134 S.Ct. 618, 187 L.Ed.2d 411 (2013) (“The commercial/nonprofit dichotomy concerns the unfairness that arises when a secondary user makes unauthorized use of copyrighted material to capture significant revenues as a direct consequence of copying the original work. 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. Instead, the 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.”) (internal quotation marks, citations, and alterations omitted); *Castle Rock Entm’t, Inc. v. Carol Pub. Grp., Inc.*, 150 F.3d 132, 141–42 (2d Cir.1998) (“We … do not give much weight to the fact that the secondary use was for commercial gain. The more critical inquiry under the first factor and in fair use analysis generally is whether the allegedly infringing work merely supersedes the original work or instead adds something new, with a further purpose or different character, altering the first with new meaning or message, in other words whether and to what extent the new work is transformative.”) (internal quotation marks, citations, and alterations omitted).

While we recognize that in some circumstances, a commercial motivation on the part of the secondary user will weigh against her, especially, as the Supreme Court suggested, when a persuasive transformative purpose is lacking, *Campbell*, 510 U.S. at 579, 114 S.Ct. 1164, we see no reason in this case why Google’s overall profit motivation should prevail as a reason for denying fair use over its highly convincing transformative purpose, together

with the absence of significant substitutive competition, as reasons for granting fair use. Many of the most universally accepted forms of fair use, such as news reporting and commentary, quotation in historical or analytic books, reviews of books, and performances, as well as parody, are all normally done commercially for profit.

#### B. Factor Two

The second fair use factor directs consideration of the “nature of the copyrighted work.” While the “transformative purpose” inquiry discussed above is conventionally treated as a part of first factor analysis, it inevitably involves the second factor as well. One cannot assess whether the copying work has an objective that differs from the original without considering both works, and their respective objectives.

The second factor has rarely played a significant role in the determination of a fair use dispute. See WILLIAM F. PATRY, PATRY ON FAIR USE § 4.1 (2015). The Supreme Court in *Harper & Row* made a passing observation in dictum that, “[t]he law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy.” 471 U.S. 539, 563, 105 S.Ct. 2218 (1985). Courts have sometimes speculated that this might mean that a finding of fair use is more favored when the copying is of factual works than when copying is from works of fiction. However, while the copyright does not protect facts or ideas set forth in a work, it does protect that author’s manner of expressing those facts and ideas. At least unless a persuasive fair use justification is involved, authors of factual works, like authors of fiction, should be entitled to copyright protection of their protected expression. The mere fact that the original is a factual work therefore should not imply that others may freely copy it. Those who report the news undoubtedly create factual works. It cannot seriously be argued that, for that reason, others may freely copy and re-disseminate news reports.

In considering the second factor in *HathiTrust*, we concluded that it was “not dispositive,” 755 F.3d at 98, commenting that courts have hardly ever found that the second factor in isolation played a large role in explaining a fair use decision. The same is true here. While each of the three Plaintiffs’ books in this case is factual, we do not consider that as a boost to Google’s claim of fair use. If one (or all) of the plaintiff works were fiction, we do not think that would change in any way our appraisal. Nothing in this case influences us one way or the other with respect to the second factor considered in isolation. To the extent that the “nature” of the original copyrighted work necessarily combines with the “purpose and character” of the secondary work to permit assessment of whether the secondary work uses the original in a “transformative” manner, as the term is used in *Campbell*, the second factor favors fair use not because Plaintiffs’ works are factual, but because the secondary use transformatively provides valuable information about the original, rather than replicating protected expression in a manner that provides a meaningful substitute for the original.

### C. Factor Three

The third statutory factor instructs us to consider “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.” The clear implication of the third factor is that a finding of fair use is more likely when small amounts, or less important passages, are copied than when the copying is extensive, or encompasses the most important parts of the original. The obvious reason for this lies in the relationship between the third and the fourth factors. The larger the amount, or the more important the part, of the original that is copied, the greater the likelihood that the secondary work might serve as an effectively competing substitute for the original, and might therefore diminish the original rights holder’s sales and profits.

(1) *Search Function.* The Google Books program has made a digital copy of the entirety of each of Plaintiffs’ books. Notwithstanding the reasonable implication of Factor Three that fair use is more likely to be favored by the copying of smaller, rather than larger, portions of the original, courts have rejected any categorical rule that a copying of the entirety cannot be a fair use. Complete unchanged copying has repeatedly been found justified as fair use when the copying was reasonably appropriate to achieve the copier’s transformative purpose and was done in such a manner that it did not offer a competing substitute for the original. The Supreme Court said in *Campbell* that “the extent of permissible copying varies with the purpose and character of the use” and characterized the relevant questions as whether “the amount and substantiality of the portion used … are reasonable in relation to the purpose of the copying,” *Campbell*, 510 U.S. at 586–587, 114 S.Ct. 1164, noting that the answer to that question will be affected by “the degree to which the [copying work] may serve as a market substitute for the original or potentially licensed derivatives,” *id.* at 587–588, 114 S.Ct. 1164 (finding that, in the case of a parodic song, “how much … is reasonable will depend, say, on the extent to which the song’s overriding purpose and character is to parody the original or, in contrast, the likelihood that the parody may serve as a market substitute for the original”).

In *HathiTrust*, our court concluded in its discussion of the third factor that “[b]ecause it was reasonably necessary for the [HathiTrust Digital Library] 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.” 755 F.3d at 98. As with *HathiTrust*, not only is the copying of the totality of the original reasonably appropriate to Google’s transformative purpose, it is literally necessary to achieve that purpose. If Google copied less than the totality of the originals, its search function could not advise searchers reliably whether their searched term appears in a book (or how many times).

While Google *makes* an unauthorized digital copy of the entire book, it does not reveal that digital copy to the public. The copy is made to enable the search

functions to reveal limited, important information about the books. With respect to the search function, Google satisfies the third factor test, as illuminated by the Supreme Court in *Campbell*.

(2) *Snippet View.* Google's provision of snippet view makes our third factor inquiry different from that inquiry in *HathiTrust*. What matters in such cases is not so much "the amount and substantiality of the portion used" *in making a copy*, but rather the amount and substantiality of *what is thereby made accessible* to a public for which it may serve as a competing substitute. In *HathiTrust*, notwithstanding the defendant's full-text copying, the search function revealed virtually nothing of the text of the originals to the public. Here, through the snippet view, more is revealed to searchers than in *HathiTrust*.

Without doubt, enabling searchers to see portions of the copied texts could have determinative effect on the fair use analysis. The larger the quantity of the copyrighted text the searcher can see and the more control the searcher can exercise over what part of the text she sees, the greater the likelihood that those revelations could serve her as an effective, free substitute for the purchase of the plaintiff's book. We nonetheless conclude that, at least as presently structured by Google, the snippet view does not reveal matter that offers the marketplace a significantly competing substitute for the copyrighted work.

Google has constructed the snippet feature in a manner that substantially protects against its serving as an effectively competing substitute for Plaintiffs' books. In the Background section of this opinion, we describe a variety of limitations Google imposes on the snippet function. These include the small size of the snippets (normally one eighth of a page), the blacklisting of one snippet per page and of one page in every ten, the fact that no more than three snippets are shown—and no more than one per page—for each term searched, and the fact that the same snippets are shown for a searched term no matter how many times, or from how many different computers, the term is searched. In addition, Google does not provide snippet view for types of books, such as dictionaries and cookbooks, for which viewing a small segment is likely to satisfy the searcher's need. The result of these restrictions is, so far as the record demonstrates, that a searcher cannot succeed, even after long extended effort to multiply what can be revealed, in revealing through a snippet search what could usefully serve as a competing substitute for the original.

The blacklisting, which permanently blocks about 22% of a book's text from snippet view, is by no means the most important of the obstacles Google has designed. While it is true that the blacklisting of 22% leaves 78% of a book *theoretically* accessible to a searcher, it does not follow that any large part of that 78% is in fact accessible. The other restrictions built into the program work together to ensure that, even after protracted effort over a substantial period of time, only small and randomly scattered portions of a book will be

accessible. In an effort to show what large portions of text searchers can read through persistently augmented snippet searches, Plaintiffs' counsel employed researchers over a period of weeks to do multiple word searches on Plaintiffs' books. In no case were they able to access as much as 16% of the text, and the snippets collected were usually not sequential but scattered randomly throughout the book. Because Google's snippets are arbitrarily and uniformly divided by lines of text, and not by complete sentences, paragraphs, or any measure dictated by content, a searcher would have great difficulty constructing a search so as to provide any extensive information about the book's use of that term. As snippet view never reveals more than one snippet per page in response to repeated searches for the same term, it is at least difficult, and often impossible, for a searcher to gain access to more than a single snippet's worth of an extended, continuous discussion of the term.

The fact that Plaintiffs' searchers managed to reveal nearly 16% of the text of Plaintiffs' books overstates the degree to which snippet view can provide a meaningful substitute. At least as important as the percentage of words of a book that are revealed is the manner and order in which they are revealed. Even if the search function revealed 100% of the words of the copyrighted book, this would be of little substitutive value if the words were revealed in alphabetical order, or any order other than the order they follow in the original book. It cannot be said that a revelation is "substantial" in the sense intended by the statute's third factor if the revelation is in a form that communicates little of the sense of the original. The fragmentary and scattered nature of the snippets revealed, even after a determined, assiduous, time-consuming search, results in a revelation that is not "substantial," even if it includes an aggregate 16% of the text of the book. If snippet view could be used to reveal a coherent block amounting to 16% of a book, that would raise a very different question beyond the scope of our inquiry.

#### *D. Factor Four*

The fourth fair use factor, "the effect of the [copying] use upon the potential market for or value of the copyrighted work," focuses on whether the copy brings to the marketplace a competing substitute for the original, or its derivative, so as to deprive the rights holder of significant revenues because of the likelihood that potential purchasers may opt to acquire the copy in preference to the original. Because copyright is a commercial doctrine whose objective is to stimulate creativity among potential authors by enabling them to earn money from their creations, the fourth factor is of great importance in making a fair use assessment. See *Harper & Row*, 471 U.S. at 566, 105 S.Ct. 2218 (describing the fourth factor as "undoubtedly the single most important element of fair use").

*Campbell* stressed the close linkage between the first and fourth factors, in that the more the copying is done to achieve a purpose that differs from the purpose of the original, the less likely it is that the copy will serve as a satisfactory substitute for the original. 510 U.S. at 591, 114 S.Ct. 1164.

Consistent with that observation, the *HathiTrust* court found that the fourth factor favored the defendant and supported a finding of fair use because the ability to search the text of the book to determine whether it includes selected words “does not serve as a substitute for the books that are being searched.” [755 F.3d at 100.](#)

However, *Campbell* ‘s observation as to the likelihood of a secondary use serving as an effective substitute goes only so far. Even if the *purpose* of the copying is for a valuably transformative purpose, such copying might nonetheless harm the value of the copyrighted original if done in a manner that results in widespread revelation of sufficiently significant portions of the original as to make available a significantly competing substitute. The question for us is whether snippet view, notwithstanding its transformative purpose, does that. We conclude that, at least as snippet view is presently constructed, it does not.

Especially in view of the fact that the normal purchase price of a book is relatively low in relation to the cost of manpower needed to secure an arbitrary assortment of randomly scattered snippets, we conclude that the snippet function does not give searchers access to effectively competing substitutes. Snippet view, at best and after a large commitment of manpower, produces discontinuous, tiny fragments, amounting in the aggregate to no more than 16% of a book. This does not threaten the rights holders with any significant harm to the value of their copyrights or diminish their harvest of copyright revenue.

We recognize that the snippet function can cause *some* loss of sales. There are surely instances in which a searcher’s need for access to a text will be satisfied by the snippet view, resulting in either the loss of a sale to that searcher, or reduction of demand on libraries for that title, which might have resulted in libraries purchasing additional copies. But the possibility, or even the probability or certainty, of some loss of sales does not suffice to make the copy an effectively competing substitute that would tilt the weighty fourth factor in favor of the rights holder in the original. There must be a meaningful or significant effect “upon the potential market for or value of the copyrighted work.” [17 U.S.C. § 107\(4\).](#)

Furthermore, the type of loss of sale envisioned above will generally occur in relation to interests that are not protected by the copyright. A snippet’s capacity to satisfy a searcher’s need for access to a copyrighted book will at times be because the snippet conveys a historical fact that the searcher needs to ascertain. For example, a student writing a paper on Franklin D. Roosevelt might need to learn the year Roosevelt was stricken with polio. By entering “Roosevelt polio” in a Google Books search, the student would be taken to (among numerous sites) a snippet from page 31 of Richard Thayer Goldberg’s *The Making of Franklin D. Roosevelt* (1981), telling that the polio attack occurred in 1921. This would satisfy the searcher’s need for the book,

eliminating any need to purchase it or acquire it from a library. But what the searcher derived from the snippet was a historical fact. Author Goldberg's copyright does not extend to the facts communicated by his book. It protects only the author's manner of expression. *Hoebling v. Universal City Studios, Inc.*, 618 F.2d 972, 974 (2d Cir.1980) ("A grant of copyright in a published work secures for its author a limited monopoly over the *expression* it contains.") (emphasis added). Google would be entitled, without infringement of Goldberg's copyright, to answer the student's query about the year Roosevelt was afflicted, taking the information from Goldberg's book. The fact that, in the case of the student's snippet search, the information came embedded in three lines of Goldberg's writing, which were superfluous to the searcher's needs, would not change the taking of an unprotected fact into a copyright infringement.

Even if the snippet reveals some authorial expression, because of the brevity of a single snippet and the cumbersome, disjointed, and incomplete nature of the aggregation of snippets made available through snippet view, we think it would be a rare case in which the searcher's interest *in the protected aspect* of the author's work would be satisfied by what is available from snippet view, and rarer still—because of the cumbersome, disjointed, and incomplete nature of the aggregation of snippets made available through snippet view—that snippet view could provide a significant substitute for the purchase of the author's book.

Accordingly, considering the four fair use factors in light of the goals of copyright, we conclude that Google's making of a complete digital copy of Plaintiffs' works for the purpose of providing the public with its search and snippet view functions (at least as snippet view is presently designed) is a fair use and does not infringe Plaintiffs' copyrights in their books.

\* \* \*

In sum, we conclude that: (1) Google's unauthorized digitizing of copyright-protected works, creation of a search functionality, and display of snippets from those works are non-infringing fair uses. The purpose of the copying is highly transformative, the public display of text is limited, and the revelations do not provide a significant market substitute for the protected aspects of the originals. Google's commercial nature and profit motivation do not justify denial of fair use. (2) Google's provision of digitized copies to the libraries that supplied the books, on the understanding that the libraries will use the copies in a manner consistent with the copyright law, also does not constitute infringement. Nor, on this record, is Google a contributory infringer.

The judgment of the district court is **AFFIRMED**.

### 3. OTHER LIMITATIONS:

- 17 U.S.C. § 110 (Public performance and display)
- 17 U.S.C. § 108 (Libraries and Archives)
- 17 U.S.C. § 115 (Compulsory Licensing of Musical Works)
- 17 U.S.C. § 120 (Architectural Works)
- 17 U.S.C. § 112 (Ephemeral Recordings)
- 17 U.S.C. §§ 111, 113(a)–(c), 116, 118–19, 121–22 (Various other limits)

## C. MORAL RIGHTS

### MASSACHUSETTS MUSEUM OF CONTEMPORARY ART V. BUCHEL

[593 F.3d 38 \(1st Cir. 2010\).](#)

LIPEZ, CIRCUIT JUDGE.

As one observer has noted, this case, which raises important and unsettled legal issues under the Visual Artists Rights Act (“VARA”), may well serve as “the ultimate how-not-to guide in the complicated world of installation art.” Geoff Edgers, *Dismantled*, The Boston Globe, Oct. 21, 2007, at 1N. Artist Christoph Büchel conceived of an ambitious, football-field-sized art installation entitled “Training Ground for Democracy,” which was to be exhibited at the Massachusetts Museum of Contemporary Art (“MASS MoCA,” or “the Museum”). Unfortunately, the parties never memorialized the terms of their relationship or their understanding of the intellectual property issues involved in the installation in a written agreement. Even more unfortunately, the project was never completed. Numerous conflicts and a steadily deteriorating relationship between the artist and the Museum prevented the completion of “Training Ground for Democracy” in its final form.

In the wake of this failed endeavor, the Museum went to federal court seeking a declaration that it was “entitled to present to the public the materials and partial constructions” it had collected for “Training Ground for Democracy.” Büchel responded with several counterclaims under VARA and the Copyright Act, seeking an injunction that would prevent MASS MoCA from displaying the unfinished installation and damages for the Museum’s alleged violations of his rights under both VARA and the general Copyright Act.

On cross-motions for summary judgment, the district court assumed that VARA applies to unfinished works of art, but it nonetheless ruled for the Museum in all respects because, even granting VARA’s applicability, it

found no genuine issues of material fact. *Massachusetts Museum of Contemporary Art Found., Inc. v. Büchel*, 565 F.Supp.2d 245 (D.Mass.2008). Büchel appeals. Because we find that, if VARA applies, genuine issues of material fact would foreclose summary judgment on one of Büchel's VARA claims—that MASS MoCA violated his right of artistic integrity by modifying the installation—we cannot assume that VARA applies to unfinished works but instead must decide its applicability. We conclude that the statute does apply to such works.

\* \* \*

## B. Factual Background

\* \* \* [T]he key conflict between MASS MoCA and the artist involved Büchel's dissatisfaction with the way in which the Museum was implementing his instructions and procuring the items necessary for the installation. Büchel himself was not present in North Adams for the first several months of work on the project. Instead, he conducted much of his work on the installation throughout the fall of 2006 remotely, by providing Museum personnel with detailed instructions as to the particular materials he required and their placement within the exhibition space. [Büchel returned in October, 2006, to complete the installation, but he was dissatisfied with the Museum's progress. He departed again in December. During this time there were numerous disputes between the parties, and their relationship deteriorated.]

\* \* \*

As the vitriolic exchanges between the parties continued, and negotiations over the project's eventual completion became hopeless, "Training Ground" languished in its unfinished state. It became clear that Büchel would not complete the installation. On May 22, 2007, MASS MoCA announced the cancellation of "Training Ground," and contemporaneously publicized the opening of a new exhibit entitled "Made at MASS MoCA," which was to be "a documentary project exploring the issues raised in the course of complex collaborative projects between artists and institutions." The press release noted that this lawsuit had been filed the previous day; it also highlighted the Museum's desire to use its "other experiences working with artists" to "provide [its] audience with thought-provoking insights into the complexities of the art-making process." The release further explained that, due to "space constraints imposed by the materials assembled for *Training Ground for Democracy*," the exhibition would be presented in the Museum's "only remaining available gallery space"; therefore, in order to enter the exhibit, visitors would have to pass through Building 5, "housing the materials and unfinished fabrications that were to have comprised elements of *Training Ground for Democracy*." The Museum represented that "[r]easonable steps [had] been taken to control and restrict the view of these materials, pending a court ruling."

When “Made at MASS MoCA” opened, many in the art world disagreed with the Museum’s handling of its dispute with Büchel, though the parties have different views on whether the Museum’s actions ultimately tarnished the artist’s reputation. Moreover, the parties differ on whether the “reasonable steps . . . taken to control and restrict the view of the[ ] materials”—the placement of yellow tarpaulins over the unfinished work—actually concealed all of the individual components and vital design elements of “Training Ground,” or whether the tarpaulins simply “hid[ ] an elephant behind a napkin,” effectively inviting individuals to peek behind the cloth coverings and view the unfinished work. *See Charles Giuliano, Christoph Büchel’s Tarp Art at Mass MoCA: Crap Under Wrap* (July 31, 2007).

\* \* \*

[Both Büchel and MASS MoCA asked the district court for declaratory judgments of their respective rights in the exhibit.] The court ruled in favor of the Museum, noting that nothing in VARA prevented MASS MoCA from showing the incomplete project. Therefore, MASS MoCA was “entitled to present” the unfinished installation to the public as long as it posted a disclaimer that would “inform anyone viewing the exhibit that the materials assembled in Building 5 constitute an unfinished project that [did] not carry out the installation’s original intent.” The court correspondingly denied the artist’s request for injunctive relief barring public display of the unfinished installation, ruling that he had failed to prove a likelihood of success on the merits of his VARA claim.

## II.

Passed in 1990, the Visual Artists Rights Act, 17 U.S.C. § 106A, was an amendment to the Copyright Act that protects the “moral rights” of certain visual artists in the works they create, consistent with Article 6 *bis* of the Berne Convention. *Phillips v. Pembroke Real Estate, Inc.*, 459 F.3d 128, 133 (1st Cir.2006); *Carter v. Helmsley-Spear, Inc.*, 71 F.3d 77, 83 (2d Cir.1995) (citing H.R.Rep. No. 101–514, at 5 (1990) (“House Report”)). The “rubric of moral rights encompasses many varieties of rights,” but the two most widely recognized are attribution and integrity. *Id.* at 81. We will discuss both of these in detail below, but note briefly now that the right of attribution protects the author’s right to be identified as the author of his work and also protects against the use of his name in connection with works created by others. The right of integrity “allows the author to prevent any deforming or mutilating changes to his work.” *Id.* Although these moral rights “exist independent[ly] of the economic rights” granted to all authors under the Copyright Act, they are part of the same statutory framework.

\* \* \*

## B. VARA

Beyond the Copyright Act's protections of certain economic rights, VARA provides additional and independent protections to authors of works of visual art. A work of visual art is defined to include "a painting, drawing, print, or sculpture, existing in a single copy" or in a limited edition. 17 U.S.C. § 101. The definition specifically excludes a number of works that are otherwise copyrightable, including motion pictures and other audiovisual works, books, posters, periodicals, works made for hire, and merchandising, advertising, promotional, or packaging materials. *Id.*

VARA provides that, in addition to the exclusive rights provided by section 106 of the Copyright Act, but subject to certain limitations, the author of a work of visual art

(1) shall have the right—

- (A) to claim authorship of that work, and
- (B) to prevent the use of his or her name as the author of any work of visual art which he or she did not create;

(2) shall have the right to prevent the use of his or her name as the author of the work of visual art in the event of a distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation; and

(3) subject to the limitations set forth in section 113(d), shall have the right—

(A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and

(B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.

17 U.S.C. § 106A(a).

VARA's passage reflected Congress's belief that the art covered by the Act "meet[s] a special societal need, and [its] protection and preservation serve an important public interest." House Report at 5–6. To encourage the creation of such art, VARA protects the "moral rights" of its creators. These are "rights of a spiritual, non-economic and personal nature" that exist "independently of an artist's copyright in his or her work" and "spring from a belief that an artist in the process of creation injects his spirit into the work and that the artist's personality, as well as the integrity of the work, should therefore be protected and preserved." *Carter*, 71 F.3d at 81. The recognition of moral rights fosters a "climate of artistic worth and honor

that encourages the author in the arduous act of creation.’’ *Id.* at 83 (quoting House Report at 6). Although an artist may not transfer his VARA rights (as they are considered an extension of his personality), he may waive those rights by “expressly agree[ing] to such waiver in a written instrument.” 17 U.S.C. § 106A(e)(1). Also, “[a]ll remedies available under copyright law, other than criminal remedies, are available in an action for infringement of moral rights.” *Carter*, 71 F.3d at 83 (citing 17 U.S.C. § 506); *see also* 17 U.S.C. § 501(a).

More specifically, by guaranteeing the moral rights of “attribution” and “integrity,” VARA “protects both the reputations of certain visual artists and the works of art they create.” *Carter*, 71 F.3d at 83 (quoting House Report at 6). Before discussing the precise contours of these rights, we consider whether, as a threshold matter, the indisputably unfinished “Training Ground for Democracy” was a “work of visual art” within the meaning of VARA.

### C. Does VARA Apply to Unfinished Works of Art?

\* \* \*

The text of VARA itself does not state when an artistic project becomes a work of visual art subject to its protections. However, VARA is part of the Copyright Act, and that Act’s definition section, which defines “work of visual art,” specifies that its definitions, unless otherwise provided, control throughout Title 17. *See* 17 U.S.C. § 101. That general definitional section of the Copyright Act states that a work is “created” when it “is fixed in a copy . . . for the first time.” Further, “where a work is prepared over a period of time, *the portion of it that has been fixed at any particular time constitutes the work as of that time.*” 17 U.S.C. § 101 (emphasis added). A work is “fixed” when it has been formed, “by or under the authority of the author,” in a way that is “sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” *Id.*

Not surprisingly, based on section 101’s general definitions, courts have held that the Copyright Act’s protections extend to unfinished works.

\* \* \*

Reading VARA in accordance with the definitions in section 101, it too must be read to protect unfinished, but “fixed,” works of art that, if completed, would qualify for protection under the statute. To conclude otherwise would be “contrary to the rule that provisions of a single act should be construed in as harmonious a fashion as possible.” *United States v. Maravilla*, 907 F.2d 216, 231 (1st Cir.1990). At least one circuit has previously assumed VARA’s applicability to unfinished works. *See Carter*, 71 F.3d at 83–88 (discussing VARA claims stemming from an unfinished, walk-through sculpture being installed in the lobby of a building).

\* \* \*

### III.

Given Büchel’s right to protection under VARA for his artistic investment in a partially completed artwork, we must now assess the district court’s ruling that Büchel failed to raise a genuine issue of material fact with respect to any of his claims. \* \* \*

#### A. The Scope of VARA’s Integrity and Attribution Right

##### 1. The Right of Integrity

VARA’s right of integrity, codified at 17 U.S.C. § 106A(a)(3)(A), provides that an artist shall have the right “to prevent any intentional distortion, mutilation, or other modification of [his or her] work which would be prejudicial to his or her honor or reputation, and [that] any intentional distortion, mutilation, or modification of that work is a violation of that right.” It thus allows artists to protect their works against intentional modifications that would be prejudicial to their honor or reputations.

There is arguably some uncertainty about the plaintiff’s burden of proof in a case such as this because the second part of section (a)(3)(A)—stating that “any intentional distortion, mutilation, or modification of th[e] work is a violation” of the right of integrity—does not explicitly require a showing of prejudice when the alteration already has occurred and damages, rather than injunctive relief, would be the appropriate remedy. \* \* \* [W]e have found no case law discussing a possible difference in the showing required for injunctive relief and damages for right-of-integrity claims.

Some courts, however, have assumed without analysis that the prejudice showing is necessary for both injunctive relief and damages. See, e.g., *Hanrahan v. Ramirez*, No. 2:97-CV-7470, 1998 WL 34369997, at \*3 (C.D.Cal. June 3, 1998) (citing 17 U.S.C. § 106A(a)(3)); *Carter v. Helmsley-Spear, Inc.*, 861 F.Supp. 303, 329–30 (S.D.N.Y.1994), *aff’d in part, vacated in part, and rev’d in part by Carter*, 71 F.3d at 77. At least one commentator likewise accepts, without discussion, that the damages remedy requires a showing of prejudice. See MELVILLE B. NIMMER, 3–8D NIMMER ON COPYRIGHT § 8D.06[C][1] (noting that “an intentional and prejudicial mutilation is an integrity violation, remediable through not only an injunction, but damages as well”). Interestingly, Nimmer raises, and dismisses, a different imprecision in section (a)(3)(A):

The statutory language—“distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation”—is susceptible of a reading whereby the requisite prejudice applies only to “modification,” not to the antecedents of “distortion” or “mutilation.” Though not without ambiguity, the better view under the Berne Convention, from

which this language is drawn, is that prejudice applies in all three instances.

*Id.*

We agree with Nimmer's view of the provision, including the application of the prejudice requirement to a claim for damages, and consider that construction soundly grounded in VARA's legislative history. Under the heading "Purpose of the Legislation," the House Report notes that the right of integrity "allows artists to protect their works against modifications and destructions that are prejudicial to their honor or reputations." House Report at 6. The Report also notes that the rights provided by VARA are "analogous to those protected by Article 6bis of the Berne Convention," *id.*, which in turn describes the right of integrity as applicable to "certain modifications and other derogatory actions" that would be prejudicial to the artist's honor or reputation.<sup>14</sup> Given the stated purpose of the legislation and the similar depiction of the integrity right in the Berne Convention, we conclude that Congress intended the prejudice requirement to apply to the right of integrity whether the remedy sought is injunctive relief or damages.

Although VARA does not define the terms "prejudicial," "honor," or "reputation," the House Report recommended that the prejudice inquiry "focus on the artistic or professional honor or reputation of the individual as embodied in the work that is protected," and "examine the way in which a work has been modified and the professional reputation of the author of the work." House Report at 15. Relying on dictionary definitions of prejudice, honor and reputation, the district court in *Carter* concluded that it should "consider whether [the proposed] alteration would cause injury or damage to plaintiffs' good name, public esteem, or reputation in the artistic community." 861 F.Supp. at 323. We think this a useful approach, but emphasize that the focus is on the artist's reputation in relation to the altered work of art; the artist need not have public stature beyond the context of the creation at issue. See House Report at 15 ("[A]n author need not prove a pre-existing standing in the artistic community.").

## 2. The Right of Attribution

VARA's right of attribution grants the author of a work of visual art the right, in part, (1) "to claim authorship of that work"; (2) "to prevent the use of his or her name as the author of any work of visual art which he or

<sup>14</sup> Article 6bis of the Berne Convention, which is titled "Moral Rights," includes a heading that lists among those rights "to object to certain modifications and other derogatory actions." The provision itself states, in relevant part:

(1) Independently of the author's economic rights, and even after the transfer of the said rights, the author shall have the right . . . to object to any distortion, mutilation or other modification of, or other derogatory action in relation to, the said work, which would be prejudicial to his honor or reputation.

Berne Convention for the Protection of Literary and Artistic Works art. 6 bis, Sept. 9, 1986, S. Treaty Doc. No. 99-27, 1161 U.N.T.S. 30.

she did not create”; and (3) “to prevent the use of his or her name as the author of the work of visual art in the event of a distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation.” 17 U.S.C. § 106A(a)(1),(2). The right “ensures that artists are correctly identified with the works of art they create, and that they are not identified with works created by others.” House Report at 6. In addition, if a work of visual art has been distorted or modified (and, unlike the integrity right, the original distortion or modification need not be intentional), associating the author’s name with the distorted work against his wishes would violate his right of attribution.

The right of attribution under VARA thus gives an artist a claim for injunctive relief to, *inter alia*, assert or disclaim authorship of a work. Whether VARA entitles an artist to damages for violation of the right of attribution is a separate question. We find the answer in the difference between the statutory language on the right of integrity and the language on the right of attribution. Subsection (a)(3) of section 106A, which codifies the right of integrity, is further divided into two subsections: (A) confers the right to protect the work against intentional alterations that would be prejudicial to honor or reputation, and (B) confers the right to protect a work of “recognized stature” from destruction.<sup>16</sup> Although both subsections are framed as rights “to prevent” certain conduct, they both also contain an additional clause stating that the occurrence of that conduct is, at least in certain circumstances, “a violation of th[e] right” to prevent the conduct from happening. *See* 17 U.S.C. § 106A(a)(3)(A) (“any intentional distortion, mutilation, or modification of that work is a violation of that right”); *id.* at § 106(a)(3)(B) (“any intentional or grossly negligent destruction of that work is a violation of that right”).

No such “violation” clause is included in the sections codifying the right of attribution. *See* NIMMER, *supra*, at § 8D.06[B][1] (“The statute does not make any provision to redress *violation* of any of the foregoing three attribution rights.”). The legislative history sheds no light on this difference, but Nimmer speculates as follows:

Perhaps the implication is that whereas an integrity violation could give rise to a monetary recovery, failure to attribute is remediable solely through injunction. If that conclusion were intended, Congress certainly could have expressed its intent less obliquely.

*Id.* We agree with Nimmer’s surmise that VARA does not provide a damages remedy for an attribution violation. Where the statutory language is framed as a right “to prevent” conduct, it does not necessarily follow that

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<sup>16</sup> Section 106A(a)(3) states that the author of a work of visual art shall have the right “(A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation” and the right “(B) to prevent any destruction of a work of recognized stature.”

a plaintiff is entitled to damages once the conduct occurs. The question is whether “doing” the act the artist has a right to prevent also triggers a damages remedy, and the statutory language indicates that Congress answered that question for the attribution right differently from the integrity right.

It is also noteworthy that Congress crafted a damages remedy for the destruction of a work of recognized stature that is narrower than the right to prevent destruction of such works. While an artist may “prevent *any* destruction of a work of recognized stature,” only an “intentional or grossly negligent destruction of that work is a violation of that right.” 17 U.S.C. § 106A(a)(3)(B) (emphasis added). This narrowing further indicates that Congress did not intend a damages remedy to arise automatically from the right to prevent conduct. In failing to provide a damages remedy for any type of violation of the moral right of attribution, Congress may have concluded that artists could obtain adequate relief for the harms of false attribution by resorting to the Copyright Act and other traditional claims.

#### B. Büchel’s VARA Claims

With this legal framework in mind, we turn to the record before the district court. By dismantling “Training Ground,” the Museum prevented the further use of Büchel’s name in connection with the work, eliminating any basis for injunctive relief, and we therefore do not address the attribution claim in our VARA analysis. We thus consider the evidence in the light most favorable to Büchel in determining whether there are genuine issues of material fact regarding the alleged violations of his right of integrity.

\* \* \*

Büchel alleges that MASS MoCA violated his right to integrity in three distinct ways: first, by continuing to work on the installation without his authorization, particularly in early 2007, and by then exhibiting the distorted artwork to the public; second, by using tarpaulins to “partially cover[ ]”—and thus modify and distort—the installation, and allowing Museum visitors to see it in that condition; and third, merely by showing Büchel’s work in its unfinished state, which he claims was a distortion. Büchel asserts that these actions caused prejudice to his honor or reputation.

As we shall explain, we conclude that summary judgment was improperly granted to MASS MoCA because material disputes of fact exist concerning the first of Büchel’s integrity claims—*i.e.*, that MASS MoCA modified “Training Ground” over his objections, to his detriment. We further conclude that the record contains sufficient evidence to allow a jury to find that MASS MoCA’s actions caused prejudice to Büchel’s honor or reputation. The other integrity claims, however, are unavailing.

### 1. Continuing Work on “Training Ground”

\* \* \*

Both in his deposition and in his affidavit, Büchel described ways in which he felt the Museum had knowingly disregarded his specific instructions. \* \* \* Indeed, even the Museum, in its August 31, 2007 memorandum of law in support of its motion for summary judgment, admitted that the installation “[m]aterials as they now stand *reflect significant aesthetic and design choices by MASS MoCA personnel*, including with respect to the layout of the [m]aterials, and with respect to the selection and procurement of pre-existing buildings and vehicles that have been modified and incorporated into the [m]aterials.” (Emphasis added.)

MASS MoCA argues that the evidence, taken in its entirety, does not add up to a triable issue with respect to a violation of Büchel’s right of integrity, but shows only that Museum personnel were attempting to carry out Büchel’s vision based on his instructions. \* \* \*

As we have noted, a jury may well accept the Museum’s depiction of its intention and its actions. At this juncture, however, the record must be viewed in the light most favorable to Büchel. The evidence we have described would permit a jury to find that the Museum forged ahead with the installation in the first half of 2007 knowing that the continuing construction in Büchel’s absence would frustrate—and likely contradict—Büchel’s artistic vision. We thus conclude that a jury issue exists as to whether these actions effected an intentional distortion or other modification of “Training Ground” that subjected MASS MoCA to liability under VARA.

The record also contains evidence from which a jury could conclude that the Museum’s alterations had a detrimental impact on Büchel’s honor or reputation. An article in the Boston Globe reported that, in February, Museum officials had shown the unfinished project to a group of Museum directors and curators who were attending an arts conference in the area. Another journalist reported on observing the unfinished (and still untarped) work. [Another report indicated that the work was shown to several elected officials.]

Although the commentary generated by these visits is not all negative, there was sufficient evidence for a jury to find that the changes to “Training Ground” caused prejudice to Büchel. The New York Times noted that the exhibition would “certainly give people unfamiliar with his obsessive, history-driven aesthetic an inaccurate sense of his art, and this is indeed a form of damage.” A critic for the Boston Globe similarly observed that “many people are going to judge [Büchel] and his work on the basis of this experience.” One viewer, writing in *Commentary* magazine, observed that “I am not sure that it suffers from being unveiled.” A review published in

*Berkshire Fine Arts*—subtitled “Crap Under Wrap”—concluded that it would be a “huge mistake” to uncover the installation, which offered “virtually nothing of substance or interest.”

The record thus shows that some viewers of the installation reacted unfavorably to the work in its allegedly modified and distorted form. A factfinder might conclude, of course, that it was Büchel’s underlying concept (notwithstanding its unfinished state) rather than MASS MoCA’s actions that elicited the negative reactions. However, a jury could also reasonably infer that the negative impressions resulted from the Museum’s unauthorized modifications to “Training Ground,” diminishing the quality of the work and thereby harming Büchel’s professional honor or reputation as a visual artist.

\* \* \*

## 2. Showing “Training Ground” Covered with Tarpaulins

Büchel also claims that MASS MoCA improperly modified and distorted “Training Ground” when it partially covered it with the yellow tarpaulins and displayed it in that condition. \* \* \*

Although the tarpaulins did prevent visitors to the Museum from seeing the entire unfinished installation, the record shows that a number of people were able to form an impression of “Training Ground” despite the partial covering. For example, according to one observer,

[the tarps] don’t reach the floor, and they rise only about two feet above eye level, so they don’t cover much. You can easily crouch down to slip your head underneath or peek through the slits between the vinyl sheets. \* \* \*

Thomas Micchelli, *Christoph Büchel Training Ground for Democracy*, The Brooklyn Rail (September 2007). Another critic noted that the installation “under all the tarps is really kind of a conceptual peep show. It doesn’t take much effort or imagination to see most of the work. . . . Mass MoCA is hiding an elephant behind a napkin,” and called it a “wink, wink, wrap show.” Photographs in the record confirm that the covers did not obscure the general path and layout of the installation. Indeed, given the location of “Training Ground,” visitors to “Made at MASS MoCA” could not avoid seeing the unfinished “Training Ground” bedecked in tarpaulins.

Nonetheless, although the installation unquestionably looked different with the tarpaulins partially covering it, we agree with the district court that the mere covering of the artwork by the Museum, its host, cannot reasonably be deemed an intentional act of distortion or modification of Büchel’s creation. To conclude otherwise would be to say that, even if all had gone well, the Museum would have been subject to a right-of-integrity claim if it had partially covered the work before its formal opening to prevent visitors from seeing it prematurely.

\* \* \*

### 3. Exhibiting “Training Ground” in Its Unfinished State

Büchel maintains that, even aside from the alleged modifications to “Training Ground,” merely exhibiting the work of art in its unfinished state, without the artist’s consent, constitutes a distortion. We reject this claim. A separate moral right of disclosure (also known as the right of divulgation) protects an author’s authority to “prevent third parties from disclosing [his or her] work to the public without the author’s consent,” and is not covered by VARA.

Although Büchel proffered an expert who opined that showing an unfinished work without the artist’s permission is inherently a distortion, we decline to interpret VARA to include such a claim where a separate moral right of disclosure is widely recognized in other jurisdictions and Congress explicitly limited the statute’s coverage to the rights of attribution and integrity. Any right Büchel possesses to withhold display of his artwork must be found outside VARA. \*\*\*

### 4. Summary of VARA Claims

After careful review of the record, we are persuaded that a reasonable jury could find that Büchel is entitled to relief under VARA based on the Museum’s continuing work on “Training Ground” over his objections. Genuine disputes of material fact foreclose summary judgment for either Büchel or MASS MoCA on that claim. We find no merit, however, in Büchel’s claim that MASS MoCA intentionally modified or distorted “Training Ground” by covering it with tarpaulins, and we reject as outside the scope of the statute Büchel’s claim that the Museum violated VARA by displaying the installation over his objections. We affirm the district court’s grant of summary judgment for the Museum on Büchel’s right-of-attribution claim, which became moot when MASS MoCA dismantled the installation in 2007.

\* \* \*

## V.

We summarize our holdings:

1. VARA’s protection of an artist’s moral rights extends to unfinished creations that are “works of art” within the meaning of the Copyright Act;
2. The right of integrity under VARA protects artists from distortions, mutilations or modifications of their works that are prejudicial to their reputation or honor, and prejudice must be shown for both injunctive relief and damages;
3. Büchel has adduced sufficient evidence to raise a genuine issue of material fact as to whether MASS MoCA violated his right of

integrity on one of his three asserted bases for liability, namely, by modifying “Training Ground” over his objections in a manner that harmed his honor or reputation. His right-of-integrity claims based on the yellow tarpaulins and the mere display of “Training Ground” lack merit;

4. Büchel’s right-of-attribution claim is moot, as VARA provides only injunctive relief to protect the right of attribution and the installation no longer exists;

\* \* \*

We thus remand the case for further proceedings on Büchel’s remaining right-of-integrity claim under VARA and his public display claim under section 106 of the Copyright Act.

### **GILLIAM V. AMERICAN BROADCASTING COMPANIES, INC.**

[538 F.2d 14 \(2d Cir. 1976\).](#)

LUMBARD, CIRCUIT JUDGE.

[Plaintiffs Gilliam et al., known as the “Monty Python” group, were the authors and copyright owners of certain television scripts which they licensed to BBC for production and public performance. The plaintiffs retained their copyright in the scripts, however, and the licensing agreement expressly reserved to them the right to object to any alterations of the recorded programs. BBC sublicensed the American television rights to Time-Warner. When Time-Warner granted broadcast rights to ABC, ABC edited the programs extensively in order to fit time constraints and insert commercials. After determining that the plaintiffs were likely to succeed on their claim that this unauthorized editing violated the plaintiffs’ exclusive right under 17 U.S.C. § 106(2) to create derivative works, the court of appeals addressed the plaintiffs’ claims under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).]

\* \* \*

Here, the appellants claim that the editing done for ABC mutilated the original work and that consequently the broadcast of those programs as the creation of Monty Python violated the Lanham Act § 43(a), 15 U.S.C. § 1125(a).<sup>10</sup> This statute, the federal counterpart to state unfair competition laws, has been invoked to prevent misrepresentations that may injure plaintiff’s business or personal reputation, even where no

<sup>10</sup> That statute provides in part:

Any person who shall affix, apply, or annex, or use in connection with any goods or services, . . . a false designation of origin, or any false description or representation . . . and shall cause such goods or services to enter into commerce . . . shall be liable to a civil action by any person . . . who believes that he is or is likely to be damaged by the use of any such false description or representation.

registered trademark is concerned. It is sufficient to violate the Act that a representation of a product, although technically true, creates a false impression of the product's origin. *See Rich v. RCA Corp.*, 390 F. Supp. 530 (S.D.N.Y.1975) (recent picture of plaintiff on cover of album containing songs recorded in distant past held to be a false representation that the songs were new).

These cases cannot be distinguished from the situation in which a television network broadcasts a program properly designated as having been written and performed by a group, but which has been edited, without the writer's consent, into a form that departs substantially from the original work. "To deform his work is to present him to the public as the creator of a work not his own, and thus makes him subject to criticism for work he has not done." Roeder, *The Doctrine of Moral Right*, 53 HARV. L. REV. 554, 569 (1940). In such a case, it is the writer or performer, rather than the network, who suffers the consequences of the mutilation, for the public will have only the final product by which to evaluate the work. Thus, an allegation that a defendant has presented to the public a "garbled," distorted version of plaintiff's work seeks to redress the very rights sought to be protected by the Lanham Act, 15 U.S.C. § 1125(a), and should be recognized as stating a cause of action under that statute. During the hearing on the preliminary injunction, Judge Lasker viewed the edited version of the Monty Python program broadcast on December 26 and the original, unedited version. After hearing argument of this appeal, this panel also viewed and compared the two versions. We find that the truncated version at times omitted the climax of the skits to which appellants' rare brand of humor was leading and at other times deleted essential elements in the schematic development of a story line. We therefore agree with Judge Lasker's conclusion that the edited version broadcast by ABC impaired the integrity of appellants' work and represented to the public as the product of appellants what was actually a mere caricature of their talents. We believe that a valid cause of action for such distortion exists and that therefore a preliminary injunction may issue to prevent repetition of the broadcast prior to final determination of the iss

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## CHAPTER 4

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### DEFENSES

## 1. COPYRIGHT MISUSE

### **LASERCOMB AMERICA, INC. v. REYNOLDS**

United States Court of Appeals for the Fourth Circuit.

911 F.2d 970 (1990).

SPROUSE, Circuit Judge:

Appellants Larry Holliday and Job Reynolds appeal from a district court judgment holding them liable to appellee Lasercomb America, Inc., for copyright infringement and for fraud, based on appellants' unauthorized copying and marketing of appellee's software. We affirm in part, reverse in part, and remand for recomputation of damages.

#### I

#### FACTS AND PROCEEDINGS BELOW

Appellants and defendants below are Larry Holliday, president and sole shareholder of Holiday Steel Rule Die Corporation (Holiday Steel), and Job Reynolds, a computer programmer for that company. Appellee is Lasercomb America, Inc. (Lasercomb), the plaintiff below. Holiday Steel and Lasercomb were competitors in the manufacture of steel rule dies that are used to cut and score paper and cardboard for folding into boxes and cartons. Lasercomb developed a software program, Interact, which is the object of the dispute between the parties. Using this program, a designer creates a template of a cardboard cutout on a computer screen and the software directs the mechanized creation of the conforming steel rule die.

In 1983, before Lasercomb was ready to market its Interact program generally, it licensed four prerelease copies to Holiday Steel which paid \$35,000 for the first copy, \$17,500 each for the next two copies, and \$2,000 for the fourth copy. Lasercomb informed Holiday Steel that it would charge \$2,000 for each additional copy Holiday Steel cared to purchase. Apparently ambitious to create for itself an even better deal, Holiday Steel circumvented the protective devices Lasercomb had provided with the software and made three unauthorized copies of Interact which it used on its computer systems. Perhaps buoyed by its success in copying, Holiday Steel then created a software program called "PDS-1000," which was almost entirely a direct copy of Interact, and marketed it as its own CAD/CAM die-making software. These infringing activities were accomplished by Job Reynolds at the direction of Larry Holliday.

There is no question that defendants engaged in unauthorized copying, and the purposefulness of their unlawful action is manifest from their deceptive practices. For example, Lasercomb had asked Holiday Steel to use devices called "chronoguards" to prevent unauthorized access to Interact. Although defendants had deduced how to circumvent the chronoguards and had removed them from their computers, they

represented to Lasercomb that the chronoguards were in use. Another example of subterfuge is Reynolds' attempt to modify the PDS-1000 program output so it would present a different appearance than the output from Interact.

When Lasercomb discovered Holiday Steel's activities, it registered its copyright in Interact and filed this action against Holiday Steel, Holliday, and Reynolds on March 7, 1986. Lasercomb claimed copyright infringement, breach of contract, misappropriation of trade secret, false designation of origin, unfair competition, and fraud. Defendants filed a number of counterclaims.

On March 24, 1986, the district court entered a preliminary injunction, enjoining defendants from marketing the PDS-1000 software.

The procedural history of this case is complex, with various claims and defenses experiencing both death and resurrection on various pretrial motions and at the bench trial itself. For purposes of this appeal it suffices to say that, ultimately, all of the counterclaims were dismissed; Lasercomb's claims of misappropriation of trade secret, false designation of origin, and unfair competition were dismissed as preempted by the Copyright Act; the court found the defendants liable to Lasercomb for copyright infringement, rejecting their affirmative defenses of misuse of copyright and lack of statutory copyright notice; and the court held for Lasercomb on its claims of breach of contract and fraud.

The district court awarded Lasercomb \$105,000 in actual damages for copyright infringement and for fraud—with Holiday Steel, Holliday, and Reynolds jointly and severally liable—plus \$10,000 against Holliday and \$5,000 against Reynolds as punitive damages on the fraud claim. All defendants were permanently enjoined from publishing and marketing the PDS-1000 software.

Holliday and Reynolds raise several issues on appeal. They do not dispute that they copied Interact, but they contend that Lasercomb is barred from recovery for infringement by its concomitant culpability. They assert that, assuming Lasercomb had a perfected copyright, it impermissibly abused it. This assertion of the "misuse of copyright" defense is based on language in Lasercomb's standard licensing agreement, restricting licensees from creating any of their own CAD/CAM die-making software. \*\*\*

## II

### MISUSE OF COPYRIGHT DEFENSE

A successful defense of misuse of copyright bars a culpable plaintiff from prevailing on an action for infringement of the misused copyright. Here, appellants claim Lasercomb has misused its copyright by including in its standard licensing agreement clauses which prevent the licensee

from participating in any manner in the creation of computer-assisted die-making software. The offending paragraphs read:

D. Licensee agrees during the term of this Agreement that it will not permit or suffer its directors, officers and employees, directly or indirectly, to write, develop, produce or sell computer assisted die making software.

E. Licensee agrees during the term of this Agreement and for one (1) year after the termination of this Agreement, that it will not write, develop, produce or sell or assist others in the writing, developing, producing or selling computer assisted die making software, directly or indirectly without Lasercomb's prior written consent. Any such activity undertaken without Lasercomb's written consent shall nullify any warranties or agreements of Lasercomb set forth herein.

The "term of this Agreement" referred to in these clauses is ninety-nine years. Defendants were not themselves bound by the standard licensing agreement. Lasercomb had sent the agreement to Holiday Steel with a request that it be signed and returned. Larry Holliday, however, decided not to sign the document, and Lasercomb apparently overlooked the fact that the document had not been returned. Although defendants were not party to the restrictions of which they complain, they proved at trial that at least one Interact licensee had entered into the standard agreement, including the anticompetitive language.

The district court rejected the copyright misuse defense for three reasons. First, it noted that defendants had not explicitly agreed to the contract clauses alleged to constitute copyright misuse. Second, it found "such a clause is reasonable in light of the delicate and sensitive area of computer software." And, third, it questioned whether such a defense exists. We consider the district court's reasoning in reverse order.

#### A. *Does a "Misuse of Copyright" Defense Exist?*

We agree with the district court that much uncertainty engulfs the "misuse of copyright" defense.

We are persuaded, however, that a misuse of copyright defense is inherent in the law of copyright just as a misuse of patent defense is inherent in patent law.

The misuse of a patent is a potential defense to suit for its infringement, and both the existence and parameters of that body of law are well established. E.g., *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457, 465, 77 S.Ct. 490, 494, 1 L.Ed.2d 465 (1957); see generally 8 E. Lipscomb, *Lipscomb's Walker on Patents* §§ 28:32–28:36 (3d ed. 1989) [hereinafter *Walker on Patents*]; Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr–Pennington*

Doctrine on Misuse Defenses and Antitrust Counterclaims, 38 Drake L.Rev. 175 (1989) [hereinafter Calkins, Patent Law]. Although there is little case law on the subject, courts from time to time have intimated that the similarity of rationales underlying the law of patents and the law of copyrights argues for a defense to an infringement of copyright based on misuse of the copyright. E.g., United States v. Loew's, Inc., 371 U.S. 38, 44–51, 83 S.Ct. 97, 101–05, 9 L.Ed.2d 11 (1962); United States v. Paramount Pictures, Inc., 334 U.S. 131, 157–59, 68 S.Ct. 915, 929–30, 92 L.Ed. 1260 (1948); Mitchell Bros. Film Group v. Cinema Adult Theater, 604 F.2d 852, 865 & n. 27 (5th Cir. 1979), cert. denied, 445 U.S. 917, 100 S.Ct. 1277, 63 L.Ed.2d 601 (1980). The origins of patent and copyright law in England, the treatment of these two aspects of intellectual property by the framers of our Constitution, and the later statutory and judicial development of patent and copyright law in this country persuade us that parallel public policies underlie the protection of both types of intellectual property rights. We think these parallel policies call for application of the misuse defense to copyright as well as patent law.

### *1. Overview*

Because of the paucity of precedent in the copyright misuse area, some historical perspective of the elements underlying intellectual property law is helpful to our inquiry. Fortunately, respected treatise authors have captured well the essence of the relevant historical perspective.

During the sixteenth century, it became common for the English Crown to grant “letters patent” which gave individuals exclusive rights to produce, import and/or sell given items within the kingdom. 1 Walker on Patents §§ 1:1–1:2. These monopolies were granted for such commonplace items as salt, vinegar, and calfskins, to name but a few. The practice of granting monopolies led to widespread abuses, such as shortages and inflated prices for items that would otherwise be easily and cheaply available. Consequently, Parliament passed the Statute of Monopolies (1623–24), prohibiting the creation of such monopolies by the Crown. Id. at § 1.5. An exception was made, however, to permit a patent to be granted for a period of fourteen years to the creator of a new invention. 21 Jac., ch. 3, § 6.

The rationale for allowing patents for new inventions was and is to encourage their creation for the benefit of society. 1 Walker on Patents § 1:6. The monopolies granted by the Crown had been odious because they restrained trade in articles that had previously been a part of the public domain. An invention, however, does not withdraw anything from public traffic; rather, it introduces something new. To encourage and reward inventors for increasing the inventory of useful objects, the government grants them, for a limited time, the right to exclude others from making and selling their inventions.

The development of copyright law in England likewise grew out of a differentiation by Parliament between a monopoly that restricts publication of works and a limited copyright that encourages the efforts of authors. In sixteenth-century England, the Crown granted to the Stationers' Company the exclusive right to publish and print all published works (apparently to enable censorship of Protestant materials). In the early 1700s, the Stationer's Company petitioned Parliament to recognize that these rights inured to it in perpetuity. Instead, Parliament passed the Statute of Anne (1709–10), the first known copyright legislation. A. Latman, *The Copyright Law: Howell's Copyright Law Revised and the 1976 Act 2–3* (5th ed. 1979) [hereinafter Howell's Copyright Law]; R. Bowker, *Copyright: Its History and Its Law* 21–23 (1912). That statute gave authors the sole right of publication for up to twenty-eight years.

Thus, the English statutory treatment of copyright was similar to that of patent in that it granted the creator a monopoly for a limited time only.

It is significant, we think, that the framers of our Constitution continued the English development of intellectual property law and considered in tandem those property rights protectable by copyrights and those protectable by patents. In giving Congress the power to create copyright and patent laws, the framers combined the two concepts in one clause, stating a unitary purpose—to promote progress. Article I, section 8, clause 8 of the United States Constitution provides:

[The Congress shall have power] To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

This clause was adopted without debate, and material explaining the intention of the framers is limited. However, a comment in *The Federalist* papers indicates the public policy behind the grant of copyright and patent powers is essentially the same:

The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged, in Great Britain, to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals.

*The Federalist*, No. 43 at 279 (J. Madison) (Mod.Lib. ed. 1941).<sup>13</sup>

<sup>13</sup> The Court of Customs and Patent Appeals observed that the patent/copyright clause was unusual in stating the reason the power had been granted, and commented:

Its inclusion doubtlessly was due to the fact that those who formulated the Constitution were familiar with the long struggle over monopolies so prominent in English history, where exclusive rights to engage even in ordinary business activities were granted so frequently by the Crown for the financial benefits accruing to the Crown only. It was desired that in this country any

Supreme Court comment has likewise equated the public policies of copyright and patent. For example, in *Mazer v. Stein*, 347 U.S. 201, 219, 74 S.Ct. 460, 471, 98 L.Ed. 630 (1953), the Supreme Court stated:

The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in “Science and useful Arts.” Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.

The philosophy behind copyright, parallel to that discussed above for patent, is that the public benefits from the efforts of authors to introduce new ideas and knowledge into the public domain. To encourage such efforts, society grants authors exclusive rights in their works for a limited time.

### *2. The Misuse of Patent Defense*

Although a patent misuse defense was recognized by the courts as early as 1917, most commentators point to *Morton Salt Co. v. G.S. Suppiger*, 314 U.S. 488, 62 S.Ct. 402, 86 L.Ed. 363 (1942), as the foundational patent misuse case. In that case, the plaintiff *Morton Salt* brought suit on the basis that the defendant had infringed Morton’s patent in a salt-depositing machine.

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Since *Morton Salt*, the courts have recognized patent misuse as a valid defense and have applied it in a number of cases in which patent owners have attempted to use their patents for price fixing, tie-ins, territorial restrictions, and so forth. See Calkins, *Patent Law*, at 187–89 n. 38, 8 Walker on Patents §§ 28:32–28:36; W. Holmes, *Intellectual Property and Antitrust Law* § 1.07 (1989) [hereinafter Holmes, *Intellectual Property*]. The patent misuse defense also has been acknowledged by Congress in the 1988 Patent Misuse Reform Act, Pub.L. No. 100–703, 102 Stat. 4676 (1988) (codified at 35 U.S.C. § 271(d)(4) & (5)), which limited but did not eliminate the defense.

### *3. The “Misuse of Copyright” Defense*

Although the patent misuse defense has been generally recognized since *Morton Salt*, it has been much less certain whether an analogous copyright misuse defense exists. This uncertainty persists because no United States Supreme Court decision has firmly established a copyright misuse defense in a manner analogous to the establishment of the patent

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Government grant of a monopoly for even a limited time should be limited to those things which serve in the promotion of science and the useful arts.

In Re Shao Wen Yuan, 188 F.2d 377, 380 (C.C.P.A.1951).

misuse defense by *Morton Salt*. The few courts considering the issue have split on whether the defense should be recognized, see Holmes, Intellectual Property § 4.09 (collecting cases), and we have discovered only one case which has actually applied copyright misuse to bar an action for infringement. *M. Witmark & Sons v. Jensen*, 80 F.Supp. 843 (D.Minn.1948), appeal dismissed, 177 F.2d 515 (8th Cir.1949).

We are of the view, however, that since copyright and patent law serve parallel public interests, a “misuse” defense should apply to infringement actions brought to vindicate either right. As discussed above, the similarity of the policies underlying patent and copyright is great and historically has been consistently recognized. Both patent law and copyright law seek to increase the store of human knowledge and arts by rewarding inventors and authors with the exclusive rights to their works for a limited time. At the same time, the granted monopoly power does not extend to property not covered by the patent or copyright. *Morton Salt*, 314 U.S. at 492, 62 S.Ct. at 405; *Paramount Pictures*, 334 U.S. at 156–58, 68 S.Ct. at 928–29; cf. *Baker v. Selden*, 101 U.S. 99, 101–04, 25 L.Ed. 841 (1880).

Thus, we are persuaded that the rationale of *Morton Salt* in establishing the misuse defense applies to copyrights. \*\*\* Having determined that “misuse of copyright” is a valid defense, analogous to the misuse of patent defense, our next task is to determine whether the defense should have been applied by the district court to bar Lasercomb’s infringement action against the defendants in this case.

#### *B. The District Court’s Finding that the Anticompetitive Clauses Are Reasonable*

In declining to recognize a misuse of copyright defense, the district court found “reasonable” Lasercomb’s attempt to protect its software copyright by using anticompetitive clauses in their licensing agreement. In briefly expressing its reasoning, the court referred to the “delicate and sensitive” nature of software. It also observed that Lasercomb’s president had testified that the noncompete language was negotiable.

If, as it appears, the district court analogized from the “rule of reason” concept of antitrust law, we think its reliance on that principle was misplaced. Such reliance is, however, understandable.

Both the presentation by appellants and the literature tend to intermingle antitrust and misuse defenses. E.g., Holmes, Intellectual Property, at § 4.09. A patent or copyright is often regarded as a limited monopoly—an exception to the general public policy against restraints of trade. Since antitrust law is the statutory embodiment of that public policy, there is an understandable association of antitrust law with the misuse defense. Certainly, an entity which uses its patent as the means of violating antitrust law is subject to a misuse of patent defense. However, *Morton*

*Salt* held that it is not necessary to prove an antitrust violation in order to successfully assert patent misuse:

It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged infringing machines is contrary to public policy and that the district court rightly dismissed the complaint for want of equity.

314 U.S. at 494, 62 S.Ct. at 406. See also *Hensley Equip. Co. v. Esco Corp.*, 383 F.2d 252, 261 & n. 19, amended on reh'g, 386 F.2d 442 (5th Cir.1967); 8 Walker on Patents, at § 28:33.

So while it is true that the attempted use of a copyright to violate antitrust law probably would give rise to a misuse of copyright defense, the converse is not necessarily true—a misuse need not be a violation of antitrust law in order to comprise an equitable defense to an infringement action. The question is not whether the copyright is being used in a manner violative of antitrust law (such as whether the licensing agreement is “reasonable”), but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.

Lasercomb undoubtedly has the right to protect against copying of the Interact code. Its standard licensing agreement, however, goes much further and essentially attempts to suppress any attempt by the licensee to independently implement the idea which Interact expresses.

The agreement forbids the licensee to develop or assist in developing any kind of computer-assisted die-making software. If the licensee is a business, it is to prevent all its directors, officers and employees from assisting in any manner to develop computer-assisted die-making software. Although one or another licensee might succeed in negotiating out the noncompete provisions, this does not negate the fact that Lasercomb is attempting to use its copyright in a manner adverse to the public policy embodied in copyright law, and that it has succeeded in doing so with at least one licensee. See *supra* note 8 and accompanying text. Cf. *Berlenbach v. Anderson & Thompson Ski Co.*, 329 F.2d 782, 784–85 (9th Cir.), cert. denied, 379 U.S. 830, 85 S.Ct. 60, 13 L.Ed.2d 39 (1964).

The language employed in the Lasercomb agreement is extremely broad. Each time Lasercomb sells its Interact program to a company and obtains that company's agreement to the noncompete language, the company is required to forego utilization of the creative abilities of all its officers, directors and employees in the area of CAD/CAM die-making software. Of yet greater concern, these creative abilities are withdrawn from the public. The period for which this anticompetitive restraint exists is ninety-nine years, which could be longer than the life of the copyright itself.

We previously have considered the effect of anticompetitive language in a licensing agreement in the context of patent misuse. *Compton v. Metal Products, Inc.*, 453 F.2d 38 (4th Cir.1971), cert. denied, 406 U.S. 968, 92 S.Ct. 2414, 32 L.Ed.2d 667 (1972). Compton had invented and patented coal auguring equipment. He granted an exclusive license in the patents to Joy Manufacturing, and the license agreement included a provision that Compton would not “engage in any business or activity relating to the manufacture or sale of equipment of the type licensed hereunder” for as long as he was due royalties under the patents. Suit for infringement of the Compton patents was brought against Metal Products, and the district court granted injunctive relief and damages. On appeal we held that relief for the infringement was barred by the misuse defense, stating:

The need of Joy to protect its investment does not outweigh the public's right under our system to expect competition and the benefits which flow therefrom, and the total withdrawal of Compton from the mining machine business . . . everywhere in the world for a period of 20 years unreasonably lessens the competition which the public has a right to expect, and constitutes misuse of the patents.

*Id.* at 45. Cf. *Berlenbach*, *supra* (applying misuse doctrine where license to sell patented ski bindings prohibited licensee from manufacturing or selling any competing ski binding).

We think the anticompetitive language in Lasercomb's licensing agreement is at least as egregious as that which led us to bar the infringement action in Compton, and therefore amounts to misuse of its copyright. Again, the analysis necessary to a finding of misuse is similar to but separate from the analysis necessary to a finding of antitrust violation. The misuse arises from Lasercomb's attempt to use its copyright in a particular expression, the Interact software, to control competition in an area outside the copyright, i.e., the idea of computer-assisted die manufacture, regardless of whether such conduct amounts to an antitrust violation.

### C. *The Effect of Appellants Not Being Party to the Anticompetitive Contract*

In its rejection of the copyright misuse defense, the district court emphasized that Holiday Steel was not explicitly party to a licensing agreement containing the offending language.

However, again analogizing to patent misuse, the defense of copyright misuse is available even if the defendants themselves have not been injured by the misuse. In *Morton Salt*, the defendant was not a party to the license requirement that only Morton-produced salt tablets be used with Morton's salt-depositing machine. Nevertheless, suit against defendant for infringement of Morton's patent was barred on public policy grounds.

Similarly, in Compton, even though the defendant Metal Products was not a party to the license agreement that restrained competition by Compton, suit against Metal Products was barred because of the public interest in free competition. See also Hensley Equip. Co., 383 F.2d at 261; cf. Berlenbach, 329 F.2d at 784–85.

Therefore, the fact that appellants here were not parties to one of Lasercomb's standard license agreements is inapposite to their copyright misuse defense. The question is whether Lasercomb is using its copyright in a manner contrary to public policy, which question we have answered in the affirmative.

In sum, we find that misuse of copyright is a valid defense, that Lasercomb's anticompetitive clauses in its standard licensing agreement constitute misuse of copyright, and that the defense is available to appellants even though they were not parties to the standard licensing agreement.

Holding that Lasercomb should have been barred by the defense of copyright misuse from suing for infringement of its copyright in the Interact program, we reverse the injunction and the award of damages for copyright infringement. \* \* \*

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED.

### **ATARI GAMES CORP. v. NINTENDO OF AMERICA INC.**

United States Court of Appeals for the Federal Circuit

975 F.2d 832 (1992)

RADER, Circuit Judge.

Nintendo of America Inc., and Nintendo Co., Ltd. sell the Nintendo Entertainment System (NES). Two of Nintendo's competitors, Atari Games Corporation and its wholly-owned subsidiary, Tengen, Inc., sued Nintendo for, among other things, unfair competition, Sherman Act violations, and patent infringement. Nintendo sued Atari for, among other things, unfair competition, patent infringement, copyright infringement, and trade secret violations. The United States District Court for the Northern District of California consolidated the two cases and preliminarily enjoined Atari from exploiting Nintendo's copyrighted computer program. Because Nintendo has shown a likelihood of success on its copyright infringement claims, this court affirms.

### **BACKGROUND**

Nintendo's home video game system—the NES—includes a monitor, console, and controls. The console is a base unit into which a user inserts game

cartridges. These cartridges contain the various game programs for the NES. As dictated by the program on the cartridge, the console controls an image on a video monitor, often a television set. In response to this video display, the user interacts with the system by manipulating the controls. Thus, by operating the controls in response to the video image, an individual plays the game on the cartridge in the NES console. \*\*\*

Nintendo designed a program—the 10NES—to prevent the NES from accepting unauthorized game cartridges. Both the NES console and authorized game cartridges contain microprocessors or chips programmed with the 10NES. The console contains a “master chip” or “lock.” Authorized game cartridges contain a “slave chip” or “key.” When a user inserts an authorized cartridge into a console, the slave chip in effect unlocks the console; the console detects a coded message and accepts the game cartridge. When a user inserts an unauthorized cartridge, the console detects no unlocking message and refuses to operate the cartridge. Nintendo’s 10NES program thus controls access to the NES.

Atari first attempted to analyze and replicate the NES security system in 1986. Atari could not break the 10NES program code by monitoring the communication between the master and slave chips. Atari next tried to break the code by analyzing the chips themselves. Atari analysts chemically peeled layers from the NES chips to allow microscopic examination of the object code. Nonetheless, Atari still could not decipher the code sufficiently to replicate the NES security system.

In December 1987, Atari became a Nintendo licensee. Atari paid Nintendo to gain access to the NES for its video games. The license terms, however, strictly controlled Atari’s access to Nintendo’s technology, including the 10NES program. Under the license, Nintendo would take Atari’s games, place them in cartridges containing the 10NES program, and resell them to Atari. Atari could then market the games to NES owners. Nintendo limited all licensees, including Atari, to five new NES games per year. The Nintendo license also prohibited Atari from licensing NES games to other home video game systems for two years from Atari’s first sale of the game.

In early 1988, Atari’s attorney applied to the Copyright Office for a reproduction of the 10NES program. The application stated that Atari was a defendant in an infringement action and needed a copy of the program for that litigation. Atari falsely alleged that it was a present defendant in a case in the Northern District of California. Atari assured the “Library of Congress that the requested copy [would] be used only in connection with the specified litigation.” In fact, no suit existed between the parties until December 1988,

when Atari sued Nintendo for antitrust violations and unfair competition. Nintendo filed no infringement action against Atari until November 1989.

After obtaining the 10NES source code from the Copyright Office, Atari again tried to read the object code from peeled chips. Through microscopic examination, Atari's analysts transcribed the 10NES object code into a handwritten representation of zeros and ones. Atari used the information from the Copyright Office to correct errors in this transcription. The Copyright Office copy facilitated Atari's replication of the 10NES object code.

After deciphering the 10NES program, Atari developed its own program—the Rabbit program—to unlock the NES. Atari's Rabbit program generates signals indistinguishable from the 10NES program. The Rabbit uses a different microprocessor. The Rabbit chip, for instance, operates faster. Thus, to generate signals recognizable by the 10NES master chip, the Rabbit program must include pauses. Atari also programmed the Rabbit in a different language. Because Atari chose a different microprocessor and programming language, the line-by-line instructions of the 10NES and Rabbit programs vary. Nonetheless, as the district court found, the Rabbit program generates signals functionally indistinguishable from the 10NES program. The Rabbit gave Atari access to NES owners without Nintendo's strict license conditions.

Nintendo asked the district court to enjoin Atari's alleged infringement of its 10NES copyright. Atari sought in a separate motion to enjoin Nintendo's alleged antitrust violations and alleged misuse of its property rights. Nintendo prevailed on both motions. Atari appealed both rulings but subsequently moved to dismiss its appeal from the denial of its motion for a preliminary injunction. This court granted that motion. Atari asserts copyright misuse as a defense to copyright infringement.

## ANALYSIS

\*\*\* Nintendo is likely to show that its 10NES program contains protectable expression. Atari's efforts to reverse engineer the 10NES chip to learn the ideas in the program will not alone support a copyright infringement claim. To the extent, however, Nintendo is likely to show misappropriation and copying of the unauthorized Copyright Office copy, it is likely to succeed on the merits of its infringement claim. Alternatively, Nintendo is likely to prove substantial similarity between the Rabbit and 10NES programs sufficient to support its infringement claims. This record thus justifies the trial court's imposition of a preliminary injunction.

### Copyright Misuse

As a defense to copyright infringement, Atari asserts Nintendo has misused its copyright of the lockout program. Atari alleges Nintendo has conditioned the license of its copyrighted lockout program on the acceptance of contract provisions that give it control over the games developed by independent, third-party software developers. The standard license exclusivity provision Nintendo includes in its contracts provides:

Exclusivity: LICENSEE agrees to sell the Licensed Products for use only in conjunction with the NES. For a period of two (2) years following the date of first sale by LICENSEE of any Licensed Products pertaining to any particular video game program developed by LICENSEE under this Agreement, LICENSEE will not adapt or offer such video game program or any derivatives of such video game program, for use in any: (a) other home video system; or, (b) home computer system....

The district court granted Nintendo's motion for preliminary injunction in response to which Atari asserted the copyright misuse defense. Atari contends Nintendo's copyright misuse should prevent copyright enforcement. The district court did not discuss copyright misuse in its order granting the preliminary injunction. However, on Atari's earlier motion for summary judgment, the court held, as a matter of law, that Nintendo did not misuse its copyright:

The record does not demonstrate, as a matter of law, that such restrictions restrain the creativity of Nintendo licensees and thereby thwart the intent of the patent and copyright laws.

In its opinion, the district court raised questions about the origin of a copyright misuse defense. Once again, this court applies Ninth Circuit law. *Sun Studs v. Applied Theory Assoc.*, 772 F.2d 1557, 1560–61 (Fed.Cir.1985).

Several circuit courts, including the Ninth Circuit, have entertained defenses of copyright misuse. *Lasercomb Am. v. Reynolds*, 911 F.2d 970 (4th Cir.1990); *United Tel. Co. v. Johnson Publishing Co.*, 855 F.2d 604, 610–12 (8th Cir.1988); *Supermarket of Homes v. San Fernando Valley Bd. of Realtors*, 786 F.2d 1400, 1408 (9th Cir.1986); *F.E.L. Publications v. Catholic Bishop*, 214 U.S.P.Q. 409, 413 (7th Cir.), cert. denied, 459 U.S. 859, 103 S.Ct. 131, 74 L.Ed.2d 113 (1982); *Edward B. Marks Music v. Colorado Magnetics*, 497 F.2d 285, 290 (10th Cir.1974), cert. denied, 419 U.S. 1120, 95 S.Ct. 801, 42 L.Ed.2d 819 (1975); *Broadcast Music v. Moor-Law*, 527 F.Supp. 758, 772 (D.Del.1981), aff'd without opinion, 691 F.2d 490 (3rd Cir.1982); *Mitchell Bros. Film Group v. Cinema Adult Theater*, 604 F.2d 852, 865 (5th Cir.1979), cert. denied, 445 U.S. 917, 100 S.Ct. 1277, 63 L.Ed.2d 601 (1980). Only one circuit has sustained the defense. *Lasercomb*, 911 F.2d at 970. Although no Ninth Circuit case has applied the defense to prevent enforcement of a copyright infringement claim,

the Ninth Circuit suggests that, under the appropriate factual setting, copyright misuse may be a viable defense against a claim of copyright infringement. *Supermarket of Homes*, 786 F.2d at 1408; see also, *Sega Enter.*, at 1399.

Although it has yet to apply the copyright misuse defense, the United States Supreme Court has given at least tacit approval of the defense. *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S.Ct. 97, 9 L.Ed.2d 11 (1962). In *Loew's*, the Court applied principles of patent misuse to a patentee's unlawful tying arrangements and held that recovery for infringement should be denied. The Court then went on to apply, with reference to the copyrights, the same antitrust restrictions on tie-in of sales. Numerous cases suggest that the purpose and policy of patent misuse apply as well to copyright. See, e.g., *Sony Corp.*, 464 U.S. at 439, 104 S.Ct. at 787; *Loew's*, 371 U.S. at 44–51, 83 S.Ct. at 101–05; *United States v. Paramount Pictures*, 334 U.S. 131, 157–59, 68 S.Ct. 915, 929–30, 92 L.Ed. 1260 (1948); *Mitchell Bros.*, 604 F.2d at 865; *Bellsouth*, 933 F.2d at 960–61.

In the absence of any statutory entitlement to a copyright misuse defense, however, the defense is solely an equitable doctrine. Any party seeking equitable relief must come to the court with “clean hands.” *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240, 245, 54 S.Ct. 146, 147, 78 L.Ed. 293 (1933). The Ninth Circuit has noted that the doctrine of unclean hands can also preclude the defense of copyright misuse. *Supermarket of Homes*, 786 F.2d at 1408. The district court states, “Atari lied to the Copyright Office in order to obtain the copyrighted 10NES program.” This record supports the district court’s conclusion and suggests that Atari’s unclean hands prevent it from invoking equity. Thus, even if the Ninth Circuit permits an equitable copyright misuse defense, Atari appears ineligible to invoke the defense. This court discerns no reversible error in the district court’s assessment of Nintendo’s likelihood of success on the merits of its copyright infringement claim.

## CONCLUSION

The district court did not err by granting Nintendo’s request for a preliminary injunction. Nintendo is likely to prove that the 10NES program contains protected expression. Nintendo is also likely to prove that Atari made unauthorized verbatim copies of the 10NES program. On this record, the district court did not err in determining that Nintendo is likely to show successfully that Atari infringed the 10NES copyright by obtaining and copying the source code from the Copyright Office. Furthermore, Nintendo is likely to prove that Atari’s Rabbit program is substantially similar to the 10NES program and that the similarities relate to protected expression. Nintendo is also likely to overcome Atari’s assertion of copyright misuse as a defense. Atari presents no arguments to rebut the presumption of irreparable harm that arises upon a showing of likelihood of success on the merits.

**IN RE INDEPENDENT SERVICE ORGANIZATIONS  
ANTITRUST LITIGATION  
(CSU, L.L.C. V. XEROX CORPORATION)**

United States Court of Appeals for the Federal Circuit.  
203 F.3d 1322 (2000).

MAYER, Chief Judge.

CSU, L.L.C. appeals the judgment of the United States District Court for the District of Kansas, dismissing on summary judgment CSU's claims that Xerox's refusal to sell patented parts and copyrighted manuals and to license copyrighted software violate the antitrust laws. Because we agree with the district court that CSU has not raised a genuine issue as to any material fact and that Xerox is entitled to judgment as a matter of law, we affirm.

**BACKGROUND**

Xerox manufactures, sells, and services high-volume copiers. Beginning in 1984, it established a policy of not selling parts unique to its series 10 copiers to independent service organizations ("ISOs"), including CSU, unless they were also end-users of the copiers. In 1987, the policy was expanded to include all new products as well as existing series 9 copiers. Enforcement of this policy was tightened in 1989, and Xerox cut off CSU's direct purchase of restricted parts. Xerox also implemented an "on-site end-user verification" procedure to confirm that the parts ordered by certain ISOs or their customers were actually for their end-user use. Initially this procedure applied to only the six most successful ISOs, which included CSU.

To maintain its existing business of servicing Xerox equipment, CSU used parts cannibalized from used Xerox equipment, parts obtained from other ISOs, and parts purchased through a limited number of its customers. For approximately one year, CSU also obtained parts from Rank Xerox, a majority-owned European affiliate of Xerox, until Xerox forced Rank Xerox to stop selling parts to CSU and other ISOs. In 1994, Xerox settled an antitrust lawsuit with a class of ISOs by which it agreed to suspend its restrictive parts policy for six and one-half years and to license its diagnostic software for four and one-half years. CSU opted out of that settlement and filed this suit alleging that Xerox violated the Sherman Act by setting the prices on its patented parts much higher for ISOs than for end-users to force ISOs to raise their prices. This would eliminate ISOs in general and CSU in particular as competitors in the relevant service markets for high speed copiers and printers.

Xerox counterclaimed for patent and copyright infringement and contested CSU's antitrust claims as relying on injury solely caused by Xerox's lawful refusal to sell or license patented parts and copyrighted software. Xerox also claimed that CSU could not assert a patent or copyright misuse defense to Xerox's infringement counterclaims based on Xerox's refusal to deal.

The district court granted summary judgment to Xerox dismissing CSU's antitrust claims and holding that if a patent or copyright is lawfully acquired, the patent or copyright holder's unilateral refusal to sell or license its patented invention or copyrighted expression is not unlawful exclusionary conduct under the antitrust laws, even if the refusal to deal impacts competition in more than one market. The court also held, in both the patent and copyright contexts, that the right holder's intent in refusing to deal and any other alleged exclusionary acts committed by the right holder are irrelevant to antitrust law. This appeal followed.

## DISCUSSION

The issue is whether the district court erred in granting Xerox's motion for summary judgment on CSU's antitrust claims. \* \* \*

As a general proposition, when reviewing a district court's judgment involving federal antitrust law, we are guided by the law of the regional circuit in which that district court sits, in this case the Tenth Circuit. See *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068, 46 USPQ2d 1097, 1104 (Fed.Cir.1998). We apply our own law, not regional circuit law, to resolve issues that clearly involve our exclusive jurisdiction. See *Pro-Mold & Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1574–75, 37 USPQ2d 1626, 1631 (Fed.Cir.1996). “Whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law.” *Nobelpharma*, 141 F.3d at 1068, 46 USPQ2d at 1104; see *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1360, 50 USPQ2d 1672, 1676 (Fed.Cir.1999) (en banc in relevant part) (“*Pro-Mold* and *Nobelpharma* make clear that our responsibility as the tribunal having sole appellate responsibility for the development of patent law requires that we do more than simply apply our law to questions of substantive patent law. In order to fulfill our obligation of promoting uniformity in the field of patent law, it is equally important to apply our construction of patent law to the questions whether and to what extent patent law preempts or conflicts with other causes of action.”). The district court's grant of summary judgment as to CSU's antitrust claims arising from Xerox's refusal to sell its patented parts is therefore reviewed as a matter of Federal Circuit law, while consideration of the antitrust claim based on Xerox's refusal to sell or license its copyrighted manuals and software is under Tenth Circuit law.

### A.

Intellectual property rights do not confer a privilege to violate the antitrust laws. See *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362, 52 USPQ2d 1641, 1652 (Fed.Cir.1999). “But it is also correct that the antitrust laws do not negate the patentee's right to exclude others from patent property.” *Id.* (citation omitted). “The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist.” *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1354, 21 USPQ2d 1192, 1199 (Fed.Cir.1991). “The patent right must be ‘coupled with

violations of § 2', and the elements of violation of 15 U.S.C. § 2 must be met." Id. (citations omitted). "Determination of whether the patentee meets the Sherman Act elements of monopolization or attempt to monopolize is governed by the rules of application of the antitrust laws to market participants, with due consideration to the exclusivity that inheres in the patent grant." Id. at 1354–55, 952 F.2d 1346, 21 USPQ2d at 1199 (citations omitted).

A patent alone does not demonstrate market power. See id. at 1355, 952 F.2d 1346, 21 USPQ2d at 1199. The United States Department of Justice and Federal Trade Commission have issued guidance that, even where it exists, such "market power does not 'impose on the intellectual property owner an obligation to license the use of that property to others.'" Intergraph, 195 F.3d at 1362, 52 USPQ2d at 1652 (citing United States Department of Justice and Federal Trade Comm'n Antitrust Guidelines for the Licensing of Intellectual Property 4 (1995)). There is "no reported case in which a court ha[s] imposed antitrust liability for a unilateral refusal to sell or license a patent. . ." Id. (citing *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1216, 44 USPQ2d 1065, 1079 (9th Cir.1997)). The patentee's right to exclude is further supported by section 271(d) of the Patent Act which states, in pertinent part, that "[n]o patent owner otherwise entitled to relief . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . (4) refused to license or use any rights to the patent . ." 35 U.S.C. § 271(d) (1999) (emphasis added).

The patentee's right to exclude, however, is not without limit. As we recently observed in *Glass Equipment Development Inc. v. Besten, Inc.*, a patent owner who brings suit to enforce the statutory right to exclude others from making, using, or selling the claimed invention is exempt from the antitrust laws, even though such a suit may have an anticompetitive effect, unless the infringement defendant proves one of two conditions. 174 F.3d 1337, 1343, 50 USPQ2d 1300, 1304 (Fed.Cir.1999) (citing *Nobelpharma*, 141 F.3d at 1068, 46 USPQ2d at 1104). First, he may prove that the asserted patent was obtained through knowing and willful fraud within the meaning of *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172, 177, 86 S.Ct. 347, 15 L.Ed.2d 247 (1965). See *Glass Equip. Dev.*, 174 F.3d at 1343. Or he may demonstrate that the infringement suit was a mere sham to cover what is actually no more than an attempt to interfere directly with the business relationships of a competitor. See id. (citing *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144, 81 S.Ct. 523, 5 L.Ed.2d 464 (1961)). Here, CSU makes no claim that Xerox obtained its patents through fraud in the Patent and Trademark Office; the Walker Process analysis is not implicated.

"[I]rrespective of the patent applicant's conduct before the [Patent and Trademark Office], an antitrust claim can also be based on [an] allegation that a suit is baseless; in order to prove that a suit was within Noerr's 'sham' exception to immunity, [see *Noerr*, 365 U.S. at 144, 81 S.Ct. 523], an antitrust plaintiff must prove that the suit was both objectively baseless and subjectively motivated by a desire to impose collateral, anti-competitive injury rather than

to obtain a justifiable legal remedy.” Nobelpharma, 141 F.3d at 1071, 46 USPQ2d at 1107 (citing *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 60–61, 113 S.Ct. 1920, 123 L.Ed.2d 611, 26 USPQ2d 1641, 1646 (1993)). “Accordingly, if a suit is not objectively baseless, an antitrust defendant’s subjective motivation is immaterial.” Id. at 1072, 46 USPQ2d at 1107. CSU has alleged that Xerox misused its patents but has not claimed that Xerox’s patent infringement counterclaims were shams.

To support its argument that Xerox illegally sought to leverage its presumably legitimate dominance in the equipment and parts market into dominance in the service market, CSU relies on a footnote in *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451, 480 n. 29, 112 S.Ct. 2072, 2089 n. 29, 119 L.Ed.2d 265 (1992), that “[t]he Court has held many times that power gained through some natural and legal advantage such as a patent, . . . can give rise to liability if ‘a seller exploits his dominant position in one market to expand his empire into the next.’” Notably, Kodak was a tying case when it came before the Supreme Court, and no patents had been asserted in defense of the antitrust claims against Kodak. Conversely, there are no claims in this case of illegally tying the sale of Xerox’s patented parts to unpatented products. Therefore, the issue was not resolved by the Kodak language cited by CSU. Properly viewed within the framework of a tying case, the footnote can be interpreted as restating the undisputed premise that the patent holder cannot use his statutory right to refuse to sell patented parts to gain a monopoly in a market beyond the scope of the patent. See, e.g., *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1576, 14 USPQ2d 1034, 1037 (Fed.Cir.1990) (“[A] patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, i.e. beyond the limits of what Congress intended to give in the patent laws.”).

The cited language from Kodak does nothing to limit the right of the patentee to refuse to sell or license in markets within the scope of the statutory patent grant. In fact, we have expressly held that, absent exceptional circumstances, a patent may confer the right to exclude competition altogether in more than one antitrust market. See *B. Braun Med., Inc. v. Abbott Lab.*, 124 F.3d 1419, 1427 n. 4, 43 USPQ2d 1896, 1902 n. 4 (Fed.Cir.1997) (patentee had right to exclude competition in both the market for patented valves and the market for extension sets incorporating patented valves).

CSU further relies on the Ninth Circuit’s holding on remand in *Image Technical Services* that “‘while exclusionary conduct can include a monopolist’s unilateral refusal to license a [patent] or to sell its patented . . . work, a monopolist’s ‘desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers.’” 125 F.3d at 1218, 44 USPQ2d at 1081 (citing *Data General Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187, 32 USPQ2d 1385, 1417 (1st Cir.1994)). By that case, the Ninth Circuit adopted a rebuttable presumption that the exercise of the statutory right to exclude provides a valid business justification for consumer harm, but then excused as harmless the district court’s error in failing to give any instruction on the effect of

intellectual property rights on the application of the antitrust laws. See *id.* at 1219–20, 44 USPQ2d at 1081. It concluded that the jury must have rejected the presumptively valid business justification as pretextual. See *id.* This logic requires an evaluation of the patentee’s subjective motivation for refusing to sell or license its patented products for pretext. We decline to follow Image Technical Services.

We have held that “if a [patent infringement] suit is not objectively baseless, an antitrust defendant’s subjective motivation is immaterial.” *Nobelpharma*, 141 F.3d at 1072, 46 USPQ2d at 1107. We see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right. In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws. We therefore will not inquire into his subjective motivation for exerting his statutory rights, even though his refusal to sell or license his patented invention may have an anticompetitive effect, so long as that anticompetitive effect is not illegally extended beyond the statutory patent grant. See *Glass Equip. Dev.*, 174 F.3d at 1343, 50 USPQ2d at 1304. It is the infringement defendant and not the patentee that bears the burden to show that one of these exceptional situations exists and, in the absence of such proof, we will not inquire into the patentee’s motivations for asserting his statutory right to exclude. Even in cases where the infringement defendant has met this burden, which CSU has not, he must then also prove the elements of the Sherman Act violation.

We answer the threshold question of whether Xerox’s refusal to sell its patented parts exceeds the scope of the patent grant in the negative. Therefore, our inquiry is at an end. Xerox was under no obligation to sell or license its patented parts and did not violate the antitrust laws by refusing to do so.

## B.

The Copyright Act expressly grants a copyright owner the exclusive right to distribute the protected work by “transfer of ownership, or by rental, lease, or lending.” 17 U.S.C. § 106(3) (1996). “[T]he owner of the copyright, if [it] pleases, may refrain from vending or licensing and content [itself] with simply exercising the right to exclude others from using [its] property.” *Data General*, 36 F.3d at 1186, 32 USPQ2d at 1416 (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 52 S.Ct. 546, 547, 76 L.Ed. 1010 (1932)).

The Supreme Court has made clear that the property right granted by copyright law cannot be used with impunity to extend power in the marketplace beyond what Congress intended. See *United States v. Loew’s, Inc.*, 371 U.S. 38, 47–48, 83 S.Ct. 97, 103–04, 9 L.Ed.2d 11 (1962) (block booking of copyrighted motion pictures is illegal tying in violation of Sherman Act). The Court has not, however, directly addressed the antitrust implications of a unilateral refusal to sell or license copyrighted expression.

The Tenth Circuit has not addressed in any published opinion the extent to which the unilateral refusal to sell or license copyrighted expression can form the basis of a violation of the Sherman Act. We are therefore left to determine how that circuit would likely resolve the issue; the precedent of other circuits is instructive in that consideration. The Fourth Circuit has rejected a claim of illegal tying, supported only by evidence of a unilateral decision to license copyrighted diagnostic software to some but not to others. See *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 686, 23 USPQ2d 1102, 1106 (4th Cir.1992). In reaching this conclusion, the court recognized the copyright owner's exclusive right to "sell, rent, lease, lend, or otherwise distribute copies of a copyrighted work," *id.* (citing 17 U.S.C. § 106(3)), and concluded that "Section 1 of the Sherman Act does not entitle 'a purchaser . . . to buy a product that the seller does not wish to offer for sale.'" *Id.* (citing *Jefferson Parish Hosp. Dist. v. Hyde*, 466 U.S. 2, 24 n. 40, 104 S.Ct. 1551, 80 L.Ed.2d 2 (1984)).

Perhaps the most extensive analysis of the effect of a unilateral refusal to license copyrighted expression was conducted by the First Circuit in *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 32 USPQ2d 1385. There, the court noted that the limited copyright monopoly is based on Congress' empirical assumption that the right to "exclude others from using their works creates a system of incentives that promotes consumer welfare in the long term by encouraging investment in the creation of desirable artistic and functional works of expression. . . . We cannot require antitrust defendants to prove and reprove the merits of this legislative assumption in every case where a refusal to license a copyrighted work comes under attack." *Id.* at 1186–87, 36 F.3d 1147, 32 USPQ2d at 1416. The court went on to establish as a legal standard that "while exclusionary conduct can include a monopolist's unilateral refusal to license a copyright, an author's desire to exclude others from use of its copyrighted work is a presumptively valid business justification for any immediate harm to consumers." See *id.* at 1187, 36 F.3d 1147, 32 USPQ2d at 1417. The burden to overcome this presumption was firmly placed on the antitrust plaintiff. The court gave no weight to evidence showing knowledge that developing a proprietary position would help to maintain a monopoly in the service market in the face of contrary evidence of the defendant's desire to develop state-of-the-art diagnostic software to enhance its service and consumer benefit. See *id.* at 1188–89, 36 F.3d 1147, 32 USPQ2d at 1418.

As discussed above, the Ninth Circuit adopted a modified version of this Data General standard. Both courts agreed that the presumption could be rebutted by evidence that "the monopolist acquired the protection of the intellectual property laws in an unlawful manner." *Image Technical Servs.*, 125 F.3d at 1219, 44 USPQ2d at 1082 (citing *Data General*, 36 F.3d at 1188, 32 USPQ2d at 1418). The Ninth Circuit, however, extended the possible means of rebutting the presumption to include evidence that the defense and exploitation of the copyright grant was merely a pretextual business justification to mask anticompetitive conduct. See *id.* The hazards of this approach are evident in both the path taken and the outcome reached. The jury

in that case was instructed to examine each proffered business justification for pretext, and no weight was given to the intellectual property rights in the instructions. See *id.* at 1218, 1220 n. 12, 44 USPQ2d at 1082 n. 12. This permitted the jury to second guess the subjective motivation of the copyright holder in asserting its statutory rights to exclude under the copyright laws without properly weighing the presumption of legitimacy in asserting its rights under the copyright laws. While concluding that the failure to weigh the intellectual property rights was an abuse of discretion, the Ninth Circuit nevertheless held the error harmless because it thought the jury must have rejected the presumptive validity of asserting the copyrights as pretextual. See *id.* at 1219–20, 125 F.3d 1195, 44 USPQ2d at 1081–82. This is in reality a significant departure from the First Circuit’s central premise that rebutting the presumption would be an uphill battle and would only be appropriate in those rare cases in which imposing antitrust liability is unlikely to frustrate the objectives of the Copyright Act. See *Data General*, 36 F.3d at 1187 n. 64, 1188, 32 USPQ2d at 1417 n. 64.

We believe the First Circuit’s approach is more consistent with both the antitrust and the copyright laws and is the standard that would most likely be followed by the Tenth Circuit in considering the effect of Xerox’s unilateral right to refuse to license or sell copyrighted manuals and diagnostic software on liability under the antitrust laws. We therefore reject CSU’s invitation to examine Xerox’s subjective motivation in asserting its right to exclude under the copyright laws for pretext, in the absence of any evidence that the copyrights were obtained by unlawful means or were used to gain monopoly power beyond the statutory copyright granted by Congress. In the absence of such definitive rebuttal evidence, Xerox’s refusal to sell or license its copyrighted works was squarely within the rights granted by Congress to the copyright holder and did not constitute a violation of the antitrust laws.

#### CONCLUSION

Accordingly, the judgment of the United States District Court for the District of Kansas is affirmed.

#### 2. STANDING

#### **EDEN TOYS, INC. v. FLORELEE UNDERGARMET CO., INC.**

United States Court of Appeals, Second Circuit

Dec. 2, 1982  
697 F.2d 27

MANSFIELD, Circuit Judge:

Eden Toys, Inc. (“Eden”) appeals from an order of the Southern District of New York granting summary judgment dismissing its claim against Florelee Undergarment Co., Inc. (“Florelee”) for copyright infringement. \*\*\* We affirm in part and reverse and remand in part.

The subject of this case is the alleged copying of a drawing of the copyrighted fictional character Paddington Bear, the central figure in a series of children’s books written by Michael Bond.<sup>1</sup> Paddington and Company, Limited (“Paddington”), a British corporation, holds all rights to these books, and to the characters therein. In 1975 Paddington entered into an agreement with Eden, an American corporation, granting Eden exclusive North American rights to produce and sell, and to sublicense the production and sale of, a number of Paddington products. This agreement was amended in 1980 to grant Eden the exclusive North American rights to produce and sublicense *all* Paddington products except books, tapes and records, stage plays, motion pictures, and radio and television productions.

At some point between 1975 and 1977 Ivor Wood, the illustrator of the Paddington Bear books, drew a series of sketches (“the Ivor Wood sketches”) for the use of Eden and its sublicensees. There is evidence in the record that in July 1980 Eden obtained in its own name U.S. copyright registration certificate No. TXU 50–185 for these sketches as “derivative” works. Using the Ivor Wood sketches as a point of departure, the C.R. Gibson Company (“Gibson”), pursuant to a sublicense from Eden, produced a design for gift wrap that included seven drawings of Paddington Bear (“the Eden/Gibson drawings”). This gift wrap was first published in January 1978. In March 1980, Eden registered the gift wrap design with the Copyright Office as a derivative work.

In November 1979, Eden discovered that Florelee was selling a nightshirt featuring a print of a bear later found by the district court to be “identical in almost all respects” to one of the Eden/Gibson drawings of Paddington Bear. The nightshirt bore the legend “© Fred Original.” After discovering a second nightshirt with the same apparent “knockoff” of the Eden/Gibson drawing Eden filed suit against Florelee in April 1980, alleging both that Florelee had violated Eden’s rights under the Copyright Act and that Florelee had made a “false designation of origin” or “false description” of its product, in violation of § 43(a) of the Lanham Act by printing “© Fred Original” on its shirts. Following cross-motions for summary judgment, Judge Carter granted Florelee’s motion for summary judgment dismissing the copyright claim, and Eden’s motion for summary judgment enforcing the Lanham Act claim.

Reprinted below are (1) a drawing from page 8 of *The Great Big Paddington Book*, copyrighted by Paddington; (2) the Ivor Wood sketch used as a model

by Gibson, and apparently copyrighted by Eden; (3) the Eden/Gibson drawing, copyrighted by Eden and infringed by Florelee, and (4) Florelee's "Fred Bear" drawing.

Drawing of original Paddington Bear, from pre-existing book copyrighted by Paddington. U.S. Copyright Reg. No. VA 11-588.

Ivor Wood sketch, apparently copyrighted by Eden. (See App. 165a-166a.) U.S. Copyright Reg. No. TXU 50-185.

Eden/Gibson drawing, copyrighted by Eden. U.S. Copyright Reg. No. VA 44-638.

Defendant's "Fred Bear" drawing.

## DISCUSSION

The Copyright Act authorizes only two types of claimants to sue for copyright infringement: (1) owners of copyrights, and (2) persons who have been granted exclusive licenses by owners of copyrights. 17 U.S.C. § 501(b). Within the first category are both those who hold copyrights on wholly new material, and those who hold copyrights on derivative works, based substantially on pre-existing materials. 17 U.S.C. § 103(a).

In the present case, Eden claims to be the owner of the copyrights in certain derivative works—the Eden/Gibson drawing (No. 3 above) and the Ivor Wood sketch (No. 2 above), upon which No. 3 is based—and the exclusive licensee of certain rights under Paddington's original copyrights. We discuss each of these in turn. Eden's complaint is limited to claims based on its ownership of the Eden/Gibson copyrighted drawing (No. 3 above); by express or implied consent of the parties, Eden's claims as exclusive licensee of certain rights under the original copyrighted Paddington drawings (No. 1 above) were also considered by the court. Eden's later

motion to add a claim based on its ownership of the Ivor Wood copyrighted drawings was denied but will be granted on remand.

#### *Eden's Claims as Copyright Owner*

Assuming that, upon remand and amendment of the complaint to add its claim based upon the Ivor Wood copyrighted sketch (No. 2 above) derived from pre-existing Paddington Bear drawings (such as No. 1), Eden were found to be the owner of U.S. Copyright No. TXU 50–185, registered July 22, 1980, which covers the Ivor Wood sketch, Eden would be entitled to copyright protection for any novel additions made by this work to the existing copyrighted drawings of Paddington. *G. Ricordi & Co. v. Paramount Pictures*, 189 F.2d 469, 471 (2d Cir. 1951). The fact that Eden apparently did not register this copyright (or the Eden/Gibson copyright) until after Florelee's alleged infringement does not preclude Eden from recovering for infringement of these copyrights occurring before the date of registration. See 17 U.S.C. § 411. However, Eden's delay in registering the copyrights would preclude it from claiming either attorney's fees or statutory damages. 17 U.S.C. § 412.

Similarly, Eden's copyrighted Eden/Gibson drawing (No. 3 above) registered on March 7, 1980, as No. VA 44–638 and the balance of its gift wrap design represent derivative works based on the copyrighted Ivor Wood sketches (including No. 2 above).

The district court's finding that Paddington rather than Eden holds the copyrights in the Ivor Wood sketch appears to be incorrect. The record contains a copy of an apparently valid U.S. Copyright Certificate, Reg. No. TXU 50–185, dated July 22, 1980, issued to Eden for "adaptation of designs and additional artistic work" based on "the copyrighted Paddington Bear series of books by Michael Bond, including 'The Great Big Paddington Book.'" We therefore remand the issue to the district court for redetermination of ownership following amendment of the complaint to add the claim based on the copyrighted Ivor Wood sketch. In addition, the district court found or at least strongly implied that Eden's copyright in the Eden/Gibson drawing was invalid because the changes made by Gibson to the pre-existing Ivor Wood sketch were too insignificant to qualify the drawing as an "original work" under the Copyright Act. In so finding, however, the district court applied a test that erroneously mingled the standard for sufficient *originality* and the test for *infringement*. The standard for sufficient originality is whether a work contains "some substantial, not merely trivial, originality." *L. Batlin & Sons, Inc. v. Snyder*, 536 F.2d 486, 490 (2d Cir.) (en banc), cert. denied, 429 U.S. 857, 97 S.Ct. 156, 50 L.Ed.2d 135 (1976); *Chamberlin v. Uris Sales Corp.*, 150 F.2d 512, 513 (2d Cir. 1945). The standard for copyright infringement, by

contrast, is whether the defendant's work is "substantially similar" to the plaintiff's work. *Warner Bros., Inc. v. American Broadcasting Co.*, 654 F.2d 204, 208 (2d Cir.1981).

The difference between these two tests is not merely academic. A work which makes non-trivial contributions to an existing one may be copyrighted as a derivative work and yet, because it retains the "same aesthetic appeal" as the original work, render the holder liable for infringement of the original copyright if the derivative work were to be published without permission from the owner of the original copyright. An example is the second edition of a textbook, which is copyrightable even though it makes only minor revisions of or additions to the first edition. By its very nature a "derivative" work, which is copyrightable as such, borrows substantially from existing works, and is so defined. 17 U.S.C. § 101 (Supp. IV 1980). Yet it is entitled to registration as a copyrighted work even though it would infringe the original copyrighted work if it were created without the permission of the owner of copyright in the underlying work. *United States v. Taxe*, 540 F.2d 961, 965 n. 2 (9th Cir.1976), cert. denied, 429 U.S. 1040, 97 S.Ct. 737, 50 L.Ed.2d 751 (1977).

In this case, the Eden/Gibson variations of the Ivor Wood sketch, although too minor to entitle the Eden/Gibson work to claim a different aesthetic appeal, are still original and substantial enough to deserve independent copyright protection. The numerous changes made by Gibson—the changed proportions of the hat, the elimination of individualized fingers and toes, the overall smoothing of lines—combine to give the Eden/Gibson drawing a different, cleaner "look" than the Ivor Wood sketch on which it is based. Such a contribution satisfies the minimal requirements of originality for registration under the Copyright Act. *Durham Industries v. Tomy Corp.*, 630 F.2d 905, 910 (2d Cir.1980). Since the factual question here depends entirely on visual comparison of exhibits, we are in as good a position as the district court to judge the originality of the work in question. *Taylor v. Lombard*, 606 F.2d 371, 372 (2d Cir.1979); *Jack Kahn Music Co. v. Baldwin Piano and Organ Co.*, 604 F.2d 755, 758 (2d Cir.1979). To the extent that the district court applied the proper test for originality, its finding of insufficient originality was erroneous. To the extent that the district court applied the *Peter Pan Fabrics* test for copyright infringement as the test for determining originality, the district court erred as a matter of law. The Ivor Wood variations (No. 2 above) from the original Paddington sketch (No. 1 above), while retaining the same aesthetic appeal as the original, are even more pronounced and substantial than Gibson's contributions to the Ivor Wood sketch and hence clearly meet the requirements of the Copyright Act for originality entitling the owner to registration. *Durham Industries v. Tomy Corp.*, *supra*, 630 F.2d at 910.

Thus, assuming that the district court upon remand finds that Eden holds a valid copyright in the Ivor Wood sketch, this case involves three successive tiers of valid copyrights in designs of the Paddington Bear. The first copyrighted tier (No. 1 above), belonging to Paddington, consists of a body of illustrations of Paddington Bear in the books or other publications copyrighted by Paddington. The second tier (No. 2 above) consists of the new contributions made by the Ivor Wood sketch to the existing body of Paddington Bear illustrations. Rights to these contributions are apparently owned by Eden, which claims to hold the copyright to that sketch. Finally, the third tier (No. 3 above) consists of the new contributions made by Gibson in transforming the Ivor Wood sketch into the Eden/Gibson drawing. Rights to these contributions are held by Eden, which copyrighted the Eden/Gibson drawing.

Thus, whatever the outcome of the exclusive license issue discussed below, Eden appears to be entitled to recover for the cumulative contributions made by the Ivor Wood sketch and the Eden/Gibson drawing to the existing body of Paddington Bear illustrations. The remaining issue, whether Florelee infringed Eden's copyrights, requires little discussion. As the district court noted, the Florelee print is "identical in almost all respects" to one of the validly copyrighted Eden/Gibson drawings and in view of the close resemblance of the Florelee print to the copyrighted Ivor Wood sketch the same observation applies with respect to Eden's contention that Florelee infringed the Ivor Wood copyright.

Assuming that Florelee infringed either or both of Eden's copyrights in the derivative works, the fact that the Eden/Gibson drawing was printed on gift wrap while the Florelee design was printed on clothing is irrelevant. No one may copy another's novel additions in a derivative work, even if the copier employs a medium different from that used by the holder of the derivative copyright. *Davis v. E.I. DuPont deNemours & Co.*, 240 F.Supp. 612 (S.D.N.Y.1965).

#### *Eden's Claim as Exclusive Licensee*

Eden also sues for infringement as exclusive North American licensee for certain Paddington Bear products. An exclusive licensee of a right under a copyright is entitled to bring suits for infringement "of that particular right," 17 U.S.C. § 501(b) (Supp. IV 1980), without being required to join his licensor. 3 M. Nimmer, *supra*, § 12.02, at 12-24 (1981). The question, then, is whether Eden was the exclusive licensee of the right allegedly infringed by Florelee, i.e., the right to produce images of Paddington Bear on adult clothing. Florelee argues correctly that adult clothing was clearly not among the "licensed products" listed in the 1975 agreement between Eden and Paddington, and concludes from this fact that Eden was not the exclusive licensee of this right at the time the allegedly infringing garments

were sold in 1979. Eden responds that at that time Eden was operating under an informal understanding with Paddington, later formalized in the 1980 amendment to the 1975 agreement, that gave Eden the exclusive North American rights to produce any Paddington Bear product except books, records, and a few other items not relevant here.

Under the pre-1978 copyright law, exclusive licenses could be granted orally or by conduct. *Id.*, § 10.03[B][1], at 10–37 (1980). Under the new Copyright Act, however, Eden’s claim of an informal grant of an exclusive license seemingly must fail in light of the statute of frauds provision of the new Act, which states that an exclusive license “is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed....” 17 U.S.C. § 204(a) (Supp. IV 1980). However, since the purpose of the provision is to protect copyright holders from persons mistakenly or fraudulently claiming oral licenses, the “note or memorandum of the transfer” need not be made at the time when the license is initiated; the requirement is satisfied by the copyright owner’s later execution of a writing which confirms the agreement. See *Dan-Dee Imports, Inc. v. Well-Made Toy Mfg. Corp.*, 524 F.Supp. 615, 618–19 (E.D.N.Y.1981). In this case, in which the copyright holder appears to have no dispute with its licensee on this matter, it would be anomalous to permit a third party infringer to invoke this provision against the licensee.

Since the district court rejected as a matter of law the notion that Paddington could orally or through conduct grant an exclusive license to Eden, it made no findings on the issue of whether Paddington had in fact granted Eden such an informal license at any time during Florelee’s apparent infringement, and whether that understanding was ever committed to writing. We therefore remand for findings on this issue.

If Paddington granted Eden an informal exclusive license to sell Paddington Bear products in the market in which Florelee sold—adult clothing—and that informal license was later confirmed in a writing signed by Paddington, Eden may sue in its own name, without joining Paddington, for infringement of any Paddington-owned copyrights in that market. Combined with Eden’s rights in the derivative work(s) discussed earlier, Eden would be entitled to sue for all damages caused by Florelee’s infringement of the Eden/Gibson version of Paddington Bear.

If the district court finds that no such informal understanding existed, or that such an understanding was never memorialized, Paddington, which has expressed a willingness to be made a co-plaintiff in this lawsuit, should be joined as a plaintiff. The district court has the power to order the joinder of “any person having or claiming an interest in the copyright [at issue].”

**17 U.S.C. § 501(b) (Supp. IV 1980).** In this case, the exercise of that power would clearly be appropriate if Paddington in fact owns some of the rights apparently infringed by Florelee. The equities in this case lie heavily in favor of Eden, and it would be unjust to deny redress to Eden because of an easily remediable procedural defect. \*\*\*

The judgment of the district court dismissing Eden's claim of copyright infringement is reversed and the copyright infringement aspects of the case are remanded for further proceedings consistent with this opinion. \*\*\*

### 3. CHOICE OF LAW

#### **ITAR-TASS RUSSIAN NEWS AGENCY V. RUSSIAN KURIER, INC.**

United States Court of Appeals, Second Circuit  
Decided Aug. 27, 1998  
153 F.3d 82

JON O. NEWMAN, Circuit Judge:

This appeal primarily presents issues concerning the choice of law in international copyright cases and the substantive meaning of Russian copyright law as to the respective rights of newspaper reporters and newspaper publishers. The conflicts issue is which country's law applies to issues of copyright ownership and to issues of infringement. The primary substantive issue under Russian copyright law is whether a newspaper publishing company has an interest sufficient to give it standing to sue for copying the text of individual articles appearing in its newspapers, or whether complaint about such copying may be made only by the reporters who authored the articles. Defendants-appellants Russian Kurier, Inc. ("Kurier") and Oleg Pogrebnoy (collectively "the Kurier defendants") appeal from the March 25, 1997, judgment of the District Court for the Southern District of New York (John G. Koeltl, Judge) enjoining them from copying articles that have appeared or will appear in publications of the plaintiffs-appellees, mainly Russian newspapers and a Russian news agency, and awarding the appellees substantial damages for copyright infringement.

On the conflicts issue, we conclude that, with respect to the Russian plaintiffs, Russian law determines the ownership and essential nature of the copyrights alleged to have been infringed and that United States law determines whether those copyrights have been infringed in the United States and, if so, what remedies are available. We also conclude that

Russian law, which explicitly excludes newspapers from a work-for-hire doctrine, vests exclusive ownership interests in newspaper articles in the journalists who wrote the articles, not in the newspaper employers who compile their writings. We further conclude that to the extent that Russian law accords newspaper publishers an interest distinct from the copyright of the newspaper reporters, the publishers' interest, like the usual ownership interest in a compilation, extends to the publishers' original selection and arrangement of the articles, and does not entitle the publishers to damages for copying the texts of articles contained in a newspaper compilation. We therefore reverse the judgment to the extent that it granted the newspapers relief for copying the texts of the articles. However, because one non-newspaper plaintiff-appellee is entitled to some injunctive relief and damages and other plaintiffs-appellees may be entitled to some, perhaps considerable, relief, we also remand for further consideration of this lawsuit.

### **Background**

The lawsuit concerns Kurier, a Russian language weekly newspaper with a circulation in the New York area of about 20,000. It is published in New York City by defendant Kurier. Defendant Pogrebnoy is president and sole shareholder of Kurier and editor-in-chief of Kurier. The plaintiffs include corporations that publish, daily or weekly, major Russian language newspapers in Russia and Russian language magazines in Russia or Israel; Itar-Tass Russian News Agency ("Itar-Tass"), formerly known as the Telegraph Agency of the Soviet Union (TASS), a wire service and news gathering company centered in Moscow, functioning similarly to the Associated Press; and the Union of Journalists of Russia ("UJR"), the professional writers union of accredited print and broadcast journalists of the Russian Federation.

The Kurier defendants do not dispute that Kurier has copied about 500 articles that first appeared in the plaintiffs' publications or were distributed by Itar-Tass. The copied material, though extensive, was a small percentage of the total number of articles published in Kurier. The Kurier defendants also do not dispute how the copying occurred: articles from the plaintiffs' publications, sometimes containing headlines, pictures, bylines, and graphics, in addition to text, were cut out, pasted on layout sheets, and sent to Kurier's printer for photographic reproduction and printing in the pages of Kurier.

Most significantly, the Kurier defendants also do not dispute that, with one exception, they had not obtained permission from any of the plaintiffs to copy the articles that appeared in Kurier. Pogrebnoy claimed at trial to have received permission from the publisher of one newspaper, but his

claim was rejected by the District Court at trial. \*\*\*

Preliminary injunction ruling. After a hearing in May 1995, the District Court issued a preliminary injunction, prohibiting the Kurier defendants from copying the “works” of four plaintiff news organizations. \*\*\* Preliminarily, the Court ruled that the request for a preliminary injunction concerned articles published after March 13, 1995, the date that Russia acceded to the Berne Convention. The Court then ruled that the copied works were “Berne Convention work[s],” 17 U.S.C. § 101, and that the plaintiffs’ rights were to be determined according to Russian copyright law.

The Court noted that under Russian copyright law authors of newspaper articles retain the copyright in their articles unless there has been a contractual assignment to their employer or some specific provision of law provides that the author’s rights vest in the employer. Since the defendants alleged no claim of a contractual assignment, the Court next considered the provision of the 1993 Russian Federation Law on Copyright and Neighboring Rights (“Russian Copyright Law”) (World Intellectual Property Organization (WIPO) translation) concerning what the United States Copyrights Act calls “works made for hire,” 17 U.S.C. § 201(b). See Russian Copyright Law, Art. 14(2). That provision gives employers the exclusive right to “exploit” the “service-related work” produced by employees in the scope of their employment, absent some contractual arrangement. However, the Court noted, Article 14(4) specifies that subsection 2 does not apply to various categories of works, including newspapers. Accepting the view of plaintiffs’ expert, Professor Vratislav Pechota, Judge Koeltl therefore ruled that the Russian version of the work-for-hire doctrine in Article 14(2), though exempting newspapers, applies to press agencies, like Itar-Tass.

Turning to the rights of the newspapers, Judge Koeltl relied on Article 11, captioned “Copyright of Compiler of Collections and Other Works.” This Article contains two subsections. Article 11(1) specifies the rights of compilers generally:

The author of a collection or any other composite work (compiler) shall enjoy copyright in the selection or arrangement of subject matter that he has made insofar as that selection or arrangement is the result of a creative effort of compilation.

The compiler shall enjoy copyright subject to respect for the rights of the authors of each work included in the composite work.

Each of the authors of the works included in the composite work shall have the right to exploit his own work independently of the composite work

unless the author's contract provides otherwise.

....

Russian Copyright Law, Art. 11(1). Article 11(2), the interpretation of which is critical to this appeal, specifies the rights of compilers of those works that are excluded from the work-for-hire provision of Article 14(2): The exclusive right to exploit encyclopedias, encyclopedic dictionaries, collections of scientific works—published in either one or several installments—newspapers, reviews and other periodical publications shall belong to the editor<sup>1</sup> thereof. The editor shall have the right to mention his name or to demand such mention whenever the said publications are exploited.

The authors of the works included in the said publications shall retain the exclusive rights to exploit their works independently of the publication of the whole work.

*Id.*, Art. 11(2). In another translation of the Russian Copyright Law, which was in evidence at the trial, the last phrase of Article 11(2) was rendered “independently from the publication as a whole.” Russian Copyright Law, Art. 11(2) (Newton Davis translation). Because the parties’ experts focused on the phrase “as a whole” in the Davis translation of Article 11(2), we will rely on the Davis translation for the rendering of this key phrase of Article 11(2), but all other references to the Russian Copyright Law will be to the WIPO translation.

The District Court acknowledged, as the plaintiffs’ expert had stated, that considerable scholarly debate existed in Russia as to the nature of a publisher’s right “in a work as a whole.” Judge Koeltl accepted Professor Pechota’s view that the newspaper could prevent infringing activity “sufficient to interfere with the publisher’s interest in the integrity of the work.” Without endeavoring to determine what extent of copying would “interfere with” the “integrity of the work,” Judge Koeltl concluded that a preliminary injunction was warranted because what Kurier had copied was “the creative effort of the newspapers in the compilation of articles including numerous articles for the same issues, together with headlines and photographs.” The Court’s preliminary injunction opinion left it unclear whether at trial the plaintiffs could obtain damages only for copying the newspapers’ creative efforts as a compiler, such as the selection and arrangement of articles, the creation of headlines, and the layout of text and graphics, or also for copying the text of individual articles.

Expert testimony at trial. [Extensive discussion of expert testimony omitted.]

Trial ruling. The District Court resolved the dispute among the experts by accepting Newcity's interpretation of Russian copyright law. As he had previously ruled in granting the preliminary injunction, Judge Koeltl recognized that newspapers acquire no rights to individual articles by virtue of Article 14 since the Russian version of the work-for-hire doctrine is inapplicable to newspapers. Nevertheless, Judge Koeltl accepted Newcity's view of Article 11, relying on both the movement of the phrase "as a whole" from the first paragraph of Article 11(2) to the second paragraph of Article 11(2), and the opinion of the Informational Disputes Chamber. He also reasoned that publishers have "the real economic incentive to prevent wholesale unauthorized copying," and that, in the absence of assignments of rights to individual articles, widespread copying would occur if publishers could not prevent Kurier 's infringements.

The District Court estimated Kurier 's profits during the relevant years at \$2 million and found that 25 percent of these profits were attributable to the copied articles. The Court therefore awarded the plaintiffs \$500,000 in actual damages against Kurier and Pogrebnoy. The Court also ruled that the plaintiffs were entitled to statutory damages with respect to 28 articles for which the plaintiffs had obtained United States copyright registrations. The Court found that the registered articles had originally appeared in 15 different publications and concluded that the plaintiffs were entitled to 15 awards of statutory damages. The Court found the violations willful, see 17 U.S.C. § 504(c)(1), and set each statutory award at \$2,700. However, to avoid duplicative recovery, the Court ruled that the actual and statutory damages could not be aggregated and afforded the plaintiffs their choice of whether to receive statutory damages (offsetting the statutory award from the actual damages award) or actual damages. \*\*\*

## **Discussion**

### I. Choice of Law

The threshold issue concerns the choice of law for resolution of this dispute. That issue was not initially considered by the parties, all of whom turned directly to Russian law for resolution of the case. Believing that the conflicts issue merited consideration, we requested supplemental briefs from the parties and appointed Professor William F. Patry as Amicus Curiae. Prof. Patry has submitted an extremely helpful brief on the choice of law issue.

Choice of law issues in international copyright cases have been largely ignored in the reported decisions and dealt with rather cursorily by most commentators. Examples pertinent to the pending appeal are those decisions involving a work created by the employee of a foreign corporation. Several courts have applied the United States work-for-hire doctrine, see

17 U.S.C. § 201(b), without explicit consideration of the conflicts issue. See, e.g., Aldon Accessories Ltd. v. Spiegel, Inc., 738 F.2d 548, 551–53 (2d Cir.1984) (U.S. law applied to determine if statuettes crafted abroad were works for hire); Dae Han Video Productions, Inc. v. Kuk Dong Oriental Food, Inc., 19 U.S.P.Q.2d 1294 (D.Md.1990) (U.S. law applied to determine if scripts written abroad were works for hire); P & D International v. Halsey Publishing Co., 672 F.Supp. 1429, 1435–36 (S.D.Fla.1987) (U.S. work-for-hire law assumed to apply). Other courts have applied foreign law. See Frink America, Inc. v. Champion Road Machinery Ltd., 961 F.Supp. 398 (N.D.N.Y.1997) (Canadian copyright law applied on issue of ownership); Greenwich Film Productions v. DRG Drugs Inc., 1992 WL 279357 (S.D.N.Y. Sept. 25, 1992) (French law applied to determine ownership of right to musical work commissioned in France for French film); Dae Han Video Production Inc. v. Doug San Chun, 17 U.S.P.Q.2d 1306, 1310 n. 6, 1990 WL 265976 (E.D.Va. June 18, 1990) (foreign law relied on to determine that alleged licensor lacks rights); see also Autoskill, Inc. v. National Educational Support Systems, Inc., 994 F.2d 1476, 1489 n. 16 (10th Cir.1993) (U.S. work-for-hire law applied where claim that contrary Canadian law should apply was belatedly raised and for that reason not considered); Pepe (U.K.) Ltd. v. Grupo Pepe Ltda., 24 U.S.P.Q.2d 1354, 1356 (S.D.Fla.1992) (congruent foreign and U.S. law both applied). In none of these cases, however, was the issue of choice of law explicitly adjudicated. The conflicts issue was identified but ruled not necessary to be resolved in Greenwich Film Productions S.A. v. D.R.G. Drugs, Inc., 25 U.S.P.Q.2d 1435, 1437–38 (S.D.N.Y.1992).

The Nimmer treatise briefly (and perhaps optimistically) suggests that conflicts issues “have rarely proved troublesome in the law of copyright.” Nimmer on Copyright § 17.05 (1998) (“Nimmer”). Relying on the “national treatment” principle of the Berne Convention and the Universal Copyright Convention (“U.C.C.”), Nimmer asserts, correctly in our view, that “an author who is a national of one of the member states of either Berne or the U.C.C., or one who first publishes his work in any such member state, is entitled to the same copyright protection in each other member state as such other state accords to its own nationals.” Id. Nimmer then somewhat overstates the national treatment principle: “The applicable law is the copyright law of the state in which the infringement occurred, not that of the state of which the author is a national, or in which the work is first published.” Id. The difficulty with this broad statement is that it subsumes under the phrase “applicable law” the law concerning two distinct issues—ownership and substantive rights, i.e., scope of protection. Another commentator has also broadly stated the principle of national treatment, but described its application in a way that does not necessarily cover issues of ownership. “The principle of national treatment also means that both the question of whether the right exists and the question of the scope of the

right are to be answered in accordance with the law of the country where the protection is claimed.” S.M. Stewart, International Copyright and Neighboring Rights § 3.17 (2d ed. 1989). We agree with the view of the Amicus that the Convention’s principle of national treatment simply assures that if the law of the country of infringement applies to the scope of substantive copyright protection, that law will be applied uniformly to foreign and domestic authors. See *Murray v. British Broadcasting Corp.*, 906 F.Supp. 858 (S.D.N.Y.1995), aff’d, 81 F.3d 287 (1996).

Source of conflicts rules. Our analysis of the conflicts issue begins with consideration of the source of law for selecting a conflicts rule. Though Nimmer turns directly to the Berne Convention and the U.C.C., we think that step moves too quickly past the Berne Convention Implementation Act of 1988, 17 U.S.C. § 101. Section 4(a)(3) of the Act amends Title 17 to provide: “No right or interest in a work eligible for protection under this title may be claimed by virtue of ... the provisions of the Berne Convention.... Any rights in a work eligible for protection under this title that derive from this title ... shall not be expanded or reduced by virtue of ... the provisions of the Berne Convention.” 17 U.S.C. § 104(c).

We start our analysis with the Copyrights Act itself, which contains no provision relevant to the pending case concerning conflicts issues. We therefore fill the interstices of the Act by developing federal common law on the conflicts issue. See *D’Oench, Duhme & Co. v. FDIC*, 315 U.S. 447, 62 S.Ct. 676, 86 L.Ed. 956 (1942); *id.* at 472, 62 S.Ct. 676 (Jackson, J., concurring) (“The law which we apply to this case consists of principles of established credit in jurisprudence, selected by us because they are appropriate to effectuate the policy of the governing Act.”). In doing so, we are entitled to consider and apply principles of private international law, which are “part of our law.” *Maxwell Communication Corp. v. Societe Generale*, 93 F.3d 1036, 1047 (2d Cir.1996) (quoting *Hilton v. Guyot*, 159 U.S. 113, 143 (1895)).

The choice of law applicable to the pending case is not necessarily the same for all issues. See Restatement (Second) of Conflict of Laws § 222 (“The courts have long recognized that they are not bound to decide all issues under the local law of a single state.”). We consider first the law applicable to the issue of copyright ownership.

Conflicts rule for issues of ownership. Copyright is a form of property, and the usual rule is that the interests of the parties in property are determined by the law of the state with “the most significant relationship” to the property and the parties. See *id.* The Restatement recognizes the applicability of this principle to intangibles such as “a literary idea.” *Id.* Since the works at issue were created by Russian nationals and first

published in Russia, Russian law is the appropriate source of law to determine issues of ownership of rights. That is the well-reasoned conclusion of the Amicus Curiae, Prof. Patry, and the parties in their supplemental briefs are in agreement on this point. In terms of the United States Copyrights Act and its reference to the Berne Convention, Russia is the “country of origin” of these works, see 17 U.S.C. § 101 (definition of “country of origin” of Berne Convention work); Berne Convention, Art. 5(4), although “country of origin” might not always be the appropriate country for purposes of choice of law concerning ownership.

To whatever extent we look to the Berne Convention itself as guidance in the development of federal common law on the conflicts issue, we find nothing to alter our conclusion. The Convention does not purport to settle issues of ownership, with one exception not relevant to this case. See Jane C. Ginsburg, *Ownership of Electronic Rights and the Private International Law of Copyright*, 22 Colum.-VLA J.L. & Arts 165, 167–68 (1998) (The Berne Convention “provides that the law of the country where protection is claimed defines what rights are protected, the scope of the protection, and the available remedies; the treaty does not supply a choice of law rule for determining ownership.”).

Selection of Russian law to determine copyright ownership is, however, subject to one procedural qualification. Under United States law, an owner (including one determined according to foreign law) may sue for infringement in a United States court only if it meets the standing test of 17 U.S.C. § 501(b), which accords standing only to the legal or beneficial owner of an “exclusive right.”

Conflicts rule for infringement issues. On infringement issues, the governing conflicts principle is usually *lex loci delicti*, the doctrine generally applicable to torts. See *Lauritzen v. Larsen*, 345 U.S. 571, 583 (1953). We have implicitly adopted that approach to infringement claims, applying United States copyright law to a work that was unprotected in its country of origin. See *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189, 192–93 (2d Cir.1985). In the pending case, the place of the tort is plainly the United States. To whatever extent *lex loci delicti* is to be considered only one part of a broader “interest” approach, see *Carbotrade S.p.A. v. Bureau Veritas*, 99 F.3d 86, 89–90 (2d Cir.1996), United States law would still apply to infringement issues, since not only is this country the place of the tort, but also the defendant is a United States corporation.

The division of issues, for conflicts purposes, between ownership and infringement issues will not always be as easily made as the above discussion implies. If the issue is the relatively straightforward one of which of two contending parties owns a copyright, the issue is

unquestionably an ownership issue, and the law of the country with the closest relationship to the work will apply to settle the ownership dispute. But in some cases, including the pending one, the issue is not simply who owns the copyright but also what is the nature of the ownership interest. Yet as a court considers the nature of an ownership interest, there is some risk that it will too readily shift the inquiry over to the issue of whether an alleged copy has infringed the asserted copyright. Whether a copy infringes depends in part on the scope of the interest of the copyright owner. Nevertheless, though the issues are related, the nature of a copyright interest is an issue distinct from the issue of whether the copyright has been infringed. See, e.g., *Kregos v. Associated Press*, 937 F.2d 700, 709–10 (2d Cir.1991) (pointing out that although work survives summary judgment on issue of copyrightability of compilation, scope of protection against claim of infringement might be limited). The pending case is one that requires consideration not simply of who owns an interest, but, as to the newspapers, the nature of the interest that is owned.

## II. Determination of Ownership Rights Under Russian Law

Since United States law permits suit only by owners of “an exclusive right under a copyright,” 17 U.S.C. § 501(b), we must first determine whether any of the plaintiffs own an exclusive right. That issue of ownership, as we have indicated, is to be determined by Russian law.

Determination of a foreign country’s law is an issue of law. See *Fed.R.Civ.P. 44.1; Bassis v. Universal Line, S.A.*, 436 F.2d 64, 68 (2d Cir.1970). Even though the District Court heard live testimony from experts from both sides, that Court’s opportunity to assess the witnesses’ demeanor provides no basis for a reviewing court to defer to the trier’s ruling on the content of foreign law. In cases of this sort, it is not the credibility of the experts that is at issue, it is the persuasive force of the opinions they expressed. See *Curley v. AMR Corp.*, 153 F.3d 5, 12 (2d Cir.1998) (“[A]ppellate courts, as well as trial courts, may find and apply foreign law.”).

Under Article 14 of the Russian Copyright Law, Itar-Tass is the owner of the copyright interests in the articles written by its employees. However, Article 14(4) excludes newspapers from the Russian version of the work-for-hire doctrine. The newspaper plaintiffs, therefore, must locate their ownership rights, if any, in some other source of law. They rely on Article 11. The District Court upheld their position, apparently recognizing in the newspaper publishers “exclusive” rights to the articles, even though, by virtue of Article 11(2), the reporters also retained “exclusive” rights to these articles.

Having considered all of the views presented by the expert witnesses, we conclude that the defendants’ experts are far more persuasive as to the

meaning of Article 11. In the first place, once Article 14 of the Russian Copyright Law explicitly denies newspapers the benefit of a work-for-hire doctrine, which, if available, would accord them rights to individual articles written by their employees, it is highly unlikely that Article 11 would confer on newspapers the very right that Article 14 has denied them. Moreover, Article 11 has an entirely reasonable scope if confined, as its caption suggests, to defining the “Copyright of Compilers of Collections and Other Works.” That article accords compilers copyright “in the selection and arrangement of subject matter that he has made insofar as that selection or arrangement is the result of a creative effort of compilation.” Russian Copyright Law, Art. 11(1). Article 11(2) accords a publisher of compilations the right to exploit such works, including the right to insist on having their names mentioned, while expressly reserving to “authors of the works included” in compilations the “exclusive rights to exploit their works independently of the publication of the whole work.” Id. Art. 11(2). As the defendants’ experts testified, Article 11 lets authors of newspaper articles sue for infringement of their rights in the text of their articles, and lets newspaper publishers sue for wholesale copying of all of the newspaper or for copying any portions of the newspaper that embody their selection, arrangement, and presentation of articles (including headlines)—copying that infringes their ownership interest in the compilation.

Newcity’s contrary interpretation, according publishers (and reporters) exclusive rights to the text of articles, draws entirely unwarranted significance from the shift of the phrase “as a whole” from the first to the second paragraph of Article 11(2). One would not expect drafters of the revised Article 11(2) to accomplish a major broadening of the rights of newspaper publishers simply by shifting the placement of this phrase. Moreover, the drafter of the revision testified that the shift was a matter of grammar, and not of any substance. Furthermore, Newcity’s interpretation rests on the untenable premise that both the publisher of a newspaper and the author of an article have exclusive rights to the same article. Under his interpretation, as he acknowledged, the publisher could grant a license to a third party to publish an article, the “exclusive” rights to which are held by the author. That unlikely result cannot be accepted in the absence of clear statutory language authorizing it.

The opinion of the Informational Disputes Chamber is not a sufficient basis for upholding the plaintiffs’ interpretation. As the defendants’ experts pointed out, the bylaws of that body confine its authority to matters affecting free press issues, and explicitly preclude it from adjudicating issues arising under copyright law. Moreover, the opinion that the Chamber rendered does not necessarily support the plaintiffs’ position. In asserting that a newspaper may petition for redress “in defense of its rights,” the Chamber might have meant only that a newspaper can protect

its limited compilation rights in the selection and arrangement of articles even when only a small number of articles are copied. The opinion of the Chamber does not state that the newspaper has a protectable copyright interest in the text of each article.

Nor can the District Court's conclusion be supported by its observation that extensive copying of newspapers will ensue unless newspapers are permitted to secure redress for the copying of individual articles. In the first place, copying of articles may always be prevented at the behest of the authors of the articles or their assignees. Second, the newspapers may well be entitled to prevent copying of the protectable elements of their compilations. Lastly, even if authors lack sufficient economic incentive to bring individual suits, as the District Court apprehended, Russian copyright law authorizes the creation of organizations "for the collective administration of the economic rights of authors ... in cases where the individual exercise thereof is hampered by difficulties of a practical nature." Russian Copyright Law, Art. 44(1). Indeed, UJR, the reporters' organization, may well be able in this litigation to protect the rights of the reporters whose articles were copied by Kurier.

Relief. Our disagreement with the District Court's interpretation of Article 11 does not mean, however, that the defendants may continue copying with impunity. In the first place, Itar-Tass, as a press agency, is within the scope of Article 14, and, unlike the excluded newspapers, enjoys the benefit of the Russian version of the work-for-hire doctrine. Itar-Tass is therefore entitled to injunctive relief to prevent unauthorized copying of its articles and to damages for such copying, and the judgment is affirmed as to this plaintiff.

Furthermore, the newspaper plaintiffs, though not entitled to relief for the copying of the text of the articles they published, may well be entitled to injunctive relief and damages if they can show that Kurier infringed the publishers' ownership interests in the newspaper compilations. Because the District Court upheld the newspapers' right to relief for copying the text of the articles, it had no occasion to consider what relief the newspapers might be entitled to by reason of Kurier 's copying of the newspapers' creative efforts in the selection, arrangement, or display of the articles. Since Kurier 's photocopying reproduced not only the text of articles but also headlines and graphic materials as they originally appeared in the plaintiffs' publication, it is likely that on remand the newspaper plaintiffs will be able to obtain some form of injunctive relief and some damages. On these infringement issues, as we have indicated, United States law will apply.

Finally, there remains for consideration what relief, if any, might be

awarded to UJR, acting on behalf of any of its members whose articles have been copied. In its opinion granting the newspapers a preliminary injunction, the District Court noted that the plaintiffs had not “established the union’s organizational standing to sue to enforce the rights of its members,” an issue the Court expected would be considered later in the lawsuit. In its ruling on the merits, the District Court ruled that the UJR had standing to sue on behalf of its members. However, the Court noted that UJR sought only injunctive relief and then ruled that since UJR declined to furnish a list of its members, the Court was unable to frame an injunction that would be narrowly tailored and sufficient to give the defendants notice of its scope.

In view of our conclusion that the newspaper plaintiffs may not secure relief for the copying of the text of any articles as such, it will now become appropriate for the District Court on remand to revisit the issue of whether relief might be fashioned in favor of UJR on behalf of the authors. Despite UJR’s unwillingness to disclose its entire membership list, it might be possible to frame some form of injunctive relief that affords protection for those author-members that UJR is willing to identify. And UJR should now be given an opportunity to amend its prayer for relief to state whatever claim it might have to collect damages for the benefit of its member-authors whose rights have been infringed. Finally, the District Court should consider the appropriateness and feasibility of giving some form of notice (perhaps at the defendants’ expense) that is calculated to alert the authors of the infringed articles to their right to intervene in this lawsuit. Such notice might, for example, be addressed generally to the group of reporters currently employed at each of the plaintiff newspapers.

In view of the reckless conduct of the defendants in the flagrant copying that infringed the rights of Itar-Tass, the rights of the authors, and very likely some aspects of the limited protectable rights of the newspapers, we will leave the injunction in force until such time as the District Court has had an opportunity, on remand, to modify the injunction consistent with this opinion and with such further rulings as the District Court may make in light of this opinion.

### **Conclusion**

Accordingly, we affirm the judgment to the extent that it granted relief to Itar-Tass, we reverse to the extent that the judgment granted relief to the other plaintiffs, and we remand for further proceedings. No costs.

#### **4. INJUNCTIVE RELIEF/REMEDIES**

**CHRISTOPHER PHELPS & ASSOCIATES, LLC v. GALLOWAY**

United States Court of Appeals, Fourth Circuit

Decided: July 5, 2007

492 F.3d 532

NIEMEYER, Circuit Judge:

After R. Wayne Galloway began construction of his retirement home on Lake Wylie, near Charlotte, North Carolina, using architectural plans designed and copyrighted by Christopher Phelps & Associates, LLC (“Phelps & Associates”), without permission, Phelps & Associates commenced this action against Galloway for copyright infringement. Phelps & Associates sought damages, disgorgement of profits, and injunctive relief. A jury found that Galloway infringed Phelps & Associates’ copyright and awarded it \$20,000 in damages, the fee that Phelps & Associates traditionally charged for such plans. The jury also found that Galloway had realized no profits to disgorge. The district court thereafter declined to enter an injunction, finding that the jury verdict had made Phelps & Associates “whole,” and entered judgment in favor of Phelps & Associates for \$20,000. From that judgment, Phelps & Associates appeals, requesting a new trial on damages and the entry of an injunction prohibiting the future lease or sale of the infringing house and mandating the destruction or return of the infringing plans.

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We agree with Galloway’s contention that the court in the circumstances presented here did not abuse its discretion in refusing to enter a permanent injunction, as requested by Phelps & Associates, prohibiting Galloway from ever leasing or selling the house. Such an injunction would be overly broad and would unduly restrain the alienation of real property. Other injunctive relief, however, might be available in applying the general principles of equity, as required by *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 126 S.Ct. 1837, 164 L.Ed.2d 641 (2006), which was decided after the district court’s order denying relief in this case. Accordingly, we vacate portions of the district court’s order denying injunctive relief and remand for the limited purpose of reconsidering other equitable relief, such as an order requiring Galloway to destroy the infringing plans or return them to Phelps & Associates.

## I.

R. Wayne Galloway, in anticipation of retirement, planned to build his “dream home” on a lot that he owned on the North Carolina side of Lake Wylie, southwest of Charlotte, North Carolina. Displeased with the design

work done by an architect whom he had hired, Galloway went with his son-in-law to view the designs of homes on Lake Norman, an expensive residential area about 30 miles north of Lake Wylie, where his son-in-law was working as an iron-work subcontractor. There, Galloway saw a French-country style house that he liked. His son-in-law approached the builder of the house, Simonini Builders, Inc., and asked the superintendent for a copy of the plans. The superintendent said that Galloway would have to speak with the owner, Mrs. Gina Bridgeford, because “she purchased the plans, they were actually drawn for her.” Galloway contacted Mrs. Bridgeford, who gave Galloway her consent for use of the plans “as long as you don’t build in our area.” As to her authority to give consent, Mrs. Bridgeford testified at trial, “I felt with all we had paid, we owned the plans at that time.” Galloway assured Mrs. Bridgeford that he would not build in the area, telling her that he planned to build on Lake Wylie about 30 miles away. With Mrs. Bridgeford’s permission, the superintendent at Simonini Builders gave Galloway a copy of the plans for “The Bridgeford Residence.” Each page of the plans included the copyright notice, in small print, of the designing architect as follows:

© 2000 Copyright—Christopher Phelps & Assoc., L.L.C. These plans are protected under the federal copyright laws. The original purchaser of this plan is authorized to construct one and only one home using this plan. Modifications or reuse of this plan is prohibited.

Galloway altered the plans only to cover the name and address of “The Bridgeford Residence” with the name and address of “The Galloway Residence,” and then he copied them for constructing his house.

Phelps & Associates, which designed the Bridgeford Residence, is an architectural firm in Charlotte, North Carolina, that designs upscale custom houses. It created the design for the Bridgeford Residence as a variation of its earlier design—“The Bell and Brown Residence.” Bell and Brown had commissioned and paid Phelps & Associates for the earlier design, but ultimately decided not to build the house. Phelps & Associates modified the Bell and Brown design somewhat for the Bridgefords by moving a dormer window, changing the front entry and reconfiguring part of the floor plan, and removing the basement. The Bridgefords paid Phelps & Associates \$20,000 for The Bridgeford Residence design, and the Bridgefords built their house on Lake Norman in accordance with that design.

Acting as his own general contractor, Galloway began construction of his house in September 2001, using the Phelps & Associates plans for the Bridgeford Residence. During the course of construction, some of the subcontractors checked back with Phelps & Associates for clarification,

particularly with respect to the windows. Phelps & Associates did not then know that the construction was being pursued without permission. Galloway's framing contractor, who had been asked to do some work for Galloway's brother-in-law using pirated Phelps & Associates plans, surmised that Galloway did not have permission to use the plans and approached Galloway to warn him that he could "get in trouble constructing a copyright plan." Galloway "shrugged his shoulders and said something to the effect: 'They've got to find me, catch me first.'"

Through rumors from subcontractors, Phelps & Associates learned in early 2003 that Galloway was constructing a house using its designs. After confirming that fact, Phelps & Associates sent Galloway a cease and desist letter in July 2003. Upon receipt of the letter, Galloway stopped construction on his house, which was then over half completed. Thereafter, in August 2003, Phelps & Associates registered its plans for The Bridgeford Residence with the Copyright Office and then commenced this action against Galloway for copyright infringement.

In its suit, Phelps & Associates sought compensatory damages, disgorgement of Galloway's profits (claimed as the difference between the value of Galloway's house and his provable expenses in constructing it), and injunctive relief. With respect to compensatory damages, Christopher Phelps, the principal of Phelps & Associates, testified at trial that if Galloway had come to him and asked Phelps & Associates to design "a house like the Bridgeford house," Phelps & Associates would have charged Galloway \$20,000—the same fee that it had charged Mrs. Bridgeford. Christopher Phelps made clear, however, that he would not have sold Galloway the actual Bridgeford Residence design, but something different, as Phelps & Associates prided itself on designing "custom homes." With respect to Galloway's profits, Phelps & Associates presented expert testimony that Galloway's house would be worth \$1.1 million when completed. With this estimated value, Galloway would have realized over \$200,000 in profits if he were to sell the completed house.

Galloway testified at trial that he would have made no profit in the house had he sold it—he had spent more on the house than it was worth. He estimated that if he completed the house, he would show a loss of about \$160,000. He introduced into evidence his receipts and ledger of expenditures for construction to date totaling approximately \$660,000, and he estimated that it would cost an additional \$250,000 to \$300,000 to complete the house. He estimated that upon completion, the house itself would be worth \$758,000. He also introduced into evidence the Mecklenburg County tax assessment of his house when half-completed, which evaluated the house in that state at \$408,100.

At the end of the trial, the jury returned a verdict in favor of Phelps & Associates, finding that Galloway had infringed Phelps & Associate's architectural design copyright; awarding Phelps & Associates \$20,000 in actual damages; and finding that Galloway had no profits to disgorge. Thereafter, Phelps & Associates requested injunctive relief from the court (1) ordering that the infringing copy of the plans be returned or destroyed; (2) enjoining completion of the house; and (3) permanently enjoining the lease or sale of the house. The court "in its discretion" denied all injunctive relief, finding that the \$20,000 jury award made Phelps & Associates "whole." Accordingly, the court entered judgment in favor of Phelps & Associates for \$20,000 in damages.

On appeal, Phelps & Associates \*\*\* argues that the district court's refusal to enter an injunction was error as a matter of law because it had proved a past infringement and a likelihood of future infringement.

Phelps & Associates did not obtain an injunction pending appeal, and, according to representations made at oral argument, Galloway has completed the construction of his house, where he now resides. Galloway has also satisfied the \$20,000 money judgment. \*\*\*

### III.

After the jury returned its verdict, Phelps & Associates filed a motion under 17 U.S.C. §§ 502, 503(b) for injunctive relief (1) to prohibit the completion of the house; (2) to enjoin permanently the lease or sale of the house; and (3) to require the destruction or return of the infringing plans. The district court denied the motion and all of the relief requested, stating: After trial in this matter, the jury awarded the Plaintiff \$20,000 in actual damages. The court finds that the Plaintiff has been made whole, and in its discretion, declines to order Defendant to destroy all copies of the plans at issue. Moreover, the court declines to enjoin further construction of the house, alteration of the house, or the future lease or sale of the house. Evidence at trial revealed that the house is substantially constructed and that only interior finish work remains to be done. Thus, there is no likelihood that completion of the house will result in further infringement. Taking into account equitable considerations, the court refuses to grant the relief requested by the Plaintiff.

Phelps & Associates contends that in denying injunctive relief, the district court erred as a matter of law. It argues that the court denied injunctive relief simply because Phelps & Associates received damages and thereby had been made "whole." It maintains that "the mere fact that a copyright owner may recover damages does not negate his right to injunctive relief." See Lyons P'ship, LP v. Morris Costumes, Inc., 243 F.3d 789, 801 (4th

Cir.2001) (remanding for the entry of a permanent injunction and a determination of the amount of damages award). Phelps & Associates argues affirmatively that when copyright infringement has been proved and there is a threat of continuing infringement, the copyright holder is “entitled to an injunction.” Walt Disney Co. v. Powell, 897 F.2d 565, 567 (D.C.Cir.1990). Because Phelps & Associates says that it made that showing, it claims that it was entitled to injunctive relief.

Insofar as Phelps & Associates suggests that it is entitled to injunctive relief, we reject the argument. See eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 126 S.Ct. 1837, 1839 (2006). In eBay, the Supreme Court rejected any notion that “an injunction automatically follows a determination that a copyright has been infringed.” 126 S.Ct. at 1840 (reversing the Federal Circuit, which had articulated “a ‘general rule,’ unique to patent disputes, ‘that a permanent injunction will issue once infringement and validity have been adjudged’ ”). The Supreme Court reaffirmed the traditional showing that a plaintiff must make to obtain a permanent injunction in any type of case, including a patent or copyright case:

A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

*Id.* at 1839. Moreover, the Court reiterated that even upon this showing, whether to grant the injunction still remains in the “equitable discretion” of the court.

Rejecting Phelps & Associates’ claim to an automatic injunction or an “entitlement” to one, we now apply traditional equity principles to each of Phelps & Associates’ requests for injunctive relief to determine whether the district court abused its discretion.

#### A

Phelps & Associates’ first request, that Galloway be enjoined from completing the house, appears to be moot. At oral argument, the parties represented that the house had been completed.

#### B

Phelps & Associates’ second request for equitable relief, that Galloway be permanently enjoined from leasing or selling the completed house, is argued with the following syllogism: First, the completed house is an infringing copy of Phelps & Associates’ copyrighted work. See 17 U.S.C. § 101. Second, as the copyright holder, Phelps & Associates has the exclusive

right to “distribute” its copyrighted work “by sale or other transfer of ownership.” See *id.* § 106(3). Therefore, Galloway may never lease or sell the house without infringing Phelps & Associates’ copyright. See *id.* § 501(a). Because it is likely that Galloway will lease or sell the house, Phelps & Associates believes this lease or sale should be foreclosed by a permanent injunction.

We agree with Phelps & Associates that Galloway will inevitably sell or transfer his house within the period during which Phelps & Associates still holds the copyright—i.e. 95 years, see 17 U.S.C. § 302(c)—and that such a sale could, absent this action, expose Galloway to further relief, see *id.* § 106(3); *id.* § 501(a); cf. *id.* § 109(a) (permitting resale of “lawfully made” copies); 1 William F. Patry, *Patry on Copyright* § 3.111 (2007) (arguing that sale of a copyrighted structure is not a “distribution” under § 106(3)). But Phelps & Associates has requested relief for that inevitable transaction now in this action, as part of the panoply of remedies available under the Copyright Act, and therefore entitlement to that relief can be and is resolved in this action under the principles of eBay, 126 S.Ct. at 1839.

The first two eBay criteria for injunctive relief—irreparable injury and the inadequacy of monetary damages—have most likely been demonstrated. Irreparable injury often derives from the nature of copyright violations, which deprive the copyright holder of intangible exclusive rights. Damages at law will not remedy the continuing existence of Phelps & Associates’ design in the Galloway house. Moreover, while the calculation of future damages and profits for each future sale might be possible, any such effort would entail a substantial amount of speculation and guesswork that renders the effort difficult or impossible in this case. Accordingly, we conclude that Phelps & Associates most likely has satisfied the first two eBay factors.

When considering the third and fourth factors, however—the balance of hardships and the public interest—Phelps & Associates’ showing has fallen short.

First, Phelps & Associates has been fully and adequately compensated for the copying and use of its design as manifested in the single Galloway house, as described above in Part II. A sale of the house would not be a second copy or manifestation of the design, but merely a transfer of the structure in which the design was first copied. An injunction against sale would but slightly benefit Phelps & Associates’ legitimate entitlements because the infringing house would retain the same form and location, remaining a permanent nuisance to the copyright regardless of whether there is an injunction. An injunction against sale would neither undo the prior infringement, nor diminish the chances of future copying. At the same

time, a permanent injunction would impose a draconian burden on Galloway, effectively creating a *lis pendens* on the house and subjecting him to contempt proceedings simply for selling his own property.

Second, a house or building, as an expression of the architect's copyrighted plans, usually has a predominantly functional character. This functional character was the reason American copyright law, pre-Berne Convention, denied protection to constructed architectural works altogether. See 1 Nimmer & Nimmer, *supra*, § 2.08[D][2][b], at 2–126 (“an architectural structure ordinarily constitutes a ‘useful article’.... For that reason, such structures remained unprotected by United States copyright law from passage of the current [Copyright] Act until enactment of an amendment, the Architectural Works Copyright Protection Act”). This is the same reason that Congress manifested an expectation that injunctions will not be routinely issued against substantially completed houses whose designs violated architectural copyrights. H.R. Rep. No. 101–735, at 13–14 (1990), reprinted in 1990 U.S.C.C.A.N. 6935, 6944 (explaining that buildings “are the only form of copyrightable subject matter that is habitable”). Those considerations are at their strongest when the architectural structure is completed and inhabited by the infringer, as here. While Galloway infringed the copyright, he now is living in a “copy” of the architectural work. His interest in remaining there, with the same rights as other homeowners to alienate his property, is substantial and, in this case, trumps Phelps & Associates’ interests in any injunction prohibiting a lease or sale of the house.

Third, an injunction against sale of the house would be overbroad, as it would encumber a great deal of property unrelated to the infringement. The materials and labor that went into the Galloway house, in addition to the swimming pool, the fence, and other non-infringing features, as well as the land underneath the house, would be restrained by the requested injunction. As such, the injunction would take on a fundamentally punitive character, which has not been countenanced in the Copyright Act’s remedies. See *Bucklew v. Hawkins, Ash, Baptie & Co.*, 329 F.3d 923, 931 (7th Cir.2003) (noting that the Copyright Act does not authorize punitive damages). In a similar vein, the requested injunction would undermine an ancient reluctance by the courts to restrain the alienability of real property. See, e.g., *Williams v. First Fed. Sav. & Loan Ass’n*, 651 F.2d 910, 919 n. 18 (4th Cir.1981); *Jiggets v. Davis*, 28 Va. 368 (1829); *Howard v. Earl of Shrewsbury*, (1867) 2 Ch.App. 760. For these reasons, the public interest would be disserved by the entry of an injunction.

Finally, ultimate discretion to grant any such injunctive relief rests with the district court, and for the reasons enumerated, we conclude that deference to the district court’s refusal is appropriate in the absence of any

showing that such refusal was otherwise an abuse of discretion. See *eBay*, 126 S.Ct. at 1839.

Thus, with respect to the Galloway house as one manifestation of the Phelps & Associates' design, arising from a single infringing transaction, Phelps & Associates is limited to the other relief provided in this case. Upon satisfaction of that relief, Galloway will be entitled to peaceful ownership of the house, with good and marketable title. This is consistent with the result reached when a converter of property satisfies a judgment: if the judgment does not order return of the property, but rather other relief, the converter obtains good and marketable title to the property after satisfying the judgment. See Restatement (Second) of Torts § 222A, cmt. (c) ("When the defendant satisfies the judgment in the action for conversion, title to the chattel passes to him, so that he is in effect required to buy it at a forced judicial sale"); *Lovejoy v. Murray*, 70 U.S. (3 Wall.) 1, 16–17, 18 L.Ed. 129 (1866); *Stirling v. Garritee*, 18 Md. 468, 474 (1862) ("The measure of damages in trover, is the value of the goods at the time of conversion. The plaintiff obtaining this value, it operates as a transfer of title from the time of conversion"). The same policies of promoting clear property rights and finality apply in the case of copyright actions involving single copies of completed structures. Indeed, they are perhaps stronger, as we are promoting the alienability of real property.

Phelps & Associates relies upon *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 446 n. 28, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984), to argue that the refusal to issue an injunction against future leases and sales of the Galloway house amounts to a judicially-created compulsory license, which is disfavored. The reliance on *Sony*, however, is misplaced. The remedies under the Copyright Act do not resemble a license because the Copyright Act remedies are far broader than simply requiring a defendant to make license payments. Under the Copyright Act, a copyright holder is entitled to both actual damages—the market price of the license—and disgorgement of the infringer's profits, which might be immensely greater than the price of a license. See 17 U.S.C. § 504. Moreover, the infringer takes the risk that the district court will order, in its discretion, the destruction or other disposition of the infringing article. See *id.* § 503(b). In the garden-variety piracy case, such orders are routinely issued. See, e.g., *Loud Records, LLC v. Lambright*, Civ. No. 1:05–0171, 2006 WL 2038655, 2006 U.S. Dist. LEXIS 38016 (S.D.W.Va., March 30, 2006); *Graduate Mgmt. Admission Council v. Raju*, 267 F.Supp.2d 505 (E.D.Va.2003); *Microsoft Corp. v. Grey Computer*, 910 F.Supp. 1077 (D.Md.1995). Given the risks attendant to infringement, denying an injunction is not equivalent to a compulsory license. See *Walker v. Forbes, Inc.*, 28 F.3d 409, 412 (4th Cir.1994) ("By stripping the infringer not only of the licensing fee but also of the profit generated as a result of the use of

the infringed item, the law makes clear that there is no gain to be made from taking someone else's intellectual property without their consent"). While granting an injunction to destroy an infringing article might be usual with respect to personal property, especially in the garden-variety music or movie piracy case, refusing to order destruction or the inalienability of property is also consistent with the Copyright Act's remedial scheme and does not amount to a compelled license.

For all of these reasons, we affirm the district court's order denying an injunction against the future lease or sale of Galloway's house.

C

Finally, Phelps & Associates contends that the district court erred as a matter of law in refusing to grant injunctive relief to require the return or destruction of the infringing plans. See 17 U.S.C. § 503(b).

Again, any relief granted in equity is at the discretion of the district court, and a petitioner cannot claim that it was entitled to injunctive relief. See eBay, 126 S.Ct. at 1839. Nonetheless, the district court, without the benefit of eBay, may have denied equitable relief categorically, rather than basing its analysis on the traditional principles of equity.

In denying Phelps & Associates' motion for an injunction, the district court stated:

The court finds that the Plaintiff has been made whole, and in its discretion, declines to order Defendant to destroy all copies of the plans at issue.

Being made whole in the circumstances of this case, however, could only have referred to the jury award of damages for the cost of a license and its finding that Galloway realized no profits for disgorgement. It could not have related to other questions, such as the existence of infringing plans or future acts of infringement.

To explain its ruling, the court stated only,

Evidence at trial revealed that the house is substantially constructed and that only interior finish work remains to be done. Thus, there is no likelihood that completion of the house will result in further infringement. It does not follow, however, that because the plans were not needed to complete the house, they should not therefore be returned or destroyed, as authorized by 17 U.S.C. § 503(b). The risk of future infringement includes the possible use of plans to build another house, publication of the plans, or other violations of the exclusive rights conferred by 17 U.S.C. § 106. See Serv. & Training, Inc. v. Data Gen. Corp., 963 F.2d 680, 690 (4th Cir.1992) (affirming the entry of a preliminary injunction against further

unauthorized use and copying of copyrighted software).

When Phelps & Associates requested the return or destruction of the infringing plans, the district court was obligated to consider the traditional factors for equitable relief. Yet it appears that the court did not do so. At most, it stated without explanation that it declined “in its discretion ... to order defendant to destroy all copies of the plans at issue.” Considering the court’s ruling in the context of the admonitions given in eBay, we cannot conclude that the district court properly performed its equitable functions. See eBay, 126 S.Ct. at 1839. Therefore, we vacate that portion of its order as an abuse of discretion.

In sum, while we affirm the jury’s verdict and the district court’s order refusing to enjoin the future leasing or sale of Galloway’s house, we remand this case for further consideration, in light of eBay, of Phelps & Associates’ request for injunctive relief with respect to the return or destruction of the infringing plans.

AFFIRMED IN PART, VACATED IN PART, AND REMANDED

## CHAPTER 5

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### ENFORCEMENT, SPECIAL TOPICS, & REMEDIES

#### A. FAIR USE AND HOME VIDEO

##### SONY CORPORATION OF AMERICA v. UNIVERSAL CITY STUDIOS, INC.

Supreme Court of the United States, 1984.  
[464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574.](#)

JUSTICE STEVENS delivered the opinion of the Court.

IV

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##### A. *Authorized Time-Shifting.*

[The Court noted the District Court's finding that a considerable number of copyright owners of television programs—sports leagues, religious broadcasters, and educational communication agencies—wished to have home video tape recorders (VTRs, as they were then called) available for viewers to use to tape their programs for viewing at a later time.] . . . Although the District Court made these statements in the context of considering the propriety of injunctive relief, the statements constitute a finding that the evidence concerning "sports, religious, educational and other programming" was sufficient to establish a significant quantity of broadcasting whose copying is now authorized, and a significant potential for future authorized copying. That finding is amply supported by the record.

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If there are millions of owners of VTRs who make copies of televised sports events, religious broadcasts, and educational programs such as *Mister Rogers' Neighborhood*, and if the proprietors of those programs welcome the practice, the business of supplying the equipment that makes such copying feasible should not be stifled simply because the equipment

is used by some individuals to make unauthorized reproductions of respondents' works. The respondents do not represent a class composed of all copyright holders. Yet a finding of contributory infringement would inevitably frustrate the interests of broadcasters in reaching the portion of their audience that is available only through time-shifting.

Of course, the fact that other copyright holders may welcome the practice of time-shifting does not mean that respondents should be deemed to have granted a license to copy their programs. Third-party conduct would be wholly irrelevant in an action for direct infringement of respondents' copyrights. But in an action for contributory infringement against the seller of copying equipment, the copyright holder may not prevail unless the relief that he seeks affects only his programs, or unless he speaks for virtually all copyright holders with an interest in the outcome. In this case, the record makes it perfectly clear that there are many important producers of national and local television programs who find nothing objectionable about the enlargement in the size of the television audience that results from the practice of time-shifting for private home use. The seller of the equipment that expands those producers' audiences cannot be a contributory infringer if, as is true in this case, it has had no direct involvement with any infringing activity.

#### B. Unauthorized Time-Shifting.

Even unauthorized uses of a copyrighted work are not necessarily infringing. An unlicensed use of the copyright is not an infringement unless it conflicts with one of the specific exclusive rights conferred by the copyright statute. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, at 154–155 (1975). Moreover, the definition of exclusive rights in § 106 of the present Act is prefaced by the words “subject to sections 107 through 118.” Those sections describe a variety of uses of copyrighted material that “are not infringements of copyright” “notwithstanding the provisions of section 106.” The most pertinent in this case is § 107, the legislative endorsement of the doctrine of “fair use.”

That section identifies various factors that enable a court to apply an “equitable rule of reason” analysis to particular claims of infringement. Although not conclusive, the first factor requires that “the commercial or nonprofit character of an activity” be weighed in any fair use decision. If the Betamax were used to make copies for a commercial or profit-making purpose, such use would presumptively be unfair. The contrary presumption is appropriate here, however, because the District Court’s findings plainly establish that time-shifting for private home use must be characterized as a noncommercial, nonprofit activity. Moreover, when one considers the nature of a televised copyrighted audiovisual work, and that time-shifting merely enables a viewer to see such a work which he had been invited to witness in its entirety free of charge, the fact that the entire work

is reproduced, see § 107(3), does not have its ordinary effect of militating against a finding of fair use.

This is not, however, the end of the inquiry because Congress has also directed us to consider “the effect of the use upon the potential market for or value of the copyrighted work.” § 107(4). The purpose of copyright is to create incentives for creative effort. Even copying for noncommercial purposes may impair the copyright holder’s ability to obtain the rewards that Congress intended him to have. But a use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author’s incentive to create. The prohibition of such noncommercial uses would merely inhibit access to ideas without any countervailing benefit.

Thus, although every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright, noncommercial uses are a different matter. A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work. Actual present harm need not be shown; such a requirement would leave the copyright holder with no defense against predictable damage. Nor is it necessary to show with certainty that future harm will result. What is necessary is a showing by a preponderance of the evidence that some meaningful likelihood of future harm exists. If the intended use is for commercial gain, that likelihood may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.

In this case, respondents failed to carry their burden with regard to home time-shifting. The District Court described respondents’ evidence as follows:

“Plaintiffs’ experts admitted at several points in the trial that the time-shifting without librarying would result in ‘not a great deal of harm.’ Plaintiffs’ greatest concern about time-shifting is with ‘a point of important philosophy that transcends even commercial judgment.’ They fear that with any Betamax usage, ‘invisible boundaries’ are passed: ‘the copyright owner has lost control over his program.’”

\* \* \*

There was no need for the District Court to say much about past harm. “Plaintiffs have admitted that no actual harm to their copyrights has occurred to date.”

On the question of potential future harm from time-shifting, the District Court offered a more detailed analysis of the evidence. It rejected respondents’ “fear that persons ‘watching’ the original telecast of a program will not be measured in the live audience and the ratings and revenues will decrease,” by observing that current measurement technology allows the

Betamax audience to be reflected. It rejected respondents' prediction "that live television or movie audiences will decrease as more people watch Betamax tapes as an alternative," with the observation that "[there] is no factual basis for [the underlying] assumption." It rejected respondents' "fear that time-shifting will reduce audiences for telecast reruns," and concluded instead that "given current market practices, this should aid plaintiffs rather than harm them." And it declared that respondents' suggestion that "theater or film rental exhibition of a program will suffer because of time-shift recording of that program" "lacks merit."

\* \* \*

The District Court's conclusions are buttressed by the fact that to the extent time-shifting expands public access to freely broadcast television programs, it yields societal benefits. In *Community Television of Southern California v. Gottfried*, 459 U.S. 498, 508 (1983), we acknowledged the public interest in making television broadcasting more available. Concededly, that interest is not unlimited. But it supports an interpretation of the concept of "fair use" that requires the copyright holder to demonstrate some likelihood of harm before he may condemn a private act of time-shifting as a violation of federal law.

When these factors are all weighed in the "equitable rule of reason" balance, we must conclude that this record amply supports the District Court's conclusion that home time-shifting is fair use. In light of the findings of the District Court regarding the state of the empirical data, it is clear that the Court of Appeals erred in holding that the statute as presently written bars such conduct.

In summary, the record and findings of the District Court lead us to two conclusions. First, Sony demonstrated a significant likelihood that substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers. And second, respondents failed to demonstrate that time-shifting would cause any likelihood of nominal harm to the potential market for, or the value of, their copyrighted works. The Betamax is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondents' copyrights.

## V

"The direction of Art. I is that Congress shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress." *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530 (1972).

One may search the Copyright Act in vain for any sign that the elected representatives of the millions of people who watch television every day

have made it unlawful to copy a program for later viewing at home, or have enacted a flat prohibition against the sale of machines that make such copying possible.

It may well be that Congress will take a fresh look at this new technology, just as it so often has examined other innovations in the past. But it is not our job to apply laws that have not yet been written. Applying the copyright statute, as it now reads, to the facts as they have been developed in this case, the judgment of the Court of Appeals must be reversed.

It is so ordered.

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Justice Blackmun's dissent disagreed with the majority on almost every analytical point. For example, rather than focusing on the personal and noncommercial character of home videotaping, the dissent emphasized its lack of creative value:

The intent of § 107(1) is to encourage users to engage in activities the primary benefit of which accrues to others. Time-shifting involves no such humanitarian impulse. It is likewise something of a mischaracterization of time-shifting to describe it as noncommercial in the sense that that term is used in the statute. As one commentator has observed, time-shifting is noncommercial in the same sense that stealing jewelry and wearing it—instead of reselling it—is noncommercial. Purely consumptive uses are certainly not what the fair use doctrine was designed to protect, and the awkwardness of applying the statutory language to time-shifting only makes clearer that fair use was designed to protect only uses that are productive.

**464 U.S. at 496.** Because home copying amounted to personal consumption rather than social production, greater weight had to be given to the risk of harm to the studio copyright owners.

The Studios have identified a number of ways in which VTR recording could damage their copyrights. VTR recording could reduce their ability to market their works in movie theaters and through the rental or sale of prerecorded videotapes or videodiscs; it also could reduce their rerun audience, and consequently the license fees available to them for repeated showings. Moreover, advertisers may be willing to pay for only “live” viewing audiences, if they believe VTR viewers will delete commercials or if rating services are unable to measure VTR use; if this is the case, VTR recording could reduce the license fees the Studios are able to charge even for first-run showings. Library-building may raise the potential for each of the types of harm identified by the

Studios, and time-shifting may raise the potential for substantial harm as well.<sup>35</sup>

The Studios introduced expert testimony that both time-shifting and librarying would tend to decrease their revenue from copyrighted works. The District Court's findings also show substantial library-building and avoidance of commercials. Both sides submitted surveys showing that the average Betamax user owns between 25 and 32 tapes. The Studios' survey showed that at least 40% of users had more than 10 tapes in a "library"; Sony's survey showed that more than 40% of users planned to view their tapes more than once; and both sides' surveys showed that commercials were avoided at least 25% of the time.

**464 U.S. at 483.** Nor was the fact that the studio copyright owners had licensed a "free" over-the-air television broadcast a reason for denying them protection against copying and replaying that broadcast.

Although a television broadcast may be free to the viewer, this fact is equally irrelevant; a book borrowed from the public library may not be copied any more freely than a book that is purchased.

**464 U.S. at 480.**

The development of the VTR has created a new market for the works produced by the Studios. That market consists of those persons who desire to view television programs at times other than when they are broadcast, and who therefore purchase VTR recorders to enable them to time-shift. Because time-shifting of the Studios' copyrighted works involves the copying of them, however, the Studios are entitled to share in the benefits of that new market. Those benefits currently go to Sony through Betamax sales. Respondents therefore can show harm from VTR use simply by showing that the value of their copyrights would increase if they were compensated for the copies that are used in the new market. The existence of this effect is self-evident.

**464 U.S. at 497–98.** Nor was the dissent persuaded by the majority's argument that classifying videotaping as illegal copying rather than as fair use would actually harm some program owners who wanted home viewers to be able to tape their shows and view them at times when they could.

Such reasoning . . . simply confuses the question of liability with the difficulty of fashioning an appropriate remedy. It may be that an injunction prohibiting the sale of VTRs would harm the

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<sup>35</sup> A VTR owner who has taped a favorite movie for repeated viewing will be less likely to rent or buy a tape containing a movie, watch a televised rerun, or pay to see the movie at a theater. Both library-builders and time-shifters may avoid commercials; the library-builder may use the pause control to record without them, and all users may fast-forward through commercials on playback.

interests of copyright holders who have no objection to others making copies of their programs. But such concerns should and would be taken into account in fashioning an appropriate remedy once liability has been found. Remedies may well be available that would not interfere with authorized time-shifting at all. The Court of Appeals mentioned the possibility of a royalty payment that would allow VTR sales and time-shifting to continue unabated, and the parties may be able to devise other narrowly tailored remedies. Sony may be able, for example, to build a VTR that enables broadcasters to scramble the signal of individual programs and “jam” the unauthorized recording of them. Even were an appropriate remedy not available at this time, the Court should not misconstrue copyright holders’ rights in a manner that prevents enforcement of them when, through development of better techniques, an appropriate remedy becomes available.

**464 U.S. at 494.** Justice Blackmun, however, was not able to persuade a fifth Justice to subscribe to this alternative analysis of the fair use issue.

### ***NEWER TECHNOLOGIES***

#### **CARTOON NETWORK, LP v. CSC HOLDINGS, INC.**

United States Court of Appeals, Second Circuit, 2008.  
536 F.3d 121.

WALKER, CIRCUIT JUDGE.

Defendant-Appellant Cablevision Systems Corporation (“Cablevision”) wants to market a new “Remote Storage” Digital Video Recorder system (“RS-DVR”), using a technology akin to both traditional, set-top digital video recorders, like TiVo (“DVRs”), and the video-on-demand (“VOD”) services provided by many cable companies. Plaintiffs-Appellees produce copyrighted movies and television programs that they provide to Cablevision pursuant to numerous licensing agreements. They contend that Cablevision, through the operation of its RS-DVR system as proposed, would directly infringe their copyrights both by making unauthorized reproductions, and by engaging in public performances, of their copyrighted works. The material facts are not in dispute. Because we conclude that Cablevision would not directly infringe plaintiffs’ rights under the Copyright Act by offering its RS-DVR system to consumers, we reverse the district court’s award of summary judgment to plaintiffs, and we vacate its injunction against Cablevision.

### **BACKGROUND**

Today’s television viewers increasingly use digital video recorders (“DVRs”) instead of video cassette recorders (“VCRs”) to record television

programs and play them back later at their convenience. DVRs generally store recorded programming on an internal hard drive rather than a cassette. But, as this case demonstrates, the generic term “DVR” actually refers to a growing number of different devices and systems. Companies like TiVo sell a stand-alone DVR device that is typically connected to a user’s cable box and television much like a VCR. Many cable companies also lease to their subscribers “set-top storage DVRs,” which combine many of the functions of a standard cable box and a stand-alone DVR in a single device.

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.

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“Section 106 of the Copyright Act grants copyright holders a bundle of exclusive rights. . . .” *Id.* at 607–08. This case implicates two of those rights: the right “to reproduce the copyrighted work in copies,” and the right “to perform the copyrighted work publicly.” 17 U.S.C. § 106(1), (4). As discussed above, the district court found that Cablevision infringed the first right by 1) buffering the data from its programming stream and 2) copying content onto the Arroyo Server hard disks to enable playback of a program requested by an RS-DVR customer. In addition, the district court found that Cablevision would infringe the public performance right by transmitting a program to an RS-DVR customer in response to that customer’s playback request. We address each of these three allegedly infringing acts in turn.

### I. The Buffer Data

It is undisputed that Cablevision, not any customer or other entity, takes the content from one stream of programming, after the split, and stores it, one small piece at a time, in the BMR buffer and the primary

ingest buffer. As a result, the information is buffered before any customer requests a recording, and would be buffered even if no such request were made. The question is whether, by buffering the data that make up a given work, Cablevision “reproduce[s]” that work “in copies,” 17 U.S.C. § 106(1), and thereby infringes the copyright holder’s reproduction right.

“Copies,” as defined in the Copyright Act, “are material objects . . . in which a work is fixed by any method . . . and from which the work can be . . . reproduced.” *Id.* § 101. The Act also provides that a work is “‘fixed’ in a tangible medium of expression when its embodiment . . . is sufficiently permanent or stable to permit it to be . . . reproduced . . . *for a period of more than transitory duration.*” *Id.* (emphasis added). We believe that this language plainly imposes two distinct but related requirements: the work must be embodied in a medium, i.e., placed in a medium such that it can be perceived, reproduced, etc., from that medium (the “embodiment requirement”), and it must remain thus embodied “for a period of more than transitory duration” (the “duration requirement”). See 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.02[B][3], at 8–32 (2007). Unless both requirements are met, the work is not “fixed” in the buffer, and, as a result, the buffer data is not a “copy” of the original work whose data is buffered.

The district court mistakenly limited its analysis primarily to the embodiment requirement. As a result of this error, once it determined that the buffer data was “[c]learly . . . capable of being reproduced,” i.e., that the work was embodied in the buffer, the district court concluded that the work was therefore “fixed” in the buffer, and that a copy had thus been made. *Cablevision I*, 478 F.Supp.2d at 621–22. In doing so, it relied on a line of cases beginning with *MAI Systems Corp. v. Peak Computer Inc.*, 991 F.2d 511 (9th Cir.1993). It also relied on the United States Copyright Office’s 2001 report on the Digital Millennium Copyright Act, which states, in essence, that an embodiment is fixed “[u]nless a reproduction manifests itself so fleetingly that *it cannot be copied.*” U.S. Copyright Office, *DMCA Section 104 Report* 111 (Aug.2001) (“*DMCA Report*”) (emphasis added), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>.

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Cablevision does not seriously dispute that copyrighted works are “embodied” in the buffer. Data in the BMR buffer can be reformatted and transmitted to the other components of the RS-DVR system. Data in the primary ingest buffer can be copied onto the Arroyo hard disks if a user has requested a recording of that data. Thus, a work’s “embodiment” in either buffer “is sufficiently permanent or stable to permit it to be perceived, reproduced,” (as in the case of the ingest buffer) “or otherwise communicated” (as in the BMR buffer). 17 U.S.C. § 101. The result might be different if only a single second of a much longer work was placed in the

buffer in isolation. In such a situation, it might be reasonable to conclude that only a minuscule portion of a work, rather than “a work” was embodied in the buffer. Here, however, where every second of an entire work is placed, one second at a time, in the buffer, we conclude that the work is embodied in the buffer.

Does any such embodiment last “for a period of more than transitory duration”? *Id.* No bit of data remains in any buffer for more than a fleeting 1.2 seconds. And unlike the data in cases like *MAI \*130 Systems*, which remained embodied in the computer’s RAM memory until the user turned the computer off, each bit of data here is rapidly and automatically overwritten as soon as it is processed. While our inquiry is necessarily fact-specific, and other factors not present here may alter the duration analysis significantly, these facts strongly suggest that the works in this case are embodied in the buffer for only a “transitory” period, thus failing the duration requirement.

Against this evidence, plaintiffs argue only that the duration is not transitory because the data persist “long enough for Cablevision to make reproductions from them.” Br. of Pls.-Appellees the Cartoon Network et al. at 51. As we have explained above, however, this reasoning impermissibly reads the duration language out of the statute, and we reject it. Given that the data reside in no buffer for more than 1.2 seconds before being automatically overwritten, and in the absence of compelling arguments to the contrary, we believe that the copyrighted works here are not “embodied” in the buffers for a period of more than transitory duration, and are therefore not “fixed” in the buffers. Accordingly, the acts of buffering in the operation of the RS-DVR do not create copies, as the Copyright Act defines that term. Our resolution of this issue renders it unnecessary for us to determine whether any copies produced by buffering data would be de minimis, and we express no opinion on that question.

## II. Direct Liability for Creating the Playback Copies

In most copyright disputes, the allegedly infringing act and the identity of the infringer are never in doubt. These cases turn on whether the conduct in question does, in fact, infringe the plaintiff’s copyright. In this case, however, the core of the dispute is over the authorship of the infringing conduct. After an RS-DVR subscriber selects a program to record, and that program airs, a copy of the program—a copyrighted work—resides on the hard disks of Cablevision’s Arroyo Server, its creation unauthorized by the copyright holder. The question is *who* made this copy. If it is Cablevision, plaintiffs’ theory of direct infringement succeeds; if it is the customer, plaintiffs’ theory fails because Cablevision would then face, at most, secondary liability, a theory of liability expressly disavowed by plaintiffs.

Few cases examine the line between direct and contributory liability. Both parties cite a line of cases beginning with *Religious Technology Center*

v. *Netcom On-Line Communication Services*, 907 F.Supp. 1361 (N.D.Cal.1995). In *Netcom*, a third-party customer of the defendant Internet service provider (“ISP”) posted a copyrighted work that was automatically reproduced by the defendant’s computer. The district court refused to impose direct liability on the ISP, reasoning that “[a]lthough copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant’s system is merely used to create a copy by a third party.” *Id.* at 1370. Recently, the Fourth Circuit endorsed the *Netcom* decision, noting that

to establish *direct* liability under . . . the Act, something more must be shown than mere ownership of a machine used by others to make illegal copies. There must be actual infringing conduct with a nexus sufficiently close and causal to the illegal copying that one could conclude that the machine owner himself trespassed on the exclusive domain of the copyright owner.”

*CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir.2004).

Here, the district court pigeon-holed the conclusions reached in *Netcom* and its progeny as “premised on the unique attributes of the Internet.” *Cablevision I*, 478 F.Supp.2d at 620. While the *Netcom* court was plainly concerned with a theory of direct liability that would effectively “hold the entire Internet liable” for the conduct of a single user, 907 F.Supp. at 1372, its reasoning and conclusions, consistent with precedents of this court and the Supreme Court, and with the text of the Copyright Act, transcend the Internet. Like the Fourth Circuit, we reject the contention that “the *Netcom* decision was driven by expedience and that its holding is inconsistent with the established law of copyright,” *CoStar*, 373 F.3d at 549, and we find it “a particularly rational interpretation of § 106,” *id.* at 551, rather than a special-purpose rule applicable only to ISPs.

When there is a dispute as to the author of an allegedly infringing instance of reproduction, *Netcom* and its progeny direct our attention to the volitional conduct that causes the copy to be made. There are only two instances of volitional conduct in this case: Cablevision’s conduct in designing, housing, and maintaining a system that exists only to produce a copy, and a customer’s conduct in ordering that system to produce a copy of a specific program. In the case of a VCR, it seems clear—and we know of no case holding otherwise—that the operator of the VCR, the person who actually presses the button to make the recording, supplies the necessary element of volition, not the person who manufactures, maintains, or, if distinct from the operator, owns the machine. We do not believe that an RS-DVR customer is sufficiently distinguishable from a VCR user to impose liability as a direct infringer on a different party for copies that are made automatically upon that customer’s command.

The district court emphasized the fact that copying is “instrumental” rather than “incidental” to the function of the RS-DVR system. *Cablevision*

*I*, 478 F.Supp.2d at 620. While that may distinguish the RS-DVR from the ISPs in *Netcom* and *CoStar*, it does not distinguish the RS-DVR from a VCR, a photocopier, or even a typical copy shop. And the parties do not seem to contest that a company that merely makes photocopiers available to the public on its premises, without more, is not subject to liability for direct infringement for reproductions made by customers using those copiers. They only dispute whether Cablevision is similarly situated to such a proprietor.

The district court found Cablevision analogous to a copy shop that makes course packs for college professors. In the leading case involving such a shop, for example, “[t]he professor [gave] the copyshop the materials of which the coursepack [was] to be made up, and the copyshop [did] the rest.” *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1384 (6th Cir.1996) (en banc). There did not appear to be any serious dispute in that case that the shop itself was directly liable for reproducing copyrighted works. The district court here found that Cablevision, like this copy shop, would be “doing” the copying, albeit “at the customer’s behest.” *Cablevision I*, 478 F.Supp.2d at 620.

But because volitional conduct is an important element of direct liability, the district court’s analogy is flawed. In determining who actually “makes” a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct. In cases like *Princeton University Press*, the defendants operated a copying device and sold the product they made using that device. See 99 F.3d at 1383 (“The corporate defendant . . . is a commercial copyshop that reproduced substantial segments of copyrighted works of scholarship, bound the copies into ‘coursepacks,’ and sold the coursepacks to students. . . .”). Here, by selling access to a system that automatically produces copies on command, Cablevision more closely resembles a store proprietor who charges customers to use a photocopier on his premises, and it seems incorrect to say, without more, that such a proprietor “makes” any copies when his machines are actually operated by his customers. See *Netcom*, 907 F.Supp. at 1369. Some courts have held to the contrary, but they do not explicitly explain why, and we find them unpersuasive. See, e.g., *Elektra Records Co. v. Gem Elec. Distrib., Inc.*, 360 F.Supp. 821, 823 (E.D.N.Y.1973) (concluding that, “regardless” of whether customers or defendants’ employees operated the tape-copying machines at defendants’ stores, defendant had actively infringed copyrights).

The district court also emphasized Cablevision’s “unfettered discretion in selecting the programming that it would make available for recording.” *Cablevision I*, 478 F.Supp.2d at 620. This conduct is indeed more proximate to the creation of illegal copying than, say, operating an ISP or opening a

copy shop, where all copied content was supplied by the customers themselves or other third parties. Nonetheless, we do not think it sufficiently proximate to the copying to displace the customer as the person who “makes” the copies when determining liability under the Copyright Act. Cablevision, we note, also has subscribers who use home VCRs or DVRs (like TiVo), and has significant control over the content recorded by these customers. But this control is limited to the channels of programming available to a customer and not to the programs themselves. Cablevision has no control over what programs are made available on individual channels or when those programs will air, if at all. In this respect, Cablevision possesses far less control over recordable content than it does in the VOD context, where it actively selects and makes available beforehand the individual programs available for viewing. For these reasons, we are not inclined to say that Cablevision, rather than the user, “does” the copying produced by the RS-DVR system. As a result, we find that the district court erred in concluding that Cablevision, rather than its RS-DVR customers, makes the copies carried out by the RS-DVR system.

Our refusal to find Cablevision directly liable on these facts is buttressed by the existence and contours of the Supreme Court’s doctrine of contributory liability in the copyright context. After all, the purpose of any causation-based liability doctrine is to identify the actor (or actors) whose “conduct has been so significant and important a cause that [he or she] should be legally responsible.” W. Page Keeton et al., *Prosser and Keeton on Torts* § 42, at 273 (5th ed. 1984). But here, to the extent that we may construe the boundaries of direct liability more narrowly, the doctrine of contributory liability stands ready to provide adequate protection to copyrighted works.

Most of the facts found dispositive by the district court—e.g., Cablevision’s “continuing relationship” with its RS-DVR customers, its control over recordable content, and the “instrumental[ity]” of copying to the RS-DVR system, *Cablevision I*, 478 F.Supp.2d at 618–20—seem to us more relevant to the question of contributory liability. In *Sony Corp. of America v. Universal City Studios, Inc.*, the lack of an “ongoing relationship” between Sony and its VCR customers supported the Court’s conclusion that it should not impose *contributory* liability on Sony for any infringing copying done by Sony VCR owners. 464 U.S. 417, 437–38, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). The *Sony* Court did deem it “just” to impose liability on a party in a “position to control” the infringing uses of another, but as a contributory, not direct, infringer. *Id.* at 437, 104 S.Ct. 774. And asking whether copying copyrighted material is only “incidental” to a given technology is akin to asking whether that technology has “commercially significant noninfringing uses,” another inquiry the *Sony* Court found relevant to whether imposing *contributory* liability was just. *Id.* at 442, 104 S.Ct. 774.

The Supreme Court’s desire to maintain a meaningful distinction between direct and contributory copyright infringement is consistent with congressional intent. The Patent Act, unlike the Copyright Act, expressly provides that someone who “actively induces infringement of a patent” is “liable as an infringer,” 35 U.S.C. § 271(b), just like someone who commits the underlying infringing act by “us[ing]” a patented invention without authorization, *id.* § 271(a). In contrast, someone who merely “sells . . . a material or apparatus for use in practicing a patented process” faces only liability as a “contributory infringer.” *Id.* § 271(c). If Congress had meant to assign direct liability to both the person who actually commits a copyright-infringing act and any person who actively induces that infringement, the Patent Act tells us that it knew how to draft a statute that would have this effect. Because Congress did not do so, the *Sony* Court concluded that “[t]he Copyright Act does not expressly render anyone liable for infringement committed by another.” [464 U.S. at 434, 104 S.Ct. 774](#). Furthermore, in cases like *Sony*, the Supreme Court has strongly signaled its intent to use the doctrine of contributory infringement, not direct infringement, to “identify[ ] the circumstances in which it is just to hold one individual accountable for the actions of another.” *Id.* at 435, [104 S.Ct. 774](#). Thus, although *Sony* warns us that “the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn,” *id.* at [435 n. 17, 104 S.Ct. 774](#) (internal quotation marks and citation omitted), that decision does not absolve us of our duty to discern where that line falls in cases, like this one, that require us to decide the question.

The district court apparently concluded that Cablevision’s operation of the RS-DVR system would contribute in such a major way to the copying done by another that it made sense to say that Cablevision was a direct infringer, and thus, in effect, was “doing” the relevant copying. There are certainly other cases, not binding on us, that follow this approach. See, e.g., *Playboy Enters. v. Russ Hardenburgh, Inc.*, [982 F.Supp. 503, 513 \(N.D.Ohio 1997\)](#) (noting that defendant ISP’s encouragement of its users to copy protected files was “crucial” to finding that it was a direct infringer). We need not decide today whether one’s contribution to the creation of an infringing copy may be so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy. We conclude only that on the facts of this case, copies produced by the RS-DVR system are “made” by the RS-DVR customer, and Cablevision’s contribution to this reproduction by providing the system does not warrant the imposition of direct liability. Therefore, Cablevision is entitled to summary judgment on this point, and the district court erred in awarding summary judgment to plaintiffs.

### 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). Section 101, the definitional section of the Act, explains that

[t]o 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.

*Id.* § 101.

The parties agree that this case does not implicate clause (1). 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"? *Id.* 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 (1) the RS-DVR customer, rather than Cablevision, does the transmitting and thus the performing and (2) the transmission is not "to the public" under the transmit clause.

As to Cablevision's first argument, we note that our conclusion in Part II that the customer, not Cablevision, "does" the copying does not dictate a parallel conclusion that the customer, and not Cablevision, "performs" the copyrighted work. The definitions that delineate the contours of the reproduction and public performance rights vary in significant ways. For example, the statute defines the verb "perform" and the noun "copies," but not the verbs "reproduce" or "copy." *Id.* We need not address Cablevision's first argument further because, even if we assume that Cablevision makes the transmission when an RS-DVR playback occurs, we find that the RS-DVR playback, as described here, does not involve the transmission of a performance "to the public."

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. *Cf. Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 197–98, 51 S.Ct. 410, 75 L.Ed. 971 (1931).

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. We are unpersuaded by the district court’s reasoning and the plaintiffs’ arguments that we should consider a larger potential audience in determining whether a transmission is “to the public.”

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.” *Cablevision I*, 478 F.Supp.2d at 623 (emphasis added). 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. See Br. of Pls.-Appellees Twentieth Century Fox Film Corp. et al. at 27 (“Fox Br.”) (“The critical factor . . . is that the *same performance* is transmitted to different subscribers at different times . . . more specifically, the *performance* of that program by *HBO or another programming service*.” (third emphasis added)).

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 had a license to transmit to its U.S. customers, but not its Canadian customers. It argued that although the downlink transmission to its Canadian subscribers was a public performance, it could not be held liable for that act because it occurred entirely outside of the United States and therefore was not subject to the strictures of the Copyright Act. It also argued that the uplink transmission was not a public performance because it was a transmission to a single satellite. See *id.* at 12.

The *NFL* court did not question the first assumption, but it flatly rejected the second 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). Thus, while the uplink transmission that took place in the United States was not, in itself, "to the public," the *NFL* court deemed it so because it ultimately resulted in an undisputed public performance. 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 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.

Plaintiffs also rely on *NFL* for the proposition that Cablevision publicly performs a work when it splits its programming stream and transmits the second stream to the RS-DVR system. Because *NFL* only supports that conclusion if we determine that the final transmission in the chain (i.e., the RS-DVR playback transmission) is "to the public," plaintiffs' reliance on *NFL* is misplaced. *NFL* dealt with a chain of transmissions whose final link was undisputedly a public performance. It therefore does not guide our current inquiry.

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.”

Indeed, we believe that *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir.1984), relied on by both plaintiffs and the district court, supports our decision to accord significance to the existence and use of distinct copies in our transmit clause analysis. In that case, defendant operated a video rental store, Maxwell’s, which also housed a number of small private booths containing seats and a television. Patrons would select a film, enter the booth, and close the door. An employee would then load a copy of the requested movie into a bank of VCRs at the front of the store and push play, thereby transmitting the content of the tape to the television in the viewing booth. See *id.* at 156–57.

The Third Circuit found that defendants’ conduct constituted a public performance under both clauses of the statutory definition. In concluding that Maxwell’s violated the transmit clause, that court explicitly relied on the fact that defendants showed the same copy of a work *seriatim* to its clientele, and it quoted a treatise emphasizing the same fact:

Professor Nimmer’s examination of this definition is particularly pertinent: “*if the same copy . . . of a given work is repeatedly played (i.e., ‘performed’) by different members of the public, albeit at different times, this constitutes a ‘public’ performance.*” 2 M. Nimmer, § 8.14[C][3], at 8–142 (emphasis in original). . . . Although Maxwell’s has only one copy of each film, it shows each copy repeatedly to different members of the public. This constitutes a public performance.

*Id.* at 159 (first omission in original).

Unfortunately, neither the *Redd Horne* court nor Prof. Nimmer explicitly explains *why* the use of a distinct copy affects the transmit clause inquiry. But our independent analysis confirms the soundness of their intuition: the use of a unique copy may limit the potential audience of a transmission and is therefore relevant to whether that transmission is made “to the public.” Plaintiffs’ unsupported arguments to the contrary are unavailing.

Given that each RS-DVR transmission is made to a given subscriber using a copy made by that subscriber, we conclude that such a transmission

is not “to the public,” without analyzing the contours of that phrase in great detail. No authority cited by the parties or the district court persuades us to the contrary.

In addition to *Redd Horne*, the district court also cited and analyzed *On Command Video Corp. v. Columbia Pictures Industries*, 777 F.Supp. 787 (N.D.Cal.1991), in its transmit clause analysis. In that case, defendant On Command developed and sold “a system for the electronic delivery of movie video tapes,” which it sold to hotels. *Id.* at 788. The hub of the system was a bank of video cassette players, each containing a copy of a particular movie. From his room, a hotel guest could select a movie via remote control from a list on his television. The corresponding cassette player would start, and its output would be transmitted to that guest’s room. During this playback, the movie selected was unavailable to other guests. *See id.* The court concluded that the transmissions made by this system were made to the public “because the relationship between the transmitter of the performance, On Command, and the audience, hotel guests, is a commercial, ‘public’ one regardless of where the viewing takes place.” *Id.* at 790.

Thus, according to the *On Command* court, any commercial transmission is a transmission “to the public.” We find this interpretation untenable, as it completely rewrites the language of the statutory definition. If Congress had wished to make all commercial transmissions public performances, the transmit clause would read: “to perform a work publicly means . . . to transmit a performance for commercial purposes.” In addition, this interpretation overlooks, as Congress did not, the possibility that even non-commercial transmissions to the public may diminish the value of a copyright. Finally, like *Redd Horne*, *On Command* is factually distinguishable, as successive transmissions to different viewers in that case could be made using a single copy of a given work. Thus, at the moment of transmission, any of the hotel’s guests was capable of receiving a transmission made using a single copy of a given movie. As a result, the district court in this case erred in relying on *On Command*.

Plaintiffs also rely on *Ford Motor Co. v. Summit Motor Products, Inc.*, 930 F.2d 277 (3d Cir.1991), in which the Third Circuit interpreted § 106(3) of the Copyright Act, which gives the copyright holder the exclusive right “to distribute copies . . . of the copyrighted work *to the public*,” 17 U.S.C. § 106(3) (emphasis added). The court concluded that “even one person can be the public *for the purposes of section 106(3)*.” *Ford*, 930 F.2d at 299 (emphasis added). Commentators have criticized the *Ford* court for divesting the phrase “to the public” of “all meaning whatsoever,” 2 Nimmer & Nimmer, *supra*, § 8.11[A], at 8–149, and the decision does appear to have that result. Whether this result was justified in the context of the distribution right is not for us to decide in this case. We merely note that we find no compelling reason, in the context of the transmit clause and the

public performance right, to interpret the phrase “to the public” out of existence.

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.

In sum, because we find, on undisputed facts, that Cablevision’s proposed RS-DVR system would not directly infringe plaintiffs’ exclusive rights to reproduce and publicly perform their copyrighted works, we grant summary judgment in favor of Cablevision with respect to both rights.

#### CONCLUSION

For the foregoing reasons, the district court’s award of summary judgment to the plaintiffs is REVERSED and the district court’s injunction against Cablevision is VACATED. The case is REMANDED for further proceedings consistent with this opinion.

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#### A & M RECORDS, ET AL. v. NAPSTER

United States Court of Appeals, Ninth Circuit, 2001.  
[239 F.3d 1004](#).

BEEZER, CIRCUIT JUDGE.

[After walking through the basic doctrinal issues of whether Napster users were engaging in copyright infringement or fair use, the Circuit then turned to Napster’s principal defense of the legality of its registered users’ actions.]

## 5. Identified Uses

Napster maintains that its identified uses of sampling and space-shifting were wrongly excluded as fair uses by the district court.

### a. *Sampling*

Napster contends that its users download MP3 files to “sample” the music in order to decide whether to purchase the recording. Napster argues that the district court: (1) erred in concluding that sampling is a commercial use because it conflated a noncommercial use with a personal use; (2) erred in determining that sampling adversely affects the market for plaintiffs copyrighted music, a requirement if the use is noncommercial; and (3) erroneously concluded that sampling is not a fair use because it determined that samplers may also engage in other infringing activity.

The district court determined that sampling remains a commercial use even if some users eventually purchase the music. We find no error in the district court’s determination. Plaintiffs have established that they are likely to succeed in proving that even authorized temporary downloading of individual songs for sampling purposes is commercial in nature. The record supports a finding that free promotional downloads are highly regulated by the record company plaintiffs and that the companies collect royalties for song samples available on retail Internet sites. Evidence relied on by the district court demonstrates that the free downloads provided by the record companies consist of thirty-to-sixty second samples or are full songs programmed to “time out,” that is, exist only for a short time on the downloader’s computer. In comparison, Napster users download a full, free and permanent copy of the recording. The determination by the district court as to the commercial purpose and character of sampling is not clearly erroneous.

The district court further found that both the market for audio CDs and market for online distribution are adversely affected by Napster’s service. As stated in our discussion of the district court’s general fair use analysis: the court did not abuse its discretion when it found that, overall, Napster has an adverse impact on the audio CD and digital download markets. Contrary to Napster’s assertion that the district court failed to specifically address the market impact of sampling, the district court determined that “even if the type of sampling supposedly done on Napster were a non-commercial use, plaintiffs have demonstrated a substantial likelihood that it would adversely affect the potential market for their copyrighted works if it became widespread.” *Napster*, 114 F. Supp. 2d at 914. The record supports the district court’s preliminary determinations that: (1) the more music that sampling users download, the less likely they are to eventually purchase the recordings on audio CD; and (2) even if the audio CD market is not harmed, Napster has adverse effects on the developing digital download market.

Napster further argues that the district court erred in rejecting its evidence that the users' downloading of "samples" increases or tends to increase audio CD sales. The district court, however, correctly noted that "any potential enhancement of plaintiffs' sales . . . would not tip the fair use analysis conclusively in favor of defendant." Id. at 914. We agree that increased sales of copyrighted material attributable to unauthorized use should not deprive the copyright holder of the right to license the material. See *Campbell*, 510 U.S. at 591 n.21 ("Even favorable evidence, without more, is no guarantee of fairness. Judge Leval gives the example of the film producer's appropriation of a composer's previously unknown song that turns the song into a commercial success; the boon to the song does not make the film's simple copying fair."). Nor does positive impact in one market, here the audio CD market, deprive the copyright holder of the right to develop identified alternative markets, here the digital download market.

We find no error in the district court's factual findings or abuse of discretion in the court's conclusion that plaintiffs will likely prevail in establishing that sampling does not constitute a fair use.

#### b. Space-Shifting

Napster also maintains that space-shifting is a fair use. Space-shifting occurs when a Napster user downloads MP3 music files in order to listen to music he already owns on audio CD. Napster asserts that we have already held that space-shifting of musical compositions and sound recordings is a fair use. See *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999) ("Rio [a portable MP3 player] merely makes copies in order to render portable, or 'space-shift,' those files that already reside on a user's hard drive. Such copying is a paradigmatic noncommercial personal use."). See also generally *Sony*, 464 U.S. at 423 (holding that "time-shifting," where a video tape recorder owner records a television show for later viewing, is a fair use).

We conclude that the district court did not err when it refused to apply the "shifting" analyses of *Sony* and *Diamond*. Both *Diamond* and *Sony* are inapposite because the methods of shifting in these cases did not also simultaneously involve distribution of the copyrighted material to the general public; the time or space-shifting of copyrighted material exposed the material only to the original user. In *Diamond*, for example, the copyrighted music was transferred from the user's computer hard drive to the user's portable MP3 player. So too *Sony*, where "the majority of VCR purchasers did not distribute taped television broadcasts, but merely enjoyed them at home." *Napster*, 114 F. Supp.2d at 913. Conversely, it is obvious that once a user lists a copy of music he already owns on the Napster system in order to access the music from another location, the song becomes "available to millions of other individuals," not just the original CD owner. See *UMG Recordings*, 92 F. Supp.2d at 351–52 (finding space-

shifting of MP3 files not a fair use even when previous ownership is demonstrated before a download is allowed).

\* \* \*

(The Circuit then turned to the question of whether Napster was itself liable for contributing to the infringement by its users.)

## IV

### A. Knowledge

Contributory liability requires that the secondary infringer “know or have reason to know” of direct infringement. The district court found that Napster had both actual and constructive knowledge that its users exchanged copyrighted music. The district court also concluded that the law does not require knowledge of “specific acts of infringement” and rejected Napster’s contention that because the company cannot distinguish infringing from noninfringing files, it does not “know” of the direct infringement.

It is apparent from the record that Napster has knowledge, both actual and constructive, of direct infringement. Napster claims that it is nevertheless protected from contributory liability by the teaching of *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). We disagree. We observe that Napster’s actual, specific knowledge of direct infringement renders *Sony*’s holding of limited assistance to Napster. We are compelled to make a clear distinction between the architecture of the Napster system and Napster’s conduct in relation to the operational capacity of the system.

We are bound to follow *Sony*, and will not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs’ copyrights. See 464 U.S. at 436 (rejecting argument that merely supplying the “‘means’ to accomplish an infringing activity” leads to imposition of liability). We depart from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant noninfringing uses. The district court improperly confined the use analysis to current uses, ignoring the system’s capabilities. See generally *Sony*, 464 U.S. at 442–43 (framing inquiry as whether the video tape recorder is “capable of commercially significant noninfringing uses”). Consequently, the district court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use. Nonetheless, whether we might arrive at a different result is not the issue here. The instant appeal occurs at an early point in the proceedings and “the fully developed factual record may be materially different from that initially before the district court. . . .” Regardless of the number of Napster’s infringing versus noninfringing uses, the evidentiary record here supported the district court’s finding that plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users’ infringement of plaintiffs’ copyrights.

\* \* \*

We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement. Conversely, absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material. See *Sony*, 464 U.S. at 436, 442–43. To enjoin simply because a computer network allows for infringing use would, in our opinion, violate *Sony* and potentially restrict activity unrelated to infringing use.

We nevertheless conclude that sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system. The record supports the district court’s finding that Napster has actual knowledge that specific infringing material is available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material.

#### *B. Material Contribution*

Under the facts as found by the district court, Napster materially contributes to the infringing activity. Relying on *Fonovisa v. Cherry Auction*, 76 F.3d 259 (9th Cir. 1996), the district court concluded that “without the support services defendant provides, Napster users could not find and download the music they want with the ease of which defendant boasts.” *Napster*, 114 F. Supp.2d at 919–20 (“Napster is an integrated service designed to enable users to locate and download MP3 music files.”). We agree that Napster provides “the site and facilities” for direct infringement. The district court correctly applied the reasoning in *Fonovisa*, and properly found that Napster materially contributes to direct infringement.

#### V

We turn to the question whether Napster engages in vicarious copyright infringement. Vicarious copyright liability is an “outgrowth” of respondeat superior. *Fonovisa*, 76 F.3d at 262. In the context of copyright law, vicarious liability extends beyond an employer/employee relationship to cases in which a defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”

Before moving into this discussion, we note that *Sony*’s “staple article of commerce” analysis has no application to Napster’s potential liability for vicarious copyright infringement. The issues of *Sony*’s liability under the “doctrines of ‘direct infringement’ and ‘vicarious liability’” were not before the Supreme Court, although the Court recognized that the “lines between direct infringement, contributory infringement, and vicarious liability are

not clearly drawn.” Consequently, when the *Sony* Court used the term “vicarious liability,” it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement. *Id.* at 435 (“Vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.”).

#### *A. Financial Benefit*

The district court determined that plaintiffs had demonstrated they would likely succeed in establishing that Napster has a direct financial interest in the infringing activity. We agree. Financial benefit exists where the availability of infringing material “acts as a ‘draw’ for customers.” Ample evidence supports the district court’s finding that Napster’s future revenue is directly dependent upon “increases in userbase.” More users register with the Napster system as the “quality and quantity of available music increases.” We conclude that the district court did not err in determining that Napster financially benefits from the availability of protected works on its system.

#### *B. Supervision*

The district court determined that Napster has the right and ability to supervise its users’ conduct. We agree in part. The ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise. Here, plaintiffs have demonstrated that Napster retains the right to control access to its system. Napster has an express reservation of rights policy, stating on its website that it expressly reserves the “right to refuse service and terminate accounts in [its] discretion, including, but not limited to, if Napster believes that user conduct violates applicable law . . . or for any reason in Napster’s sole discretion, with or without cause.”

To escape imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent. Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability . . . The district court correctly determined that Napster had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material. The district court, however, failed to recognize that the boundaries of the premises that Napster “controls and patrols” are limited. Put differently, Napster’s reserved “right and ability” to police is cabined by the system’s current architecture. As shown by the record, the Napster system does not “read” the content of indexed files, other than to check that they are in the proper MP3 format.

Napster, however, has the ability to locate infringing material listed on its search indices, and the right to terminate users’ access to the system. The file name indices, therefore, are within the “premises” that Napster

has the ability to police. We recognize that the files are user-named and may not match copyrighted material exactly (for example, the artist or song could be spelled wrong). For Napster to function effectively, however, file names must reasonably or roughly correspond to the material contained in the files, otherwise no user could ever locate any desired music. As a practical matter, Napster, its users and the record company plaintiffs have equal access to infringing material by employing Napster's "search function."

Our review of the record requires us to accept the district court's conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the vicarious copyright infringement claim. Napster's failure to police the system's "premises," combined with a showing that Napster financially benefits from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability.

## VIII

[The one change of consequence in the Circuit Court ruling related to the nature of the interim injunctive relief to be granted the music industry against this Napster service.]

The district court correctly recognized that a preliminary injunction against Napster's participation in copyright infringement is not only warranted but required. We believe, however, that the scope of the injunction needs modification in light of our opinion. Specifically, we reiterate that contributory liability may potentially be imposed only to the extent that Napster: (1) receives reasonable knowledge of specific infringing files with copyrighted musical compositions and sound recordings; (2) knows or should know that such files are available on the Napster system; and (3) fails to act to prevent viral distribution of the works. The mere existence of the Napster system, absent actual notice and Napster's demonstrated failure to remove the offending material, is insufficient to impose contributory liability. See *Sony*, 464 U.S. at 442–43.

Conversely, Napster may be vicariously liable when it fails to affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index. Napster has both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files.

The preliminary injunction which we stayed is overbroad because it places on Napster the entire burden of ensuring that no "copying, downloading, uploading, transmitting, or distributing" of plaintiffs' works occur on the system. As stated, we place the burden on plaintiffs to provide notice to Napster of copyrighted works and files containing such works available on the Napster system before Napster has the duty to disable access to the offending content. Napster, however, also bears the burden of

policing the system within the limits of the system. Here, we recognize that this is not an exact science in that the files are user named. In crafting the injunction on remand, the district court should recognize that Napster's system does not currently appear to allow Napster access to users' MP3 files.

Based on our decision to remand, Napster's additional arguments on appeal going to the scope of the injunction need not be addressed. We, however, briefly address Napster's First Amendment argument so that it is not reasserted on remand. Napster contends that the present injunction violates the First Amendment because it is broader than necessary. The company asserts two distinct free speech rights: (1) its right to publish a "directory" (here, the search index) and (2) its users' right to exchange information. We note that First Amendment concerns in copyright are allayed by the presence of the fair use doctrine. There was a preliminary determination here that Napster users are not fair users. Uses of copyrighted material that are not fair uses are rightfully enjoined. See *Dr. Seuss Enters. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1403 (9th Cir. 1997) (rejecting defendants' claim that injunction would constitute a prior restraint in violation of the First Amendment).

Affirmed in Part, Reversed in Part, and Remanded.

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Eventually Napster was sold to one of the copyright plaintiffs, which then offered a new Internet service we will be reading about soon. RIAA members were also developing their own Internet music services. Three of the major labels, Warner Music, EMI, and BMG, combined with RealNetwork and AOL to create a new MusicNet, while the other two majors, Sony and Universal Music, did the same with their own new Pressplay (with EMI offering its songs on this service as well). After having developed what they considered to be safe technology and securing acceptable contracts from the music publishers who also had copyrights in the songs, these systems both started operating in 2001. For a fee of \$10 a month, a subscriber had access to around 100,000 songs, but was entitled to stream or download just 100 songs, all of which would be extinguished after that month unless the service and fee was renewed.

By the summer of 2001, Internet services emerged employing new software created by FastTrack: Kazaa, run by a FastTrack partner out of Amsterdam, MusicCity Morpheus (a branch of Streamcast Networks) based in Franklin, Tennessee, and Grokster, operated from Nevis Island in the Caribbean West Indies. These new services were more decentralized than Napster, which had required its users to log on to its own server containing a central directory of everyone who had available songs. By September 2001, more music files were being exchanged on the new FastTrack software than back in February 2001 on Napster. MusicCity

provided this service for free (as had Napster), but displayed advertisements on its webpages.

Another potentially important difference between MusicCity and Napster was that the former provided access not only to music, but to movies, photo images, and documents. Thus, not only albums from Bob Dylan and 'N Sync, but movies like *Planet of the Apes* and *Legally Blonde* were appearing on computers round the world a day or two after they had been released in American movie theaters. Movie “fans” would bring video cameras into the theater to tape the movie while they were watching it, and then compressing the film into their computers for distribution via MusicCity, Kazaa, and Grokster over the FastTrack software. By the fall of 2001, surveys found millions of exchanges of thousands of movies over the Internet, and these numbers were growing as higher-speed connections became available to exchange three-hour movies like *The Lord of the Rings*, or even an entire series of *The Sopranos*, rather than just a three-minute song.

Thus, in October 2001, the MPAA and RIAA members filed suit against these file-sharing services. *MGM v. Grokster, Ltd.*, 243 F. Supp. 2d 1073 (C.D. Cal. 2003). According to the complaint, these “defendants have created a 21st Century piratical bazaar where the unlawful exchange of protected material takes place across the vast expanse of the Internet.” The defendants responded that their new service made it possible for people to learn about such public events as the “World Trade Center terrorist tragedy,” as well as for young musicians to share their new work; and that they had neither knowledge of any specific items people were seeking to exchange, nor any ability to control the illegal ones.

<b>METRO-GOLDWYN-MAYER GROKSTER, LTD.</b>	<b>STUDIOS</b>	<b>INC.</b>	<b>V.</b>
Supreme Court of the United States,			2005.
545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781.			

JUSTICE SOUTER delivered the opinion of the Court.

The question is under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product. We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

I

A

Respondents, Grokster, Ltd., and StreamCast Networks, Inc., defendants in the trial court, distribute free software products that allow computer users to share electronic files through peer-to-peer networks, so called because users' computers communicate directly with each other, not through central servers. The advantage of peer-to-peer networks over information networks of other types shows up in their substantial and growing popularity. Because they need no central computer server to mediate the exchange of information or files among users, the high-bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated. Since copies of a file (particularly a popular one) are available on many users' computers, file requests and retrievals may be faster than on other types of networks, and since file exchanges do not travel through a server, communications can take place between any computers that remain connected to the network without risk that a glitch in the server will disable the network in its entirety. Given these benefits in security, cost, and efficiency, peer-to-peer networks are employed to store and distribute electronic files by universities, government agencies, corporations, and libraries, among others.

Other users of peer-to-peer networks include individual recipients of Grokster's and StreamCast's software, and although the networks that they enjoy through using the software can be used to share any type of digital file, they have prominently employed those networks in sharing copyrighted music and video files without authorization. A group of copyright holders (MGM for short, but including motion picture studios, recording companies, song-writers, and music publishers) sued Grokster and StreamCast for their users' copyright infringements, alleging that they knowingly and intentionally distributed their software to enable users to reproduce and distribute the copyrighted works in violation of the Copyright Act. MGM sought damages and an injunction.

Discovery during the litigation revealed the way the software worked, the business aims of each defendant company, and the predilections of the users. Grokster's eponymous software employs what is known as FastTrack technology, a protocol developed by others and licensed to Grokster. StreamCast distributes a very similar product except that its software, called Morpheus, relies on what is known as Gnutella technology. A user who downloads and installs either software possesses the protocol to send requests for files directly to the computers of others using software compatible with FastTrack or Gnutella. On the FastTrack network opened by the Grokster software, the user's request goes to a computer given an indexing capacity by the software and designated a supernode, or to some other computer with comparable power and capacity to collect temporary

indexes of the files available on the computers of users connected to it. The supernode (or indexing computer) searches its own index and may communicate the search request to other supernodes. If the file is found, the supernode discloses its location to the computer requesting it, and the requesting user can download the file directly from the computer located. The copied file is placed in a designated sharing folder on the requesting user's computer, where it is available for other users to download in turn, along with any other file in that folder.

In the Gnutella network made available by Morpheus, the process is mostly the same, except that in some versions of the Gnutella protocol there are no supernodes. In these versions, peer computers using the protocol communicate directly with each other. When a user enters a search request into the Morpheus software, it sends the request to computers connected with it, which in turn pass the request along to other connected peers. The search results are communicated to the requesting computer, and the user can download desired files directly from peers' computers. As this description indicates, Grokster and StreamCast use no servers to intercept the content of the search requests or to mediate the file transfers conducted by users of the software, there being no central point through which the substance of the communications passes in either direction.

Although Grokster and StreamCast do not therefore know when particular files are copied, a few searches using their software would show what is available on the networks the software reaches. MGM commissioned a statistician to conduct a systematic search, and his study showed that nearly 90% of the files available for download on the FastTrack system were copyrighted works.<sup>5</sup> Grokster and StreamCast dispute this figure, raising methodological problems and arguing that free copying even of copyrighted works may be authorized by the rightholders. They also argue that potential noninfringing uses of their software are significant in kind, even if infrequent in practice. Some musical performers, for example, have gained new audiences by distributing their copyrighted works for free across peer-to-peer networks, and some distributors of unprotected content have used peer-to-peer networks to disseminate files, Shakespeare being an example. Indeed, StreamCast has given Morpheus users the opportunity to download the briefs in this very case, though their popularity has not been quantified.

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<sup>5</sup> By comparison, evidence introduced by the plaintiffs in *A & M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004 (CA9 2001), showed that 87% of files available on the Napster filesharing network were copyrighted, *id.*, at 1013. Among the key early scholarly treatments of these issues are Lawrence Lessig, *The Future of Ideas: The Fate of the Commons in a Connected World* (Random House, 2001); Jane C. Ginsburg, *Copyright Use and Excuse on the Internet*, 24 Colum. VLA J. L. & the Arts 1 (2000); R. Anthony Reese, *Copyright & Internet Music Transmissions: Existing Law, Major Controversies, Possible Solutions*, 55 U. Miami L. Rev. 237 (2001). The major one now is the book by William Fisher, *Promises to Keep: Technology Law and the Future of Entertainment* (Stanford Univ. Press 2004).

As for quantification, the parties' anecdotal and statistical evidence entered thus far to show the content available on the FastTrack and Gnutella networks does not say much about which files are actually downloaded by users, and no one can say how often the software is used to obtain copies of unprotected material. But MGM's evidence gives reason to think that the vast majority of users' downloads are acts of infringement, and because well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the FastTrack and Gnutella networks each month, the probable scope of copyright infringement is staggering. Grokster and StreamCast concede the infringement in most downloads, and it is uncontested that they are aware that users employ their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks fail to reveal which files are being copied, and when. From time to time, moreover, the companies have learned about their users' infringement directly, as from users who have sent e-mail to each company with questions about playing copyrighted movies they had downloaded, to whom the companies have responded with guidance. And MGM notified the companies of 8 million copyrighted files that could be obtained using their software. Grokster and StreamCast are not, however, merely passive recipients of information about infringing use. The record is replete with evidence that from the moment Grokster and StreamCast began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement.

After the notorious file-sharing service, Napster, was sued by copyright holders for facilitation of copyright infringement. StreamCast gave away a software program of a kind known as OpenNap, designed as compatible with the Napster program and open to Napster users for downloading files from other Napster and OpenNap users' computers. Evidence indicates that "[i]t was always [StreamCast's] intent to use [its OpenNap network] to be able to capture email addresses of [its] initial target market so that [it] could promote [its] StreamCast Morpheus interface to them," indeed, the OpenNap program was engineered "to leverage Napster's 50 million user base."

StreamCast monitored both the number of users downloading its OpenNap program and the number of music files they downloaded. It also used the resulting OpenNap network to distribute copies of the Morpheus software and to encourage users to adopt it. Internal company documents indicate that StreamCast hoped to attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster. A kit developed by StreamCast to be delivered to advertisers, for example, contained press articles about StreamCast's potential to capture former Napster users, and it introduced itself to some potential advertisers as a company "which is

similar to what Napster was." It broadcast banner advertisements to users of other Napster-compatible software, urging them to adopt its OpenNap. An internal e-mail from a company executive stated: "We have put this network in place so that when Napster pulls the plug on their free service . . . or if the Court orders them shut down prior to that . . . we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative.'"

Thus, StreamCast developed promotional materials to market its service as the best Napster alternative. One proposed advertisement read: "Napster Inc. has announced that it will soon begin charging you a fee. That's if the courts don't order it shut down first. What will you do to get around it?"

Another proposed ad touted StreamCast's software as the "#1 alternative to Napster" and asked "[w]hen the lights went off at Napster . . . where did the users go?" StreamCast even planned to flaunt the illegal uses of its software; when it launched the OpenNap network, the chief technology officer of the company averred that "[t]he goal is to get in trouble with the law and get sued. It's the best way to get in the new[s]." The evidence that Grokster sought to capture the market of former Napster users is sparser but revealing, for Grokster launched its own OpenNap system called Swaptor and inserted digital codes into its Web site so that computer users using Web search engines to look for "Napster" or "[f]ree filesharing" would be directed to the Grokster Web site, where they could download the Grokster software. And Grokster's name is an apparent derivative of Napster.

StreamCast's executives monitored the number of songs by certain commercial artists available on their networks, and an internal communication indicates they aimed to have a larger number of copyrighted songs available on their networks than other file-sharing networks. The point, of course, would be to attract users of a mind to infringe, just as it would be with their promotional materials developed showing copyrighted songs as examples of the kinds of files available through Morpheus. Morpheus in fact allowed users to search specifically for "Top 40" songs, which were inevitably copyrighted. Similarly, Grokster sent users a newsletter promoting its ability to provide particular, popular copyrighted materials.

In addition to this evidence of express promotion, marketing, and intent to promote further, the business models employed by Grokster and StreamCast confirm that their principal object was use of their software to download copyrighted works. Grokster and StreamCast receive no revenue from users, who obtain the software itself for nothing. Instead, both companies generate income by selling advertising space, and they stream the advertising to Grokster and Morpheus users while they are employing the programs. As the number of users of each program increases,

advertising opportunities become worth more. While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking a free Decameron, and Grokster and StreamCast translated that demand into dollars. Finally, there is no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impede the sharing of copyrighted files. Although Grokster appears to have sent e-mails warning users about infringing content when it received threatening notice from the copyright holders, it never blocked anyone from continuing to use its software to share copyrighted files. StreamCast not only rejected another company's offer of help to monitor infringement, but blocked the Internet Protocol addresses of entities it believed were trying to engage in such monitoring on its networks.

## B

[Justice Souter noted the lower courts' reading of *Sony*] as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. The fact that the software was capable of substantial noninfringing uses in the Ninth Circuit's view meant that Grokster and StreamCast were not liable, because they had no such actual knowledge, owing to the decentralized architecture of their software. The court also held that Grokster and StreamCast did not materially contribute to their users' infringement because it was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place.

\* \* \*

## II

### A

MGM and many of the *amici* fault the Court of Appeals's holding for upsetting a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement. The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off.

The tension between the two values is the subject of this case, with its claim that digital distribution of copyrighted material threatens copyright holders as never before, because every copy is identical to the original, copying is easy, and many people (especially the young) use file-sharing software to download copyrighted works. This very breadth of the

software's use may well draw the public directly into the debate over copyright policy, and the indications are that the ease of copying songs or movies using software like Grokster's and Napster's is fostering disdain for copyright protection. As the case has been presented to us, these fears are said to be offset by the different concern that imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies.<sup>8</sup>

The argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day using StreamCast's and Grokster's software. When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement. See *In re Aimster Copyright Litigation*, 334 F. 3d 643, 645–646 (CA7 2003).

One infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.<sup>9</sup> Although “[t]he Copyright Act does not expressly render anyone liable for infringement committed by another,” *Sony Corp. v. Universal City Studios*, 464 U.S., at 434, these doctrines of secondary liability emerged from common law principles and are well established in the law.

## B

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In sum, where an article is “good for nothing else” but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe.

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<sup>8</sup> The mutual exclusivity of these values should not be overstated, however. On the one hand technological innovators, including those writing filesharing computer programs, may wish for effective copyright protections for their work. See, e.g., Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679, 750 (2003). (StreamCast itself was urged by an associate to “get [its] technology written down and [its intellectual property] protected.”) On the other hand the widespread distribution of creative works through improved technologies may enable the synthesis of new works or generate audiences for emerging artists. See *Eldred v. Ashcroft*, 537 U.S. 186, 223–226 (2003) (STEVENS, J., dissenting); Van Houweling, *Distributive Values in Copyright*, 83 Texas L. Rev. 1535, 1539–40, 1562–64 (2005).

<sup>9</sup> We stated in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), that “the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn” [R]easoned analysis of [the *Sony* plaintiffs’ contributory infringement claim] necessarily entails consideration of arguments and case law which may also be forwarded under the other labels, and indeed the parties . . . rely upon such arguments and authority in support of their respective positions on the issue of contributory infringement.” In the present case MGM has argued a vicarious liability theory, which allows imposition of liability when the defendant profits directly from the infringement and has a right and ability to supervise the direct infringer, even if the defendant initially lacks knowledge of the infringement. Because we resolve the case based on an inducement theory, there is no need to analyze separately MGM’s vicarious liability theory.

Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce.

The parties and many of the *amici* in this case think the key to resolving it is the *Sony* rule and, in particular, what it means for a product to be "capable of commercially significant noninfringing uses." MGM advances the argument that granting summary judgment to Grokster and StreamCast as to their current activities gave too much weight to the value of innovative technology, and too little to the copyrights infringed by users of their software, given that 90% of works available on one of the networks was shown to be copyrighted. Assuming the remaining 10% to be its noninfringing use, MGM says this should not qualify as "substantial," and the Court should quantify *Sony* to the extent of holding that a product used "principally" for infringement does not qualify. As mentioned before, Grokster and StreamCast reply by citing evidence that their software can be used to reproduce public domain works, and they point to copyright holders who actually encourage copying. Even if infringement is the principal practice with their software today, they argue, the noninfringing uses are significant and will grow.

We agree with MGM that the Court of Appeals misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied. *Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. The Ninth Circuit has read *Sony*'s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it; it read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had "specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information." Because the Circuit found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of *Sony* that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

This view of *Sony*, however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory. Because *Sony* did not displace other theories of secondary liability, and because we find below that it was error to grant summary judgment to the companies on MGM's inducement claim, we do not revisit *Sony* further,

as MGM requests, to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur. It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and to leave further consideration of the *Sony* rule for a day when that may be required.

### C

*Sony*'s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law. Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability. The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or "entic[es] or persuad[es] another" to infringe, Black's Law Dictionary 790 (8th ed. 2004), as by advertising. Thus at common law a copyright or patent defendant who "not only expected but invoked [infringing use] by advertisement" was liable for infringement "on principles recognized in every part of the law."

The rule on inducement of infringement as developed in the early cases is no different today.<sup>11</sup> Evidence of "active steps . . . taken to encourage direct infringement," *Oak Industries, Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (N.D.Ill.1988), such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use. Cf. W. Keeton, D. Dobbs, R. Keeton, & D. Owen, Prosser and Keeton on Law of Torts 37 (5th ed. 1984) ("There is a definite tendency to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong").

For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find

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<sup>11</sup> Inducement has been codified in patent law. See 35 U.S.C. § 271(b).

intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

### III

#### A

The only apparent question about treating MGM's evidence as sufficient to withstand summary judgment under the theory of inducement goes to the need on MGM's part to adduce evidence that StreamCast and Grokster communicated an inducing message to their software users. The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations. MGM claims that such a message is shown here. It is undisputed that StreamCast beamed onto the computer screens of users of Napster-compatible programs ads urging the adoption of its OpenNap program, which was designed, as its name implied, to invite the custom of patrons of Napster, then under attack in the courts for facilitating massive infringement. Those who accepted StreamCast's OpenNap program were offered software to perform the same services, which a fact finder could conclude would readily have been understood in the Napster market as the ability to download copyrighted music files. Grokster distributed an electronic newsletter containing links to articles promoting its software's ability to access popular copyrighted music. And anyone whose Napster or free file-sharing searches turned up a link to Grokster would have understood Grokster to be offering the same file-sharing ability as Napster, and to the same people who probably used Napster for infringing downloads; that would also have been the understanding of anyone offered Grokster's suggestively named Swaptor software, its version of OpenNap. And both companies communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials.

In StreamCast's case, of course, the evidence just described was supplemented by other unequivocal indications of unlawful purpose in the internal communications and advertising designs aimed at Napster users ("When the lights went off at Napster . . . where did the users go?" App. 836 (ellipsis in original)). Whether the messages were communicated is not to the point on this record. The function of the message in the theory of inducement is to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection (and incidentally to

point to actual violators likely to be found among those who hear or read the message). Proving that a message was sent out, then, is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed. Here, the summary judgment record is replete with other evidence that Grokster and StreamCast, unlike the manufacturer and distributor in *Sony*, acted with a purpose to cause copyright violations by use of software suitable for illegal use.

Three features of this evidence of intent are particularly notable. First, each company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users. StreamCast's internal documents made constant reference to Napster, it initially distributed its Morpheus software through an OpenNap program compatible with Napster, it advertised its OpenNap program to Napster users, and its Morpheus software functions as Napster did except that it could be used to distribute more kinds of files, including copyrighted movies and software programs. Grokster's name is apparently derived from Napster, it too initially offered an OpenNap program, its software's function is likewise comparable to Napster's, and it attempted to divert queries for Napster onto its own Web site. Grokster and StreamCast's efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.

Second, this evidence of unlawful objective is given added significance by MGM's showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. While the Ninth Circuit treated the defendants' failure to develop such tools as irrelevant because they lacked an independent duty to monitor their users' activity, we think this evidence underscores Grokster's and StreamCast's intentional facilitation of their users' infringement.<sup>12</sup>

Third, there is a further complement to the direct evidence of unlawful objective. It is useful to recall that StreamCast and Grokster make money by selling advertising space, by directing ads to the screens of computers employing their software. As the record shows, the more the software is used, the more ads are sent out and the greater the advertising revenue becomes. Since the extent of the software's use determines the gain to the

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<sup>12</sup> Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.

distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.<sup>13</sup>

This evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear.

The unlawful objective is unmistakable.

## B

In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement by recipients of the device, the software in this case. As the account of the facts indicates, there is evidence of infringement on a gigantic scale, and there is no serious issue of the adequacy of MGM's showing on this point in order to survive the companies' summary judgment requests. Although an exact calculation of infringing use, as a basis for a claim of damages, is subject to dispute, there is no question that the summary judgment evidence is at least adequate to entitle MGM to go forward with claims for damages and equitable relief.

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In sum, this case is significantly different from *Sony* and reliance on that case to rule in favor of StreamCast and Grokster was error. *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product's capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others. MGM's evidence in this case most obviously addresses a different basis of liability for distributing a product open to alternative uses. Here, evidence of the distributors' words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.

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<sup>13</sup> Grokster and StreamCast contend that any theory of liability based on their conduct is not properly before this Court because the rulings in the trial and appellate courts dealt only with the present versions of their software, not "past acts . . . that allegedly encouraged infringement or assisted . . . known acts of infringement." This contention misapprehends the basis for their potential liability. It is not only that encouraging a particular consumer to infringe a copyright can give rise to secondary liability for the infringement that results. Inducement liability goes beyond that, and the distribution of a product can itself give rise to liability where evidence shows that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use. See *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 62–63 (1911); *Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F. 2d 829, 846 (CA11 1990); *A & M Records, Inc. v. Abdallah*, 948 F. Supp. 1449, 1456 (CD Cal. 1996).

There is substantial evidence in MGM's favor on all elements of inducement, and summary judgment in favor of Grokster and StreamCast was error. On remand, reconsideration of MGM's motion for summary judgment will be in order.

The judgment of the Court of Appeals is vacated, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

JUSTICE GINSBURG, with whom THE CHIEF JUSTICE and JUSTICE KENNEDY join, concurring.

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[Justice Ginsburg began this opinion by stating that while she fully concurred with Justice Souter vacating the lower court's summary dismissal of the plaintiffs' claim that Grokster and Streamcast could be liable "for actively inducing copyright infringement," she also judged that the claim of "contributory copyright infringement" should be reinstated as at least potentially viable.]

At bottom, however labeled, the question in this case is whether Grokster and StreamCast are liable for the direct infringing acts of others. Liability under our jurisprudence may be predicated on actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develops) or on distributing a product distributees use to infringe copyrights, if the product is not capable of "substantial" or "commercially significant" noninfringing uses. While the two categories overlap, they capture different culpable behavior. Long coexisting, both are now codified in patent law. Compare 35 U.S.C. § 271(b) (active inducement liability), with § 271(c) (contributory liability for distribution of a product not "suitable for substantial noninfringing use").

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"The staple article of commerce doctrine" applied to copyright, the *Sony* Court stated, "must strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." "Accordingly," the Court held, "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses." Thus, to resolve the *Sony* case, the Court explained, it had to determine "whether the Betamax is capable of commercially significant noninfringing uses."

To answer that question, the Court considered whether "a significant number of [potential uses of the Betamax were] noninfringing." The Court homed in on one potential use—private, noncommercial time-shifting of

television programs in the home (i.e., recording a broad-cast TV program for later personal viewing). Time-shifting was noninfringing, the Court concluded, because in some cases trial testimony showed it was authorized by the copyright holder, and in others it qualified as legitimate fair use. Most purchasers used the Betamax principally to engage in time-shifting, a use that “plainly satisfie[d]” the Court’s standard. Thus, there was no need in *Sony* to “give precise content to the question of how much [actual or potential] use is commercially significant.”<sup>1</sup> Further development was left for later days and cases.

The Ninth Circuit went astray, I will endeavor to explain, when that court granted summary judgment to Grokster and StreamCast on the charge of contributory liability based on distribution of their software products. Relying on its earlier opinion in *A & M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004 (CA9 2001), the Court of Appeals held that “if substantial noninfringing use was shown, the copyright owner would be required to show that the defendant had reasonable knowledge of specific infringing files.” “A careful examination of the record,” the court concluded, “indicates that there is no genuine issue of material fact as to noninfringing use.” The appeals court pointed to the band Wilco, which made one of its albums available for free downloading, to other recording artists who may have authorized free distribution of their music through the Internet, and to public domain literary works and films available through Grokster’s and StreamCast’s software. Although it acknowledged MGM’s assertion that “the vast majority of the software use is for copyright infringement,” the court concluded that Grokster’s and StreamCast’s proffered evidence met *Sony*’s requirement that “a product need only be capable of substantial noninfringing uses.”

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<sup>1</sup> Justice Breyer finds in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), a “clear” rule permitting contributory liability for copyright infringement based on distribution of a product only when the product “will be used almost exclusively to infringe copyrights.” But cf. *Sony*, 464 U.S., at 442 (recognizing “copyright holder’s legitimate demand for effective—not merely symbolic—protection”). *Sony*, as I read it, contains no clear, near-exclusivity test. Nor have Courts of Appeals unanimously recognized Justice Breyer’s clear rule. Compare *A & M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004, 1021 (CA9 2001) (“[E]vidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement.”), with *In re Aimster Copyright Litigation*, 334 F. 3d 643, 649–650 (CA7 2003) (“[W]hen a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement . . . But the balancing of costs and benefits is necessary only in a case in which substantial noninfringing uses, present or prospective, are demonstrated.”). See also *Matthew Bender & Co., Inc. v. West Pub. Co.*, 158 F. 3d 693, 707 (CA2 1998) (“The Supreme Court applied [the *Sony*] test to prevent copyright holders from leveraging the copyrights in their original work to control distribution of . . . products that might be used incidentally for infringement, but that had substantial noninfringing uses . . . The same rationale applies here [to products] that have substantial, predominant and noninfringing uses as tools for research and citation.”). All Members of the Court agree, moreover, that “the Court of Appeals misapplied *Sony*,” at least to the extent it read that decision to limit “secondary liability” to a hardly-ever category, “quite beyond the circumstances to which the case applied.”

This case differs markedly from *Sony*. Here, there has been no finding of any fair use and little beyond anecdotal evidence of noninfringing uses. In finding the Grokster and StreamCast software products capable of substantial noninfringing uses, the District Court and the Court of Appeals appear to have relied largely on declarations submitted by the defendants. These declarations include assertions (some of them hearsay) that a number of copyright owners authorize distribution of their works on the Internet and that some public domain material is available through peer-to-peer networks including those accessed through Grokster's and StreamCast's software.

The District Court declared it "undisputed that there are substantial noninfringing uses for Defendants' software," thus obviating the need for further proceedings. This conclusion appears to rest almost entirely on the collection of declarations submitted by Grokster and StreamCast. Review of these declarations reveals mostly anecdotal evidence, sometimes obtained second-hand, of authorized copyrighted works or public domain works available online and shared through peer-to-peer networks, and general statements about the benefits of peer-to-peer technology. [Here, Justice Ginsburg mentioned various examples cited, including not only the Bible and the Declaration of Independence but also the "search on Morpheus for President Bush's speeches."] These declarations do not support summary judgment in the face of evidence, proffered by MGM, of overwhelming use of Grokster's and StreamCast's software for infringement.<sup>3</sup>

Even if the absolute number of noninfringing files copied using the Grokster and StreamCast software is large, it does not follow that the products are therefore put to substantial noninfringing uses and are thus immune from liability. The number of noninfringing copies may be reflective of, and dwarfed by, the huge total volume of files shared. Further, the District Court and the Court of Appeals did not sharply distinguish between uses of Grokster's and StreamCast's software products (which this

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<sup>3</sup> Justice Breyer finds support for summary judgment in this motley collection of declarations and in a survey conducted by an expert retained by MGM. That survey identified 75% of the files available through Grokster as copyrighted works owned or controlled by the plaintiffs, and 15% of the files as works likely copyrighted.

As to the remaining 10% of the files, "there was not enough information to form reasonable conclusions either as to what those files even consisted of, and/or whether they were infringing or non-infringing." Even assuming, as Justice Breyer does, that the *Sony* Court would have absolved Sony of contributory liability solely on the basis of the use of the Betamax for authorized time-shifting, summary judgment is not inevitably appropriate here. Sony stressed that the plaintiffs there owned "well below 10%" of copyrighted television programming, and found, based on trial testimony from representatives of the four major sports leagues and other individuals authorized to consent to home-recording of their copyrighted broadcasts, that a similar percentage of program copying was authorized. Here, the plaintiffs allegedly control copyrights for 70% or 75% of the material exchanged through the Grokster and StreamCast software, and the District Court does not appear to have relied on comparable testimony about authorized copying from copyright holders.

case is about) and uses of peer-to-peer technology generally (which this case is not about).

In sum, when the record in this case was developed, there was evidence that Grokster's and StreamCast's products were, and had been for some time, overwhelmingly used to infringe, and that this infringement was the overwhelming source of revenue from the products. Fairly appraised, the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time. On this record, the District Court should not have ruled dispository on the contributory infringement charge by granting summary judgment to Grokster and StreamCast.

If, on remand, the case is not resolved on summary judgment in favor of MGM based on Grokster and StreamCast actively inducing infringement, the Court of Appeals, I would emphasize, should reconsider, on a fuller record, its interpretation of *Sony*'s product distribution holding.

JUSTICE BREYER, with whom JUSTICE STEVENS and JUSTICE O'CONNOR join, concurring.

I

A

[Justice Breyer began by stating that while he fully agreed with Souter's basis for judging that the defendants could potentially be held liable as "the distributor of a dual-use technology" for "actively" encouraging its use for infringement, he disagreed with Ginsburg's reading of *Sony* for purposes of contributory liability. After describing the *Sony* evaluation of the VCR and whether it had produced "substantial" non-infringing—i.e., "authorized"—taping, he then turned to the same issue on the Internet.]

B

When measured against *Sony*'s underlying evidence and analysis, the evidence now before us shows that Grokster passes *Sony*'s test—that is, whether the company's product is capable of substantial or commercially significant noninfringing uses. For one thing, petitioners' (hereinafter MGM) own expert declared that 75% of current files available on Grokster are infringing and 15% are "likely infringing." That leaves some number of files near 10% that apparently are noninfringing, a figure very similar to the 9% or so of authorized time-shifting uses of the VCR that the Court faced in *Sony*.

As in *Sony*, witnesses here explained the nature of the noninfringing files on Grokster's network without detailed quantification. Those files include:

- Authorized copies of music by artists such as Wilco, Janis Ian, Pearl Jam, Dave Matthews, John Mayer, and others.
- Free electronic books and other works from various online publishers, including Project Gutenberg.
- Public domain and authorized software, such as WinZip 8.1.
- Licensed music videos and television and movie segments distributed via digital video packaging with the permission of the copyright holder.

The nature of these and other lawfully swapped files is such that it is reasonable to infer quantities of current lawful use roughly approximate to those at issue in *Sony*. At least, MGM has offered no evidence sufficient to survive summary judgment that could plausibly demonstrate a significant quantitative difference. To be sure, in quantitative terms these uses account for only a small percentage of the total number of uses of Grokster's product. But the same was true in *Sony*, which characterized the relatively limited authorized copying market as "substantial." Importantly, *Sony* also used the word "capable," asking whether the product is "*capable of*" substantial noninfringing uses. Its language and analysis suggest that a figure like 10%, if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time. And its language also indicates the appropriateness of looking to potential future uses of the product to determine its "capability."

Here the record reveals a significant future market for noninfringing uses of Grokster-type peer-to-peer software. Such software permits the exchange of *any* sort of digital file—whether that file does, or does not, contain copyrighted material. As more and more uncopyrighted information is stored in swappable form, it seems a likely inference that lawful peer-to-peer sharing will become increasingly prevalent.

And that is just what is happening. Such legitimate noninfringing uses are coming to include the swapping of: *research information* (the initial purpose of many peer-to-peer networks); *public domain films* (e.g., those owned by the Prelinger Archive); *historical recordings and digital educational materials* (e.g., those stored on the Internet Archive); *digital photos* (OurPictures, for example, is starting a P2P photo-swapping service); "*shareware*" and "*freeware*" (e.g., Linux and certain Windows software); *secure licensed music and movie files* (Intent MediaWorks, for example, protects licensed content sent across P2P networks); *news broadcasts past and present* (the BBC Creative Archive lets users "rip, mix and share the BBC"); *user-created audio and video files* (including "podcasts" that may be distributed through P2P software); and *all manner of free "open content" works collected by Creative Commons* (one can search for Creative Commons material on StreamCast). I can find nothing in the

record that suggests that this course of events will not continue to flow naturally as a consequence of the character of the software taken together with the foreseeable development of the Internet and of information technology.

There may be other now-unforeseen noninfringing uses that develop for peer-to-peer software, just as the home-video rental industry (unmentioned in *Sony*) developed for the VCR. But the foreseeable development of such uses, when taken together with an estimated 10% noninfringing material, is sufficient to meet *Sony*'s standard. And while *Sony* considered the record following a trial, there are no facts asserted by MGM in its summary judgment filings that lead me to believe the outcome after a trial here could be any different. The lower courts reached the same conclusion.

Of course, Grokster itself may not want to develop these other noninfringing uses. But *Sony*'s standard seeks to protect not the Groksters of this world (which in any event may well be liable under today's holding), but the development of technology more generally. And Grokster's desires in this respect are beside the point.

## II

The real question here, I believe, is not whether the record evidence satisfies *Sony*. As I have interpreted the standard set forth in that case, it does. And of the Courts of Appeals that have considered the matter, only one has proposed interpreting *Sony* more strictly than I would do—in a case where the product might have failed under any standard. *In re Aimster Copyright Litigation*, 334 F. 3d 643, 653 (CA7 2003) (defendant “failed to show that its service is ever used for any purpose other than to infringe” copyrights (emphasis added)); see *Matthew Bender & Co., Inc. v. West Pub. Co.*, 158 F. 3d 693, 706–707 (CA2 1998) (court did not require that noninfringing uses be “predominant,” it merely found that they were predominant, and therefore provided no analysis of *Sony*'s boundaries). Instead, the real question is whether we should modify the *Sony* standard, as MGM requests, or interpret *Sony* more strictly, as I believe Justice Ginsburg's approach would do in practice.

As I have said, *Sony* itself sought to “strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce.” Thus, to determine whether modification, or a strict interpretation, of *Sony* is needed, I would ask whether MGM has shown that *Sony* incorrectly balanced copyright and new-technology interests. In particular: (1) Has *Sony* (as I interpret it) worked to protect new technology? (2) If so, would modification or strict interpretation significantly weaken that protection? (3) If so, would new or necessary copyright-related benefits outweigh any such weakening?

## A

The first question is the easiest to answer. *Sony's rule*, as I interpret it, has provided entrepreneurs with needed assurance that they will be shielded from copyright liability as they bring valuable new technologies to market. *Sony's rule is clear*. That clarity allows those who develop new products that are capable of substantial noninfringing uses to know, *ex ante*, that distribution of their product will not yield massive monetary liability. At the same time, it helps deter them from distributing products that have no other real function than—or that are specifically intended for—copyright infringement, deterrence that the Court's holding today reinforces (by adding a weapon to the copyright holder's legal arsenal).

*Sony's rule is strongly technology protecting.* The rule deliberately makes it difficult for courts to find secondary liability where new technology is at issue. It establishes that the law will not impose copyright liability upon the distributors of dual-use technologies (who do not themselves engage in unauthorized copying) unless the product in question will be used almost *exclusively* to infringe copyrights (or unless they actively induce infringements as we today describe). *Sony* thereby recognizes that the copyright laws are not intended to discourage or to control the emergence of new technologies, including (perhaps especially) those that help disseminate information and ideas more broadly or more efficiently. Thus *Sony's rule* shelters VCRs, typewriters, tape recorders, photocopiers, computers, cassette players, compact disc burners, digital video recorders, MP3 players, Internet search engines, and peer-to-peer software. But *Sony's rule* does not shelter descramblers, even if one could *theoretically* use a descrambler in a noninfringing way.

*Sony's rule is forward looking.* It does not confine its scope to a static snapshot of a product's current uses (thereby threatening technologies that have undeveloped future markets). Rather, as the VCR example makes clear, a product's market can evolve dramatically over time. And *Sony*—by referring to a *capacity* for substantial noninfringing uses—recognizes that fact.

*Sony's* word “capable” refers to a plausible, not simply a theoretical, likelihood that such uses will come to pass, and that fact anchors *Sony* in practical reality.

*Sony's rule is mindful of the limitations facing judges where matters of technology are concerned.* Judges have no specialized technical ability to answer questions about present or future technological feasibility or commercial viability where technology professionals, engineers, and venture capitalists themselves may radically disagree and where answers may differ depending upon whether one focuses upon the time of product development or the time of distribution. Consider, for example, the question whether devices can be added to Grokster's software that will filter out infringing files. MGM tells us this is easy enough to do, as do

several *amici* that produce and sell the filtering technology. Grokster says it is not at all easy to do, and not an efficient solution in any event, and several apparently disinterested computer science professors agree. Which account should a judge credit? *Sony* says that the judge will not necessarily have to decide.

Given the nature of the *Sony* rule, it is not surprising that in the last 20 years, there have been relatively few contributory infringement suits—based on a product distribution theory—brought against technology providers (a small handful of federal appellate court cases and perhaps fewer than two dozen District Court cases in the last 20 years). I have found nothing in the briefs or the record that shows that *Sony* has failed to achieve its innovation-protecting objective.

## B

The second, more difficult, question is whether a modified *Sony* rule (or a strict interpretation) would significantly weaken the law's ability to protect new technology. Justice Ginsburg's approach would require defendants to produce considerably more concrete evidence—more than was presented here—to earn *Sony*'s shelter. That heavier evidentiary demand, and especially the more dramatic (case-by-case balancing) modifications that MGM and the Government seek, would, I believe, undercut the protection that *Sony* now offers.

To require defendants to provide, for example, detailed evidence—say business plans, profitability estimates, projected technological modifications, and so forth—would doubtless make life easier for copyrightholder plaintiffs. But it would simultaneously increase the legal uncertainty that surrounds the creation or development of a new technology capable of being put to infringing uses. Inventors and entrepreneurs (in the garage, the dorm room, the corporate lab, or the boardroom) would have to fear (and in many cases endure) costly and extensive trials when they create, produce, or distribute the sort of information technology that can be used for copyright infringement. They would often be left guessing as to how a court, upon later review of the product and its uses, would decide when necessarily rough estimates amounted to sufficient evidence. They would have no way to predict how courts would weigh the respective values of infringing and noninfringing uses; determine the efficiency and advisability of technological changes; or assess a product's potential future markets. The price of a wrong guess—even if it involves a good-faith effort to assess technical and commercial viability—could be large statutory damages (not less than \$750 and up to \$30,000 *per infringed work*). 17 U.S.C. § 504(c)(1). The additional risk and uncertainty would mean a consequent additional chill of technological development.

## C

The third question—whether a positive copyright impact would outweigh any technology-related loss—I find the most difficult of the three. I do not doubt that a more intrusive *Sony* test would generally provide greater revenue security for copyright holders. But it is harder to conclude that the gains on the copyright swings would exceed the losses on the technology roundabouts.

For one thing, the law disfavors equating the two different kinds of gain and loss; rather, it leans in favor of protecting technology. As *Sony* itself makes clear, the producer of a technology which *permits* unlawful copying does not himself *engage* in unlawful copying—a fact that makes the attachment of copyright liability to the creation, production, or distribution of the technology an exceptional thing. Moreover, *Sony* has been the law for some time. And that fact imposes a serious burden upon copyright holders like MGM to show a need for change in the current rules of the game, including a more strict interpretation of the test.

In any event, the evidence now available does not, in my view, make out a sufficiently strong case for change. To say this is not to doubt the basic need to protect copyrighted material from infringement. The Constitution itself stresses the vital role that copyright plays in advancing the “useful Arts.” Art. I, § 8, cl. 8. No one disputes that “reward to the author or artist serves to induce release to the public of the products of his creative genius.” *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948). And deliberate unlawful copying is no less an unlawful taking of property than garden-variety theft. But these highly general principles cannot by themselves tell us how to balance the interests at issue in *Sony* or whether *Sony*’s standard needs modification. And at certain key points, information is lacking.

Will an unmodified *Sony* lead to a significant diminution in the amount or quality of creative work produced? Since copyright’s basic objective is creation and its revenue objectives but a means to that end, this is the underlying copyright question. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (“Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts”). And its answer is far from clear.

Unauthorized copying likely diminishes industry revenue, though it is not clear by how much. The extent to which related production has actually and resultingly declined remains uncertain, though there is good reason to believe that the decline, if any, is not substantial. See, Benkler, *Sharing Nicely: On Shareable Goods and the Emergence of Sharing as a Modality of Economic Production*, 114 Yale L. J. 273, 351–52 (2004) (“Much of the actual flow of revenue to artists—from performances and other sources—is stable even assuming a complete displacement of the CD market by peer-

to-peer distribution. . . . [I]t would be silly to think that music, a cultural form without which no human society has existed, will cease to be in our world [because of illegal file swapping]”). More importantly, copyright holders at least potentially have other tools available to reduce piracy and to abate whatever threat it poses to creative production. As today’s opinion makes clear, a copyright holder may proceed against a technology provider where a provable specific intent to infringe (of the kind the Court describes) is present. Services like Grokster may well be liable under an inducement theory.

In addition, a copyright holder has always had the legal authority to bring a traditional infringement suit against one who wrongfully copies. Indeed, since September 2003, the Recording Industry Association of America (RIAA) has filed “thousands of suits against people for sharing copyrighted material.” These suits have provided copyright holders with damages; have served as a teaching tool, making clear that much file sharing, if done without permission, is unlawful; and apparently have had a real and significant deterrent effect. (number of people downloading files fell from a peak of roughly 35 million to roughly 23 million in the year following the first suits; 38% of current downloaders report downloading fewer files because of the suits); but see Evangelista, Downloading Music and Movie Files is as Popular as Ever, San Francisco Chronicle, Mar. 28, 2005, p. E1 (referring to the continuing “tide of rampant copyright infringement,” while noting that the RIAA says it believes the “campaign of lawsuits and public education has at least contained the problem”).

Further, copyright holders may develop new technological devices that will help curb unlawful infringement. Some new technology, called “digital ‘watermarking’” and “digital fingerprint[ing],” can encode within the file information about the author and the copyright scope and date, which “fingerprints” can help to expose infringers. Other technology can, through encryption, potentially restrict users’ ability to make a digital copy.

At the same time, advances in technology have discouraged unlawful copying by making *lawful* copying (e.g., downloading music with the copyright holder’s permission) cheaper and easier to achieve. Several services now sell music for less than \$1 per song. (Walmart.com, for example, charges \$0.88 each). Consequently, many consumers initially attracted to the convenience and flexibility of services like Grokster are now migrating to lawful paid services (services with copying permission) where they can enjoy at little cost even greater convenience and flexibility without engaging in unlawful swapping. See M. Madden & L. Rainie, March 2005 Data Memo, *supra*, at 6–7 (percentage of current downloaders who have used paid services rose from 24% to 43% in a year; number using free services fell from 58% to 41%).

Thus, lawful music downloading services—those that charge the customer for downloading music and pay royalties to the copyright

holder—have continued to grow and to produce substantial revenue. See Bruno, Digital Entertainment: Piracy Fight Shows Encouraging Signs (Mar. 5, 2005), available at LEXIS, News Library, Billboard File (in 2004, consumers worldwide purchased more than 10 times the number of digital tracks purchased in 2003; global digital music market of \$330 million in 2004 expected to double in 2005); Press Release, Informa Media Report, *supra* (global digital revenues will likely exceed \$3 billion in 2010); Ashton, [International Federation of the Phonographic Industry] Predicts Downloads Will Hit the Mainstream, Music Week, Jan. 29, 2005, p. 6 (legal music sites and portable MP3 players “are helping transform the digital music market” into “an everyday consumer experience”). And more advanced types of *non*-music-oriented P2P networks have also started to develop, drawing in part on the lessons of Grokster.

Finally, as *Sony* recognized, the legislative option remains available. Courts are less well suited than Congress to the task of “accommodat[ing] fully the varied permutations of competing interests that are inevitably implicated by such new technology.”

I do not know whether these developments and similar alternatives will prove sufficient, but I am reasonably certain that, given their existence, a strong demonstrated need for modifying *Sony* (or for interpreting *Sony*’s standard more strictly) has not yet been shown. That fact, along with the added risks that modification (or strict interpretation) would impose upon technological innovation, leads me to the conclusion that we should maintain *Sony*, reading its standard as I have read it. As so read, it requires affirmation of the Ninth Circuit’s determination of the relevant aspects of the *Sony* question.

\* \* \*

For these reasons, I disagree with Justice Ginsburg, but I agree with the Court and join its opinion.

\* \* \*

The entertainment industry battle was also going on in Congress. In 2005, President Bush signed into law a new bipartisan *Family Entertainment and Copyright Act*, also known as *Artists Rights and Theft Prevention Act*, making it a federal crime to use a video camera to copy a film on the screen in a movie theater, and also giving the theater staff the right to detain anyone reasonably suspected of doing so. But the industry’s lack of confidence that *Grokster* solved its problems was shown by the filing of another 874 individual lawsuits, bringing the total to nearly 12,000.

This practice had begun in 2003 when the record labels had located online and filed lawsuits against four college students, asserting violation of their copyrights. Since the potential damage awards ranged from \$750 to \$150,000 for each copyrighted work made available online, these four defendants and their families were pleased to negotiate settlements

requiring each to pay total damages ranging from \$12,000 to \$17,000 and a commitment never again to use computers to gain or provide free access to copyrighted material.

The viability of these lawsuits had just been dramatically expanded by a 2003 ruling which compelled Verizon Communications to hand over the names and addresses of any subscribers who had been sharing music on its Internet service. The court ruled that refusing to allow these subpoenas “would create a huge loophole in Congress’s effort to prevent copyright infringement on the Internet.” The industry then obtained more than 1000 subpoenas against Verizon, Comcast, and Time Warner Cable, as well as universities like Princeton, MIT, and Boston College. Supported by the ACLU and the Consumers Union, Verizon appealed, and the universities asserted a special defense based on students’ privacy rights under the federal *Family Educational Rights and Privacy Act*. Verizon won its appeal in the D.C. Circuit, and the Supreme Court denied certiorari. Nevertheless, the major RIAA music industry members filed thousands of new lawsuits against individual file-sharers they had located.

In 2003, Apple Computer fashioned a new Internet service with licenses from the music labels, called the iTunes Music Store, inviting people to “Rip, Mix, and Burn” the licensed songs into a portable music player or onto a CD. Though they originally made this service available just to users of Apple’s Macintosh computers, they sold over one million songs this way in their first week, and over 10 million within a few months. A key reason for iTunes’ appeal was that not only did the consumers not have to go to a store, but they only had to pay 99 cents per song and \$9.90 for a full album. The music labels and performers were still earning their own full financial return because nobody had to be paying for the manufacture and distribution of a physical album in a store, which typically accounts for around 40 percent of the list \$18 price of a CD. Indeed, the major labels soon reduced the wholesale price of CDs to reflect the new market realities.

Despite the new digital medium, however, some of the same problems arose that were part and parcel of owning vinyl records—unwanted music. While in those days one could buy and sell used records from the local record store, it was not clear how one could do this with digital music. In October 2011, a company called ReDigi sought to capture this market, advertising itself as the virtual marketplace for “pre-owned” digital music. Soon after, Capitol Records filed a lawsuit, alleging copyright infringement.

**CAPITOL RECORDS, LLC v. REDIGI, INC.**

United States District Court, Southern District of New York, 2013.  
[934 F. Supp.2d 640](#).

SULLIVAN, DISTRICT JUDGE

Capitol Records, LLC (“Capitol”), the recording label for such classic vinyls as Frank Sinatra’s “Come Fly With Me” and The Beatles’ “Yellow Submarine,” brings this action against ReDigi Inc. (“ReDigi”), a twenty-first century technology company that touts itself as a “virtual” marketplace for “pre-owned” digital music. What has ensued in a fundamental clash over culture, policy, and copyright law, with Capitol alleging that ReDigi’s web-based service amounts to copyright infringement in violation of the Copyright Act of 1976 (the “Copyright Act”), 17 U.S.C. § 101 *et seq.* Now before the Court are Capitol’s motion for partial summary judgment and ReDigi’s motion for summary judgment, both filed pursuant to Federal Rule of Civil Procedure 56. Because this is a court of law and not a congressional subcommittee or technology blog, the issues are narrow, technical, and purely legal. Thus, for the reasons that follow, Capitol’s motion is granted and ReDigi’s motion is denied.

## I. BACKGROUND

### A. Facts

ReDigi markets itself as “the world’s first and only online marketplace for digital used music.” (Capitol 56.1 Stmt., Doc. No. 50 (“Cap. 56.1”), ¶ 6.) 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.” (*Id.* ¶¶ 6, 9.) 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. (*See* ReDigi Reply 56.1 Stmt., Doc. No. 83 (“RD Rep. 56.1”), 4 ¶ 16.)

To sell music on ReDigi’s website, a user must first download ReDigi’s “Media Manager” to his computer. (ReDigi 56.1 Stmt., Doc. No. 56 (“RD 56.1”), ¶ 8.) Once installed, Media Manager analyzes the user’s computer to build a list of digital music files eligible for sale. (*Id.*) 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. (*Id.*) 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. (*Id.* ¶ 10.) However, Media Manager cannot detect copies stored in other locations. (Cap. 56.1 ¶¶ 59–61, 63; *see* Capitol Reply 56.1 Stmt., Doc. No. 78 (“Cap. Rep. 56.1”), ¶ 10.) If a copy is detected, Media Manager prompts the user to delete the file. (Cap. 56.1 ¶ 64.) The file is not deleted automatically or involuntarily,

though ReDigi's policy is to suspend the accounts of users who refuse to comply. (*Id.*)

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. (RD 56.1 ¶¶ 9, 11; Cap. 56.1 ¶ 22.) ReDigi's upload process is a source of contention between the parties. (See RD 56.1 ¶¶ 14–23; Cap. Rep. 56.1 ¶¶ 14–23.) 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. (RD 56.1 ¶¶ 14, 36.) Capitol asserts \*646 that, semantics aside, ReDigi's upload process "necessarily involves copying" a file from the user's computer to the Cloud Locker. (Cap. Rep. 56.1 ¶ 14.) Regardless, at the end of the process, the digital music file is located in the Cloud Locker and not on the user's computer. (RD 56.1 ¶ 21.) Moreover, Media Manager deletes any additional copies of the file on the user's computer and connected devices. (*Id.* ¶ 38.)

Once uploaded, a digital music file undergoes a second analysis to verify eligibility. (Cap. 56.1 ¶¶ 31–32.) 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. (*Id.* ¶¶ 33–37.) 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. (*Id.* ¶ 49.) 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. (*Id.* ¶ 50.) No money changes hands in these transactions. (RD Rep. 56.15 ¶ 18.) Instead, users buy music with credits they either purchased from ReDigi or acquired from other sales. (*Id.*) ReDigi credits, once acquired, cannot be exchanged for money. (*Id.*) Instead, they can only be used to purchase additional music. (*Id.*)

To encourage activity in its marketplace, ReDigi initially permitted users to preview thirty-second clips and view album cover art of songs posted for sale pursuant to a licensing agreement with a third party. (See RD 56.1 ¶¶ 73–78.) However, shortly after its launch, ReDigi lost the licenses. (*Id.*) Accordingly, ReDigi now sends users to either YouTube or iTunes to listen to and view this promotional material. (*Id.* ¶¶ 77, 79.) ReDigi also offers its users a number of incentives. (Cap. 56.1 ¶ 39.) For instance, ReDigi gives twenty-cent credits to users who post files for sale and enters active sellers into contests for prizes. (*Id.* ¶¶ 39, 42.) ReDigi also encourages sales by advising new users via email that they can "[c]ash in" their music on the website, tracking and posting the titles of sought after songs on its website and in its newsletter, notifying users when they are low on credits and advising them to either purchase more credits or sell

songs, and connecting users who are seeking unavailable songs with potential sellers. (*Id.* ¶¶ 39–48.)

Finally, ReDigi earns a fee for every transaction. (*Id.* ¶ 54.) ReDigi’s website prices digital music files at fifty-nine to seventy-nine cents each. (*Id.* ¶ 55.) 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. (*Id.*)

\* \* \*

### III. DISCUSSION

Section 106 of the Copyright Act grants “the owner of copyright under this title” certain “exclusive rights,” including the right “to reproduce the copyrighted work in copies or phonorecords,” “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership,” and to publicly perform and display certain copyrighted works. 17 U.S.C. §§ 106(1), (3)–(5). However, these exclusive rights are limited by several subsequent sections of the statute. Pertinently, Section 109 sets forth the “first sale” doctrine, which provides that “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.” *Id.* § 109(a). 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.

#### A. Infringement of Capitol’s Copyrights

To state a claim for copyright infringement, a plaintiff must establish that it owns a valid copyright in the work at issue and that the defendant violated one of the exclusive rights the plaintiff holds in the work. *Twin Peaks Prods., Inc. v. Publ’ns Int’l, Ltd.*, 996 F.2d 1366, 1372 (2d Cir.1993) (citing *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991)). It is undisputed that Capitol owns copyrights in a number of the recordings sold on ReDigi’s website. (See Cap. 56.1 ¶¶ 68–73; RD Rep. 56.118–19, ¶¶ 68–73; Decl. of Richard S. Mandel, dated July 19, 2012, Doc. No. 52 (“Mandel Decl.”), ¶ 16, Ex. M; Decl. of Alasdair J. McMullan, dated July 19, 2012, Doc. No. 51 (“McMullan Decl.”), ¶¶ 3–5, Ex. 1.) It is also undisputed that Capitol did not approve the reproduction or distribution of its copyrighted recordings on ReDigi’s website. Thus, if digital music files are “reproduce[d]” and “distribute[d]” on ReDigi’s website within the meaning of the Copyright Act, Capitol’s copyrights have been infringed.

## 1. Reproduction Rights

Courts have consistently held that the unauthorized duplication of digital music files over the Internet infringes a copyright owner's exclusive right to reproduce. *See, e.g., A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001). However, courts have not previously addressed whether the unauthorized transfer of a digital music file over the Internet—where only one file exists before and after the transfer—constitutes reproduction within the meaning of the Copyright Act. The Court holds that it does.

The Copyright Act provides that a copyright owner has the exclusive right “to reproduce the copyrighted work *in . . . phonorecords.*” 17 U.S.C. § 106(1) (emphasis added). Copyrighted works are defined to include, *inter alia*, “sound recordings,” which are “works that result from the fixation of a series of musical, spoken, or other sounds.” *Id.* § 101. Such works are distinguished from their material embodiments. These include phonorecords, which are the “*material objects* in which sounds . . . are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” *Id.* § 101 (emphasis added). Thus, the plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new *material object*. *See Matthew Bender & Co., Inc. v. W. Pub. Co.*, 158 F.3d 693, 703 (2d Cir. 1998).

The legislative history of the Copyright Act bolsters this reading. The House Report on the Copyright Act distinguished between sound recordings and phonorecords, stating that “[t]he copyrightable work comprises the aggregation of sounds and not the tangible medium of fixation. Thus, ‘sound recordings’ as copyrightable subject matter are distinguished from ‘phonorecords[,]’ the latter being physical objects in which sounds are fixed.” H.R. Rep. No. 94–1476, at 56 (1976), 1976 U.S.C.C.A.N. 5659, 5669. Similarly, the House and Senate Reports on the Act both explained:

Read together with the relevant definitions in [S]ection 101, the right “to reproduce the copyrighted work in copies or phonorecords” means the right to produce a material object in which the work is duplicated, transcribed, imitated, or simulated in a fixed form from which it can be “perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”

*Id.* at 61, 1976 U.S.C.C.A.N. at 5675; S. Rep. No. 94–473, at 58 (1975). Put differently, the reproduction right is the exclusive right to embody, and to prevent others from embodying, the copyrighted work (or sound recording) in a new material object (or phonorecord). *See* Nimmer on Copyright § 8.02 (stating that “in order to infringe the reproduction right, the defendant must embody the plaintiff’s work in a ‘material object’ ”).

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. Specifically,

[w]hen a user on a [P2P] network downloads a song from another user, he receives into his computer a digital sequence representing the sound recording. That sequence is magnetically encoded on a segment of his hard disk (or likewise written on other media). With the right hardware and software, the downloader can use the magnetic sequence to *reproduce* the sound recording. The electronic file (or, perhaps more accurately, the appropriate segment of the hard disk) is therefore a “phonorecord” within the meaning of the statute.

*Id.* (emphasis added). Accordingly, when a user downloads a digital music file or “digital sequence” to his “hard disk,” the file is “reproduce[d]” on a new phonorecord within the meaning of the Copyright Act. *Id.*

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. Thus, logically, the court in *London-Sire* noted that the Internet transfer of a file results in a material object being “created elsewhere at its finish.” *Id.* at 173. Because the reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act.

This finding holds regardless of whether one or multiple copies of the file exist. *London-Sire*, like all of the P2P cases, obviously concerned multiple copies of one digital music file. But that distinction is immaterial under the plain language of the Copyright Act. Simply put, it is the creation of a *new* material object and not an *additional* material object that defines the reproduction right. The dictionary defines “reproduction” to mean, *inter alia*, “to produce again” or “to cause to exist again or anew.” See *Merriam-Webster Collegiate Edition* 994 (10th ed. 1998) (emphasis added). Significantly, it is not defined as “to produce again while the original exists.” Thus, the right “to reproduce the copyrighted work in . . . phonorecords” is implicated whenever a sound recording is fixed in a new material object, regardless of whether the sound recording remains fixed in the original material object.

Given this finding, the Court concludes that ReDigi's service infringes Capitol's reproduction rights under any description of the technology. ReDigi stresses that it "migrates" a file from a user's computer to its Cloud Locker, so that the same file is transferred to the ReDigi server and no copying occurs. However, even if that were the case, the fact that a file has moved from one material object—the user's computer—to another—the ReDigi server—means that a reproduction has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created. It is beside the point that the original phonorecord no longer exists. It matters only that a new phonorecord has been created.

\* \* \*

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

## 2. Distribution Rights

In addition to the reproduction right, a copyright owner also has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership." 17 U.S.C. § 106(3). 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); see, e.g., *Napster*, 239 F.3d at 1014. Indeed, in *New York Times Co., Inc. v. Tasini*, the Supreme Court stated it was "clear" that an online news database violated authors' distribution rights by selling electronic copies of their articles for download. 533 U.S. 483, 498, 121 S.Ct. 2381, 150 L.Ed.2d 500 (2001).

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. (Cap. 56.1 ¶¶ 68–73; RD Rep. 56.1 ¶¶ 68–73.) ReDigi, in fact, does not contest that distribution occurs on its website—it only asserts that the distribution is protected by the fair use and first sale defenses. (See, e.g., ReDigi Opp'n 15 (noting that "any distributions . . . which occur on the ReDigi marketplace are protected").)

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.

### 3. Performance and Display Rights

Finally, a copyright owner has the exclusive right, “in the case of . . . musical . . . works, to perform the copyrighted work publicly.” 17 U.S.C. § 106(4). Public performance includes transmission to the public regardless of “whether the members of the public . . . receive it in the same place or in separate places and at the same time or at different times.” *Id.* § 101. Accordingly, audio streams are performances because a “stream is an electronic transmission that renders the musical work audible as it is received by the client-computer’s temporary memory. This transmission, like a television or radio broadcast, is a performance because there is a playing of the song that is perceived simultaneously with the transmission.” *United States v. Am. Soc. Of Composers, Authors, & Publishers*, 627 F.3d 64, 74 (2d Cir.2010). To state a claim for infringement of the performance right, a plaintiff must establish that (1) the public performance or display of the copyrighted work was for profit, and (2) the defendant lacked authorization from the plaintiff or the plaintiff’s representative. See *Broad. Music, Inc. v. 315 W. 44th St. Rest. Corp.*, No. 93 Civ. 8082(MBM), 1995 WL 408399, at \*2 (S.D.N.Y. July 11, 1995).

The copyright owner also has the exclusive right, “in the case of . . . pictorial [and] graphic . . . works[,] . . . to display the copyrighted work publicly.” 17 U.S.C. § 106(5). Public display includes “show[ing] a copy of [a work], either directly or by means of a film, slide, television image, or any other device or process.” *Id.* § 101. The Ninth Circuit has held that the display of a photographic image on a computer may implicate the display right, though infringement hinges, in part, on where the image was hosted. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1160 (9th Cir.2007).

Capitol alleges that ReDigi infringed its copyrights by streaming thirty-second song clips and exhibiting album cover art to potential buyers. (Compl. ¶¶ 25–26.) ReDigi counters that it only posted such content pursuant to a licensing agreement and within the terms of that agreement. (ReDigi Mem. 24–25.) ReDigi also asserts that it promptly removed the content when its licenses were terminated, and instead sent users to YouTube or iTunes for previews. (*Id.*) Capitol, in response, claims that ReDigi’s use violated the terms of those licenses and did not cease at the time the licenses were terminated. (Compare RD 56.1 ¶¶ 73–79, with Cap. Rep. 56.1 ¶¶ 73–79.) As such, there are material disputes as to the source of the content, whether ReDigi was authorized to transmit the content, when authorization was or was not revoked, and when ReDigi ceased providing the content. Because the Court cannot determine whether ReDigi infringed Capitol’s display and performance rights on the present record, ReDigi’s motion for summary judgment on its alleged infringement of these exclusive rights is denied.

## B. Affirmative Defenses

Having concluded that sales on ReDigi's website infringe Capitol's exclusive rights of reproduction and distribution, the Court turns to whether the fair use or first sale defenses excuse that infringement. For the reasons set forth below, the Court determines that they do not.

### 1. Fair Use

"The ultimate test of fair use . . . is whether the copyright law's goal of 'promot[ing] the Progress of Science and useful Arts' would be better served by allowing the use than by preventing it." *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 150 F.3d 132, 141 (2d Cir.1998) (quoting U.S. Const., art. I, § 8, cl. 8). Accordingly, fair use permits reproduction of copyrighted work without the copyright owner's consent "for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research." 17 U.S.C. § 107. The list is not exhaustive but merely illustrates the types of copying typically embraced by fair use. *Castle Rock Entm't, Inc.*, 150 F.3d at 141. In addition, four statutory factors guide courts' application of the doctrine. Specifically, courts look to:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107. Because fair use is an "equitable rule of reason," courts are "free to adapt the doctrine to particular situations on a case-by-case basis." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 448 n. 31, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984) (quoting H. Rep. No. 94-1476, at 65–66, 1976 U.S.C.C.A.N. at 5679–5680); see *Iowa State Univ. Research Found., Inc. v. Am. Broad. Cos.*, 621 F.2d 57, 60 (2d Cir.1980).

On the record before it, the Court has little difficulty concluding that ReDigi's reproduction and distribution of Capitol's copyrighted works falls well outside the fair use defense. ReDigi obliquely argues that uploading to and downloading from the Cloud Locker for storage and personal use are protected fair use. (See ReDigi Mem. 15.) Significantly, Capitol does not contest that claim. (See Tr. 12:8–23.) Instead, Capitol asserts only that uploading to and downloading from the Cloud Locker *incident to sale* fall outside the ambit of fair use. The Court agrees. See *Arista Records, LLC v. Doe 3*, 604 F.3d 110, 124 (2d Cir.2010) (rejecting application of fair use to user uploads and downloads on P2P file-sharing network).

Each of the statutory factors counsels against a finding of fair use. The first factor requires the Court to determine whether ReDigi's use "transforms" the copyrighted work and whether it is commercial. *Campbell*

v. Acuff-Rose Music, Inc., 510 U.S. 569, 578–79, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994). Both inquiries disfavor ReDigi’s claim. Plainly, the upload, sale, and download of digital music files on ReDigi’s website does nothing to “add [ ] something new, with a further purpose or different character” to the copyrighted works. *Id.*; see, e.g., *Napster*, 239 F.3d at 1015 (endorsing district court finding that “downloading MP3 files does not transform the copyrighted work”). ReDigi’s use is also undoubtedly commercial. ReDigi and the uploading user directly profit from the sale of a digital music file, and the downloading user saves significantly on the price of the song in the primary market. See *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985) (“The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.”). ReDigi asserts that downloads for personal, and not public or commercial, use “must be characterized as . . . noncommercial, nonprofit activity.” (ReDigi Mem. 16 (quoting *Sony*, 464 U.S. at 449, 104 S.Ct. 774).) However, ReDigi twists the law to fit its facts. When a user downloads purchased files from the Cloud Locker, the resultant reproduction is an essential component of ReDigi’s commercial enterprise. Thus, ReDigi’s argument is unavailing.

The second factor—the nature of the copyrighted work—also weighs against application of the fair use defense, as creative works like sound recordings are “close to the core of the intended copyright protection” and “far removed from the . . . factual or descriptive work more amenable to fair use.” *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F.Supp.2d 349, 351 (S.D.N.Y.2000) (alteration and internal quotation marks omitted) (citing *Campbell*, 510 U.S. at 586, 114 S.Ct. 1164). The third factor—the portion of the work copied—suggests a similar outcome because ReDigi transmits the works in their entirety, “negating any claim of fair use.” *Id.* at 352, 114 S.Ct. 1164. Finally, ReDigi’s sales are likely to undercut the “market for or value of the copyrighted work” and, accordingly, the fourth factor cuts against a finding of fair use. Cf. *Arista Records, LLC v. Doe 3*, 604 F.3d at 124 (rejecting application of fair use to P2P file sharing, in part, because “the likely detrimental effect of file-sharing on the value of copyrighted compositions is well documented.” (citing *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 923, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005))). The product sold in ReDigi’s secondary market is indistinguishable from that sold in the legitimate primary market save for its lower price. The clear inference is that ReDigi will divert buyers away from that primary market. ReDigi incredibly argues that Capitol is preempted from making a market-based argument because Capitol itself condones downloading of its works on iTunes. (ReDigi Mem. 18.) Of course, Capitol, as copyright owner, does not forfeit its right to claim copyright infringement merely because it permits certain uses of its works. This argument, too, is therefore unavailing.

In sum, ReDigi facilitates and profits from the sale of copyrighted commercial recordings, transferred in their entirety, with a likely detrimental impact on the primary market for these goods. Accordingly, the Court concludes that the fair use defense does not permit ReDigi's users to upload and download files to and from the Cloud Locker incident to sale.

\* \* \*

#### IV. CONCLUSION

At base, ReDigi seeks judicial amendment of the Copyright Act to reach its desired policy outcome. However, “[s]ound policy, as well as history, supports [the Court’s] consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology.” *Sony*, 464 U.S. at 431, 104 S.Ct. 774. Such defence often counsels for a limited interpretation of copyright protection. However, here, the Court cannot of its own accord condone the wholesale application of the first sale defense to the digital sphere, particularly when Congress itself has declined to take that step. Accordingly, and for the reasons stated above, the Court GRANTS Capitol’s motion for summary judgment on its claims for ReDigi’s direct, contributory, and vicarious infringement of its distribution and reproduction rights. The Court also DENIES ReDigi’s motion in its entirety.

Because issues remain with respect to Capitol’s performance and display rights, and ReDigi’s secondary infringement of Capitol’s common law copyrights, as well as damages, injunctive relief, and attorney’s fees, IT IS HEREBY ORDERED THAT the parties shall submit a joint letter to the Court no later than April 12, 2013 concerning the next contemplated steps in this case.

The Clerk of Court is respectfully directed to terminate the motions pending at Doc. Nos. 48 and 54.

SO ORDERED.

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#### DIGITAL SAMPLING AND IMAGING

**JARVIS V. A & M RECORDS**

United States District Court, District of New Jersey, 1993.  
[827 F. Supp. 282.](#)

ACKERMAN, DISTRICT JUDGE.

\* \* \*

### I. Undisputed Factual Background

The facts of this case are undisputed and relatively simple. About a decade ago, Boyd Jarvis wrote a song entitled "The Music's Got Me." He recorded the song with his group, Visual, and copyrighted the composition together with the arrangement in November 1982. The song subsequently was released on Prelude Records, and the undisputed evidence shows that Prelude Records retains the copyright to the sound recording.

In 1989, defendant Robert Clivilles and David Cole wrote and recorded a song entitled "Get Dumb! (Free Your Body)" and the song was released in three formats on A & M Records and Vendetta Records, A & M's subsidiary label. The three relevant versions are: (1) "Get Dumb! Free Your Body" as it appears on the "b" side of a single record called "Heartbeat" by the defendant group Seduction; (2) a trio of versions of "Get Dumb! Free Your Body" that appear on another 12 single by Cole/Clivilles Music Enterprises, recorded by a group called The Crew (featuring Freedom Williams); (3) the cassette single of the song "Get Dumb!"

In all three of the releases of "Get Dumb!", defendants digitally sampled sections of Mr. Jarvis's "The Music's Got Me." Digital sampling has been described as:

the conversion of analog sound waves into a digital code. The digital code that describes the sampled music . . . can then be reused, manipulated or combined with other digitalized or recorded sounds using a machine with digital data processing capabilities, such as a . . . computerized synthesizer.

Judith Greenberg Finell, *How a Musicologist Views Digital Sampling Issues*, N.Y.L.J. p.5 n. 3 (May 22, 1992). Thus, digital sampling is similar to taping the original composition and reusing it in another context. In this case, then, throughout the defendants' songs, one occasionally hears an actual piece of "The Music's Got Me."

In 1990, Mr. Jarvis sued the defendants for copyright infringement. Defendants now move for summary judgment, on a variety of grounds. . . .

\* \* \*

This is a case of what Professor Nimmer has termed "fragmented literal similarity," see *Nimmer on Copyright*, § 13.03[A][2] at 13–46, that is, there is literal verbatim similarity between plaintiff's and defendants' works. In fact, the copied parts could not be more similar—they were

digitally copied from plaintiff's recording. Two parts from plaintiff's song were copied: first, the bridge section, which contains the words "ooh . . . move . . . free your body," was taken. Second, a distinctive keyboard riff, which functions as both a rhythm and melody, included in the last several minutes of plaintiff's song, were also sampled and incorporated into defendants' work.

As courts and commentators have repeatedly noted, the test for substantial similarity is difficult to define and vague to apply. Nonetheless, it is repeatedly said that the test to determine substantial similarity is the response of the ordinary lay person.

Defendants build on the premise of the lay audience test by arguing that only if the two songs are similar in their entirety should the defendant's song be held to have infringed plaintiff's song. Indeed, defendants' cite apparent authority for this proposition. In a case decided a half-century ago, a court, in rejecting the plaintiff's argument of infringement, stated that "I have heard the compositions played, and to my ear there is a similarity, but not such a similarity as would impress one. In other words, I would not take the one for the other." *Allen v. Walt Disney Productions, Ltd.*, 41 F. Supp. 134, 140 (S.D.N.Y. 1941). Similarly, the district judge in *Arnstein v. BMI*, 46 F. Supp. 379 (S.D.N.Y. 1942), wrote that "infringement must be founded upon more than the adoption of a few measures here and there. The theme and general melody must be substantially lifted." Moreover, the defendants cite an influential article by Jeffrey Sherman:

A defendant should not be held liable for infringement unless he copied a substantial portion of the complaining work and there exists the sort of aural similarity between the two works that a lay audience would detect. As to the first requirement, the portion copied may be either qualitatively or quantitatively substantial. As to the second, the two pieces must be similar enough to sound similar to a lay audience, since only then is it reasonable to suppose that the performance or publication of the accused work could in any way injure the rights of the plaintiff composer.

J. Sherman, *Musical Copyright Infringement: The Requirement of Substantial Similarity*, Common Law Symposium, No. 92, ASCAP, p. 145 (1977).

However, defendants misconstrue the scope of the examination, at least in the context of fragmented literal similarity, where there unquestionably is copying, albeit of only a portion of plaintiff's song. If it really were true that for infringement to follow a listener must have to confuse one work for the other, a work could be immune from infringement so long as the infringing work reaches a substantially different audience than the infringed work. In such a situation, a rap song, for instance, could never be held to have infringed an easy listening song or a pop song. See,

e.g., *Grand Upright Music, Ltd. v. Warner Brothers Records, Inc.*, 780 F. Supp. 182 (S.D.N.Y. 1991) (finding that rap song infringed easy listening song).

Moreover, defendants' test, applied in cases of fragmented literal similarity, would eviscerate the qualitative/quantitative analysis, which revolves around the premise that a party may be held liable when he or she appropriates a large section or a qualitatively important section of plaintiff's work, see *Werlin v. Reader's Digest Association*, 528 F. Supp. 451, 463 (S.D.N.Y. 1981) (Ward, D.J.).

Finally, such a strict test would seem to go counter to another general principle—that the relevant question in copyright infringement cases is whether the segment in question constituted a substantial portion of the plaintiff's work, not whether it constituted a substantial portion of the defendant's work. . . .

Thus, infringement based on fragmented literal similarity depends on the truth of the principle that "the value of a work may be substantially diminished even when only a part of it is copied, if the part that is copied is of great qualitative importance to the work as a whole." *Werlin* at 463.

[The court then discussed *Grand Upright* and concluded that "[t]he proper question to ask is whether the defendant appropriated, either quantitatively or qualitatively, 'constituent elements of the work that are original', see *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340 (1991), such that the copying rises to the level of an unlawful appropriation."]

\* \* \*

I now turn to the songs at issue in this case.

Plaintiff's song begins with a rhythm and melody utterly unlike defendants' songs. But halfway through the song, the tone changes as the verse-chorus repetition segues into a lengthy bridge. The bridge begins with a series of "oohs," sung over a distinctive rhythm, changes into a series of "moves" and then culminates with vocal repetitions of the phrase "free your body." A couple of minutes later in plaintiff's song, the tone again changes. This time, the song segues into a distinctive keyboard riff (musical phrase), that functions as both rhythm and melody, and for some time stays in the foreground of the song. It remains throughout the end of the song, as lyrics are sung over it.

Nonetheless, defendants argue that the vocal portions of plaintiff's song which defendants copied were non-copyrightable and therefore those portions must be factored out prior to performing the substantial similarity test.

Since it is not unlawful to copy non-copyrightable portions of a plaintiff's work, non-copyrightable elements must be factored out in an

inquiry into infringement. See *Warner Brothers v. American Broadcasting Companies*, 720 F.2d 231, 240 (2d Cir. 1983). . . . The policy behind the rule is to prevent a deterring effect on the creation of new works because of authors' fears of copying innocuous segments.

There is no easily codified standard to govern whether the plaintiff's material is sufficiently original and/or novel to be copyrightable. "Cliched language, phrases and expressions conveying an idea that is typically expressed in a limited number of stereotypic fashions, are not subject to copyright protection." Easily arrived at phrases and chord progressions are usually non-copyrightable. Thus, in one case, a court held that defendant's appropriation of the phrase "night and noon," in a song entirely different from plaintiff's song, was not copyright infringement. *O'Brien v. Chappel & Co.*, 159 F. Supp. 58, 58 (S.D.N.Y. 1958)(Dawson, D.J.). In another case, a court held that when plaintiff's and defendant's mug coasters referenced ideas of enjoyment, a drinking mug, friendship, sunshine, and flowers, the plaintiff's ideas were unprotected.

However, if a piece is sufficiently distinctive, it is copyrightable.

This case bears no relationship to the cases cited above. It is unfair to characterize the "oohs," "moves" and "free your body" as cliched phrases typical in the field. To the contrary, they are used together in a particular arrangement and in the context of a particular melody. And the precise relationship of the phrases vis-à-vis each other was copied. There is no question that the combined phrase "ooh ooh ooh ooh . . . move free your body" is an expression of an idea that is copyrightable. Moreover, the keyboard line that was copied represents a distinctive melody/rhythm that sets it far apart from the ordinary cliched phrases held not copyrightable. It, too, is an expression of an idea, and is capable of being infringed. Again, the fact that defendants appropriated the exact arrangement of plaintiff's composition says more than what can be captured in abstract legal analysis.

It is certainly not clear as a matter of law that the portions copied from plaintiff's song were insignificant to plaintiff's song. To the contrary, the "oohs" and "move, free your body" occur in a bridge that attempts to be distinct and attention-grabbing. The keyboard riff begins the final portion of plaintiff's song, setting the rhythm as well as the melody.

Summary dismissal denied.

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In 2005, the Sixth Circuit provided its judgment on this score, in *Bridgeport Music v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005). The plaintiffs were suing the defendants for playing five times in their 1998 movie *I Got The Hook-Up*, a four-second line "Get off your Ass and Jam" from George Clinton, Jr. and the Funkadelics' rap song "100 Miles and

Runnin." The trial judge summarily dismissed this suit on the grounds that no one would recognize the source. The Sixth Circuit reversed, saying first that one was free "to take three notes from a musical composition but not three notes by way of sampling from a bought recording," because the latter "is a physical taking rather than an intellectual one." They concluded by stating:

Unfortunately, there is no Rosetta stone for the interpretation of the copyright statute. We have taken a "literal reading" approach . . . If this is not what Congress intended or is not what they would intend now, it is easy enough for the record industry, as they have done in the past, to go back to Congress for a clarification or change in the law. This is the best place for the change to be made rather than in the courts, because as this case demonstrates the court is never aware of much more than the tip of the iceberg.

*Id.* at 805.

## E. COPYRIGHT OWNERSHIP

### COMMUNITY FOR CREATIVE NON-VIOLENCE V. REID

Supreme Court of the United States, 1989.  
[490 U.S. 730, 109 S.Ct. 2166, 104 L.Ed.2d 811.](#)

JUSTICE MARSHALL delivered the opinion of the Court.

In this case, an artist and the organization that hired him to produce a sculpture contest the ownership of the copyright in that work. To resolve this dispute, we must construe the "work made for hire" provisions of the Copyright Act of 1976, 17 U.S.C. §§ 101 and 201(b), and in particular, the provision in § 101, which defines as a "work made for hire" a "work prepared by an employee within the scope of his or her employment" (hereinafter § 101(1)).

#### I

[Petitioner is the Community for Creative Non-Violence (CCNV), a nonprofit association dedicated to eliminating homelessness in America. In the fall of 1985, CCNV decided to participate in the Christmastime Pageant of Peace in Washington, D.C., by sponsoring a display to dramatize the plight of the homeless.

CCNV members decided to commission a sculpture of a modern Nativity scene in which, instead of the traditional Holy Family, the two adult figures and the infant would appear as contemporary homeless people huddled on a street-side steam grate. The steam grate would be positioned atop a platform within which special-effects equipment would emit simulated "steam" through the grid. The title for the work was to be

"Third World America," and a legend for the pedestal was to read: "and still there is no room at the inn."

CCNV was referred to respondent James Earl Reid, a Baltimore sculptor who agreed to complete the sculpture. The parties agreed that the sculpture would be made of "Design Cast 62," a synthetic substance that could meet CCNV's monetary and time constraints, could be tinted to resemble bronze, and could withstand the elements. The parties agreed that the project would cost no more than \$15,000, not including Reid's services, which he donated. The parties did not sign a written agreement, and neither party mentioned copyright.

Reid made several sketches of figures in various poses. At CCNV's request, Reid sent CCNV a sketch of a proposed sculpture showing the family in a creche-like setting. CCNV also took Reid to see homeless people living on the streets and pointed out that they tended to recline on steam grates, rather than sit or stand. From that time on, Reid's sketches contained only reclining figures. Various CCNV member visited Reid to check on his. CCNV rejected Reid's proposal to use suitcases or shopping bags to hold the family's personal belongings, insisting instead on a shopping cart. After Reid finished the statue, it was taken to Washington, D.C. and mounted on its base. After the pageant, the sculpture was returned to Reid for minor repairs. When CCNV asked for the return of the sculpture for a multi-city tour, Reid refused and filed a certificate of copyright registration for the work. CCNV then filed a competing copyright claim.]

\* \* \*

## II

### A

The Copyright Act of 1976 provides that copyright ownership "vests initially in the author or authors of the work." As a general rule, the author is the party who actually creates the work, that is, the person who translates an idea into a fixed, tangible expression entitled to copyright protection. The Act carves out an important exception, however, for "works made for hire." If the work is for hire, "the employer or other person for whom the work was prepared is considered the author" and owns the copyright, unless there is a written agreement to the contrary. Classifying a work as "made for hire" determines not only the initial ownership of its copyright, but also the copyright's duration, and the owners' renewal rights, § 304(a), termination rights, and right to import certain goods bearing the copyright. The contours of the work for hire doctrine therefore carry profound significance for freelance creators—including artists, writers, photographers, designers, composers, and computer programmers—and for the publishing, advertising, music, and other industries which commission their works.

\* \* \*

Petitioners do not claim that the statute satisfies the terms of § 101(2). Quite clearly, it does not. Sculpture does not fit within any of the nine categories of “specially ordered or commissioned” works enumerated in that subsection, and no written agreement between the parties establishes “Third World America” as a work for hire.

[The Court turned, then, from § 101(2)’s standards for “works made for hire” by independent contractors to the general § 101(1) standard for “employees,” who presumptively make all their works for hire.] The starting point for our interpretation of a statute is always its language. The Act nowhere defines the terms “employee” or “scope of employment.” It is, however, well established that “[w]here 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 these terms.” In the past, when Congress has used the term “employee” without defining it, we have concluded that Congress intended to describe the conventional master-servant relationship as understood by common-law agency doctrine. Nothing in the text of the work for hire provisions indicates that Congress used the words “employee” and “employment” to describe anything other than “the conventional relation of employer and employee.” On the contrary, Congress’ intent to incorporate the agency law definition is suggested by § 101(1)’s use of the term, “scope of employment,” a widely used term of art in agency law.

\* \* \*

[The Court then rejected CCNV’s proposal alternatives, a “right to control the product” as “actual control” of the product, as incompatible with the specific additions to Section 101(1) that Congress had enacted in Section 101(2).] Section 101 clearly delineates between works prepared by an employee and commissioned works. Sound though other distinctions might be as a matter of copyright policy, there is no statutory support for an additional dichotomy between commissioned works that are actually controlled and supervised by the hiring party and those that are not.

We therefore conclude that the language and structure of § 101 of the Act do not support either the right to control the product or the actual control approaches. The structure of § 101 indicates that a work for hire can arise through one of two mutually exclusive means, one for employees and one for independent contractors, and ordinary canons of statutory interpretation indicate that the classification of a particular hired party should be made with reference to agency law.

\* \* \*

Finally, petitioners’ construction of the work for hire provisions would impede Congress’ paramount goal in revising the 1976 Act of enhancing

predictability and certainty of copyright ownership. In a “copyright marketplace,” the parties negotiate with an expectation that one of them will own the copyright in the completed work. With that expectation, the parties at the outset can settle on relevant contractual terms, such as the price for the work and the ownership of reproduction rights.

To the extent that petitioners endorse an actual control test, CCNV’s construction of the work for hire provisions prevents such planning. Because that test turns on whether the hiring party has closely monitored the production process, the parties would not know until late in the process, if not until the work is completed, whether a work will ultimately fall within § 101(1). Under petitioners’ approach, therefore, parties would have to predict in advance whether the hiring party will sufficiently control a given work to make it the author. “If they guess incorrectly, their reliance on ‘work for hire’ or an assignment may give them a copyright interest that they did not bargain for.” This understanding of the work for hire provisions clearly thwarts Congress’ goal of ensuring predictability through advance planning. Moreover, petitioners’ interpretation “leaves the door open for hiring parties, who have failed to get a full assignment of copyright rights from independent contractors falling outside the subdivision (2) guidelines, to unilaterally obtain work-made-for-hire rights years after the work has been completed as long as they directed or supervised the work, a standard that is hard not to meet when one is a hiring party.” *Hamilton, Commissioned Works as Works Made for Hire Under the 1976 Copyright Act: Misinterpretation and Injustice*, 135 U. Pa. L. Rev. 1281, 1304 (1987).

In sum, we must reject petitioners’ argument. Transforming a commissioned work into a work by an employee on the basis of the hiring party’s right to control, or actual control of, the work is inconsistent with the language, structure, and legislative history of the work for hire provisions. To determine whether a work is for hire under the Act, a court first should ascertain, using principles of general common law of agency, whether the work was prepared by an employee or an independent contractor. After making this determination, the court can apply the appropriate subsection of § 101.

## B

We turn, finally, to an application of § 101 to Reid’s production of “Third World America.” In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party’s right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party’s discretion over when and how long to work;

the method of payment; the hired party's role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party. See Restatement (Second) of Agency § 220(2) (1958) (setting forth a nonexhaustive list of factors relevant to determining whether a hired party is an employee). No one of these factors is determinative.

Examining the circumstances of this case in light of these factors, we agree with the Court of Appeals that Reid was not an employee of CCNV but an independent contractor. True, CCNV members directed enough of Reid's work to ensure that he produced a sculpture that met their specifications. But the extent of control the hiring party exercises over the details of the product is not dispositive. Indeed, all the other circumstances weigh heavily against finding an employment relationship. Reid is a sculptor, a skilled occupation. Reid supplied his own tools. He worked in his own studio in Baltimore, making daily supervision of his activities from Washington practicably impossible. Reid was retained for less than two months, a relatively short period of time. During and after this time, CCNV had no right to assign additional projects to Reid. Apart from the deadline for completing the sculpture, Reid had absolute freedom to decide when and how long to work. CCNV paid Reid \$15,000, a sum dependent on "completion of a specific job, a method by which independent contractors are often compensated." Reid had total discretion in hiring and paying assistants. Indeed, CCNV is not a business at all. Finally, CCNV did not pay payroll or Social Security taxes, provide any employee benefits, or contribute to unemployment insurance or workers' compensation funds.

Affirmed.

**JOHN CARTER v. HELMSLEY-SPEAR, INC.**

United States Court of Appeals, Second Circuit.

Decided Dec. 1, 1995.

71 F.3d 77

CARDAMONE, Circuit Judge:

Defendants 474431 Associates and Helmsley-Spear, Inc. (defendants or appellants), as the owner and managing agent respectively, of a commercial building in Queens, New York, appeal from an order of the United States District Court for the Southern District of New York (Edelstein, J.), entered on September 6, 1994 following a bench trial. The order granted plaintiffs, who are three artists, a permanent injunction that enjoined defendants from removing, modifying or destroying a work of visual art that had been installed in defendants' building by plaintiffs-

artists commissioned by a former tenant to install the work. See Carter v. Helmsley-Spear, Inc., 861 F.Supp. 303 (S.D.N.Y.1994). \*\*\*

On this appeal we deal with an Act of Congress that protects the rights of artists to preserve their works. One of America's most insightful thinkers observed that a country is not truly civilized "where the arts, such as they have, are all imported, having no indigenous life." 7 Works of Ralph Waldo Emerson, Society and Solitude, Chapt. II Civilization 34 (AMS. ed. 1968). From such reflection it follows that American artists are to be encouraged by laws that protect their works. Although Congress in the statute before us did just that, it did not mandate the preservation of art at all costs and without due regard for the rights of others.

For the reasons that follow, we reverse and vacate the grant of injunctive relief to plaintiffs and affirm the dismissal by the district court of plaintiffs' other claims and its dismissal of defendants' counterclaim for waste.

#### BACKGROUND

Defendant 474431 Associates (Associates) is the owner of a mixed use commercial building located at 47–44 31st Street, Queens, New York, which it has owned since 1978. Associates is a New York general partnership. The general partners are Alvin Schwartz and Supervisory Management Corp., a wholly-owned subsidiary of Helmsley Enterprises, Inc. Defendant Helmsley-Spear, Inc. is the current managing agent of the property for Associates.

On February 1, 1990 Associates entered into a 48-year net lease, leasing the building to 47–44 31st Street Associates, L.P. (Limited Partnership), a Delaware limited partnership. From February 1, 1990 until June 1993, Irwin Cohen or an entity under his control was the general partner of the Limited Partnership, and managed the property through Cohen's SIG Management Company (SIG). Corporate Life Insurance Company (Corporate Life) was a limited partner in the Limited Partnership. In June 1993 SIG ceased its involvement with the property and Corporate Life, through an entity controlled by it, became the general partner of the Limited Partnership. The property was then managed by the Limited Partnership, through Theodore Nering, a Corporate Life representative. There is no relationship, other than the lease, between Associates, the lessor, and the Limited Partnership, the lessee.

Plaintiffs John Carter, John Swing and John Veronis (artists or plaintiffs) are professional sculptors who work together and are known collectively as the "Three-J's" or "Jx3." On December 16, 1991 SIG entered into a one-year agreement with the plaintiffs "engag[ing] and hir[ing] the Artists ...

to design, create and install sculpture and other permanent installations" in the building, primarily the lobby. Under the agreement plaintiffs had "full authority in design, color and style," and SIG retained authority to direct the location and installation of the artwork within the building. The artists were to retain copyrights to their work and SIG was to receive 50 percent of any proceeds from its exploitation. On January 20, 1993 SIG and the artists signed an agreement extending the duration of their commission for an additional year. When Corporate Life became a general partner of the Limited Partnership, the Limited Partnership assumed the agreement with plaintiffs and in December 1993 again extended the agreement.

The artwork that is the subject of this litigation is a very large "walk-through sculpture" occupying most, but not all, of the building's lobby. The artwork consists of a variety of sculptural elements constructed from recycled materials, much of it metal, affixed to the walls and ceiling, and a vast mosaic made from pieces of recycled glass embedded in the floor and walls. Elements of the work include a giant hand fashioned from an old school bus, a face made of automobile parts, and a number of interactive components. These assorted elements make up a theme relating to environmental concerns and the significance of recycling.

The Limited Partnership's lease on the building was terminated on March 31, 1994. It filed for bankruptcy one week later. The property was surrendered to defendant Associates on April 6, 1994 and defendant Helmsley-Spear, Inc. took over management of the property. Representatives of defendants informed the artists that they could no longer continue to install artwork at the property, and instead had to vacate the building. These representatives also made statements indicating that defendants intended to remove the artwork already in place in the building's lobby.

As a result of defendants' actions, artists commenced this litigation. On April 26, 1994 the district court issued a temporary restraining order enjoining defendants from taking any action to alter, deface, modify or mutilate the artwork installed in the building. In May 1994 a hearing was held on whether a preliminary injunction should issue. The district court subsequently granted a preliminary injunction enjoining defendants from removing the artwork pending the resolution of the instant litigation.

A bench trial was subsequently held in June and July 1994, at the conclusion of which the trial court granted the artists the permanent injunction prohibiting defendants from distorting, mutilating, modifying, destroying and removing plaintiffs' artwork. The injunction is to remain in effect for the lifetimes of the three plaintiffs. Plaintiffs' other claims, including their cause of action for tortious interference and a request for

an award of costs and attorney's fees and that they be allowed to continue to add to the artwork in the lobby, as well as defendants' counterclaim for waste, were all dismissed with prejudice. This appeal and cross-appeal followed.

## DISCUSSION

I Artists' Moral Rights [omitted]...

II Work of Visual Art

Because VARA is relatively new, a fuller explication of it is helpful. In analyzing the Act, therefore, we will follow in order the definition set forth in § 101, as did the district court when presiding over this litigation. The district court determined that the work of art installed in the lobby of Associates' building was a work of visual art as defined by VARA; that distortion, mutilation, or modification of the work would prejudice plaintiffs' honor and reputations; that the work was of recognized stature, thus protecting it from destruction (including removal that would result in destruction); and that Associates consented to or ratified the installation of the work in its building. The result was that defendants were enjoined from removing or otherwise altering the work during the lifetimes of the three artists.

### A. Singleness of the Work

As a preliminary matter, we must determine whether the trial court correctly found that the work is a single piece of art, to be analyzed under VARA as a whole, rather than separate works to be considered individually. This finding was a factual one reviewed under the clearly erroneous standard. For purposes of framing the issues at trial the parties entered into a joint stipulation relating to numerous facts, including a definition of "the Work." This stipulated definition contained a long, detailed list of all the sculptural elements contained in the building's lobby. The district court found that, with a few precise exceptions determined to be separate works of art, the artwork created by plaintiffs in the lobby was a single work. This finding was based on testimony, credited by the trial judge, of the artists themselves and of their expert witnesses.

The trial court found further support for its conclusion in the method by which the artists created the work—each additional element of the sculpture was based on the element preceding it so that they would mesh together. The result was a thematically consistent, inter-related work whose elements could not be separated without losing continuity and

meaning. The record evidence of singleness was confirmed at the request of the parties by the district court's own inspection of the work.

Appellants' primary contention is that the finding of singleness is inconsistent with a finding that certain works of art were separate from the work that is the subject of this appeal. This assertion rests on the mistaken belief that the parties' joint stipulation to a definition of "the Work" precluded an ultimate determination by the factfinder that most but not all of the work installed in the lobby was a single artwork. In other words, according to appellants, either every component in the stipulated definition is part of a single work or every component is an individual work; there is no middle ground. Appellants' goal is to have VARA applied to each element of the sculpture individually, so that components that may not be visual art standing alone cannot be considered visual art when they are combined by the artists to create a whole that has a nature different than the mere sum of its parts.

Appellants' goal is not attainable. The parties stipulated that when they used the term "the Work" it included a list of sculptural components. The result was that during the trial there was no dispute as to the parties' meaning when referring to "the Work." The trial court was free to find that a few items of "the Work" were separate works of art, while the remainder of "the Work" was a single, interrelated, indivisible work of art. The finding of singleness was based on determinations of witness credibility as well as the district court's own inspection of the artwork. We cannot say that such a finding was clearly erroneous.

## B. The Statutory Definition

A "work of visual art" is defined by the Act in terms both positive (what it is) and negative (what it is not). In relevant part VARA defines a work of visual art as "a painting, drawing, print, or sculpture, existing in a single copy" or in a limited edition of 200 copies or fewer. 17 U.S.C. § 101. Although defendants aver that elements of the work are not visual art, their contention is foreclosed by the factual finding that the work is a single, indivisible whole. Concededly, considered as a whole, the work is a sculpture and exists only in a single copy. Therefore, the work satisfies the Act's positive definition of a work of visual art. We next turn to the second part of the statutory definition—what is not a work of visual art.

The definition of visual art excludes "any poster, map, globe, chart, technical drawing, diagram, model, applied art, motion picture or other audio-visual work." 17 U.S.C. § 101. Congress meant to distinguish works of visual art from other media, such as audio-visual works and motion pictures, due to the different circumstances surrounding how works of each genre are created and disseminated. See H.R.Rep. No. 514 at 9. Although this concern led to a narrow definition of works of visual art,

[t]he courts should use common sense and generally accepted standards of the artistic community in determining whether a particular work falls within the scope of the definition. Artists may work in a variety of media, and use any number of materials in creating their works. Therefore, whether a particular work falls within the definition should not depend on the medium or materials used.

*Id.* at 11.

“Applied art” describes “two- and three-dimensional ornamentation or decoration that is affixed to otherwise utilitarian objects.” Carter, 861 F.Supp. at 315, citing *Kieselstein-Cord v. Accessories By Pearl, Inc.*, 632 F.2d 989, 997 (2d Cir.1980). Defendants’ assertion that at least parts of the work are applied art appears to rest on the fact that some of the sculptural elements are affixed to the lobby’s floor, walls, and ceiling—all utilitarian objects. Interpreting applied art to include such works would render meaningless VARA’s protection for works of visual art installed in buildings. A court should not read one part of a statute so as to deprive another part of meaning. See, e.g., *United States Nat'l Bank of Or. v. Independent Ins. Agents of America, Inc.*, 508 U.S. 439, ——, 113 S.Ct. 2173, 2182, 124 L.Ed.2d 402 (1993); *United States v. LaPorta*, 46 F.3d 152, 156 (2d Cir.1994).

Appellants do not suggest the entire work is applied art. The district court correctly stated that even if components of the work standing alone were applied art, “nothing in VARA proscribes protection of works of visual art that incorporate elements of, rather than constitute, applied art.” 861 F.Supp. at 315. VARA’s legislative history leaves no doubt that “a new and independent work created from snippets of [excluded] materials, such as a collage, is of course not excluded” from the definition of a work of visual art. H.R.Rep. No. 514 at 14. The trial judge correctly ruled the work is not applied art precluded from protection under the Act.

### III Work Made for Hire

Also excluded from the definition of a work of visual art is any work made for hire. 17 U.S.C. § 1012(B). A “work made for hire” is defined in the Copyright Act, in relevant part, as “a work prepared by an employee within the scope of his or her employment.” *Id.* § 101(1). Appellants maintain the work was made for hire and therefore is not a work of visual art under VARA. The district court held otherwise, finding that the plaintiffs were hired as independent contractors.

#### A. Reid Tests

The Copyright Act does not define the terms “employee” or “scope of employment.” In *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 109 S.Ct. 2166, 104 L.Ed.2d 811 (1989), the Supreme Court looked to the general common law of agency for guidance. It held that a multi-factor balancing test was required to determine if a work was produced for hire (by an employee) or was produced by an independent contractor. *Reid*, 490 U.S. at 751, 109 S.Ct. at 2178. The Court elaborated 13 specific factors: the hiring party’s right to control the manner and means by which the product is accomplished.... the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party’s discretion over when and how long to work; the method of payment; the hired party’s role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party.

*Reid*, 490 U.S. at 751–52, 109 S.Ct. at 2178–79. While all of these factors are relevant, no single factor is determinative. *Id.* at 752. See also *Hilton International Company v. NLRB*, 690 F.2d 318, 321 (2d Cir.1982). Instead, the factors are weighed by referring to the facts of a given case. See *Aymes v. Bonelli*, 980 F.2d 857, 861 (2d Cir.1992).

The district court determined that the sculpture was not “work for hire” and therefore not excluded from the definition of visual art. The *Reid* test is a list of factors not all of which may come into play in a given case. See *Aymes*, 980 F.2d at 861. The *Reid* test is therefore easily misapplied. We are usually reluctant to reverse a district court’s factual findings as to the presence or absence of any of the *Reid* factors and do so only when the district court’s findings are clearly erroneous. By contrast, the ultimate legal conclusion as to whether or not the sculpture is “work for hire” is reviewed *de novo*. The district court correctly stated the legal test. But some of its factual findings, we think, were clearly erroneous.

## B. Factors Applied

The district court properly noted that *Aymes* established five factors which would be relevant in nearly all cases: the right to control the manner and means of production; requisite skill; provision of employee benefits; tax treatment of the hired party; whether the hired party may be assigned additional projects. See 980 F.2d at 861. Analysis begins with a discussion of these factors.

First, plaintiffs had complete artistic freedom with respect to every aspect of the sculpture’s creation. Although the artists heeded advice or accepted

suggestions from building engineers, architects, and others, such actions were not a relinquishment of their artistic freedom. The evidence strongly supports the finding that plaintiffs controlled the work's "manner and means." This fact, in turn, lent credence to their contention that they were independent contractors. See Hilton, 690 F.2d at 320. While artistic freedom remains a central factor in our inquiry, the Supreme Court has cautioned that "the extent of control the hiring party exercises over the details of the product is not dispositive." Reid, 490 U.S. at 752, 109 S.Ct. at 2179. Hence, resolving the question of whether plaintiffs had artistic freedom does not end the analysis.

The district court also correctly found the artists' conception and execution of the work required great skill in execution. Appellants' contention that the plaintiffs' reliance on assistants in some way mitigates the skill required for this work is meritless, particularly because each of the plaintiffs is a professional sculptor and the parties stipulated that professional sculpting is a highly skilled occupation. The right to control the manner and means and the requisite skill needed for execution of this project were both properly found by the district court to weigh against "work for hire" status.

The trial court erred, however, when it ruled that the defendants could not assign the artists additional projects. First, the employment agreement between SIG Management Company and the artists clearly states that the artists agreed not only to install the sculpture but also to "render such other related services and duties as may be assigned to [them] from time to time by the Company." By the very terms of the contract the defendants and their predecessors in interest had the right to assign other related projects to the artists. The district court incorrectly decided that this language supported the artists' claim to be independent contractors. While the artists' obligations were limited to related services and duties, the defendants nonetheless did have the right to assign to plaintiffs work other than the principal sculpture.

Further, the defendants did, in fact, assign such other projects. The district court concedes as much, explaining that "plaintiffs did create art work on the property other than that in the Lobby." Carter, 861 F.Supp. at 319. The record shows the artists performed projects on the sixth floor of the building, on the eighth floor, and in the boiler room. Thus, on at least three different occasions the plaintiffs were assigned additional projects, which they completed without further compensation. The trial court suggests this fact "does not undermine plaintiffs' contention that they were hired solely to install art work on the Property." Id. We disagree. If the artists were hired to perform work other than the sculpture (as both their employment agreement and their actual practice suggests) then they were

not hired solely to install the sculpture. It makes no difference that all work performed by the plaintiffs was artistic in nature. The point is that the performance of other assigned work not of the artists' choosing supports a conclusion that the artists were not independent contractors but employees.

We must also consider factors the district court correctly found to favor finding the sculpture to be work for hire. Specifically, the provision of employee benefits and the tax treatment of the plaintiffs weigh strongly in favor of employee status. The defendants paid payroll and social security taxes, provided employee benefits such as life, health, and liability insurance and paid vacations, and contributed to unemployment insurance and workers' compensation funds on plaintiffs' behalf. Moreover, two of the three artists filed for unemployment benefits after their positions were terminated, listing the building's management company as their former employer. Other formal indicia of an employment relationship existed. For instance, each plaintiff was paid a weekly salary. The artists also agreed in their written contract that they would work principally for the defendants for the duration of their agreement on a 40-hour per week basis and they would only do other work to the extent that it would not "interfere with services to be provided" to the defendants. All of these facts strongly suggest the artists were employees.

Some of the other Reid factors bolster this view. The artists were provided with many (if not most) of the supplies used to create the sculpture. This factor was not, as the district court found, "inconclusive." The court also wrongly ruled that plaintiffs were hired for a "finite term of engagement." In fact, they were employed for a substantial period of time, their work continuing for over two years with no set date of termination (other than the sculpture's completion). Nor was the fact that the artists could not hire paid assistants without the defendants' approval "inconclusive" as the trial court erroneously found. Instead, this and the other just enumerated factors point towards an employer-employee relationship between the parties.

In reaching its conclusion, the district court also relied partly on the artists' copyright ownership of the sculpture, viewing such ownership as a "plus factor." We are not certain whether this element is a "plus factor," and therefore put off for another day deciding whether copyright ownership is probative of independent contractor status. Even were it to be weighed as a "plus factor," it would not change the outcome in this case.

### C. Employee Status

Our review of the legal conclusion drawn from balancing the various Reid factors persuades us that the factors that weigh in favor of finding the artists were employees outweigh those factors supporting the artists' claim that they were independent contractors. One of the factors that did not persuade us was the appellants' simplistic contention that usage of the words "employ" or "employment" in the agreements between the artists and SIG or the Limited Partnership establishes that the plaintiffs were employees. The use of these terms does not transform them into "magic words" imbued with legally controlling significance.

Again, we emphasize that despite the conclusion reached we do not intend to marginalize factors such as artistic freedom and skill, making them peripheral to the status inquiry. The fact that artists will always be retained for creative purposes cannot serve to minimize this factor of the Reid test, even though it will usually favor VARA protection. Also, that the work was produced on the employer's premises is a necessary incident to all nonremovable art and therefore should not carry great weight. Similarly, we were not swayed by the boilerplate contract language or the accounting decision to deduct FICA taxes. To so read § 101 runs against the broad remedial purposes of VARA. As discussed earlier, the moral rights of the artist whose artistic work comes under VARA's umbrella are to be protected, not ignored, in light of Congress' pathbreaking legislation. Moreover, because the Reid test is fact-dependent, future cases involving the work for hire question will not always fit neatly into an employee or independent contractor category. We also recognize that by counting indicia such as health insurance and paid vacations against the artists' independent contractor status, it may appear that artists regrettably are being forced to choose between the personal benefits inuring in an employment relationship and VARA's protection of the artists' work afforded only to independent contractors. Of course, when an employer today denies an artist "basic attributes of employment" like vacation time or health benefits, such denial will be wholly inconsistent with a "work for hire" defense. See Aymes, 980 F.2d at 862–63.

Consequently, while the existence of payroll formalities alone would not be controlling, see Reid, 490 U.S. at 743 n. 8, 109 S.Ct. at 2174 n. 8, in combination with other factors, it may lead to a conclusion that a given work is one made for hire. Such other factors include: plaintiffs under their contract could be and were in fact assigned projects in addition to the work in the lobby; they were paid a weekly salary for over two years for a contracted 40 hours of work per week; they were furnished many of the needed supplies necessary to create the work; and plaintiffs could not hire paid assistants without defendants' consent. These factors, properly considered and weighed with the employee benefits granted plaintiffs and the tax treatment accorded them, are more than sufficient to demonstrate

that the artists were employees, and the sculpture is therefore a work made for hire as a matter of law.

## CONCLUSION

Accordingly, the district court's order insofar as it held the work was one not made for hire is reversed and the injunction vacated. In all other respects, the order of the district court is affirmed. Each party to bear its own costs.

### **Chapman KELLEY v. CHICAGO PARK DISTRICT**

United States Court of Appeals, Seventh Circuit

Decided Feb. 15, 2011.

635 F.3d 290

SYKES, Circuit Judge.

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”), 17 U.S.C. § 106A, and also for breach of contract. The contract claim is insubstantial; the main event here is the VARA claim, which is novel and tests the boundaries of copyright law. Congress enacted this statute to comply with the nation’s obligations under the Berne Convention for the Protection of Literary and

Artistic Works. VARA amended the Copyright Act, importing a limited version of the civil-law concept of the “moral rights of the artist” into our intellectual-property 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).

The district court held a bench trial and entered a split judgment. The court rejected Kelley’s moral-rights claim for two reasons. First, the judge held that although Wildflower Works could be classified as both a painting and a sculpture and therefore a work of visual art under VARA, it lacked sufficient originality to be eligible for copyright, a foundational requirement in the statute. Second, following the First Circuit’s decision in Phillips v. Pembroke Real Estate, Inc., 459 F.3d 128 (1st Cir. 2006), the court concluded that site-specific art like Wildflower Works is categorically excluded from protection under VARA. The court then held for Kelley on the contract claim, but found his evidence of damages uncertain and entered a nominal award of \$1. Both sides appealed.

We affirm in part and reverse in part. There is reason to doubt several of the district court’s conclusions: that Wildflower Works is a painting or sculpture; that it flunks the test for originality; and that all site-specific art is excluded from VARA. But the court was right to reject this claim; for reasons relating to copyright’s requirements of expressive authorship and fixation, a living garden like Wildflower Works is not copyrightable. The district court’s treatment of the contract claim is another matter; the Park District is entitled to judgment on that claim as well.

## I. Background

Kelley is a painter noted for his use of bold, elliptical outlines to surround scenes of landscapes and flowers. In the late-1970s and 1980s, he moved from the canvas to the soil and created a series of large outdoor wildflower displays that resembled his paintings. He planted the first in 1976 alongside a runway at the Dallas–Fort Worth International Airport and the second in 1982 outside the Dallas Museum of Natural History. The wildflower exhibit at the museum was temporary; the one at the airport just “gradually petered out.”

In 1983 Kelley accepted an invitation from Chicago-based oil executive John Swearingen and his wife, Bonnie—collectors of Kelley’s paintings—

to come to Chicago to explore the possibility of creating a large outdoor wildflower display in the area. He scouted sites by land and by air and eventually settled on Grant Park, the city's showcase public space running along Lake Michigan in the center of downtown Chicago. This location suited Kelley's artistic, environmental, and educational mission; it also provided the best opportunity to reach a large audience. Kelley met with the Park District superintendent to present his proposal, and on June 19, 1984, the Park District Board of Commissioners granted him a permit to install a "permanent Wild Flower Floral Display" on a grassy area on top of the underground Monroe Street parking garage in Daley Bicentennial Plaza in Grant Park. Under the terms of the permit, Kelley was to install and maintain the exhibit at his own expense. The Park District reserved the right to terminate the installation by giving Kelley "a 90 day notice to remove the planting."

Kelley named the project "Chicago Wildflower Works I." The Park District issued a press release announcing that "a new form of 'living' art" was coming to Grant Park—"giant ovals of multicolored wildflowers" created by Kelley, a painter and "pioneer in the use of natural materials" who "attracted national prominence for his efforts to incorporate the landscape in artistic creation." The announcement explained that "[o]nce the ovals mature, the results will be two breathtaking natural canvases of Kelley-designed color patterns."

In the late summer of 1984, Kelley began installing the two large-scale elliptical flower beds at the Grant Park site; they spanned 1.5 acres of parkland and were set within gravel and steel borders. A gravel walkway bisected one of the ovals, and each flower bed also accommodated several large, preexisting air vents that were flush with the planting surface, providing ventilation to the parking garage below. For planting material Kelley selected between 48 and 60 species of self-sustaining wildflowers native to the region. The species were selected for various aesthetic, environmental, and cultural reasons, but also to increase the likelihood that the garden could withstand Chicago's harsh winters and survive with minimal maintenance. Kelley designed the initial placement of the wildflowers so they would blossom sequentially, changing colors throughout the growing season and increasing in brightness towards the center of each ellipse. He purchased the initial planting material—between 200,000 and 300,000 wildflower plugs—at a cost of between \$80,000 and \$152,000. In September of 1984, a battery of volunteers planted the seedlings under Kelley's direction.

When the wildflowers bloomed the following year, Wildflower Works was greeted with widespread acclaim. Chicago's mayor, the Illinois Senate, and the Illinois Chapter of the American Society of Landscape Artists issued

commendations. People flocked to see the lovely display—marketed by the Park District as “living landscape art”—and admiring articles appeared in national newspapers. Wildflower Works was a hit. Here’s a picture:

For the next several years, Kelley’s permit was renewed and he and his volunteers tended the impressive garden. They pruned and weeded and regularly planted new seeds, both to experiment with the garden’s composition and to fill in where initial specimen had not flourished. Of course, the forces of nature—the varying bloom periods of the plants; their spread habits, compatibility, and life cycles; and the weather—produced constant change. Some wildflowers naturally did better than others. Some spread aggressively and encroached on neighboring plants. Some withered and died. Unwanted plants sprung up from seeds brought in by birds and the wind. Insects, rabbits, and weeds settled in, eventually taking a toll. Four years after Wildflower Works was planted, the Park District decided to discontinue the exhibit. On June 3, 1988, the District gave Kelley a 90-day notice of termination.

Kelley responded by suing the Park District in federal court, claiming the termination of his permit violated the First Amendment. The parties quickly settled; in exchange for dismissal of the suit, the Park District agreed to extend Kelley’s permit for another year. On September 14, 1988, the Park District issued a “Temporary Permit” to Kelley and Chicago Wildflower Works, Inc., a nonprofit organization formed by his volunteers. This permit authorized them “to operate and maintain a two ellipse Wildflowers Garden Display ... at Daley Bicentennial Plaza in Grant Park” until September 1, 1989. The permit stipulated that Kelley “will have responsibility and control over matters relating to the aesthetic design and content of Wildflower Works I,” and Wildflower Works, Inc. “shall maintain the Wildflower Works I at no cost to the Chicago Park District including, without limitation, weeding and application of fertilizer.” Although it did not contain a notice-of-termination provision, the permit did state that “[t]he planting material is the property of Mr. Chapman Kelley” and that Kelley “may remove the planting material” if the permit was not extended. Finally, the permit provided that “[t]his agreement does not create any proprietary interest for Chicago Wildflower Works, Inc., or Mr. Chapman Kelley in continuing to operate and maintain the Wildflower Garden Display after September 1, 1989.”

The Park District formally extended this permit each succeeding year through 1994. After that point Kelley and his volunteers continued to cultivate Wildflower Works without a permit, and the Park District took

no action, adverse or otherwise, regarding the garden's future. In March 2004 Kelley and Jonathan Dedmon, president of Wildflower Works, Inc., attended a luncheon to discuss the 20th anniversary of Wildflower Works. At the luncheon Dedmon asked Park District Commissioner Margaret Burroughs if Wildflower Works needed a new permit. Commissioner Burroughs responded, "You're still there, aren't you? That's all you need to do."

Three months later, on June 10, 2004, Park District officials met with Kelley and Dedmon to discuss problems relating to inadequate maintenance of the garden and forthcoming changes to Grant Park necessitated by the construction of the adjacent Millennium Park. The officials proposed reconfiguring Wildflower Works—decreasing its size from approximately 66,000 square feet to just under 30,000 square feet and remaking its elliptical flower beds into rectangles. The District's director of development invited Kelley's views on this proposal but made it clear that the District planned to go forward with the reconfiguration with or without Kelley's approval. Kelley objected to the proposed changes, but did not request an opportunity to remove his planting material before the reconfiguration took place. A week later the Park District proceeded with its plan and reduced Wildflower Works to less than half its original size. The elliptical borders became rectilinear, weeds were removed, surviving wildflowers were replanted in the smaller-scale garden, and some new planting material was added. Dedmon sent a letter of protest to the Park District.

Kelley then sued the Park District for violating his moral rights under VARA. He claimed that Wildflower Works was both a painting and a sculpture and therefore a "work of visual art" under VARA, and that the Park District's reconfiguration of it was an intentional "distortion, mutilation, or other modification" of his work and was "prejudicial to his ... honor or reputation." See 17 U.S.C. § 106A(a)(3)(A). He also alleged breach of contract; he claimed that Commissioner Burroughs's remark created an implied contract that the Park District had breached when it altered Wildflower Works without providing reasonable notice. On the VARA claim Kelley sought compensation for the moral-rights violation, statutory damages, and attorney's fees; on the contract claim he sought the fair-market value of the planting material removed in the reconfiguration. He later quantified his damages, estimating the value of the plants at \$1.5 million and requesting a staggering \$25 million for the VARA violation.

The case proceeded to a bench trial, and the district court entered judgment for the Park District on the VARA claim and for Kelley on the contract claim. The judge first concluded that Wildflower Works could be classified as both a painting and a sculpture and therefore qualified as a work of visual art under VARA. But he also held that Wildflower Works

was insufficiently original for copyright, a prerequisite to moral-rights protection under VARA. Alternatively, the judge concluded that Wildflower Works was site-specific art, and following the First Circuit's decision in Phillips, held that VARA did not apply to this category of art. \* \* \*

Kelley appealed, challenging the adverse judgment on the VARA claim and the district court's treatment of the damages issue on the contract claim. The Park District cross-appealed from the judgment on the contract claim.

## II. Discussion

This case comes to us from a judgment entered after a bench trial; we review the district court's factual findings for clear error and its conclusions of law de novo. Spurgin-Dienst v. United States, 359 F.3d 451, 453 (7th Cir.2004). In this circuit, questions of copyright eligibility are issues of law subject to independent review. Schrock v. Learning Curve Int'l, Inc., 586 F.3d 513, 517 (7th Cir.2009).

- A. Kelley's Moral-Rights Claim Under the Visual Artists Rights Act of 1990
  1. A brief history of moral rights
  2. VARA's scope  
[sections omitted]
  3. Is Wildflower Works a painting or sculpture?

The district court held that Wildflower Works was both a painting and a sculpture but was insufficiently original to qualify for copyright. Alternatively, the court concluded that it was site-specific art and held that all site-specific art is implicitly excluded from VARA. Other arguments—in particular, whether Wildflower Works satisfies additional threshold requirements for copyright and whether VARA's public-presentation or building exceptions applied—were not reached.

On appeal Kelley contests the district court's conclusions regarding originality and site-specific art. The Park District defends these holdings and also reiterates the other arguments it made in the district court, except one: The Park District has not challenged the district court's conclusion that Wildflower Works is a painting and a sculpture.

This is an astonishing omission. VARA's definition of "work of visual art" operates to narrow and focus the statute's coverage; only a "painting, drawing, print, or sculpture," or an exhibition photograph will qualify.

These terms are not further defined, but the overall structure of the statutory scheme clearly illuminates the limiting effect of this definition. Copyright's broad general coverage extends to "original works of authorship," and this includes "pictorial, graphic, and sculptural works." 17 U.S.C. § 102(a)(5). The use of the adjectives "pictorial" and "sculptural" suggests flexibility and breadth in application. In contrast VARA uses the specific nouns "painting" and "sculpture." To qualify for moral-rights protection under VARA, Wildflower Works cannot just be "pictorial" or "sculptural" in some aspect or effect, it must actually be a "painting" or a "sculpture." Not metaphorically or by analogy, but really.

That Kelley considered the garden to be both a painting and a sculpture—only rendered in living material—is not dispositive. He also characterized it as an experiment in environmental theory, telling a reporter he was trying to "figure out the economic and ecological impact of introducing wildflowers into cities." In promoting Wildflower Works, Kelley variously described the project as a "living wildflower painting," a "study on wildflower landscape and management," and "a new vegetative management system that beautifies [the] landscape economically with low-maintenance wildflowers."

Kelley's expert, a professor of art history, reinforced his view that Wildflower Works was both a painting and a sculpture, but the district court largely disregarded her testimony as unhelpful. For its part the Park District initially marketed Wildflower Works as "living art," but this adds little to the analysis. VARA plainly uses the terms "painting" and "sculpture" as words of limitation. Even assuming a generous stance on what qualifies, see 5 PATRY § 16:7 (suggesting a "liberal attitude toward what may be considered a painting, drawing, print, or sculpture"), the terms cannot be read coextensively with the broader categories of "pictorial" and "sculptural" works that are generally eligible for copyright under § 102(a)(5). If a living garden like Wildflower Works really counts as both a painting and a sculpture, then these terms do no limiting work at all.

The district judge worried about taking "too literalist an approach to determining whether a given object qualifies as a sculpture or painting." His concern was the "tension between the law and the evolution of ideas in modern or avant garden art; the former requires legislatures to taxonomize artistic creations, whereas the latter is occupied with expanding the definition of what we accept to be art." We agree with this important insight. But there's a big difference between avoiding a literalistic approach and embracing one that is infinitely malleable. The judge appears to have come down too close to the latter extreme.

In short, this case raises serious questions about the meaning and application of VARA's definition of qualifying works of visual art—questions with potentially decisive consequences for this and other moral-rights claims. But the Park District has not challenged this aspect of the district court's decision, so we move directly to the question of copyrightability, which is actually where the analysis should start in the first place.

#### 4. Is Wildflower Works copyrightable?

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. See Cronin, *Dead on the Vine*, 12 VAND. J. ENT. & TECH. L. at 239 (“[I]f a work does not evince sufficient original expression to be copyrightable, the work should belong in a category other than ‘visual art’ as this term is contemplated 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. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 347, 346, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991) (“Originality is a constitutional requirement.”); *id.* at 355 (The Copyright Act of 1976 made the originality requirement explicit.); see also *Schrock*, 586 F.3d at 518–19 (“As a constitutional and statutory matter, ‘[t]he sine qua non of copyright is originality.’” (quoting *Feist*, 499 U.S. at 345, 111 S.Ct. 1282)). Despite its centrality in our copyright regime, the threshold for originality is minimal. See *Feist*, 499 U.S. at 345, 111 S.Ct. 1282; *Am. Dental Ass'n v. Delta Dental Plans Ass'n*, 126 F.3d 977, 979 (7th Cir.1997) (“The necessary degree of ‘originality’ is low....”). 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, 111 S.Ct. 1282 (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].” This mistakenly equates originality with novelty; the law is clear that a work can be original even if it is not novel. Feist, 499 U.S. at 345, 111 S.Ct. 1282 (“Originality does not signify novelty; a work may be original even though it closely resembles other works so long as the similarity is fortuitous, not the result of copying.”). No one argues that Wildflower Works was copied; it plainly possesses more than a little creative spark.

The judge was also at a loss to discover “what about the exhibit is original. Is it the elliptical design? The size? The use of native instead of non-native plants? The environmentally-sustainable gardening method to which ‘vegetative management system’ apparently refers?” It is true that common geometric shapes cannot be copyrighted. See U.S. COPYRIGHT OFFICE, COMPENDIUM II: COPYRIGHT OFFICE PRACTICES § 503.02(a)-(b) (1984); 2 PATRY § 4:17 (2010). And “[i]n no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such a work.” 17 U.S.C. § 102(b).

The Park District suggests that Wildflower Works is an uncopyrightable “method” or “system,” and is also ineligible because its design uses simple elliptical shapes. The first of these arguments is not well-developed; the second is misplaced. Although Wildflower Works was designed to be largely self-sustaining (at least initially), it’s not really a “method” or “system” at all. It’s a garden. And Kelley is seeking statutory protection for the garden itself, not any supposed “system” of vegetative management encompassed within it. Regarding the use of elliptical shapes, an author’s expressive combination or arrangement of otherwise noncopyrightable elements (like geometric shapes) may satisfy the originality requirement. Roulo v. Russ Berrie & Co., 886 F.2d 931, 939 (7th Cir.1989); 2 PATRY § 4:17 (Geometric shapes or symbols cannot themselves be protected, but an original creative arrangement of them can be.).

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 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. The Nimmer treatise elaborates:

Fixation in tangible form is not merely a statutory condition to copyright. It is also a constitutional necessity. That is, unless a work is reduced to tangible form it cannot be regarded as a “writing” within the meaning of the constitutional clause authorizing federal copyright legislation. Thus, certain works of conceptual art stand outside of copyright protection.

1 NIMMER § 2.03[B]. A work is “fixed” in a tangible medium of expression “when its embodiment in a copy or phonorecord … is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” 17 U.S.C. § 101. As William Patry explains:

Fixation serves two basic roles: (1) easing problems of proof of creation and infringement, and (2) providing the dividing line between state common law protection and protection under the federal Copyright Act, since works that are not fixed are ineligible for federal protection but may be protected under state law. The distinction between the intangible intellectual property (the work of authorship) and its fixation in a tangible medium of expression (the copy) is an old and fundamental and important one. The distinction may be understood by examples of multiple fixations of the same work: A musical composition may be embodied in sheet music, on an audio-tape, on a compact disc, on a computer hard drive or server, or as part of a motion picture soundtrack. In each of the fixations, the intangible property remains a musical composition.

2 PATRY § 3:22 (internal quotation marks omitted).

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. See *Toney v. L’Oreal USA, Inc.*, 406 F.3d 905, 910 (7th Cir. 2005) (“A person’s likeness—her persona—is not authored and it is not fixed.”); see also *Cronin, Dead on the Vine*, 12 VAND. J. ENT. & TECH. L. at 227–39.

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. Although the planting material is tangible and can be perceived for more than a transitory duration, it is not stable or permanent enough to be called "fixed." 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.

We are not suggesting that copyright attaches only to works that are static or fully permanent (no medium of expression lasts forever), or that artists who incorporate natural or living elements in their work can never claim copyright. Kelley compares Wildflower Works to the Crown Fountain, a sculpture by Spanish artist Jaume Plensa that sits nearby in Chicago's Millennium Park. The surfaces of Plensa's fountain are embedded with LED screens that replay recorded video images of the faces of 1,000 Chicagoans.

See [http://www.explorechicago.org/city/en/things\\_see\\_do/attractions/dca\\_tourism/Crown\\_Fountain.html](http://www.explorechicago.org/city/en/things_see_do/attractions/dca_tourism/Crown_Fountain.html) (last visited Feb. 10, 2011). But the Copyright Act specifically contemplates works that incorporate or consist of sounds or images that are broadcast or transmitted electronically, such as telecasts of sporting events or other live performances, video games, and the like. See 17 U.S.C. § 101 (defining "fixed" as including a "work consisting of sounds, images, or both, that are being transmitted ... if a fixation of the work is being made simultaneously with its transmission"); see also *Balt. Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 675 (7th Cir.1986); *Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009, 1013–14 (7th Cir.1983). Wildflower Works does not fit in this category; the Crown Fountain is not analogous.

Though not addressing the requirement of fixation directly, the district court compared Wildflower Works to "[t]he mobiles of Alexander Calder" and "Jeff Koons' 'Puppy,' a 43-foot flowering topiary." These analogies are also inapt. Although the aesthetic effect of a Calder mobile is attributable in part to its subtle movement in response to air currents, see [http://en.wikipedia.org/wiki/Alexander\\_Calder](http://en.wikipedia.org/wiki/Alexander_Calder) (last visited Feb. 10, 2011), the mobile itself is obviously fixed and stable. In "Puppy" the artist assembled a huge metal frame in the shape of a puppy and covered it with thousands of blooming flowers sustained by an irrigation system within the frame. See [http://en.wikipedia.org/wiki/Jeff\\_Koons](http://en.wikipedia.org/wiki/Jeff_Koons) (last visited Feb. 10, 2011). This may be sufficient fixation for copyright (we venture no opinion

on the question), but Wildflower Works is quite different. It is quintessentially a garden; “Puppy” is not.

In short, Wildflower Works presents serious problems of authorship and fixation that these and other examples of conceptual or kinetic art do not. Because Kelley’s garden is neither “authored” nor “fixed” in the senses required for basic copyright, it cannot qualify for moral-rights protection under VARA.

5. Site-specific art, and the public-presentation and building exceptions  
This case also raises some important questions about the application of VARA to site-specific art, as well as the statute’s public-presentation and building exceptions. Though we need not decide these questions, we do have a few words of caution about the district court’s treatment of the issue of VARA and site-specific art. The court classified Wildflower Works as a form of site-specific art; we see no reason to upset this factual finding. The court then adopted the First Circuit’s holding in Phillips that site-specific art is categorically excluded from VARA. This legal conclusion is open to question.

Phillips involved a VARA claim brought by artist David Phillips in a dispute over a display of 27 of his sculptures in Boston’s Eastport Park across from Boston Harbor. *Phillips v. Pembroke Real Estate, Inc.*, 459 F.3d 128, 130 (1st Cir.2006). A planned redesign of the park called for the removal and relocation of Phillips’s sculptures; he sought an injunction under VARA, claiming the removal of his sculptures would violate his right of integrity. *Id.* at 131. The district court held that although the sculptures qualified as a single integrated work of visual art, park administrators were entitled to remove them under VARA’s public-presentation exception. *Id.* at 138–39. The First Circuit affirmed on alternative grounds, holding that VARA does not apply to any site-specific art.

The court based this holding on a perceived irreconcilable tension between the public-presentation exception and the purpose of site-specific art: “By definition, site-specific art integrates its location as one of its elements. Therefore, the removal of a site-specific work from its location necessarily destroys that work of art.” *Id.* at 140. Under the public-presentation exception, a modification of a work of visual art stemming from a change in its “public presentation, including lighting or placement,” is not actionable unless it is caused by gross negligence. If VARA applied to site-specific art, the First Circuit reasoned, then the statute would “purport[ ] to protect site-specific art” but also “permit its destruction by the application” of the public-presentation exception. *Id.* The court held that “VARA does not protect site-specific art and then permit its destruction by

removal from its site pursuant to the statute's public presentation exception. VARA does not apply to site-specific art at all." Id. at 143.

There are a couple of reasons to question this interpretation of VARA. First, the term "site-specific art" appears nowhere in the statute. Nothing in the definition of a "work of visual art" either explicitly or by implication excludes this form of art from moral-rights protection. Nor does application of the public-presentation exception operate to eliminate every type of protection VARA grants to creators of site-specific art; the exception simply narrows the scope of the statute's protection for all qualifying works of visual art. The exception basically provides a safe harbor for ordinary changes in the public presentation of VARA-qualifying artworks; the artist has no cause of action unless through gross negligence the work is modified, distorted, or destroyed in the process of changing its public presentation.

Second, Phillips's all-or-nothing approach to site-specific art may be unwarranted. Site-specific art is not necessarily destroyed if moved; modified, yes, but not always utterly destroyed. Moreover, some of VARA's protections are unaffected by the public-presentation exception. An artist's right of integrity can be violated in ways that do not implicate the work's location or manner of public presentation; site-specific art—like any other type of art—can be defaced and damaged in ways that do not relate to its public display. And the public-presentation exception does nothing to limit the right of attribution, which prevents an artist's name from being misappropriated.

Then there is the matter of the building exception, which applies to works "incorporated in or made part of a building in such a way that removing the work from the building will cause the destruction, distortion, mutilation, or other modification of the work." 17 U.S.C. § 113(d)(1)(A). These works do not get moral-rights protection if the artist: (1) consented to the installation of his work in the building (if pre-VARA); or (2) executed a written acknowledgment that removal of the work may subject it to destruction, distortion, mutilation, or modification (if post-VARA). Id. § 113(d)(1)(B). On its face this exception covers a particular kind of site-specific art. Its presence in the statute suggests that site-specific art is not categorically excluded from VARA.

These observations are of course general and not dispositive. Because we are resolving the VARA claim on other grounds, we need not decide whether VARA is inapplicable to site-specific art.

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For the foregoing reasons, we AFFIRM the judgment in favor of the Park District on the VARA claim; we REVERSE the judgment in favor of Kelley

on the contract claim and REMAND with instructions to enter judgment for the Park District.

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The following decisions illustrate assessments of copyright damages.

**GASTE V. MORRIS KAISERMAN A/K/A MORRIS ALBERT**

United States Court of Appeals, Second Circuit, 1988.

[863 F.2d 1061.](#)

JON O. NEWMAN, CIRCUIT JUDGE.

[This case involved a copyright suit brought by Louis Gaste, French composer of the 1956 song “Pour Toi,” against the Brazilian composer and singer Morris Kaiserman (known professionally as Morris Albert) as to his 1973 hit “Feelings.” Though “Pour Toi” (which was part of the music score for the movie *Le Feu aux Poudres*) had earned only \$15,000 in revenues over a quarter century, the circuit court upheld the jury’s verdict that “Feelings” had copied the music, though not the lyrics, of “Pour Toi.” A further issue was the appropriateness of a \$268,000 damage award against Fermata International Melodies, the producer and publisher of “Feelings.” (The jury had awarded another \$233,000 against Kaiserman, which the trial judge reduced to \$135,000 to exclude revenues attributable to foreign sources.) Fermata argued that its \$268,000 award (which was based on U.S. revenues from “Feelings”) should be reduced (a) to account for the contribution of the lyrics (not just the music) to “Feelings,” and (b) to allow for the cost of producing and distributing the song.]

\* \* \*

We note preliminarily that the jury apparently made some apportionment of profits to account for the contribution of the lyrics and for the expenses incurred by Fermata. The parties agreed that Fermata’s gross revenues from “Feelings” for the relevant time period were, in round numbers, \$337,000. Although the record is not entirely clear on Kaiserman’s revenue, the relevant figure appears to be \$265,000. The jury found damages in the amount of \$268,000 against Fermata and \$233,000 against Kaiserman. Thus, the jury awarded Gaste approximately 80 percent of Fermata’s gross revenues from “Feelings,” and 88 percent of Kaiserman’s revenues.

The District Court instructed the jury that if it made an apportionment for the lyrics, that apportionment would apply equally to Fermata and to Kaiserman. The jury was also told that only Fermata was entitled to reductions to cover the costs it incurred. Therefore, although we cannot be certain of the jury’s reasoning absent a special verdict, it seems likely that the jury made a 12 percent reduction for both defendants to account for the lyrics and then made a further reduction of 8 percent for

Fermata to account for its costs. With that in mind, we take Fermata's argument to be that the jury did not apportion enough and did not recognize enough of Fermata's costs.

A. *Lyrics.* A successful copyright plaintiff is entitled to recover only those profits that are "attributable to the infringement." 17 U.S.C. § 504(b) (1983). "In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." An infringing defendant is entitled to an apportionment of profits to account for his independent contributions only when "the evidence is sufficient to provide a fair basis of division so as to give the copyright proprietor all the profits that can be deemed to have resulted from the use of what belonged to him." Confronted with imprecision in the computation of expenses, a court should err on the side of guaranteeing the plaintiff a full recovery, but want of precision is not a ground for denying apportionment altogether.

There was no dispute at the trial that Kaiserman wrote the lyrics to "Feelings," and that those lyrics were non-infringing. Fermata and Kaiserman argued to the jury that as much as 80 percent of the income from the song should be attributed to the lyrics.

The evidence on the value of the lyrics was decidedly mixed. Kaiserman's expert, Lou Levy, a retired music publisher, testified that while there was no set rule, the normal practice in the record industry when the lyrics and music to a song are written by different artists is to split the royalties "50/50." He said a well-known lyricist or composer could draw a larger share and that a "bad" lyricist might get as little as 15 percent. Levy testified that he "loved" the song "Feelings" and that he believed the title and lyrics were "far better" than the music itself. Nonetheless, he was unable to recall the words to the song on the stand and yet was able to sing the opening tune. He also said that the music and the words were inseparable and refused to estimate any percentage division.

Defendants also argued at trial that the lyrics must have had some effect because "Pour Toi" had virtually no commercial success, while "Feelings" was a smash hit. On the other hand, there was also evidence that "Dis Lui," a French version of "Feelings" with completely different words, also had considerable success. This could indicate either that the French words were also popular or that it was the music that gave the song its appeal.

We note that in *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 508 F. Supp. 798 (S.D.N.Y. 1981), modified, 722 F.2d 988 (2d Cir. 1983), the District Court determined that three-fourths of the income of the infringing song "My Sweet Lord" was due to the music plagiarized from an earlier hit

song, “He’s So Fine.” The Court deducted 25 percent for the defendant’s contribution of the lyrics to “My Sweet Lord” and for the marketability added to the song by the fact that the defendant was former Beatle George Harrison.

Judge Conner, contrasting this case to *ABKCO* and declining to alter the jury’s damage award, noted that Kaiserman, a virtual unknown before “Feelings,” did not independently add the selling power of a Harrison. On the other hand, Fermata points out that the music to “Pour Toi” did not have the independently confirmed selling power of the music to “He’s So Fine,” which had been a No. 1 song in its own right.

We find no grounds to reject the jury’s decision to apportion no more than 12 percent for the lyrics. . . . The jury had an opportunity to judge for itself the independent appeal of the lyrics and the music. The evidence of the varied success of the three songs with the same music—“Feelings,” “Pour Toi,” and “Dis Lui”—could reasonably have been interpreted as favoring either side. . . .

B. *Fermata’s Costs.* [T]he jury appears to have subtracted approximately 8 percent from Fermata’s revenues to account for Fermata’s costs related to “Feelings,” in addition to the 12 percent deduction for the lyrics. Fermata argues that the jury’s verdict was contrary to the evidence. . . .

Again, we decline to overturn the jury’s verdict. . . . Fermata’s evidence of its costs was sorely lacking in documentation. . . . The jury here did not act unreasonably in rejecting estimates of costs that were not fully documented.

We also reject Fermata’s contention that nearly 90 percent of its costs must be attributed to “Feelings” because “Feelings” brought in nearly 90 percent of the company’s revenues. In a very similar case, we held that “‘overhead’ which does not assist in the production of the infringement should not be credited to the infringer; that which does, should be; it is a question of fact in all cases,” *Wilkie v. Santly Bros.*, 139 F.2d 264, 265 (2d Cir. 1943). In *Wilkie*, a music publisher found liable for infringement also sought to attribute nearly all of his costs to the infringing song because it was by far his biggest seller. The Court found no reason not to allocate the costs equally across all 47 songs the publisher published, because it was shown that the better selling songs were not more responsible for the overhead costs than the others.

Here, Fermata published some 200 songs in addition to “Feelings.” It was Fermata’s burden to prove that its overhead was nonetheless attributable mainly to “Feelings.” . . . In *Sygma Photo News v. High Society Magazine*, 778 F.2d 89, 95 (2d Cir. 1985), we held that even when defendants had not been able to establish their costs with precision, they should be able to deduct the minimum amount they in all likelihood spent.

The jury's decision to allow Fermata only an 8 percent reduction for its costs is not inconsistent with that rule.

Affirmed.

## 2. ATTORNEY FEES

### **FOGERTY V. FANTASY, INC.**

Supreme Court of the United States, 1994.

[510 U.S. 517, 114 S.Ct. 1023, 127 L.Ed.2d 455.](#)

CHIEF JUSTICE REHNQUIST delivered the opinion of the Court.

\* \* \*

Respondent advances three arguments in support of the dual standard followed by the Court of Appeals for the Ninth Circuit in this case. First, it contends that the language of § 505, when read in the light of our decisions construing similar fee-shifting language, supports the rule. Second, it asserts that treating prevailing plaintiffs and defendants differently comports with the “objectives” and “equitable considerations” underlying the Copyright Act as a whole. Finally, respondent contends that the legislative history of § 505 indicates that Congress ratified the dual standard which it claims was “uniformly” followed by the lower courts under identical language in the 1909 Copyright Act. We address each of these arguments in turn.

The statutory language—“the court may also award a reasonable attorney’s fee to the prevailing party as part of the costs”—gives no hint that successful plaintiffs are to be treated differently than successful defendants. But respondent contends that our decision in [\*Christiansburg Garment Co. v. EEOC\*, 434 U.S. 412 \(1978\)](#), in which we construed virtually identical language, supports a differentiation in treatment between plaintiffs and defendants.

*Christiansburg* construed the language of Title VII of the Civil Rights Act of 1964, which in relevant part provided that the court “in its discretion, may allow the prevailing party . . . a reasonable attorney’s fee as part of the costs. . . .” [42 U.S.C. § 2000e–5\(k\)](#). We had earlier held, interpreting the cognate provision of Title II of that Act, that a prevailing plaintiff “should ordinarily recover an attorney’s fee unless some special circumstances would render such an award unjust.” [\*Newman v. Piggie Park Enterprises, Inc.\*, 390 U.S. 400, 402 \(1968\)](#). This decision was based on what we found to be the important policy objectives of the Civil Rights statutes, and the intent of Congress to achieve such objectives through the use of plaintiffs as “‘private attorneys general.’” In *Christiansburg*, *supra*, we determined that the same policy considerations were not at work in the case of a

prevailing civil rights defendant. We noted that a Title VII plaintiff, like a Title II plaintiff in *Piggie Park*, is “the chosen instrument of Congress to vindicate ‘a policy that Congress considered of the highest priority.’” We also relied on the admittedly sparse legislative history to indicate that different standards were to be applied to successful plaintiffs than to successful defendants.

Respondent points to our language in *Flight Attendants v. Zipes*, 491 U.S. 754, 758, n. 2 (1989), that “fee-shifting statutes’ similar language is a ‘strong indication’ that they are to be interpreted alike.” But here we think this normal indication is overborne by the factors relied upon in our *Christiansburg* opinion which are absent in the case of the Copyright Act. The legislative history of § 505 provides no support for treating prevailing plaintiffs and defendants differently with respect to the recovery of attorney’s fees. The attorney’s fees provision § 505 of the 1976 Act was carried forward verbatim from the 1909 Act with very little discussion. The relevant House Report provides simply:

“Under section 505 the awarding of costs and attorney’s fees are left to the court’s discretion, and the section also makes clear that neither costs nor attorney’s fees can be awarded to or against ‘the United States or an officer thereof.’”

\* \* \*

The goals and objectives of the two Acts are likewise not completely similar. Oftentimes, in the civil rights context, impecunious “private attorney general” plaintiffs can ill afford to litigate their claims against defendants with more resources. Congress sought to redress this balance in part, and to provide incentives for the bringing of meritorious lawsuits, by treating successful plaintiffs more favorably than successful defendants in terms of the award of attorney’s fees. The primary objective of the Copyright Act is to encourage the production of original literary, artistic, and musical expression for the good of the public. In the copyright context, it has been noted that “entities which sue for copyright infringement as plaintiffs can run the gamut from corporate behemoths to starving artists; the same is true of prospective copyright infringement defendants.”

We thus conclude that respondent’s argument based on our fee-shifting decisions under the Civil Rights Act must fail.

Respondent next argues that the policies and objectives of § 505 and of the Copyright Act in general are best served by the “dual approach” to the award of attorney’s fees.<sup>13</sup> The most common reason advanced in support

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<sup>13</sup> Respondent points to four important interests allegedly advanced by the dual standard: (1) it promotes the vigorous enforcement of the Copyright Act; (2) it distinguishes between the wrongdoers and the blameless; (3) it enhances the predictability and certainty in copyrights by providing a relatively certain benchmark for the award of attorney’s fees; and (4) it affords copyright defendants sufficient incentives to litigate their defenses.

of the dual approach is that, by awarding attorney's fees to prevailing plaintiffs as a matter of course, it encourages litigation of meritorious claims of copyright infringement . . . Indeed, respondent relies heavily on this argument. We think the argument is flawed because it expresses a one-sided view of the purposes of the Copyright Act. While it is true that one of the goals of the Copyright Act is to discourage infringement, it is by no means the only goal of that Act. In the first place, it is by no means always the case that the plaintiff in an infringement action is the only holder of a copyright; often times, defendants hold copyrights too, as exemplified in the case at hand.

More importantly, the policies served by the Copyright Act are more complex, more measured, than simply maximizing the number of meritorious suits for copyright infringement. The Constitution grants to Congress the power "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const., Art. I, § 8, cl. 8. We have often recognized the monopoly privileges that Congress has authorized, while "intended to motivate the creative activity of authors and inventors by the provision of a special reward," are limited in nature and must ultimately serve the public good. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

\* \* \*

Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement. In the case before us, the successful defense of "The Old Man Down the Road" increased public exposure to a musical work that could, as a result, lead to further creative pieces. Thus a successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.

\* \* \*

[After analyzing and rejecting Fantasy's argument that the legislative history of § 505 supported the dual standard for awarding attorney fees, the Court turned to Fogerty's] argument that § 505 was intended to adopt the "British Rule." Petitioner argues that, consistent with the neutral language of § 505, both prevailing plaintiffs and defendants should be awarded attorney's fees as a matter of course, absent exceptional circumstances. For two reasons we reject this argument. . . .

First, just as the plain language of § 505 supports petitioner's claim for disapproving the dual standard, it cuts against him in arguing for the British Rule. The statute says that "the court may also award a reasonable attorney's fee to the prevailing party as part of the costs." The word "may" clearly connotes discretion. The automatic awarding of attorney's fees to the prevailing party would prepermit the exercise of that discretion.

Second, we are mindful that Congress legislates against the strong background of the American Rule. Unlike Britain where counsel fees are regularly awarded to the prevailing party, it is the general rule in this country that unless Congress provides otherwise, parties are to bear their own attorney's fees. . . .

Thus we reject both the "dual standard" adopted by several of the Courts of Appeals, and petitioner's claim that § 505 enacted the British Rule for automatic recovery of attorney's fees by the prevailing party. Prevailing plaintiffs and prevailing defendants are to be treated alike, but attorney's fees are to be awarded to prevailing parties only as a matter of the court's discretion. "There is no precise rule or formula for making these determinations," but instead equitable discretion should be exercised "in light of the considerations we have identified." *Hensley v. Eckerhart*, 461 U.S. 424, 436–437 (1983). Because the Court of Appeals erroneously held petitioner, the prevailing defendant, to a more stringent standard than that applicable to a prevailing plaintiff, its judgment is reversed and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

BOUCHAT v. BALTIMORE RAVENS FOOTBALL CLUB,  
INCORPORATED

United States Court of Appeals, Fourth Circuit.

Oct. 8, 2003.

346 F.3d 514

**KING**, Circuit Judge:

This appeal arises from the damages phase of a protracted copyright dispute involving the Baltimore Ravens football team. Frederick Bouchat, the holder of the infringed copyright, raises several challenges to the district court's conduct of proceedings that culminated in a jury verdict finding him entitled to no portion of the infringers' profits. In particular, Bouchat asserts that the court erroneously failed to accord him the benefit

of a statutory presumption that an infringer's revenues are entirely attributable to the infringement. For the reasons explained below, we affirm.

## I.

On November 6, 1995, the National Football League ("NFL") announced that one of its teams, the Cleveland Browns, would shortly be moving to Baltimore. The team was to leave its entire Browns identity in Cleveland, and thus would need a new name and logo when it moved to its new Maryland home. Bouchat, a Baltimore security guard and amateur artist, became interested in the new team, and he began drawing logo designs based on the various names that the team was considering, including the name "Ravens." On or about December 5, 1995, Bouchat created a drawing of a winged shield (the "Shield Drawing") as a "Ravens" logo.

In March of 1996, the Baltimore team adopted the name "Ravens." In early April, Bouchat sent the Shield Drawing via fax to the Maryland Stadium Authority. Beside the Shield Drawing, Bouchat penned a note asking the Chairman of the Authority to send the sketch to the Ravens' president. Bouchat also requested that if the Ravens used the Shield Drawing, they send him a letter of recognition and an autographed helmet.

In a jury trial on the issue of liability, Bouchat's Shield Drawing was found to have been mistakenly used by National Football League Properties, Inc. ("NFLP") in NFLP's production of the Ravens' new logo, the "Flying B." The Ravens had no knowledge that the NFLP had infringed anyone's work and assumed that the Flying B was an original work owned by NFLP. The Ravens used the Flying B as their primary identifying symbol, and the logo appeared in every aspect of the Ravens' activities, including uniforms, stationery, tickets, banners, on-field insignia, and merchandise.

## II.

On May 8, 1997, Bouchat filed suit in the District of Maryland, alleging that the Ravens and NFLP (collectively, the "Defendants") had infringed his copyright on the Shield Drawing and on several other drawings, and seeking ten million dollars in damages. The court bifurcated the case and first tried the liability issues. On November 3, 1998, the jury found that Bouchat had proven infringement of the Shield Drawing. [After appeals, the case was returned to the district court for trial on the damages.] \*\*\*\*

Bouchat sought damages from the Ravens and NFLP pursuant to [17 U.S.C.](#)

§ 504(a)(1), which renders an infringer liable for “the copyright owner’s actual damages and any additional profits of the infringer, as provided by [17 U.S.C. § 504(b)].” Section 504(b), in turn, entitles the copyright owner to recover both “the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.” 17 U.S.C. § 504(b). Because Bouchat made no claim for actual damages, the sole question presented for resolution in the damages trial was the amount, if any, of the Defendants’ profits that was attributable to the infringement.

In his complaint, Bouchat contended that some portion of essentially *all* of the Defendants’ revenues was attributable to the infringing use of Bouchat’s artwork. To satisfy his initial burden under § 504(b), Bouchat presented evidence of the gross receipts from all NFLP and Ravens activities. The district court, however, awarded partial summary judgment to the Defendants with respect to all revenues derived from sources other than (1) sales of merchandise bearing the Flying B logo, and (2) royalties obtained from licensees who sold such merchandise (collectively, the “Merchandise Revenues”). The court reasoned that “[i]f the use of the Flying B logo to designate the Ravens could not reasonably be found to have affected the amount of revenue obtained from an activity, the revenue from that activity could not reasonably be found attributable to the infringement.” *Id.* at 617–18. Concluding that only the Merchandise Revenues could reasonably be found to have been affected by the Defendants’ unlawful use of the Flying B, the court excluded, as a matter of law, the remainder of the Defendants’ revenues (collectively, the “Non-Merchandise Revenues”) from the pool of income that the jury could consider in awarding § 504 damages.

At the close of discovery, the district court further narrowed the scope of the Defendants’ revenues from which the jury would be permitted to award § 504 damages, when it excluded certain portions of the Merchandise Revenues. Specifically, the court awarded partial summary judgment to the Defendants as to Bouchat’s claims for profits from “minimum guarantee shortfalls,” “free merchandise,” trading cards, video games, and game programs (collectively, the “Excluded Merchandise Revenues”). \*\*\*

The damages trial was conducted over a period of six days, \*\*\* and the jury was asked to decide whether the Defendants had proven, by a preponderance of the evidence, that the Non-Excluded Merchandise Revenues were attributable entirely to factors other than the Defendants’ infringement of Bouchat’s copyright. If the jury found that they were not, then it was charged to decide the percentage of the Non-Excluded Merchandise Revenues attributable to factors other than the infringement.

After a full day of deliberations, the jury answered the first question in the affirmative, thereby denying Bouchat any monetary recovery. On July 26, 2002, the court entered judgment on the jury verdict. \*\*\*

### III.

#### A.

Bouchat's primary contention on appeal is that the district court erred in awarding partial summary judgment to the Defendants with respect to certain portions of the Defendants' revenues. In particular, Bouchat asserts that the court failed to give him the benefit of the § 504 statutory presumption that an infringer's revenues are entirely attributable to the infringement. That presumption, he maintains, creates a question of material fact that cannot be resolved on summary judgment. Thus, he asserts, whether any portion of an infringer's revenues are attributable to some source other than the infringement is a question that can be resolved only by a jury. As explained below, we disagree.

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#### 2.

Bouchat seeks to recover damages pursuant to 17 U.S.C. § 504(b) for the Defendants' infringement of his copyright. Section 504(b) entitles a successful copyright plaintiff to recover "any profits of the infringer that are attributable to the infringement." 17 U.S.C. § 504(b). The statute goes on to specify that,

[i]n establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

Thus, § 504(b) creates an initial presumption that the infringer's "profits ... attributable to the infringement" are equal to the infringer's gross revenue. See *Konor Enters., Inc. v. Eagle Publ'ns, Inc.*, 878 F.2d 138, 140 (4th Cir.1989). Once the copyright owner has established the amount of the infringer's gross revenues, the burden shifts to the infringer to prove either that part or all of those revenues are "deductible expenses" (i.e., are not profits), or that they are "attributable to factors other than the copyrighted work." *Id.* Although § 504(b) places the burden on the infringer to

demonstrate that certain portions of its revenues were due to factors other than the infringement, the infringer need not prove these amounts with mathematical precision. See *Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826, 828–29 (9th Cir.1985).

### 3.

Despite the existence of § 504(b)'s burden-shifting provision, summary judgment in favor of an infringer with respect to some portion of the infringer's gross revenues may, in the proper circumstances, be appropriate. Though our Court has not spoken directly on this point, several of our sister circuits have awarded partial summary judgment to infringers, excluding as a matter of law certain portions of an infringer's revenues from the jury's § 504(b) attributability inquiry. Furthermore, an award of partial summary judgment to an infringer with respect to particular categories of revenue comports, in the proper circumstances, with the basic tenets of our Rule 56 jurisprudence.

#### a.

We begin by looking to the decisions of our sister circuits. The § 504(b) cases in which partial summary judgment in favor of an infringer with respect to part, or all, of the infringer's revenues has been found proper, fall roughly into two categories: (1) those in which there existed no conceivable connection between the infringement and a given revenue stream; and (2) those in which, despite the existence of a conceivable link, the plaintiff failed to offer anything more than mere speculation as to the existence of a causal connection between the infringement and the claimed revenues. \*\*\*

A party opposing a properly supported motion for summary judgment “may not rest upon the mere allegations or denials of [his] pleadings,” but rather must “set forth specific facts showing that there is a genuine issue for trial.” Fed.R.Civ.P. 56(e); see *Matsushita Elec. Indus. Co.*, 475 U.S. at 586–87, 106 S.Ct. 1348 (holding that, once motion for summary judgment is properly made and supported, opposing party bears burden of showing, by means of affidavits or other verified evidence, that genuine dispute of material fact exists); *Cray Communications, Inc. v. Novatel Computer Sys., Inc.*, 33 F.3d 390, 393–94 (4th Cir.1994). Furthermore, neither “[u]nsupported speculation,” *Felty*, 818 F.2d at 1128, nor evidence that is “merely colorable” or “not significantly probative,” *Anderson*, 477 U.S. at 249, 106 S.Ct. 2505, will suffice to defeat a motion for summary judgment; rather, if the adverse party fails to bring forth facts showing that “reasonable minds could differ” on a material point, *id.* at 250, 106 S.Ct. 2505, then, regardless of “[a]ny proof or evidentiary requirements imposed by the substantive law,” *id.* at 248, 106 S.Ct. 2505, “summary judgment, if appropriate, shall

be entered,” Fed.R.Civ.P. 56(e).

These general principles only further highlight the propriety of an award of summary judgment under circumstances such as those presented in *On Davis* and *Mackie*. Despite § 504(b)’s presumption that the recoverable “profits … attributable to the infringement” are equal to the infringer’s gross revenues, the statute does not exempt the copyright plaintiff from the requirement of Rule 56 that he respond to a properly supported motion for summary judgment by “set[ting] forth specific facts showing that there is a genuine issue for trial.” Fed.R.Civ.P. 56(e). Should the plaintiff fail so to respond—whether that failure is due to the absence of any conceivable connection between the infringement and the claimed revenues, or instead simply due to the plaintiff’s inability to muster nonspeculative evidence in support of the alleged causal link—then summary judgment may properly be awarded to the infringer with respect to part or all of the contested revenues.

c.

In sum, we conclude that the Defendants could properly be awarded summary judgment with respect to any given revenue stream if either (1) there exists no conceivable connection between the infringement and those revenues; or (2) despite the existence of a conceivable connection, Bouchat offered only speculation as to the existence of a causal link between the infringement and the revenues. It is to these inquiries that we turn next.

4.

The Defendants derive revenues from six major sources: (1) sponsorships; (2) broadcast and other media licenses; (3) sale of tickets; (4) miscellaneous business activities, which appear to include provision of game-day stadium parking; (5) sale of official team merchandise; and (6) royalties from licensees who sell official team merchandise. The first four of these sources we characterize as the “Non-Merchandise Revenues,” while the fifth and sixth are the “Merchandise Revenues.” To briefly review the history relevant to this appeal: Early in the case, the court awarded partial summary judgment to the Defendants with respect to the Non-Merchandise Revenues, leaving the Merchandise Revenues for later consideration. Subsequently, the court awarded partial summary judgment to the Defendants with respect to certain portions of the Merchandise Revenues, to wit, the revenue received from: “minimum guarantee shortfalls”; “free merchandise”; trading cards; video games; and game programs.

Bouchat contends that, because of the Defendants’ widespread use of the

Flying B as the primary logo—and as an integral marketing tool—for the Baltimore Ravens, some portion of the revenues that the Defendants earned from both the Non-Merchandise Revenues and the Excluded Merchandise Revenues is attributable to the Defendants' infringement of his copyright. When the district court awarded summary judgment to the Defendants as to large segments of their revenues, however, it denied Bouchat the opportunity to prove this contention to the jury. Despite the fact that § 504(b) places on the infringer the burden of proving that revenues are not attributable to the infringement, summary judgment was appropriate with respect to both the Non-Merchandise Revenues and the Excluded Merchandise Revenues.

As detailed above, we analyze the excluded revenue streams in two steps. We first consider whether any of the Non-Merchandise Revenues and the Excluded Merchandise Revenues lacked a conceivable connection to the infringement. If so, summary judgment in favor of the Defendants with respect to those revenues was proper. Turning then to the remaining excluded revenues, we inquire whether, despite the existence of a conceivable connection between those revenues and the infringement, Bouchat offered only speculative evidence of such a causal link in response to a properly supported motion for summary judgment. If so, then summary judgment in favor of the Defendants was appropriate with respect to these revenues as well.

a.

Of all the excluded revenues, only the revenues from minimum guarantee shortfalls and free merchandise lack all conceivable connection to the Defendants' infringement of Bouchat's copyright. Because no rational trier of fact could find that these two subcategories of the Excluded Merchandise Revenues were affected by the Defendants' adoption of the infringing Flying B logo, the court properly removed them from the pool of Defendants' revenues submitted to the jury for consideration under § 504(b).

The levels of each licensee's minimum guarantee and free merchandise obligation were established, *ex ante*, by the terms of the licensee's contract with NFLP; neither figure could fluctuate in response to consumer behavior. As a consequence, the amount of revenue that the Defendants received in the form of minimum guarantee shortfalls and free merchandise was necessarily independent of any reaction that any individual might have had to the Flying B logo. Whereas it is at least hypothetically possible (albeit highly unlikely) that an individual became so enamored of the infringing aspects of the Flying B logo that he was thus

inspired to purchase tickets for the Ravens' games, to pay for parking, to buy non-logo-bearing concessions, and thus to boost the Defendants' revenues from these sources, a similar scenario cannot be conjured with respect to revenues whose levels were fixed and immutable before licensees had an opportunity to stock their shelves with logo-bearing goods. No rational trier of fact could find that the infringing Flying B logo enabled the defendants to generate more income from these two sources than they would otherwise have done. Because no portion of the Defendants' gross revenues from minimum guarantee shortfalls and free merchandise could be attributable to the infringement of Bouchat's copyright, the court did not err in awarding summary judgment to the Defendants with respect to these two sub-categories of the Excluded Merchandise Revenues.

b.

Having concluded that summary judgment in favor of the Defendants was proper with respect to both the minimum guarantee short-falls and the free merchandise, we turn now to the Non-Merchandise Revenues and the remaining sub-categories of the Excluded Merchandise Revenues (i.e., the revenues from trading cards, video games, and game programs). Our inquiry on this point is whether, despite the existence of a conceivable connection between the infringement and the level of revenue that the Defendants earned from these sources, the court was correct in excluding them through summary judgment. Because Bouchat offered only speculative evidence of a causal link between the infringement and the level of the revenues that the Defendants earned from these sources, and because the Defendants' request for summary judgment was supported by unrebutted evidence demonstrating that these revenues were not, in fact, in any way attributable to the infringement, there was no issue of material fact for consideration by the jury. As a result, the court did not err in awarding summary judgment to the Defendants with respect to these remaining categories of revenue.

When they moved for summary judgment, the Defendants successfully carried their initial burden of demonstrating the absence of a genuine issue of material fact. See *Celotex Corp.*, 477 U.S. at 323, 106 S.Ct. 2548. In support of their initial motion for summary judgment, the Defendants proffered affidavits showing that Non-Merchandise Revenues are driven by business and consumer interest in NFL football, and are in no way responsive to logo design. In support of their subsequent summary judgment motion, the Defendants again proffered numerous affidavits, this time showing that sales of trading cards, video games, and game programs are driven by consumer interest in NFL football, and likewise are in no way responsive to logo design. The supporting affidavits established beyond

reasonable debate that neither any portion of the Defendants' Non-Merchandise Revenues, nor any portion of their revenues from trading cards, video games, or game programs, was attributable to the Defendants' selection and use of the infringing Flying B rather than some other logo.

Having met their initial burden, the Defendants successfully shifted the onus onto Bouchat to come forward and demonstrate that such an issue does, in fact, exist. See *Matsushita Elec. Indus. Co.*, 475 U.S. at 586–87, 106 S.Ct. 1348. A party opposing a properly supported motion for summary judgment "may not rest upon the mere allegations or denials of [his] pleadings," but rather must "set forth specific facts showing that there is a genuine issue for trial." Fed.R.Civ.P. 56(e). Bouchat, however, produced no specific facts showing that there was a genuine issue for trial; in fact, he declined to respond to the summary judgment motions with any evidence at all, resting instead on his initial, and sole, evidentiary proffer: the total receipts generated by all NFLP and Ravens activities. Because Bouchat failed to offer any nonspeculative evidence demonstrating the existence of a genuine dispute of material fact, the court appropriately awarded summary judgment to the Defendants on the ground that the Non-Merchandise Revenues and the revenues from trading cards, video games, and game programs could not reasonably be found attributable to the infringement.

In sum, the Defendants established in their motions for summary judgment that there existed no causal link between their adoption of the infringing Flying B logo and either the Defendants' Non-Merchandise Revenues or their revenues from trading cards, video games, or game programs. In response, Bouchat rested on his speculation that somehow, somewhere, some part of the Defendants' revenues from these sources was influenced by the fact that the Defendants selected the Flying B rather than some other logo. However, because "[u]nsupported speculation is not sufficient to defeat a summary judgment motion," *Felty*, 818 F.2d at 1128, the court properly awarded summary judgment to the Defendants both with respect to the Non-Merchandise Revenues and with respect to the revenues from sales of trading cards, video games, and game programs.

c.

It is the "affirmative obligation of the trial judge to prevent factually unsupported claims and defenses from proceeding to trial." *Drewitt v. Pratt*, 999 F.2d 774, 778–79 (4th Cir.1993) (internal quotation marks omitted). Once the Defendants had carried their initial burden of demonstrating the absence of any genuine issue of material fact regarding the attributability of the contested revenues, Bouchat could survive the

motion for summary judgment only by adducing specific, non-speculative evidence supporting the existence of a link between the infringement and the Defendants' supposedly enhanced revenues. Because Bouchat failed to make such a showing, the court properly awarded summary judgment to the Defendants.

## B.

Finally, Bouchat contends that the district court, in its instructions to the jury, failed to accord him the full benefit of the statutory presumption contained in § 504(b). Specifically, Bouchat maintains that the court abused its discretion by failing to make clear to the jury that the Ravens bore the burden of proof in the damages trial. To the contrary, the court made it eminently clear in its instructions that the Ravens were obliged to shoulder the burden of proof. *See, e.g.*, J.A. 563–65 (stating to jury, at the outset of trial, that “[i]n this case, the burden of proof is on the *defendants* to prove the extent to which the revenue derived from the sale of these products is attributable to factors other than the art work of the Flying B logo.... Question one [of the Verdict form] asks, have *defendants* proven by a preponderance of the evidence that income derived by defendants from the sale of products bearing the Flying B logo was attributable completely to factors other than the art work of the Flying B logo.”(emphasis added)); J.A. 903 (instructing jury immediately prior to deliberations that “[t]he case is about whether on the evidence the defendants ... have carried their burden of proof.... On those questions the *defendants* have the burden of proof by a preponderance of the evidence.” (emphasis added)).

This burden of proof point was further emphasized by the first question on the Verdict form tendered to the jury by the court, reading “Have the *Defendants* proven by a preponderance of the evidence that income derived by the Defendants from the sale of products bearing the Flying B logo was attributable completely to factors other than the art work of the Flying B logo?” J.A. 564–65 (emphasis added). Viewed in context, the instructions plainly informed the jury of the controlling legal principles; the court therefore did not abuse its discretion.

\*\*\*

**AFFIRMED**

**WIDENER**, Circuit Judge, dissenting:

I respectfully dissent. I am of opinion that the district court erred by

refusing to instruct the jury that the defendants' profits are deemed attributable to the alleged copyright infringement unless the defendants prove otherwise. \*\*\*

***FRANK MUSIC CORP V. METRO-GOLDWYN-MAYER INC.***

United States Court of Appeals, Ninth Circuit

Sept. 27, 1989.  
886 F.2d 1545

FLETCHER, Circuit Judge:

In Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505 (9th Cir.1985) (Frank Music I ), we affirmed the district court's holding that defendants infringed plaintiffs' copyright in the dramatico-musical play Kismet, but remanded for reconsideration of the amount of profits attributable to the infringement and for consideration of whether defendants Donn Arden and Metro-Goldwyn-Mayer, Inc. (MGM, Inc.) should be liable in addition to MGM Grand Hotel, Inc. (MGM Grand). On remand, the district court awarded plaintiffs \$343,724 against MGM Grand, dismissed the action against MGM, Inc. and Arden, and awarded plaintiffs \$115,000 in attorney's fees. Plaintiffs appeal and defendants cross-appeal. We affirm in part, reverse in part, and remand.

I. FACTS

The facts are fully set out in Frank Music I, 772 F.2d at 509–11. We reiterate only selectively. Plaintiffs are the copyright owners and authors of Kismet, a dramatico-musical work. MGM, Inc. under license produced a musical motion picture version of Kismet. Beginning April 26, 1974, MGM Grand presented a musical revue entitled Hallelujah Hollywood in the hotel's Ziegfeld Theatre. Hallelujah Hollywood was largely created by an employee of MGM Grand, Donn Arden, who also staged, produced and directed the show. The show comprised ten acts, four billed as "tributes" to MGM motion pictures. Act IV was entitled "Kismet", and was a tribute to the MGM movie of that name. It was based almost entirely on music from Kismet, and used characters and settings from that musical. Act IV "Kismet" was performed approximately 1700 times, until July 16, 1976, when, under pressure resulting from this litigation, MGM Grand substituted a new Act IV.

Plaintiffs filed suit, alleging copyright infringement, unfair competition, and breach of contract. In Frank Music I, we affirmed the district court's

conclusion that the use of *Kismet* in *Hallelujah Hollywood* was beyond the scope of MGM Grand's ASCAP license and infringed plaintiffs' copyright. In this appeal, the parties focus on the adequacy of damages and attorney's fees.

## II. DISCUSSION

### A. Apportionment of Profits

#### 1. Direct Profits

In *Frank Music I*, 772 F.2d at 514, we upheld the district court's conclusion that the plaintiffs failed to prove actual damages arising from the infringement, but vacated the district court's award of \$22,000 in apportioned profits as "grossly inadequate," and remanded to the district court for reconsideration.

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

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

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

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

If the district court relied exclusively on a quantitative comparison and failed to consider the relative quality or drawing power of the show's various component parts, it erred. See *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 508 F.Supp. 798, 800 (S.D.N.Y.1981), modified on other grounds, 722 F.2d 988 (2d Cir.1983). However, the district court's apportionment based on comparative durations would be appropriate if the

district court implicitly concluded that all the acts of the show were of roughly equal value. Cf. *Frank Music I*, 772 F.2d at 518 (“Each element contributed significantly to the show’s success, but no one element was the sole or overriding reason for that success.”) While a more precise statement of the district court’s reasons would have been desirable, we find support in the record for the conclusion that all the acts in the show were of substantially equal value.

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

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

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

While it was not inappropriate to consider the creativity of producers, performers and others involved in staging and adapting excerpts from *Kismet* for use in *Hallelujah Hollywood*, the district court erred in weighing these contributions so heavily. In performing the apportionment, the benefit of the doubt must always be given to the plaintiff, not the defendant. *Sheldon*, 106 F.2d at 51. And while the apportionment may take into account the role of uncopyrightable elements of a work in generating that work’s profits, see *Sheldon*, 106 F.2d at 50–51 (considering role of movie’s actors, scenery, producers and directors); cf. *McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 320 (9th Cir.1987) (substantial similarity analysis can include examination of uncopyrightable elements), the apportionment should not place too high a value on the defendants’ staging of the work, at the expense of undervaluing the plaintiffs’ more substantive creative contributions. Production contributions involving expensive costumes and

lavish sets will largely be taken into account when deducting the defendants' costs. Indeed, defendants concede that had they produced *Kismet* in toto, it would have been proper for the district court to award 100% of their profits, despite their own creative efforts in staging such a production.

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

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

## 2. Indirect Profits

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

### B. Prejudgment Interest

The district court, without comment, declined to award prejudgment interest. The availability of prejudgment interest under the Copyright Act of 1909 is an issue of first impression in this circuit.

The 1909 Act does not mention prejudgment interest. Nevertheless, courts may allow prejudgment interest even though the governing statute is silent. *Rodgers v. United States*, 332 U.S. 371, 373 (1947). “[A] persuasive consideration … is the relative equities between the beneficiaries of the obligation and those upon whom it has been imposed.” The goal of compensating the injured party fairly for the loss caused by the defendant’s breach of the statutory obligation should be kept in mind. Prejudgment interest compensates the injured party for the loss of the use of money he would otherwise have had.

Defendants argue that Congress did not intend for prejudgment interest to be available under the 1909 Act. They ask us to infer this from the inclusion of prejudgment interest in the Patent Act, 35 U.S.C. § 284 (1982), and the omission of reference to prejudgment interest in either the 1909 Act or the Copyright Act of 1976. Because the Patent and Copyright Acts are similar statutes with similar purposes, defendants argue that differences between the two Acts with respect to prejudgment interest are intentional. Cf. *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 435, 439 (1984) (patent law appropriate source of guidance for novel copyright issues, but noting that doctrine of contributory infringement applies in copyright cases, where the statute is silent, as well as in patent cases, where the statute specifically refers to contributory infringers).

Examination of the history of prejudgment interest in the patent context suggests this argument is flawed. Before Congress enacted 35 U.S.C. § 284, prejudgment interest was generally available in patent infringement cases from the date damages were liquidated, and in exceptional cases from the date of infringement. See, e.g., *Duplicate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448, 459 (1936); *Tilghman v. Proctor*, 125 U.S. 136, 160 (1888). Such a remedy was available despite the fact that the patent laws then in effect made no mention of prejudgment interest. Indeed, the wording of the relevant patent statute was similar to that of § 101(b) of the 1909 Copyright Act.

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

Estate of Wirtz, 807 F.2d 520, 584 (7th Cir.1986) (“The denial of prejudgment interest systematically undercompensates victims and underdeters putative offenders.”) (Easterbrook, dissenting).

We therefore hold that prejudgment interest is an available remedy under the 1909 Act. Whether the circumstances of this case warrant the remedy is a separate question. The common-law rule during much of the effective period of the 1909 Act awarded prejudgment interest only on damages that were liquidated or readily ascertainable by mathematical computations and did not rely on opinion or discretion. See, e.g., General Motors, 461 U.S. at 651–52 & n. 5 (discussing history of common law rule). But even where damages were not liquidated or readily ascertainable, courts had the power to award prejudgment interest on unliquidated damages when necessary to compensate the plaintiff fairly. Miller v. Robertson, 266 U.S. 243, 258, 45 S.Ct. 73, 79 (1924).

Because the 1909 Act allows plaintiffs to recover only the greater of the defendant’s profits or the plaintiff’s actual damages, see Frank Music I, 772 F.2d at 512; Sid & Marty Krofft Television Productions, Inc. v. McDonald’s Corp., 562 F.2d 1157, 1176 (9th Cir.1977), an award of profits or damages under the 1909 Act will not necessarily be adequate to compensate a prevailing copyright owner. Accordingly, we conclude prejudgment interest ordinarily should be awarded.

Awarding prejudgment interest on the apportioned share of defendant’s profits is consistent with the purposes underlying the profits remedy. Profits are awarded to the plaintiff not only to compensate for the plaintiff’s injury, but also and primarily to prevent the defendant from being unjustly enriched by its infringing use of the plaintiff’s property. See Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390, 399 (1940); D. Dobbs, *Handbook on the Law of Remedies* 1 (1973). For the restitutionary purpose of this remedy to be served fully, the defendant generally should be required to turn over to the plaintiff not only the profits made from the use of his property, but also the interest on these profits, which can well exceed the profits themselves. See D. Dobbs, *supra*, at 169–70; Fishman, 807 F.2d at 583–84 (giving examples of the effect of compound interest to demonstrate how “the time value of money works in defendants’ favor.”) (Easterbrook, dissenting). Indeed, one way to view this interest is as another form of indirect profit accruing from the infringement, which should be turned over to the copyright owner along with other forms of indirect profit. It would be anomalous to hold that a plaintiff can recover, for example, profits derived from the promotional use of its copyrighted material, but not for the value of the use of the revenue generated by the infringement.

We accordingly remand to the district court to enter an award of prejudgment interest. The award should be based on the fifty-two week Treasury bill rate, unless the district court concludes that the equities demand a different rate. See *In re Bloom*, 875 F.2d 224, 228 (9th Cir.1989); *Columbia Brick Works, Inc. v. Royal Ins. Co.*, 768 F.2d 1066, 1071 (9th Cir.1985).

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#### F. Attorney's Fees

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

The decision to award fees, and the amount of fees awarded, are both reviewed for abuse of discretion. *Moore v. Jas. H. Matthews & Co.*, 682 F.2d 830, 838 (9th Cir.1982); *Russell v. Price*, 612 F.2d 1123, 1132 (9th Cir.1979). Plaintiffs in copyright actions may be awarded attorney's fees simply by virtue of prevailing in the action: no other precondition need be met, although the fee awarded must be reasonable. *McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 323 (9th Cir.1987) ("fees are generally awarded to a prevailing plaintiff"); *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 832 (11th Cir.1982). The district court correctly noted that such awards to prevailing plaintiffs serve the purpose of encouraging private enforcement and deterring infringements. The district court did not abuse its discretion in determining that the plaintiffs are entitled to an award of attorney's fees.

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

The district court found that counsel expended much unwarranted time—as much as 300 hours of work where only a single hour was necessary. The court found the facts simple, but noted that complicated legal issues relating to damages were presented. As additional reasons for reducing the amount of the fees award, the court remarked that plaintiffs prevailed on

only one of three claims, and that “both sides engendered numerous delays and petty discovery disputes, resulting in the inordinate length of time necessary to resolve this case.” The court, “[i]n view of all these factors,” concluded that a reasonable attorney’s fee was \$115,000. The district court made no specific findings either as to the number of hours reasonably spent or what was a reasonable hourly rate.

The trial court correctly refused to accept uncritically plaintiffs’ counsel’s representations concerning the time expended. *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1385 (9th Cir.1984). Plaintiffs bear the burden of showing the time spent and that it was reasonably necessary to the successful prosecution of their copyright claims. The lack of contemporaneous records does not justify an automatic reduction in the hours claimed, but such hours should be credited only if reasonable under the circumstances and supported by other evidence such as testimony or secondary documentation. *Johnson v. University College*, 706 F.2d 1205, 1207 (11th Cir.1983). Time spent by plaintiffs’ counsel responding to motions or actions by the defendants should not be excluded from the fee award. “[A]lthough [defendants] had the right to play hardball in contesting [plaintiffs’] claims, it is also appropriate that [defendants] bear the cost of their obstructionist strategy.” *Burgess v. Premier Corp.*, 727 F.2d 826, 841 (9th Cir.1984). The district court blamed both sides for delays and petty discovery disputes, without differentiating those delays and disputes properly the fault of the plaintiffs from those properly the fault of the defendants.

In setting a reasonable attorney’s fee, the district court should make specific findings of the rate and hours it has determined to be reasonable. *Sealy*, 743 F.2d at 1385. In *Moore*, the district court reduced counsels’ fee request because, in the district court’s opinion, they “were ... inclined to produce a large volume of less than useful material.” 682 F.2d at 837 (ellipsis in original). We reversed and remanded that award, holding that the district court abused its discretion by reducing counsels’ claimed hours by half and allowing less than half their normal billing rate solely on the ground that some of their work was less than useful. *Id.* at 839. Plaintiffs’ counsel’s inadequate showing has invited substantial discounting of his fee. Still, he is entitled to a reasonable amount. Before determining the appropriate fee, the district court should make a more detailed analysis of the time records presented and a finding as to the reasonable hourly rate. See *Sealy*, 743 F.2d at 1385. We accordingly remand to the district court to reconsider its award and to substantiate whatever fee it awards. In its discretion, it can require the parties to supplement the record.

### III. CONCLUSION

We vacate the damages award. We conclude that the proper apportionment entitles plaintiffs to 9% of the direct profits from Hallelujah Hollywood. We affirm the district court's finding as to the percentage of indirect profits attributable to Hallelujah Hollywood. We correct the award however for a mathematical error. Accordingly, plaintiffs are entitled to \$551,844.54 as their share of direct profits and \$699,963.10 as their share of indirect profits. We conclude that prejudgment interest should have been awarded, and remand for a calculation of the appropriate amount. \*\*\* We vacate the award of attorney's fees so that the district court may make the necessary findings and recompute the amount to be awarded. We remand to the district court for further proceedings consistent with this opinion.

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

**ZOMBA ENTERPRISES, INC. v. PANORAMA RECORDS, INC.**

United States Court of Appeals, Sixth Circuit.

June 26, 2007  
491 F.3d 574

[KAREN NELSON MOORE](#), Circuit Judge.

From Japan to the United States and beyond, karaoke is wildly popular. Countless people have lined up at various venues to perform their favorite songs with, and in front of, their friends. But few participants (with the possible exception of IP lawyers) ever stop to consider the intellectual property regime governing karaoke.

Panorama Records, Inc. ("Panorama"), a purveyor of karaoke discs, resembles the majority of these participants. It entered the business of recording and selling karaoke discs without considering whether doing so infringed the intellectual property rights of others. Before long, this lack of foresight caught up with Panorama.

This case requires us to review a district court's entry of summary judgment in favor of, and monetary award to, a plaintiff copyright holder whose musical compositions Panorama copied on its karaoke discs. Ultimately, we conclude that the district court (1) correctly concluded that Panorama willfully infringed the plaintiffs' copyrights, and did not abuse its discretion by (2) awarding the plaintiffs \$806,000 in statutory damages, (3) denying Panorama's motion to transfer venue, and (4) awarding the plaintiffs attorney fees. Accordingly, we **AFFIRM** the district court's

judgment in all respects.

## I. FACTS AND PROCEDURE

### A. Statutory Background

Our Constitution grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors ... the exclusive Right to their respective Writings.” U.S. CONST. art. I, § 8, cl. 8. Toward that end, the Copyright Act offers protection to various kinds of works of authorship, including “musical works, including any accompanying words.” 17 U.S.C. § 102(a)(2). This protection provides copyright owners with the exclusive rights to reproduce the works and to distribute these copies to the public. *Id.* § 106(1), (3). Anyone who violates these, or other, rights of the copyright owner is an “infringer,” and thus is liable to the owner, *id.* § 501(a), (b), and subject to injunctions, *id.* § 502, damages, *id.* § 504, and attorney fees, *id.* § 505.

Plaintiff copyright owners whose copyrights actually have been infringed may elect between receiving as damages (1) their actual damages plus the infringer’s profits attributable to its infringement, or (2) statutory damages. *Id.* § 504(b), (c). In the standard copyright-infringement case, the district court has discretion to award statutory damages of any amount between \$750 and \$30,000 for each copyright infringed. *Id.* § 504(c)(1). However, if the plaintiff proves that the infringement is willful, the statutory-damage ceiling rises to \$150,000. *Id.* § 504(c)(2). Conversely, if the defendant establishes that infringement is innocent, the statutory-damage floor falls to \$200.

### B. Factual Background

Since 1998, Panorama has been in the business of manufacturing and selling karaoke compact discs. It issues a new disc monthly in each of a variety of musical genres, including country, pop, rock, and R & B. Each installment (or “karaoke package”) contains the top hits in that genre for the relevant month. Laurindo Santos is one of Panorama’s four shareholders, and at all times relevant to this case he was the decision-maker regarding the release of products.

The individual discs that Panorama makes and sells are in the CD+G format—shorthand for “compact disc plus graphics.” As Panorama explains, “[t]hese are compact discs on which musicians that are hired by Panorama record a musical composition of a work which at some time may

have been made popular by another artist. The CD+G contains a graphic element and is designed to be viewed when played on a karaoke machine.” The graphic element consists of the text of each song’s lyrics, and it scrolls across a screen as the music (sans vocals) plays, permitting karaoke participants to read the lyrics as they sing along. Each of Panorama’s karaoke packages contained nine or ten songs, with two tracks for each song, one track released with audible lyrics and one without.

Zomba Enterprises, Inc. and Zomba Songs, Inc. (collectively, “Zomba”) are music publishing corporations often identified by the trade name Zomba Music Publishing. Zomba “is in the business of exploiting musical compositions for commercial gain.” Toward this purpose, and at all times relevant to this case, Zomba held and administered the copyrights to a variety of musical compositions, including songs performed by pop music performers such as 98 Degrees, Backstreet Boys, \*NSYNC, and Britney Spears.

Without Anna Music (“Without Anna”) is another music publishing company, but is not a party to this action. In 2000, Without Anna discovered that some of the songs to which it owned copyrights appeared on Panorama’s karaoke packages. In response, attorney Linda Edell Howard sent a cease-and-desist letter to Panorama on Without Anna’s behalf, demanding that Panorama quit selling unlicensed copies of Without Anna’s songs. When Panorama received this letter from Howard in 2000, it had not acquired licenses from the copyright owners of any of the songs it had released in its karaoke packages. Panorama then hired Vincent Castalucci, a licensing agent, and began negotiating licenses. Eventually, Panorama obtained license agreements from Without Anna.

On February 28, 2002, Howard sent another cease-and-desist letter to Panorama, this time on behalf of Zomba. Like Without Anna, Zomba had discovered that Panorama’s karaoke packages contained copies of songs it owned. Zomba’s cease-and-desist letter specified the terms upon which Zomba would be willing to grant a license: a \$250 fixing fee for each Zomba-owned song on each package, plus royalties of \$0.16 per song per CD+G sold for the first half of the five-year license term, and \$0.19 per song per CD+G sold for the second-half of the term. Santos and Castalucci contacted Howard in response to this letter, but Panorama did not stop selling CD+Gs with Zomba’s songs on them, nor did it obtain any licenses.

On April 12, 2002, Howard sent a follow-up cease-and-desist letter on Zomba’s behalf. Again, Santos and Castalucci responded to the letter. And again, Panorama failed both to obtain licenses to Zomba’s songs and to cease selling CD+Gs containing them.

### C. Procedural History

On January 13, 2003, Zomba filed its complaint, asserting thirty counts of copyright infringement—one count for each Zomba-owned musical composition that Panorama recorded and sold in its karaoke packages. Panorama answered, asserting no affirmative defenses other than estoppel, laches, waiver, and acquiescence. On April 22, 2003, the parties entered into a consent order in which Panorama agreed “to be restrained from distributing, releasing or otherwise exploiting any karaoke package containing compositions owned or administered by” Zomba. Within a week of entering this consent order, Panorama breached its agreement and resumed selling CD+Gs containing Zomba’s copyrighted work. This conduct continued, and a year later, Zomba moved for sanctions on this basis.

After the parties filed cross-motions for summary judgment but before the district court ruled, Panorama’s counsel withdrew on May 10, 2004. On June 18, 2004, the district court granted Zomba’s, and denied Panorama’s, motion for summary judgment on the issue of copyright infringement, rejecting Panorama’s fair-use defense.

To determine damages, the district court scheduled a bench trial for August 10, 2004. Panorama was unable to obtain new counsel and consequently failed to file any of the required pretrial documents or to appear at the pretrial conference held on July 29, 2004. The district court accordingly entered a default against Panorama on the issue of damages. Panorama responded by filing for bankruptcy in the Bankruptcy Court for the District of Massachusetts on August 9, 2004. In response, the district court stayed the case.

After the bankruptcy court lifted its stay, \*\*\* the district court held a hearing to determine the amount of damages. A month later, the district court issued findings of fact and conclusions of law. The district court concluded that Panorama’s infringement was willful, and accordingly awarded Zomba \$31,000 for each of the twenty-six infringements at issue, for a total of \$806,000. On January 23, 2006, the district court also awarded Zomba \$76,456.16 in attorney fees and \$1058.91 in costs. Panorama timely filed notices of appeal on December 29, 2005, and February 15, 2006. \*\*\*

## III. ANALYSIS

On appeal, Panorama raises a series of challenges. First, it objects to the district court’s rejection of its fair-use defense and the district court’s correlative conclusion that Panorama infringed Zomba’s copyrights. Next, it disputes the district court’s statutory-damage calculation, arguing both

that any infringement was not willful and that the \$806,000 damage award is unconstitutionally high. \*\*\* Finally, Panorama appeals the district court's award of attorney fees to Zomba.

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Because all four fair-use factors indicate that Panorama's copying was not a fair use, we conclude that the district court correctly rejected this defense and concluded that Panorama infringed Zomba's copyrights.

### B. Willfulness

Next, Panorama argues that even if it infringed Zomba's copyrights, the district court erred by concluding that the infringement was willful and thus was subject to enhanced statutory damages. According to Panorama, any infringement was innocent, and certainly not willful. We disagree.

For infringement to be "willful," it must be done "with knowledge that [one's] conduct constitutes copyright infringement." *Princeton Univ. Press*, 99 F.3d at 1392. Accordingly, "one who has been notified that his conduct constitutes copyright infringement, but who reasonably and in good faith believes the contrary, is not 'willful' for these purposes." *Id.* This belief must be both (1) reasonable *and* (2) held in good faith.

Panorama argues that it held a good-faith belief that the copying here at issue was a fair use, and contends that even if ultimately erroneous, this belief precludes a finding of willfulness. As in *Princeton University Press*, the issue is not so much whether Panorama held in good faith its belief that its copying was fair use (although we have serious misgivings on this matter), but whether Panorama *reasonably* believed that its conduct did not amount to copyright infringement. *Princeton Univ. Press*, 99 F.3d at 1392. To decide this issue, we must determine "whether the copyright law supported the plaintiffs' position so clearly that the defendants must be deemed as a matter of law to have exhibited a reckless disregard of the plaintiffs' property rights." *Id.* We review de novo this narrow issue, but we note that other circuits have reviewed for clear error district courts' conclusions on the broader issue of willfulness, *see, e.g.*, *Kepner-Tregoe, Inc. v. Vroom*, 186 F.3d 283, 288 (2d Cir.1999); *Chi-Boy Music v. Charlie Club, Inc.*, 930 F.2d 1224, 1227 (7th Cir.1991). Because our analysis focuses solely on the narrower issue, we need not determine whether *Princeton University Press*'s de novo standard applies to the broader issue of willfulness in general. Accordingly, we express no opinion on that issue, leaving it for a future case.

Here, we conclude that Panorama exhibited a reckless disregard for

Zomba's rights, and accordingly, that Panorama's reliance on its fair-use defense was objectively unreasonable. The fact most crucial to this inquiry is that Panorama continued to sell karaoke packages containing copies of each of the relevant compositions *after* the district court entered its April 22, 2003, consent order forbidding Panorama to do so.

In copyright cases, it is unreasonable to rely on a defense to infringement after a court rejects it on the merits. *Kepner-Tregoe*, 186 F.3d at 288–89 (2d Cir.1999) (holding that copyright defendant's reliance on a defense was unreasonable when the Fifth Circuit had previously concluded that the plaintiff's copyright was valid and enforceable). This principle does not dispose fully of Panorama's position because the April 22, 2003, consent order did not resolve any issues on the merits. To the contrary, the order stated that it "shall not be construed as a finding of any fact by the [District] Court or a finding by the [District] Court that Plaintiff has established ... any ... substantive element of its case."

This caveat, however, does not justify Panorama's continued reliance on its fair-use defense. By entering into the consent decree, Panorama agreed to cease infringing Zomba's copyrights. Thus, it implicitly agreed to suspend its reliance on the fair-use defense at least temporarily, and this agreement was reduced to an order of the court. Because an order entered by a court of competent jurisdiction must be obeyed even if it is erroneously issued, see *Walker v. City of Birmingham*, 388 U.S. 307, 321, 87 S.Ct. 1824, 18 L.Ed.2d 1210 (1967), Panorama lacked any legal justification for continuing to distribute copies of Zomba's copyrighted works after April 22, 2003. Without expressing any opinion regarding the reasonableness of Panorama's position before that date, we are certain that from April 22, 2003, on, the law applicable to this case "supported [Zomba's] position so clearly that [Panorama] must be deemed as a matter of law to have exhibited a reckless disregard of [Zomba's] property rights." *Princeton Univ. Press*, 99 F.3d at 1392. On this basis, we agree with the district court's conclusion that Panorama's infringements were willful and accordingly justified enhanced statutory damages.

### C. Amount of Statutory-Damage Award

Panorama next challenges the district court's \$806,000 statutory-damage award. First, it argues that the district court abused its discretion in calculating the award. Next, it argues that the awards are disproportionate and unreasonable under the Eighth Amendment and the Fifth Amendment's Due Process Clause.

#### 1. Abuse of Discretion

Panorama contends that the district court believed that, after making a finding of willfulness, it lacked discretion to award statutory damages of less than \$30,000 per infringement. On this basis, Panorama maintains that the district court abused its discretion. The record does not support this argument.

In its conclusions of law, the district court recognized that it had “wide discretion in determining the amount of statutory damages to be awarded, constrained only by the maximum and minimum amounts.” It found “that the maximum statutory amount of \$30,000 per work for ‘innocent’ infringement is not sufficient in this case because of the clearly willful nature of Defendant’s conduct,” but that the maximum award of \$150,000 per infringement was excessive, given the dollar amounts involved in the case.

Nowhere did the district court indicate that it believed that it lacked discretion to award statutory damages of less than \$30,000 per infringement. To the contrary, Panorama’s willfulness prompted the district court to conclude that the maximum penalty for nonwillful infringement was *not sufficient* given Panorama’s conduct. We therefore conclude that Panorama has not shown that the district court abused its discretion by setting the statutory damage award at \$31,000 per infringement.

## **2. Eighth Amendment**

Panorama next argues that such a high award of statutory damages, in light of the relatively low actual damages, renders the district court’s award an “excessive fine” under the Eighth Amendment. However, the Supreme Court has explained that the word “fine” in this context means a payment to the government. *United States v. Bajakajian*, 524 U.S. 321, 327, 118 S.Ct. 2028, 141 L.Ed.2d 314 (1998). Consequently, the Court has held that the Excessive Fines Clause “does not constrain an award of money damages in a civil suit when the government neither has prosecuted the action nor has any right to receive a share of the damages awarded.” *Browning-Ferris Indus. of Vermont, Inc. v. Kelco Disposal, Inc.*, 492 U.S. 257, 264, 109 S.Ct. 2909, 106 L.Ed.2d 219 (1989). Panorama’s Eighth Amendment argument thus fails.

## **3. Due Process**

Panorama argues, based upon *BMW of North America, Inc. v. Gore*, 517 U.S. 559, 116 S.Ct. 1589, 134 L.Ed.2d 809 (1996), and *State Farm Mutual Automobile Insurance Co. v. Campbell*, 538 U.S. 408, 123 S.Ct. 1513, 155 L.Ed.2d 585 (2003), that an award of statutory damages that (it alleges) is

thirty-seven times the actual damages violates its right to due process. Again, we disagree.

We note at the outset that both *Gore* and *Campbell* addressed due-process challenges to *punitive-damages* awards. In both cases, the award was greater than one hundred times the amount of compensatory damages awarded. In *Gore*, the Court concluded that the award in question (which amounted to 500 times the compensatory-damages award) was “grossly excessive,” 517 U.S. at 574, after considering three “guideposts”: (1) “the degree of reprehensibility of the” defendant’s conduct; (2) “the disparity between the harm or potential harm suffered by [the plaintiff] and [the] punitive damages award”; and (3) “the difference between this remedy and the civil penalties authorized or imposed in comparable cases,” *id.* at 575. In *Campbell*, the Court considered the same three guidepost factors and concluded that the punitive-damages award (which amounted to 145 times the compensatory-damages award) “was an irrational and arbitrary deprivation of the property of the defendant.” 538 U.S. at 429. Regarding the second guidepost, neither case created a “concrete constitutional limit[ ]” to the punitive-to-compensatory damages ratio. *Id.* at 424. Instead, the *Campbell* Court explicitly “decline[d] ... to impose a bright-line ratio which a punitive damages award cannot exceed,” although it expressed a general preference for single-digit ratios. *Id.* at 425.

The Supreme Court has not indicated whether *Gore* and *Campbell* apply to awards of *statutory* damages. We know of no case invalidating such an award of statutory damages under *Gore* or *Campbell*, although we note that some courts have suggested in dicta that these precedents may apply to statutory-damage awards. See, e.g., *Parker v. Time Warner Entm’t Co.*, 331 F.3d 13, 22 (2d Cir.2003) (suggesting that “in a sufficiently serious case,” due process may require courts to reduce a statutory-damage award in a class action, and citing both *Campbell* and *Gore*); but see *Lowry’s Reports, Inc. v. Legg Mason, Inc.*, 302 F.Supp.2d 455, 459–60 (D.Md.2004) (concluding that *Gore* and *Campbell* do not limit statutory damages in copyright cases).

Regardless of the uncertainty regarding the application of *Gore* and *Campbell* to statutory-damage awards, we may review such awards under *St. Louis, I.M. & S. Ry. Co. v. Williams*, 251 U.S. 63, 66–67, 40 S.Ct. 71, 64 L.Ed. 139 (1919), to ensure they comport with due process. In such cases, we inquire whether the awards are “so severe and oppressive as to be wholly disproportionate to the offense and obviously unreasonable.” *Id.* at 67. This review, however, is extraordinarily deferential—even more so than in cases applying abuse-of-discretion review. *Douglas v. Cunningham*, 294 U.S. 207, 210, 55 S.Ct. 365, 79 L.Ed. 862 (1935) (Congress’s purpose in enacting the statutory-damage provision of the 1909 Copyright Act and its

delineation of specified limits for statutory damages “take[ ] the matter out of the ordinary rule with respect to abuse of discretion”); *Broad. Music, Inc. v. Star Amusements, Inc.*, 44 F.3d 485, 487 (7th Cir.1995) (interpreting the modern Copyright Act and noting “that the standard for reviewing an award of statutory damages within the allowed range is even more deferential than abuse of discretion”).

*Williams* is instructive, and leads us to conclude that the statutory-damage award against Panorama was not sufficiently oppressive to constitute a deprivation of due process. In that case, a railroad charged two sisters sixty-six cents apiece more than the maximum rate permissible by regulation. 251 U.S. at 64. A state statute sought to deter such overcharges by providing for statutory damages of between \$50 and \$350 when a railroad charged more than the permissible rate. *Id.* The sisters sued separately, and received statutory damage awards of \$75 apiece—over 113 times the amount they were overcharged. *Id.* Before the Supreme Court, the railroad argued that the penalty was so disproportionate to the harm sustained that it violated due process. Rejecting this argument, the Court concluded that the award “properly cannot be said to be so severe and oppressive as to be wholly disportioned to the offense or obviously unreasonable.” *Id.* at 67.

If the Supreme Court countenanced a 113:1 ratio in *Williams*, we cannot conclude that a 44:1 ratio is unacceptable here. We acknowledge the Supreme Court’s preference for a lower punitive-to-compensatory ratio, as stated in *Campbell*, but emphasize that this case does not involve a punitive-damages award. Until the Supreme Court applies *Campbell* to an award of statutory damages, we conclude that *Williams* controls, not *Campbell*, and accordingly reject Panorama’s due-process argument.

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## E. Attorney fees

Lastly, Panorama argues that the district court abused its discretion by awarding attorney fees to Zomba. The Copyright Act provides that “the [district] court in its discretion may allow the recovery of full costs ... [and] may also award a reasonable attorney’s fee to the prevailing party as part of the costs.” 17 U.S.C. § 505. In *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994), the Supreme Court endorsed in dicta a series of factors “to guide courts’ discretion” in awarding attorney fees. *Id.* at 534 n. 19. The factors include “frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.” *Id.*

According to Panorama, the district court abused its discretion by failing to consider the *Fogerty* factors. However, as Zomba notes, the parties provided the district court with briefing focused on the factors, so even if the district court did not precisely recount its assessment of the factors, it was alerted to them. Further, given the unreasonableness of Panorama's positions and the need to deter such conduct, it is difficult to see how the imposition of attorney fees here could qualify as an abuse of discretion.

#### IV. CONCLUSION

For the reasons stated above, we **AFFIRM** the district court's judgment in all respects.

#### Note

Footnote 10 of the court's opinion summarizes the actual damages that could have been awarded in this case: "Panorama asserted that it sold a total of 74,734 copies of the twenty-six infringed compositions. Based upon this figure, Zomba lost approximately \$11,957.92 in royalties, plus an additional \$6500 in fixing fees, for a total of \$18,457.92.

Additionally, Panorama asserted that its net profit attributable to the twenty-six compositions at issue was \$9693.86, although Panorama never substantiated its expenses to the district court. Assuming arguendo that this profit figure is accurate, Zomba would have been entitled to \$28,151.78 if it had not elected to pursue statutory damages."

Footnote 11 discusses the ratio: "Dividing the statutory-damage award (\$806,000) by the lost licensing fees, as calculated by Panorama, (\$18,458) yields a ratio of about 44:1. The 37:1 figure that Panorama advances in its brief includes in the denominator Panorama's unsubstantiated net profits figure of \$9693.86."

Does the statutory damages award seem excessive or appropriate?

**CAPITOL RECORDS, INC. V. THOMAS-RASSET**

United States Court of Appeals, Eighth Circuit

Filed: Sept. 11, 2012.

692 F.3d 899

COLLOTON, Circuit Judge.

This appeal arises from a dispute between several recording companies and Jammie Thomas-Rasset. There is a complicated procedural history involving three jury trials, but for 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 ordered by the district court. 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. They also seek a broader injunction that bars Thomas-Rasset from making any of their sound recordings available to the public. 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.

For reasons set forth below, we conclude that the recording companies are entitled to the remedies they seek: damages of \$222,000 and a broadened injunction that forbids Thomas–Rasset to make available sound recordings for distribution. But because the verdicts returned by the second and third juries are sufficient to justify these remedies, it is unnecessary for this court to consider the merits of the district court’s order granting a new trial after the first verdict. Important though the “making available” legal issue may be to the recording companies, they are not entitled to an opinion on an issue of law that is unnecessary for the remedies sought or to a freestanding decision on whether Thomas–Rasset violated the law by making recordings available.

## I.

Capitol Records, Inc., Sony BMG Music Entertainment, Arista Records LLC, Interscope Records, Warner Bros. Records, and UMG Recordings, Inc., are recording companies that own the copyrights to large catalogs of music recordings. In 2005, they undertook to investigate suspected infringement of these copyrights. MediaSentry, an online investigative firm hired by the recording companies, discovered that an individual with the username “tereastarr” was participating in unauthorized file sharing on the peer-to-peer network KaZaA.

During the relevant time period, KaZaA was a file-sharing computer program that allowed its users to search for and download specific files from other users. KaZaA users shared files using a share folder. A share folder is a location on the user’s computer in which the user places files—such as audio or video recordings—that she wants to make available for other users to download. KaZaA allowed its users to access other users’ share folders, view the files in the folder, and download copies of files from the folder.

MediaSentry accessed tereastarr’s share folder. The investigative firm determined that the user had downloaded copyrighted songs and was making those songs available for download by other KaZaA users. MediaSentry took screen shots of tereastarr’s share folder, which included over 1,700 music files, and downloaded samples of the files. But MediaSentry was unable to collect direct evidence that other users had downloaded the files from tereastarr. MediaSentry then used KaZaA to send two instant messages to tereastarr, notifying the user of potential copyright infringement. Tereastarr did not respond to the messages. MediaSentry also determined tereastarr’s IP address, and traced the address to an Internet service account in Duluth, Minnesota, provided by Charter Communications. MediaSentry compiled this data in a report that it prepared for the recording companies.

Using the information provided by MediaSentry, the recording companies, through the Recording Industry Association of America (RIAA), issued a subpoena to Charter Communications requesting the name of the person associated with tereastarr's IP address. Charter informed the RIAA that the IP address belonged to Jammie Thomas-Rasset. The RIAA then sent a letter to Thomas-Rasset informing her that she had been identified as engaging in unauthorized trading of music and inviting her to contact them to discuss the situation and settle the matter. Thomas-Rasset contacted the RIAA as directed in the letter and engaged in settlement conversations with the organization. The parties were unable to resolve the matter.

In 2006, the recording companies sued Thomas-Rasset, seeking statutory damages and injunctive relief for willful copyright infringement under the Copyright Act. They alleged that Thomas-Rasset violated their exclusive right to reproduction and distribution under 17 U.S.C. § 106 by impermissibly downloading, distributing, and making available for distribution twenty-four copyrighted sound recordings.

A jury trial was held in October 2007. At trial, Thomas-Rasset conceded that "tereastarr" is a username that she uses regularly for Internet and computer accounts. She admitted familiarity with and interest in some of the artists of works found in the tereastarr KaZaA account. She also acknowledged that she wrote a case study during college on the legality of Napster—another peer-to-peer file sharing program—and knew that Napster was shut down because it was illegal. Nonetheless, Thomas-Rasset testified that she had never heard of KaZaA before this case, did not have KaZaA on her computer, and did not use KaZaA to download files. The jury also heard evidence from a forensic investigator that Thomas-Rasset removed and replaced the hard drive on her computer with a new hard drive after investigators notified her of her potential infringement. The new hard drive did not contain the files at issue.

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## II.

In their brief on appeal, the record companies urge this court to review the district court's order granting a new trial after the first verdict. The companies argue that the court erred by holding that an individual does not infringe a copyright holder's exclusive rights by making a copyrighted work available to the public without authorization. They argue that accepting their position on that issue would "lead to reversing the District Court's erroneous refusal to enjoin Thomas-Rasset from making Plaintiffs' copyrighted works available, but also would reinstate the first jury's \$9,250-per-work verdict," for total damages of \$222,000. Although the third jury's verdict awarded \$62,500 per work, for a total of \$1,500,000, the companies seek only the smaller amount awarded by the first jury, because

they want a ruling on the legal issue whether making works available is part of the distribution right protected by the Copyright Act.

In reply, Thomas-Rasset says that she has no objection to reinstatement of the first verdict, subject to her arguments on the constitutionality of the damages. She maintains that she still disagrees with the recording companies about the meaning of “distribute” in the Copyright Act, but she does not object to the relief that the companies request on appeal. She now suggests that this court should reinstate the first jury’s verdict on liability (albeit without making precedent on the meaning of “distribute”) and then determine whether the first damages award of \$222,000 is constitutional. Thomas-Rasset is liable for willful infringement under any of the verdicts, and it suits her fine to cap the maximum possible damages at \$222,000 rather than \$1,500,000. Thomas-Rasset also offers to acquiesce in the entry of an injunction that forbids her to make copyrighted works available for distribution. In light of these concessions, she suggests that the issue whether making works available is part of the distribution right protected by the Copyright Act is moot.

Our response to these tactical maneuvers is to observe that this court reviews judgments, not decisions on issues. *Thompson v. Mo. Bd. of Prob. & Parole*, 39 F.3d 186, 189 n. 2 (8th Cir.1994). The record companies appeal the district court’s final judgment and seek additional remedies that the district court refused to order. 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. That the companies seek these remedies with the objective of securing a ruling on a particular legal issue does not make that legal issue itself the matter 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. *Chathas v. Local 134 IBEW*, 233 F.3d 508, 512 (7th Cir.2002).

For the reasons set forth below, we conclude that when the district court entered judgment after the verdict in the third trial, the court should have enjoined Thomas-Rasset from making copyrighted works available to the public, whether or not that conduct by itself violates rights under the Copyright Act. We also 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. We therefore will vacate the district court’s judgment and remand with directions to enter a judgment that includes those remedies. The question whether the district court correctly granted a new trial after the first verdict is moot.

## A.

After the third trial, the district court entered an injunction that prohibits Thomas-Rasset from “using the Internet or any online media distribution system to reproduce (i.e., download) any of Plaintiffs’ Recordings, or to distribute (i.e., upload) any of Plaintiff’s Recordings.” The recording companies urged the district court to amend the judgment to enjoin Thomas-Rasset from making any of their sound recordings available for distribution to the public through an online media distribution system. The district court declined to do so on the ground that the Copyright Act does not provide an exclusive right to making recordings available. The court further reasoned that the injunction as granted was adequate to address the concerns of the companies. We review the grant or denial of a permanent injunction for abuse of discretion. *Fogie v. THORN Americas, Inc.*, 95 F.3d 645, 649 (8th Cir.1996). “Abuse of discretion occurs if the district court reaches its conclusion by applying erroneous legal principles or relying on clearly erroneous factual findings.”

We conclude that the district court’s ruling was based on an error of law. Even assuming for the sake of analysis that the district court’s ruling on the scope of the Copyright Act was correct, a district court has authority to issue a broad injunction in cases where “a proclivity for unlawful conduct has been shown.” See *McComb v. Jacksonville Paper Co.*, 336 U.S. 187, 192 (1949). The district court is even permitted to “enjoin certain otherwise lawful conduct” where “the defendant’s conduct has demonstrated that prohibiting only unlawful conduct would not effectively protect the plaintiff’s rights against future encroachment.” *Russian Media Grp., LLC v. Cable America, Inc.*, 598 F.3d 302, 307 (7th Cir.2010). If a party has violated the governing statute, then a court may in appropriate circumstances enjoin conduct that allowed the prohibited actions to occur, even if that conduct “standing alone, would have been unassailable.” *EEOC v. Wilson Metal Casket Co.*, 24 F.3d 836, 842 (6th Cir.1994).

Thomas-Rasset’s willful infringement and subsequent efforts to conceal her actions certainly show “a proclivity for unlawful conduct.” The recording companies rightly point out that once Thomas-Rasset makes copyrighted works available on an online media distribution system, she has completed all of the steps necessary for her to engage in the same distribution that the court did enjoin. The record also demonstrates the practical difficulties of detecting actual transfer of recordings to third parties even when a party has made large numbers of recordings available for distribution online. The narrower injunction granted by the district court thus could be difficult to enforce.

For these reasons, we conclude that the district court erred after the third trial by concluding that the broader injunction requested by the companies

was impermissible as a matter of law. An injunction against making recordings available was lawful and appropriate under the circumstances, even accepting the district court's interpretation of the Copyright Act. Thomas-Rasset does not resist expanding the injunction to include this relief. We therefore will direct the district court to modify the judgment to include the requested injunction.

#### 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 disproportionate to the offense and obviously unreasonable." *St. Louis, I. M. & S. Ry. Co. v. Williams*, 251 U.S. 63, 67 139 (1919). Under this standard, Congress possesses a "wide latitude of discretion" in setting statutory damages. *Id.* at 66. *Williams* is still good law, and the district court was correct to apply it.

Thomas-Rasset urges us to consider instead 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. See *Zomba Enters., Inc. v. Panorama Records, Inc.*, 491 F.3d 574, 586–88 (6th Cir.2007). 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. at 417. 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. See *Cass Cnty. Music Co. v. C.H.L.R., Inc.*, 88 F.3d 635, 643 (8th Cir.1996). 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 disproportionate to the offense and obviously unreasonable.” 251 U.S. at 67. Congress, exercising its “wide latitude of discretion,” set a statutory damages range for willful copyright infringement of \$750 to \$150,000 per infringed work. 17 U.S.C. § 504(c). 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 (1984). With the rapid advancement of technology, copyright infringement through online 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.

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). 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); see also H.R. Rep. 105–339, at 5 (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 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.

Thomas–Rasset’s cross-appeal goes so far as to argue that any award of statutory damages would be unconstitutional, because even the minimum damages award of \$750 per violation would be “wholly disproportionate to

the offense” and thus unconstitutional. This is so, Thomas–Rasset argues, because the damages award is not based on any evidence of harm caused by her specific infringement, but rather reflects the harm caused by file-sharing in general. The district court similarly concluded that “statutory damages must still bear some relation to actual damages.” The Supreme Court in *Williams*, however, disagreed that the constitutional inquiry calls for a comparison of an award of statutory damages to actual damages caused by the violation. 251 U.S. at 66. Because the damages award “is imposed as a punishment for the violation of a public law, the Legislature may adjust its amount to the public wrong rather than the private injury, just as if it were going to the state.” *Id.* The protection of copyrights is a vindication of the public interest, *Sony Corp. of Am.*, 464 U.S. at 429, and statutory damages are “by definition a substitute for unproven or unprovable actual damages.” *Cass Cnty. Music Co.*, 88 F.3d at 643. For copyright infringement, moreover, statutory damages are “designed to discourage wrongful conduct,” in addition to providing “restitution of profit and reparation for injury.” *F.W. Woolworth Co. v. Contemporary Arts*, 344 U.S. 228, 233 (1952).

Thomas–Rasset highlights that if the recording companies had sued her based on infringement of 1,000 copyrighted recordings instead of the twenty-four recordings that they selected, then an award of \$9,250 per song would have resulted in a total award of \$9,250,000. Because that hypothetical award would be obviously excessive and unreasonable, she reasons, an award of \$222,000 based on the same amount per song must likewise be invalid. Whatever the constitutionality of the hypothetical award, we disagree that the validity of the lesser amount sought here depends on whether the Due Process Clause would permit the extrapolated award that she posits. The absolute amount of the award, not just the amount per violation, is relevant to whether the award is “so severe and oppressive as to be wholly disproportionate to the offense and obviously unreasonable.” *Williams*, 251 U.S. at 67. The recording companies here opted to sue over twenty-four recordings. If they had sued over 1,000 recordings, then a finder of fact may well have considered the number of recordings and the proportionality of the total award as factors in determining where within the range to assess the statutory damages. If and when a jury returns a multi-million dollar award for noncommercial online copyright infringement, then there will be time enough to consider it.

\* \* \*

For the foregoing reasons, we conclude that the recording companies are entitled to the remedies that they seek on appeal. 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, and to include an

injunction that precludes Thomas-Rasset from making any of the plaintiffs' recordings available for distribution to the public through an online media distribution system.

**FELTNER V. COLUMBIA PICTURES TELEVISION, INC.**

Supreme Court of the United States  
Decided March 31, 1998  
118 S.Ct. 1279

Justice THOMAS delivered the opinion of the Court.

Section 504(c) of the Copyright Act of 1976 permits a copyright owner "to recover, instead of actual damages and profits, an award of statutory damages ..., in a sum of not less than \$500 or more than \$20,000 as the court considers just." 90 Stat. 2585, as amended, 17 U.S.C. § 504(c)(1). In this case, we consider whether § 504(c) or the Seventh Amendment grants a right to a jury trial when a copyright owner elects to recover statutory damages. We hold that although the statute is silent on the point, the Seventh Amendment provides a right to a jury trial, which includes a right to a jury determination of the amount of statutory damages. We therefore reverse.

I

Petitioner C. Elvin Feltner owns Krypton International Corporation, which in 1990 acquired three television stations in the southeastern United States. Respondent Columbia Pictures Television, Inc., had licensed several television series to these stations, including "Who's the Boss," "Silver Spoons," "Hart to Hart," and "T.J. Hooker." After the stations became delinquent in making their royalty payments to Columbia, Krypton and Columbia entered into negotiations to restructure the stations' debt. These discussions were unavailing, and Columbia terminated the stations' license agreements in October 1991. Despite Columbia's termination, the stations continued broadcasting the programs.

Columbia sued Feltner, Krypton, the stations, various Krypton subsidiaries, and certain Krypton officers in Federal District Court alleging, *inter alia*, copyright infringement arising from the stations' unauthorized broadcasting of the programs. Columbia sought various forms of relief under the Copyright Act of 1976 (Copyright Act), 17 U.S.C. § 101 et seq., including a permanent injunction, § 502; impoundment of all copies of the programs, § 503; actual damages or, in the alternative, statutory damages, § 504; and costs and attorney's fees, § 505. On Columbia's motion, the District Court entered partial summary judgment as to liability for Columbia on its copyright infringement claims.

Columbia exercised the option afforded by § 504(c) of the Copyright Act to recover “Statutory Damages” in lieu of actual damages. In relevant part, § 504(c) provides:

**“STATUTORY DAMAGES—**

“(1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, ... in a sum of not less than \$500 or more than \$20,000 as the court considers just....

“(2) In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than \$100,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court [in] its discretion may reduce the award of statutory damages to a sum of not less than \$200....” 17 U.S.C. § 504(c).

The District Court denied Feltner’s request for a jury trial on statutory damages, ruling instead that such issues would be determined at a bench trial. After two days of trial, the trial judge held that each episode of each series constituted a separate work and that the airing of the same episode by different stations controlled by Feltner constituted separate violations; accordingly, the trial judge determined that there had been a total of 440 acts of infringement. The trial judge further found that Feltner’s infringement was willful and fixed statutory damages at \$20,000 per act of infringement. Applying that amount to the number of acts of infringement, the trial judge determined that Columbia was entitled to \$8,800,000 in statutory damages, plus costs and attorney’s fees.

The Court of Appeals for the Ninth Circuit affirmed in all relevant respects. Most importantly for present purposes, the court rejected Feltner’s argument that he was entitled to have a jury determine statutory damages.  
\*\*\* We granted certiorari.

## II

Before inquiring into the applicability of the Seventh Amendment, we must “first ascertain whether a construction of the statute is fairly possible by which the [constitutional] question may be avoided.” *Tull v. United States*, 481 U.S. 412, 417, n. 3 (1987). Such a construction is not possible here, for we cannot discern “any congressional intent to grant ... the right to a jury

trial,” 481 U.S., at 417, on an award of statutory damages.

The language of § 504(c) does not grant a right to have a jury assess statutory damages. Statutory damages are to be assessed in an amount that “the court considers just.” § 504(c)(1). Further, in the event that “the court finds” the infringement was willful or innocent, “the court in its discretion” may, within limits, increase or decrease the amount of statutory damages. § 504(c)(2). These phrases, like the entire statutory provision, make no mention of a right to a jury trial or, for that matter, to juries at all. \*\*\*

We thus discern no statutory right to a jury trial when a copyright owner elects to recover statutory damages. Accordingly, we must reach the constitutional question.

### III

The Seventh Amendment provides that “[i]n Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved....” U.S. Const., Amdt. 7. Since Justice Story’s time, the Court has understood “Suits at common law” to refer “not merely [to] suits, which the common law recognized among its old and settled proceedings, but [to] suits in which legal rights were to be ascertained and determined, in contradistinction to those where equitable rights alone were recognized, and equitable remedies were administered.” *Parsons v. Bedford*, 3 Pet. 433, 447, 7 L.Ed. 732 (1830). The Seventh Amendment thus applies not only to common-law causes of action, but also to “actions brought to enforce statutory rights that are analogous to common-law causes of action ordinarily decided in English law courts in the late 18th century, as opposed to those customarily heard by courts of equity or admiralty.” *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 42 (1989). To determine whether a statutory action is more analogous to cases tried in courts of law than to suits tried in courts of equity or admiralty, we examine both the nature of the statutory action and the remedy sought.

Unlike many of our recent Seventh Amendment cases, which have involved modern statutory rights unknown to 18th-century England, see, e.g., *Wooddell v. International Brotherhood of Electrical Workers*, 502 U.S. 93 (1991) (alleged violations of union’s duties under Labor Management Relations Act, 1947, and Labor–Management Reporting and Disclosure Act of 1959); *Granfinanciera v. Nordberg*, *supra* (action to rescind fraudulent preference under Bankruptcy Act); *Tull v. United States*, 481 U.S. 412 (1987) (Government’s claim for civil penalties under Clean Water Act); *Curtis v. Loether*, *supra* (claim under Title VIII of Civil Rights Act of 1968), in this case there are close analogues to actions seeking statutory damages under § 504(c). Before the adoption of the Seventh Amendment, the

common law and statutes in England and this country granted copyright owners causes of action for infringement. More importantly, copyright suits for monetary damages were tried in courts of law, and thus before juries.

By the middle of the 17th century, the common law recognized an author's right to prevent the unauthorized publication of his manuscript. See, e.g., *Stationers Co. v. Patentees*, Carter's Rep. 89, 124 Eng. Rep. 842 (C.P.1666). This protection derived from the principle that the manuscript was the product of intellectual labor and was as much the author's property as the material on which it was written. See *Millar v. Taylor*, 4 Burr. 2303, 2398, 98 Eng. Rep. 201, 252 (K.B.1769) (opinion of Mansfield, C.J.) (common-law copyright derived from principle that "it is just, that an Author should reap the pecuniary Profits of his own ingenuity and Labour"). Actions seeking damages for infringement of common-law copyright, like actions seeking damages for invasions of other property rights, were tried in courts of law in actions on the case. See *Millar v. Taylor*, *supra*, at 2396–2397, 98 Eng. Rep., at 251. Actions on the case, like other actions at law, were tried before juries. See *McClenaghan v. McCarty*, 1 Dall. 375, 378, 1 L.Ed. 183 (1788); 5 J. Moore, *Moore's Federal Practice* ¶ 38.11[5] (2d ed.1996).

In 1710, the first English copyright statute, the Statute of Anne, was enacted to protect published books. 8 Anne ch. 19 (1710). Under the Statute of Anne, damages for infringement were set at "one Penny for every Sheet which shall be found in [the infringer's] custody, either printed or printing, published, or exposed to Sale," half ("one Moiety") to go to the Crown and half to the copyright owner, and were "to be recovered ... by Action of Debt, Bill, Plaintiff, or Information." § 1. Like the earlier practice with regard to common-law copyright claims for damages, actions seeking damages under the Statute of Anne were tried in courts of law. See *Beckford v. Hood*, 7 T.R. 621, 627, 101 Eng. Rep. 1164, 1167 (K.B.1798) (opinion of Kenyon, C.J.) ("[T]he statute having vested that right in the author, the common law gives the remedy by action on the case for the violation of it").

The practice of trying copyright damages actions at law before juries was followed in this country, where statutory copyright protections were enacted even before adoption of the Constitution. In 1783, the Continental Congress passed a resolution recommending that the States secure copyright protections for authors. See U.S. Copyright Office, *Copyright Enactments: Laws Passed in the United States Since 1783 Relating to Copyright*, Bulletin No. 3, p. 1 (rev. ed.1963) (hereinafter *Copyright Enactments*). Twelve States (all except Delaware) responded by enacting copyright statutes, each of which provided a cause of action for damages, and none of which made any reference to equity jurisdiction. At least three of these state statutes expressly stated that damages were to be recovered through actions at law \*\*\*. Although these statutes were short-lived, and

hence few courts had occasion to interpret them, the available evidence suggests that the practice was for copyright actions seeking damages to be tried to a jury. See *Hudson v. Patten*, 1 Root 133, 134 Conn.Super.1789) (jury awarded copyright owner £100 under Connecticut copyright statute).

Moreover, three of the state statutes specifically authorized an award of damages from a statutory range, just as § 504(c) does today. See Copyright Enactments 4 (in Massachusetts, damages of not less than £5 and not more than £3,000); id., at 8 (in New Hampshire, damages of not less than £5 and not more than £1,000); id., at 9 (in Rhode Island, damages of not less than £5 and not more than £3,000). Although we have found no direct evidence of the practice under these statutes, there is no reason to suppose that such actions were intended to deviate from the traditional practice: The damages were to be recovered by an “action of debt,” see *id.*, at 4–9, which was an action at law, see Maitland 357.

In 1790, Congress passed the first federal copyright statute, the Copyright Act of 1790, which similarly authorized the awarding of damages for copyright infringements. Act of May 31, 1790, ch. 15, §§ 2, 6, 1 Stat. 124, 125. The Copyright Act of 1790 provided that damages for copyright infringement of published works would be “the sum of fifty cents for every sheet which shall be found in [the infringer’s] possession, ... to be recovered by action of debt in any court of record in the United States, wherein the same is cognizable.” § 2. Like the Statute of Anne, the Copyright Act of 1790 provided that half (“one moiety”) of such damages were to go to the copyright owner and half to the United States. For infringement of an unpublished manuscript, the statute entitled a copyright owner to “all damages occasioned by such injury, to be recovered by a special action on the case founded upon this act, in any court having cognizance thereof.” § 6.

There is no evidence that the Copyright Act of 1790 changed the practice of trying copyright actions for damages in courts of law before juries. As we have noted, actions on the case and actions of debt were actions at law for which a jury was required. Moreover, actions to recover damages under the Copyright Act of 1831—which differed from the Copyright Act of 1790 only in the amount (increased to \$1 from 50 cents) authorized to be recovered for certain infringing sheets—were consistently tried to juries. See, e.g., *Backus v. Gould*, 7 How. 798, 802, 12 L.Ed. 919 (1849) (jury awarded damages of \$2,069.75); *Reed v. Carusi*, 20 F. Cas. 431, 432, No. 11,642 (D.Md.1845) (CC Md.1845) (jury awarded damages of \$200); *Millett v. Snowden*, 17 F. Cas. 374, 375 (No. 9,600) (S.D.N.Y.1844) (jury awarded damages of \$625); *Dwight v. Appleton*, 8 F.Cas. 183, 185 (No. 4,215) (C.D.N.Y.1843) (jury awarded damages of \$2,000).

Columbia does not dispute this historical evidence. In fact, Columbia makes no attempt to draw an analogy between an action for statutory damages under § 504(c) and any historical cause of action—including those actions for monetary relief that we have characterized as equitable, such as actions for disgorgement of improper profits. See *Teamsters v. Terry*, 494 U.S. 558, 570–571 (1990); *Tull v. United States*, 481 U.S., at 424. Rather, Columbia merely contends that statutory damages are clearly equitable in nature.

We are not persuaded. We have recognized the “general rule” that monetary relief is legal, *Teamsters v. Terry*, *supra*, at 570, and an award of statutory damages may serve purposes traditionally associated with legal relief, such as compensation and punishment. See *Curtis v. Loether*, 415 U.S., at 196 (actual damages are “traditional form of relief offered in the courts of law”). Nor, as we have previously stated, is a monetary remedy rendered equitable simply because it is “not fixed or readily calculable from a fixed formula.” *Id.*, at 422, n. 7. And there is historical evidence that cases involving discretionary monetary relief were tried before juries. See, e.g., *Coryell v. Colbaugh*, 1 N.J.L. 77 (1791) (jury award of “exemplary damages” in an action on a promise of marriage). Accordingly, we must conclude that the Seventh Amendment provides a right to a jury trial where the copyright owner elects to recover statutory damages.

The right to a jury trial includes the right to have a jury determine the amount of statutory damages, if any, awarded to the copyright owner. It has long been recognized that “by the law the jury are judges of the damages.” *Lord Townshend v. Hughes*, 2 Mod. 150, 151, 86 Eng. Rep. 994, 994–995 (C.P. 1677). Thus in *Dimick v. Schiedt*, 293 U.S. 474 (1935), the Court stated that “the common law rule as it existed at the time of the adoption of the Constitution” was that “in cases where the amount of damages was uncertain[,] their assessment was a matter so peculiarly within the province of the jury that the Court should not alter it.” *Id.*, at 480 (internal quotation marks and citations omitted). And there is overwhelming evidence that the consistent practice at common law was for juries to award damages. \*\*\*

More specifically, this was the consistent practice in copyright cases. In *Hudson v. Patten*, 1 Root, at 134, for example, a jury awarded a copyright owner £100 under the Connecticut copyright statute, which permitted damages in an amount double the value of the infringed copy. In addition, juries assessed the amount of damages under the Copyright Act of 1831, even though that statute, like the Copyright Act of 1790, fixed damages at a set amount per infringing sheet. See *Backus v. Gould*, *supra*, at 802 (jury awarded damages of \$2,069.75); *Reed v. Carusi*, *supra*, at 432 (same, but \$200); *Dwight v. Appleton*, *supra*, at 185 (same, but \$2,000); *Millett v.*

Snowden, *supra*, at 375 (same, but §625).

Relying on *Tull v. United States*, *supra*, Columbia contends that the Seventh Amendment does not provide a right to a jury determination of the amount of the award. In *Tull*, we held that the Seventh Amendment grants a right to a jury trial on all issues relating to liability for civil penalties under the Clean Water Act, 33 U.S.C. §§ 1251, 1319(d), see 481 U.S., at 425, but then went on to decide that Congress could constitutionally authorize trial judges to assess the amount of the civil penalties, see *id.*, at 426–427. According to Columbia, *Tull* demonstrates that a jury determination of the amount of statutory damages is not necessary “to preserve ‘the substance of the common-law right of trial by jury.’” *Id.*, at 426.

In *Tull*, however, we were presented with no evidence that juries historically had determined the amount of civil penalties to be paid to the Government. Moreover, the awarding of civil penalties to the Government could be viewed as analogous to sentencing in a criminal proceeding. See 481 U.S., at 428 (SCALIA, J., concurring in part and dissenting in part). Here, of course, there is no similar analogy, and there is clear and direct historical evidence that juries, both as a general matter and in copyright cases, set the amount of damages awarded to a successful plaintiff. *Tull* is thus inapposite. As a result, if a party so demands, a jury must determine the actual amount of statutory damages under § 504(c) in order “to preserve ‘the substance of the common-law right of trial by jury.’” *Id.*, at 426.  
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For the foregoing reasons, we hold that the Seventh Amendment provides a right to a jury trial on all issues pertinent to an award of statutory damages under § 504(c) of the Copyright Act, including the amount itself. The judgment below is reversed, and we remand the case for proceedings consistent with this opinion.

It is so ordered.

### Note

A bit of trivia: John G. Roberts, Jr., Washington, DC, argued on behalf of the petitioner in this case.

**FOGERTY V. FANTASY, INC.**

Supreme Court of the United States

Decided March 1, 1994

114 S.Ct. 1023

Chief Justice REHNQUIST delivered the opinion of the Court.

The Copyright Act of 1976, 17 U.S.C. § 505, provides in relevant part that in any copyright infringement action “the court may ... award a reasonable attorney’s fee to the prevailing party as part of the costs.” The question presented in this case is what standards should inform a court’s decision to award attorney’s fees to a prevailing defendant in a copyright infringement action—a question that has produced conflicting views in the Courts of Appeals.

Petitioner John Fogerty is a successful musician, who, in the late 1960’s, was the lead singer and songwriter of a popular music group known as “Creedence Clearwater Revival.” In 1970, he wrote a song entitled “Run Through the Jungle” and sold the exclusive publishing rights to predecessors-in-interest of respondent Fantasy, Inc., who later obtained the copyright by assignment. The music group disbanded in 1972 and Fogerty subsequently published under another recording label. In 1985, he published and registered a copyright to a song entitled “The Old Man Down the Road,” which was released on an album distributed by Warner Brothers Records, Inc. Respondent Fantasy, Inc., sued Fogerty, Warner Brothers, and affiliated companies in District Court, alleging that “The Old Man Down the Road” was merely “Run Through the Jungle” with new words. The copyright infringement claim went to trial and a jury returned a verdict in favor of Fogerty.

After his successful defense of the action, Fogerty moved for reasonable attorney’s fees pursuant to 17 U.S.C. § 505. The District Court denied the motion, finding that Fantasy’s infringement suit was not brought frivolously or in bad faith as required by Circuit precedent for an award of attorney’s fees to a successful defendant. The Court of Appeals affirmed, and declined to abandon the existing Ninth Circuit standard for awarding attorney’s fees which treats successful plaintiffs and successful defendants differently. Under that standard, commonly termed the “dual” standard, prevailing plaintiffs are generally awarded attorney’s fees as a matter of course, while prevailing defendants must show that the original suit was frivolous or brought in bad faith. In contrast, some Courts of Appeals follow the so-called “evenhanded” approach in which no distinction is made between prevailing plaintiffs and prevailing defendants. The Court of

Appeals for the Third Circuit, for example, has ruled that “we do not require bad faith, nor do we mandate an allowance of fees as a concomitant of prevailing in every case, but we do favor an evenhanded approach.” *Lieb v. Topstone Industries, Inc.*, 788 F.2d 151, 156 (1986).

We granted certiorari to address an important area of federal law and to resolve the conflict between the Ninth Circuit’s “dual” standard for awarding attorney’s fees under § 505, and the so-called “evenhanded” approach exemplified by the Third Circuit. We reverse.

Respondent advances three arguments in support of the dual standard followed by the Court of Appeals for the Ninth Circuit in this case. First, it contends that the language of § 505, when read in the light of our decisions construing similar fee-shifting language, supports the rule. Second, it asserts that treating prevailing plaintiffs and defendants differently comports with the “objectives” and “equitable considerations” underlying the Copyright Act as a whole. Finally, respondent contends that the legislative history of § 505 indicates that Congress ratified the dual standard which it claims was “uniformly” followed by the lower courts under identical language in the 1909 Copyright Act. We address each of these arguments in turn.

The statutory language—“the court may also award a reasonable attorney’s fee to the prevailing party as part of the costs”—gives no hint that successful plaintiffs are to be treated differently from successful defendants. But respondent contends that our decision in *Christiansburg Garment Co. v. EEOC*, 434 U.S. 412 (1978), in which we construed virtually identical language, supports a differentiation in treatment between plaintiffs and defendants.

*Christiansburg* construed the language of Title VII of the Civil Rights Act of 1964, which in relevant part provided that the court, “in its discretion, may allow the prevailing party … a reasonable attorney’s fee as part of the costs....” 42 U.S.C. § 2000e–5(k). We had earlier held, interpreting the cognate provision of Title II of that Act, 42 U.S.C. § 2000a–3(b), that a prevailing plaintiff “should ordinarily recover an attorney’s fee unless some special circumstances would render such an award unjust.” *Newman v. Piggie Park Enterprises, Inc.*, 390 U.S. 400, 402 (1968). This decision was based on what we found to be the important policy objectives of the Civil Rights statutes, and the intent of Congress to achieve such objectives through the use of plaintiffs as “‘private attorney[s] general.’” *Ibid.* In *Christiansburg*, *supra*, we determined that the same policy considerations were not at work in the case of a prevailing civil rights defendant. We noted that a Title VII plaintiff, like a Title II plaintiff in *Piggie Park*, is “the chosen instrument of Congress to vindicate ‘a policy that Congress

considered of the highest priority.’’ 434 U.S., at 418. We also relied on the admittedly sparse legislative history to indicate that different standards were to be applied to successful plaintiffs than to successful defendants.

Respondent points to our language in *Flight Attendants v. Zipes*, 491 U.S. 754, 758, n. 2 (1989), that ‘fee-shifting statutes’ similar language is a ‘strong indication’ that they are to be interpreted alike.” But here we think this normal indication is overborne by the factors relied upon in our Christiansburg opinion that are absent in the case of the Copyright Act. The legislative history of § 505 provides no support for treating prevailing plaintiffs and defendants differently with respect to the recovery of attorney’s fees. The attorney’s fees provision of § 505 of the 1976 Act was carried forward verbatim from the 1909 Act with very little discussion. The relevant House Report provides simply:

“Under section 505 the awarding of costs and attorney’s fees are left to the court’s discretion, and the section also makes clear that neither costs nor attorney’s fees can be awarded to or against ‘the United States or an officer thereof.’” H.R. Rep. No. 94–1476, p. 163 (1976).

Other courts and commentators have noted the paucity of legislative history of § 505. \*\*\*

The goals and objectives of the two Acts are likewise not completely similar. Oftentimes, in the civil rights context, impecunious “private attorney general” plaintiffs can ill afford to litigate their claims against defendants with more resources. Congress sought to redress this balance in part, and to provide incentives for the bringing of meritorious lawsuits, by treating successful plaintiffs more favorably than successful defendants in terms of the award of attorney’s fees. The primary objective of the Copyright Act is to encourage the production of original literary, artistic, and musical expression for the good of the public. See *infra*, at 1029–1030. In the copyright context, it has been noted that “[e]ntities which sue for copyright infringement as plaintiffs can run the gamut from corporate behemoths to starving artists; the same is true of prospective copyright infringement defendants.” Cohen, *supra*, at 622–623.

We thus conclude that respondent’s argument based on our fee-shifting decisions under the Civil Rights Act must fail.

Respondent next argues that the policies and objectives of § 505 and of the Copyright Act in general are best served by the “dual approach” to the award of attorney’s fees. The most common reason advanced in support of the dual approach is that, by awarding attorney’s fees to prevailing plaintiffs as a matter of course, it encourages litigation of meritorious

claims of copyright infringement. See, e.g., *McCulloch v. Albert E. Price, Inc.*, 823 F.2d 316, 323 (CA9 1987) (“Because section 505 is intended in part to encourage the assertion of colorable copyright claims, to deter infringement, and to make the plaintiff whole, fees are generally awarded to a prevailing plaintiff”); *Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 148 (CA2 1984). Indeed, respondent relies heavily on this argument. We think the argument is flawed because it expresses a one-sided view of the purposes of the Copyright Act. While it is true that one of the goals of the Copyright Act is to discourage infringement, it is by no means the only goal of that Act. In the first place, it is by no means always the case that the plaintiff in an infringement action is the only holder of a copyright; often times, defendants hold copyrights too, as exemplified in the case at hand. See *Lieb v. Topstone Industries, Inc.*, 788 F.2d, at 155 (noting that “in many cases the defendants are the [copyright] holders”).

More importantly, the policies served by the Copyright Act are more complex, more measured, than simply maximizing the number of meritorious suits for copyright infringement. The Constitution grants to Congress the power “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const., Art. I, § 8, cl. 8. We have often recognized the monopoly privileges that Congress has authorized, while “intended to motivate the creative activity of authors and inventors by the provision of a special reward,” are limited in nature and must ultimately serve the public good. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). For example, in *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975), we discussed the policies underlying the 1909 Copyright Act as follows:

“The limited scope of the copyright holder’s statutory monopoly ... reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an ‘author’s’ creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.”

We reiterated this theme in *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 349–350 (1991), where we said:

“The primary objective of copyright is not to reward the labor of authors, but ‘[t]o promote the Progress of Science and useful Arts.’ To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work.”

Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement. In the case before us, the successful defense of “The Old Man Down the Road” increased public exposure to a musical work that could, as a result, lead to further creative pieces. Thus a successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.

Respondent finally urges that the legislative history supports the dual standard, relying on the principle of ratification. See *Lorillard v. Pons*, 434 U.S. 575, 580 (1978) (“Congress is presumed to be aware of an administrative or judicial interpretation of a statute and to adopt that interpretation when it re-enacts a statute without change ...”). Respondent surveys the great number of lower court cases interpreting the identical provision in the 1909 Act, 17 U.S.C. § 116 (1976 ed.), and asserts that “it was firmly established” that prevailing defendants should be awarded attorney’s fees only where the plaintiff’s claim was frivolous or brought with a vexatious purpose. Furthermore, respondent claims that Congress was aware of this construction of former § 116 because of two copyright studies submitted to Congress when it was studying revisions to the Act.  
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Before turning to the import of the two studies and the cases decided under the 1909 Act, we summarize briefly the factual background of *Lorillard*, whence comes the statement upon which respondent relies. There the question was whether there was a right to jury trial in an action for lost wages under the Age Discrimination in Employment Act of 1967 (ADEA). In enacting that statute, Congress provided, *inter alia*, that the provisions of the ADEA were to be “enforced in accordance with the ‘powers, remedies and procedures’ of specified sections of the Fair Labor Standards Act (FLSA), 81 Stat. 604, 29 U.S.C. § 626(b). *Lorillard*, 434 U.S., at 580. In the three decided cases which had treated the right to jury trial under the FLSA, each court had decided that there was such a right. In enacting the ADEA, “Congress exhibited both a detailed knowledge of the FLSA provisions and their judicial interpretation and a willingness to depart from those provisions regarded as undesirable or inappropriate for incorporation.” *Id.*, at 581. \*\*\*

Our review of the prior case law itself leads us to conclude that there was

no settled “dual standard” interpretation of former § 116 about which Congress could have been aware. We note initially that at least one reported case stated no reason in awarding attorney’s fees to successful defendants. See, e.g., *Marks v. Leo Feist, Inc.*, 8 F.2d 460, 461 (CA2 1925) (noting that the Copyright Act gave courts “absolute discretion,” the court awarded attorney’s fees to prevailing defendant after plaintiff voluntarily dismissed suit). More importantly, while it appears that the majority of lower courts exercised their discretion in awarding attorney’s fees to prevailing defendants based on a finding of frivolousness or bad faith, not all courts expressly described the test in those terms. In fact, only one pre-1976 case expressly endorsed a dual standard. *Breffort v. I Had a Ball Co.*, 271 F.Supp. 623 (SDNY 1967). This is hardly the sort of uniform construction that Congress might have endorsed.

In summary, neither of the two studies presented to Congress, nor the cases referred to by the studies, support respondent’s view that there was a settled construction in favor of the “dual standard” under § 116 of the 1909 Copyright Act.

We thus reject each of respondent’s three arguments in support of the dual standard. We now turn to petitioner’s argument that § 505 was intended to adopt the “British Rule.” Petitioner argues that, consistent with the neutral language of § 505, both prevailing plaintiffs and defendants should be awarded attorney’s fees as a matter of course, absent exceptional circumstances. For two reasons we reject this argument for the British Rule.

First, just as the plain language of § 505 supports petitioner’s claim for disapproving the dual standard, it cuts against him in arguing for the British Rule. The statute says that “the court may also award a reasonable attorney’s fee to the prevailing party as part of the costs.” The word “may” clearly connotes discretion. The automatic awarding of attorney’s fees to the prevailing party would pretermit the exercise of that discretion.

Second, we are mindful that Congress legislates against the strong background of the American Rule. Unlike Britain where counsel fees are regularly awarded to the prevailing party, it is the general rule in this country that unless Congress provides otherwise, parties are to bear their own attorney’s fees. *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240, 247–262 (1975) (tracing the origins and development of the American Rule); *Flight Attendants v. Zipes*, 491 U.S., at 758. While § 505 is one situation in which Congress has modified the American Rule to allow an award of attorney’s fees in the court’s discretion, we find it impossible to believe that Congress, without more, intended to adopt the British Rule. Such a bold departure from traditional practice would have surely drawn

more explicit statutory language and legislative comment. Cf. *Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952) (“Statutes which invade the common law … are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident”). Not surprisingly, no court has held that § 505 (or its predecessor statute) adopted the British Rule.

Thus we reject both the “dual standard” adopted by several of the Courts of Appeals and petitioner’s claim that § 505 enacted the British Rule for automatic recovery of attorney’s fees by the prevailing party. Prevailing plaintiffs and prevailing defendants are to be treated alike, but attorney’s fees are to be awarded to prevailing parties only as a matter of the court’s discretion. “There is no precise rule or formula for making these determinations,” but instead equitable discretion should be exercised “in light of the considerations we have identified.” *Hensley v. Eckerhart*, 461 U.S. 424, 436–437 (1983). Because the Court of Appeals erroneously held petitioner, the prevailing defendant, to a more stringent standard than that applicable to a prevailing plaintiff, its judgment is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

**KIRTSANG V. JOHN WILEY & SONS, INC.**

Supreme Court of the United States

Decided June 16, 2016

136 S.Ct. 1979

Justice KAGAN delivered the opinion of the Court.

Section 505 of the Copyright Act provides that a district court “may … award a reasonable attorney’s fee to the prevailing party.” 17 U.S.C. § 505. The question presented here is whether a court, in exercising that authority, should give substantial weight to the objective reasonableness of the losing party’s position. The answer, as both decisions below held, is yes—the court should. But the court must also give due consideration to all other circumstances relevant to granting fees; and it retains discretion, in light of those factors, to make an award even when the losing party advanced a reasonable claim or defense. Because we are not certain that the lower courts here understood the full scope of that discretion, we return the case for further consideration of the prevailing party’s fee application.

I

\*\*\* [The facts of this case can be found in the first sale section of this casebook, where the Court held that the first-sale doctrine allows the resale

of foreign-made books, just as it does domestic ones.]

Returning victorious to the District Court, Kirtsaeng invoked § 505 to seek more than \$2 million in attorney’s fees from Wiley. The court denied his motion. Relying on Second Circuit precedent, the court gave “substantial weight” to the “objective reasonableness” of Wiley’s infringement claim. In explanation of that approach, the court stated that “the imposition of a fee award against a copyright holder with an objectively reasonable”—although unsuccessful—“litigation position will generally not promote the purposes of the Copyright Act.” Here, Wiley’s position was reasonable: After all, several Courts of Appeals and three Justices of the Supreme Court had agreed with it. And according to the District Court, no other circumstance “overrule[d]” that objective reasonableness, so as to warrant fee-shifting. The Court of Appeals affirmed, concluding in a brief summary order that “the district court properly placed ‘substantial weight’ on the reasonableness of [Wiley’s] position” and committed no abuse of discretion in deciding that other “factors did not outweigh” the reasonableness finding.

We granted certiorari to resolve disagreement in the lower courts about how to address an application for attorney’s fees in a copyright case.

## II

Section 505 states that a district court “may … award a reasonable attorney’s fee to the prevailing party.” It thus authorizes fee-shifting, but without specifying standards that courts should adopt, or guideposts they should use, in determining when such awards are appropriate.

In *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), this Court recognized the broad leeway § 505 gives to district courts—but also established several principles and criteria to guide their decisions. See *id.*, at 519 (asking “what standards should inform” the exercise of the trial court’s authority). The statutory language, we stated, “clearly connotes discretion,” and eschews any “precise rule or formula” for awarding fees. *Id.*, at 533, 534. Still, we established a pair of restrictions. First, a district court may not “award[] attorney’s fees as a matter of course”; rather, a court must make a more particularized, case-by-case assessment. *Id.*, at 533. Second, a court may not treat prevailing plaintiffs and prevailing defendants any differently; defendants should be “encouraged to litigate [meritorious copyright defenses] to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement.” *Id.*, at 527. In addition, we noted with approval “several nonexclusive factors” to inform a court’s fee-shifting decisions: “frivolousness, motivation, objective unreasonableness[,] and the need in particular circumstances to advance considerations of

compensation and deterrence.” *Id.*, at 534, n. 19. And we left open the possibility of providing further guidance in the future, in response to (and grounded on) lower courts’ evolving experience. See *id.*, at 534–535; *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 140 (2005) (noting that Fogerty was not intended to be the end of the matter).

The parties here, though sharing some common ground, now dispute what else we should say to district courts. Both Kirtsaeng and Wiley agree—as they must—that § 505 grants courts wide latitude to award attorney’s fees based on the totality of circumstances in a case. Yet both reject the position, taken by some Courts of Appeals, that Fogerty spelled out the only appropriate limits on judicial discretion—in other words, that each district court should otherwise proceed as it sees fit, assigning whatever weight to whatever factors it chooses. Rather, Kirtsaeng and Wiley both call, in almost identical language, for “[c]hanneling district court discretion towards the purposes of the Copyright Act.” But at that point, the two part ways. Wiley argues that giving substantial weight to the reasonableness of a losing party’s position will best serve the Act’s objectives. By contrast, Kirtsaeng favors giving special consideration to whether a lawsuit resolved an important and close legal issue and thus “meaningfully clarifie[d]” copyright law.

We join both parties in seeing a need for some additional guidance respecting the application of § 505. In addressing other open-ended fee-shifting statutes, this Court has emphasized that “in a system of laws discretion is rarely without limits.” *Flight Attendants v. Zipes*, 491 U.S. 754, 758 (1989). Without governing standards or principles, such provisions threaten to condone judicial “whim” or predilection. *Martin*, 546 U.S., at 139. At the least, utterly freewheeling inquiries often deprive litigants of “the basic principle of justice that like cases should be decided alike,” *Martin*, 546 U.S., at 139—as when, for example, one judge thinks the parties’ “motivation [s]” determinative and another believes the need for “compensation” trumps all else, *Fogerty*, 510 U.S., at 534, n. 19. And so too, such unconstrained discretion prevents individuals from predicting how fee decisions will turn out, and thus from making properly informed judgments about whether to litigate. For those reasons, when applying fee-shifting laws with “no explicit limit or condition,” *Halo*, ante, at 8, we have nonetheless “found limits” in them—and we have done so, just as both parties urge, by looking to “the large objectives of the relevant Act,” *Zipes*, 491 U.S., at 759.

In accord with such precedents, we must consider if either Wiley’s or Kirtsaeng’s proposal well advances the Copyright Act’s goals. Those objectives are well settled. As Fogerty explained, “copyright law ultimately serves the purpose of enriching the general public through access to

creative works.” 510 U.S., at 527; see U.S. Const., Art. I, § 8, cl. 8 (“To promote the Progress of Science and useful Arts”). The statute achieves that end by striking a balance between two subsidiary aims: encouraging and rewarding authors’ creations while also enabling others to build on that work. See Fogerty, 510 U.S., at 526. Accordingly, fee awards under § 505 should encourage the types of lawsuits that promote those purposes. (That is why, for example, Fogerty insisted on treating prevailing plaintiffs and prevailing defendants alike—because the one could “further the policies of the Copyright Act every bit as much as” the other. 510 U.S., at 527.) On that much, both parties agree. The contested issue is whether giving substantial weight to the objective (un)reasonableness of a losing party’s litigating position—or, alternatively, to a lawsuit’s role in settling significant and uncertain legal issues—will predictably encourage such useful copyright litigation.

The objective-reasonableness approach that Wiley favors passes that test because it both encourages parties with strong legal positions to stand on their rights and deters those with weak ones from proceeding with litigation. When a litigant—whether plaintiff or defendant—is clearly correct, the likelihood that he will recover fees from the opposing (i.e., unreasonable) party gives him an incentive to litigate the case all the way to the end. The holder of a copyright that has obviously been infringed has good reason to bring and maintain a suit even if the damages at stake are small; and likewise, a person defending against a patently meritless copyright claim has every incentive to keep fighting, no matter that attorney’s fees in a protracted suit might be as or more costly than a settlement. Conversely, when a person (again, whether plaintiff or defendant) has an unreasonable litigating position, the likelihood that he will have to pay two sets of fees discourages legal action. The copyright holder with no reasonable infringement claim has good reason not to bring suit in the first instance (knowing he cannot force a settlement and will have to proceed to judgment); and the infringer with no reasonable defense has every reason to give in quickly, before each side’s litigation costs mount. All of those results promote the Copyright Act’s purposes, by enhancing the probability that both creators and users (i.e., potential plaintiffs and defendants) will enjoy the substantive rights the statute provides.

By contrast, Kirtsaeng’s proposal would not produce any sure benefits. We accept his premise that litigation of close cases can help ensure that “the boundaries of copyright law [are] demarcated as clearly as possible,” thus advancing the public interest in creative work. But we cannot agree that fee-shifting will necessarily, or even usually, encourage parties to litigate those cases to judgment. Fee awards are a double-edged sword: They increase the reward for a victory—but also enhance the penalty for a

defeat. And the hallmark of hard cases is that no party can be confident if he will win or lose. That means Kirtsaeng's approach could just as easily discourage as encourage parties to pursue the kinds of suits that "meaningfully clarif[y]" copyright law. It would (by definition) raise the stakes of such suits; but whether those higher stakes would provide an incentive—or instead a disincentive—to litigate hinges on a party's attitude toward risk. Is the person risk-preferring or risk-averse—a high-roller or a penny-ante type? Only the former would litigate more in Kirtsaeng's world. See Posner, An Economic Approach to Legal Procedure and Judicial Administration, 2 J. Legal Studies 399, 428 (1973) (fees "make[] the expected value of litigation less for risk-averse litigants, which will encourage [them to] settle[ ]"). And Kirtsaeng offers no reason to think that serious gamblers predominate. See, e.g., Texas Industries, Inc. v. Radcliff Materials, Inc., 451 U.S. 630, 636, n. 8 (1981) ("Economists disagree over whether business decisionmakers[ ] are 'risk averse' "); CIGNA Corp. v. Amara, 563 U.S. 421, 430 (2011) ("[M]ost individuals are risk averse"). So the value of his standard, unlike Wiley's, is entirely speculative.

What is more, Wiley's approach is more administrable than Kirtsaeng's. A district court that has ruled on the merits of a copyright case can easily assess whether the losing party advanced an unreasonable claim or defense. That is closely related to what the court has already done: In deciding any case, a judge cannot help but consider the strength and weakness of each side's arguments. By contrast, a judge may not know at the conclusion of a suit whether a newly decided issue will have, as Kirtsaeng thinks critical, broad legal significance. The precedent-setting, law-clarifying value of a decision may become apparent only in retrospect—sometimes, not until many years later. And so too a decision's practical impact (to the extent Kirtsaeng would have courts separately consider that factor). District courts are not accustomed to evaluating in real time either the jurisprudential or the on-the-ground import of their rulings. Exactly how they would do so is uncertain (Kirtsaeng points to no other context in which courts undertake such an analysis), but we fear that the inquiry would implicate our oft-stated concern that an application for attorney's fees "should not result in a second major litigation." Zipes, 491 U.S., at 766. And we suspect that even at the end of that post-lawsuit lawsuit, the results would typically reflect little more than educated guesses.

Contrary to Kirtsaeng's view, placing substantial weight on objective reasonableness also treats plaintiffs and defendants even-handedly, as Fogerty commands. No matter which side wins a case, the court must assess whether the other side's position was (un)reasonable. And of course, both plaintiffs and defendants can (and sometimes do) make unreasonable arguments. Kirtsaeng claims that the reasonableness inquiry

systematically favors plaintiffs because a losing defendant “will virtually always be found to have done something culpable.” But that conflates two different questions: whether a defendant in fact infringed a copyright and whether he made serious arguments in defense of his conduct. Courts every day see reasonable defenses that ultimately fail (just as they see reasonable claims that come to nothing); in this context, as in any other, they are capable of distinguishing between those defenses (or claims) and the objectively unreasonable variety. And if some court confuses the issue of liability with that of reasonableness, its fee award should be reversed for abuse of discretion.

All of that said, objective reasonableness can be only an important factor in assessing fee applications—not the controlling one. As we recognized in Fogerty, § 505 confers broad discretion on district courts and, in deciding whether to fee-shift, they must take into account a range of considerations beyond the reasonableness of litigating positions. See *supra*, at 1985. That means in any given case a court may award fees even though the losing party offered reasonable arguments (or, conversely, deny fees even though the losing party made unreasonable ones). For example, a court may order fee-shifting because of a party’s litigation misconduct, whatever the reasonableness of his claims or defenses. See, e.g., *Viva Video, Inc. v. Cabrera*, 9 Fed.Appx. 77, 80 (C.A.2 2001). Or a court may do so to deter repeated instances of copyright infringement or overaggressive assertions of copyright claims, again even if the losing position was reasonable in a particular case. See, e.g., *Bridgeport Music, Inc. v. WB Music Corp.*, 520 F.3d 588, 593–595 (C.A.6 2008) (awarding fees against a copyright holder who filed hundreds of suits on an overbroad legal theory, including in a subset of cases in which it was objectively reasonable). Although objective reasonableness carries significant weight, courts must view all the circumstances of a case on their own terms, in light of the Copyright Act’s essential goals.

And on that score, *Kirtsaeng* has raised serious questions about how fee-shifting actually operates in the Second Circuit. To be sure, the Court of Appeals’ framing of the inquiry resembles our own: It calls for a district court to give “substantial weight” to the reasonableness of a losing party’s litigating positions while also considering other relevant circumstances. See 605 Fed.Appx., at 49–50; Matthew Bender, 240 F.3d, at 122. But the Court of Appeals’ language at times suggests that a finding of reasonableness raises a presumption against granting fees—and that goes too far in cabining how a district court must structure its analysis and what it may conclude from its review of relevant factors. Still more, district courts in the Second Circuit appear to have overly learned the Court of Appeals’ lesson, turning “substantial” into more nearly “dispositive” weight. As *Kirtsaeng* notes, hardly any decisions in that Circuit have

granted fees when the losing party raised a reasonable argument (and none have denied fees when the losing party failed to do so). See For these reasons, we vacate the decision below so that the District Court can take another look at Kirtsaeng's fee application. In sending back the case for this purpose, we do not at all intimate that the District Court should reach a different conclusion. Rather, we merely ensure that the court will evaluate the motion consistent with the analysis we have set out—giving substantial weight to the reasonableness of Wiley's litigating position, but also taking into account all other relevant factors.

\* \* \*

The judgment of the Court of Appeals is vacated, and the case is remanded for further proceedings consistent with this opinion.

**UNITED STATES V. LIU**

United States Court of Appeals, Ninth Circuit

Oct. 1, 2013

731 F.3d 982

NGUYEN, Circuit Judge:

Julius Liu appeals his convictions and sentence for criminal copyright infringement and trafficking in counterfeit labels. Liu's company, Super DVD, commercially replicated CDs and DVDs for various clients on a scale that subjects him to substantial criminal liability if a client—and, by extension, Liu—lacked permission from the copyright holder to make the copies.

Under the relevant criminal statutes, Liu's guilt turns on whether he acted "willfully" and "knowingly." We hold that the term "willfully" requires the government to prove that a defendant knew he was acting illegally rather than simply that he knew he was making copies. Similarly, to "knowingly" traffic in counterfeit labels requires knowledge that the labels were counterfeit. Because the district court improperly instructed the jury otherwise, we vacate Liu's convictions and remand. \*\*\*

**BACKGROUND**

I. The Replication of CDs and DVDs

Commercial CD and DVD replication differs from the process of recording content onto CDs and DVDs in that prerecorded discs have their content stamped onto them—requiring a molding machine and a stamper—rather than burned. To create a CD stamper, a process known as "mastering,"

some source material containing digital content is necessary, such as a tape, recordable CD, or music file. Counterfeitors making a “straight counterfeit,” i.e., an exact copy of an existing CD, can start with either a legitimate or counterfeit version of the CD. Counterfeitors making a previously nonexistent compilation of tracks take multiple legitimate disks and burn the relevant tracks onto a recordable CD, which then serves as the source material for the stamper.

Replication plants process orders for customers, who are typically the publishers (or persons purporting to be the publishers) who own the reproduction rights to the works in question. While a few plants specialize in mastering, most deal exclusively with replicating. Plants offering both types of services are rare because of the higher cost associated with mastering, which requires more expensive equipment, larger premises, a clean room environment, and greater expertise to operate. A replication plant that does not create stampers in-house will outsource the work to a mastering plant.

## II. The Investigation of Liu and Super DVD

Liu has worked in the replication industry since the early 1990s. In 2000, he founded, and became the CEO of, a DVD-manufacturing company called Super DVD. By 2001, Super DVD employed about 65 people and operated four replication machines at its Hayward, California warehouse.

In mid-2001, Super DVD fell on hard financial times. The manufacturer of one of its replication machines went bankrupt and the machine was taken back to Irvine, California. Two of the other machines were repossessed because Super DVD fell behind on its lease payments. Use of the final replication machine was frozen due to a dispute over royalties between the machine manufacturer and another company. Super DVD’s engineers left for other employment, and in 2003 the company did not renew its business license with the city. In an effort to lease the factory space, Liu showed the property to approximately 10–15 persons per week.

Meanwhile, the government had become suspicious of Super DVD’s operations. In May 2003, Immigration and Customs Enforcement agents raided the warehouse of Vertex International Trading, a computer software reseller based in Coral Springs, Florida, where agents recovered counterfeit copies of the Symantec software “Norton Anti-Virus 2003” and related documentation. The documentation included purchase orders, handwritten notes, and FedEx shipping labels from more than 50 vendors, including Super DVD.

Later that month, private investigator Cynthia Navarro, working on behalf

of Symantec, posed as a potential lessee to investigate Super DVD's warehouse. While there, Navarro observed a man using one of two machines that she believed were used for CD or DVD replication. Through a window, she could see into a locked room that was filled wall to wall with spindles of CDs.

At the end of July 2003, agents executed a search warrant on the Super DVD warehouse and recovered thousands of DVDs and CDs. One room stored CDs and DVDs, and another held stampers, artwork, and masters. The CDs included a compilation of rap tracks, Rap Masters Vol. 2; three compilations of Latin music tracks, Los Tucanes de Tijuana: Romanticas, Lo Mejor de la Mafia, and 3 Reyars [sic] del Tex Mex: Romanticas; and a greatest hits album, Beatles 1. The agents also recovered DVD copies of the film Crouching Tiger, Hidden Dragon. Liu did not have authorization from the copyright holders to replicate any of these works.

During an interview and at trial, Liu admitted that Super DVD manufactured the Crouching Tiger DVDs in 2001 for a company called R & E Trading. R & E gave Super DVD a stamper with the name "Tiger" on it but not the full title of the film. The DVDs were still in Super DVD's warehouse at the time the search warrant was executed because R & E had rejected them, claiming that the movies would freeze. Liu stated that when R & E refused to pay for the order, he became personally involved and realized that R & E did not have the rights to duplicate such a famous movie. Super DVD filed a lawsuit against R & E alleging that R & E deceived it about the copyrights. The lawsuit sought payment from R & E on about 40 invoices totaling approximately \$85,000, including work done on the Crouching Tiger movie. Super DVD obtained a jury verdict for approximately \$600.

Liu generally denied any knowledge of or involvement in replicating the other works. Liu explained that he became involved with the Latin music compilations when one of the former Super DVD engineers introduced Liu to his uncle, Juan Valdez, a famous mariachi singer. Liu and Valdez got together and played music—Liu on the guitar, Valdez singing. Valdez expressed interest in publishing CDs, and Liu told him that he didn't have the facility to do it but suggested companies that could take care of the mastering, printing, and even the sleeve. Liu volunteered to do the overwrapping for Valdez because it only cost him "pennies." Valdez told Liu that he created the tracks by mixing his voice with music from a Karaoke machine and that he had paid for the license. Liu listened to some of the tracks and, believing that it was Valdez's voice, thought that the music "belong[ed] to him."

### III. Liu's Convictions and Sentence

The government charged Liu with three counts of criminal copyright infringement under 17 U.S.C. § 506(a)(1)(A) and 18 U.S.C. § 2319(b)(1) based on the music CDs, the Crouching Tiger DVD, and the Norton Anti-Virus software. A fourth count alleged that Liu trafficked in the counterfeit labels on the software, 18 U.S.C. § 2318(a). Following a three-day jury trial, Liu was convicted on all counts. The district court sentenced Liu to four years in prison followed by three years of supervised release. \*\*\*

## ANALYSIS

### I. The District Court Erred in Instructing the Jury on the “Willfulness” and “Knowledge” Elements

#### A. Standard of Review

“When a party properly objects to a jury instruction, we review de novo whether the instructions given ‘accurately describe the elements of the charged crime.’” United States v. Munguia, 704 F.3d 596, 598 (9th Cir.2012) (quoting United States v. Heredia, 483 F.3d 913, 921 (9th Cir.2007) (en banc)). A district court’s omission or misstatement of an element of an offense in the jury instructions is subject to harmless error review. United States v. Wilkes, 662 F.3d 524, 544 (9th Cir.2011) (quoting United States v. Kilbride, 584 F.3d 1240, 1247 (9th Cir.2009)). We review unpreserved errors in the jury instructions for plain error. United States v. Phillips, 704 F.3d 754, 762 (9th Cir.2012) (citing United States v. Moreland, 622 F.3d 1147, 1166–67 (9th Cir.2010)). \*\*\*

#### B. The “Willfulness” Element of Criminal Copyright Infringement Requires Knowledge that the Conduct Was Unlawful

Copyright infringers have been subject to civil liability since the Nation’s founding. See Act of May 31, 1790, ch. 15, § 2, 1 Stat. 124, 124–25. In a civil suit, liability for copyright infringement is strict. “[T]he innocent intent of the defendant constitutes no defense to liability.” Monge v. Maya Magazines, Inc., 688 F.3d 1164, 1170 (9th Cir.2012) (citing 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.08[B][1] (Matthew Bender rev. ed.2011)).

Congress first imposed criminal liability for certain types of infringement in the late nineteenth century. See Act of January 6, 1897, ch. 4, 29 Stat. 481, 482. The general approach to criminal copyright enforcement—then, as now—has been to punish only those violations that are both willful and economically motivated. See *id.* (punishing as misdemeanor infringement that is “willful and for profit”); accord 17 U.S.C. § 506(a)(1)(A)) (imposing

criminal liability on “[a]ny person who infringes a copyright willfully and for purposes of commercial advantage or private financial gain”).

Of the two factors that distinguish criminal from noncriminal copyright violations, willfulness and commerciality, the latter is of little practical importance. The Copyright Act defines “financial gain” broadly to include “receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works.” 17 U.S.C. § 101. The commerciality requirement thus “does not meaningfully winnow down the population of copyright defendants potentially liable to incarceration.... [T]he only bar against an overzealous prosecutor criminalizing nearly every copyright infringement case lies in the other prerequisite to criminal liability: willfulness.” 4 Nimmer, *supra*, § 15.01[A][2].

But the term “willfully” is ambiguous. See *Ratzlaf v. United States*, 510 U.S. 135, 141 (1994) (“‘Willful’ ... is a ‘word of many meanings....’”). To infringe willfully could simply mean to intentionally commit the act that constitutes infringement. Alternatively, it could mean that the defendant must act with a “‘bad purpose’ or ‘evil motive’ in the sense that there was an ‘intentional violation of a known legal duty.’” *United States v. Moran*, 757 F.Supp. 1046, 1048 (D.Neb.1991). The 1976 Copyright Act does not define “willfully,” and its legislative history offers little guidance.

When faced with a criminal statute containing an ambiguous “willfulness” element, courts normally resolve any doubt in favor of the defendant. *Ratzlaf*, 510 U.S. at 148. Although the general rule is that “ignorance of the law or a mistake of law is no defense to criminal prosecution,” the modern proliferation of statutes and regulations “sometimes ma[kes] it difficult for the average citizen to know and comprehend the extent of the duties and obligations imposed by the ... laws.” *Cheek*, 498 U.S. at 199–200. Thus, the government must prove that the defendant acted “willfully”—that is, with “specific intent to violate the law”—to be convicted of certain federal criminal offenses. *Id.* at 200; see also *Bryan v. United States*, 524 U.S. 184, 191–92 (1998) (“As a general matter, when used in the criminal context, a ‘willful’ act is one undertaken with a ‘bad purpose.’ In other words, in order to establish a ‘willful’ violation of a statute, ‘the Government must prove that the defendant acted with knowledge that his conduct was unlawful.’”).

In reviewing a conviction for criminal copyright infringement, we, and numerous other circuits, have assumed that proof of the defendant’s specific intent to violate someone’s copyright is required. See *United States v. Beltran*, 503 F.3d 1, 2 (1st Cir.2007); *United States v. Minor*, 756 F.2d 731, 734 (9th Cir.1985); *United States v. Gottesman*, 724 F.2d 1517, 1522 (11th Cir.1984); *United States v. Whetzel*, 589 F.2d 707, 712 (D.C.Cir.1978). But compare *United States v. Backer*, 134 F.2d 533, 535

(2d Cir.1943) (finding sufficient evidence that the defendant had willfully copied where he “deliberately had the copies made and deliberately sold them for profit”), with United States v. Rose, 149 U.S.P.Q. 820, 824 (S.D.N.Y.1966) (instructing, notwithstanding Backer, that the government must prove the defendant acted “voluntarily and purposely and with specific intent to do that which the law forbids—that is to say, with bad purpose either to disobey or disregard the law”). We now explicitly hold that “willfully” as used in 17 U.S.C. § 506(a) connotes a “voluntary, intentional violation of a known legal duty.” Cheek, 498 U.S. at 201.

The Copyright Act’s legislative history supports our interpretation. In 1997, Congress updated the statutory provision governing criminal copyright infringement by inserting the language that Liu requested: “evidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement.” No Electronic Theft (NET) Act, Pub.L. 105–147, § 2(b), 111 Stat 2678, 2678 (1997) (codified as amended at 17 U.S.C. § 506(c)). This language was in response to the “on-going debate about what precisely is the ‘willfulness’ standard in the Copyright Act.” 143 Cong. Rec. S12,689 (daily ed. Nov. 13, 1997) (statement of Sen. Orrin Hatch); see also *id.* at 12,690 (statement of Sen. Patrick Leahy) (“This clarification was included to address the concerns expressed ... because the standard of ‘willfulness’ for criminal copyright infringement is not statutorily defined and the court’s interpretation[s] have varied somewhat among the Federal circuits.”). Upon passage of the bill in the Senate, Senator Hatch stated that willful “ought to mean the intent to violate a known legal duty.... As Chairman of the Judiciary Committee, that is the interpretation that I give to this term. Otherwise, I would have objected and not allowed this bill to pass by unanimous consent.” 143 Cong. Rec. S12, 689.

As a practical matter, requiring only a general intent to copy as a basis for a criminal conviction would not shield any appreciable amount of infringing conduct from the threat of prosecution. Civil liability will not lie if an author fortuitously creates a work that is substantially similar to another author’s copyrighted work. See *Airframe Sys., Inc. v. L-3 Commc’ns Corp.*, 658 F.3d 100, 106 (1st Cir.2011) (“[E]ven when two works are substantially similar with respect to protectable expression, if the defendant did not copy as a factual matter, but instead independently created the work at issue, then infringement liability must be denied.”). To infringe a copyright, one must copy the protected work. See, e.g., *L.A. Printex Indus., Inc. v. Aeropostale, Inc.*, 676 F.3d 841, 846 (9th Cir.2012) (“To establish copyright infringement, a plaintiff must prove two elements: ‘(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.’”). Copying is of necessity an intentional act. If we were to read 17 U.S.C. § 506(a)’s willfulness requirement to mean

only an intent to copy, there would be no meaningful distinction between civil and criminal liability in the vast majority of cases. That cannot be the result that Congress sought.

In the present case, notwithstanding the parties' agreement to add an instruction that “[e]vidence of reproduction or distribution of a copyrighted work, by itself, shall not be sufficient to establish willful infringement of a copyright,” 17 U.S.C. § 506(a)(2), the district court did not include the requested language. In fact, the district court exacerbated the omission by defining willful infringement without the crucial knowledge component: In order for the defendant to be found guilty of [copyright infringement], the government must prove each of the following elements beyond a reasonable doubt:

First, that on a date beginning in 2001 and continuing to on or about July 31, 2003, in the Northern District of California, defendant willfully infringed, that is, without authorization, duplicated, reproduced, or sold compact disks that infringed the copyright belonging to the owners of the works....

By defining “willfully infringed” without any requirement that the defendant knew he was committing copyright infringement, the district court instructed the jury to apply a civil liability standard.

The district court further compounded this error a short time later, instructing the jury that “[a]n act is done ‘willfully’ if the act is done knowingly and intentionally, not through ignorance, mistake, or accident.” We recently considered a virtually identical instruction in *United States v. Berry*, 683 F.3d 1015 (9th Cir.2012). The district court had instructed the jury that “an act is done willfully if the defendant acted or failed to act knowingly and intentionally and did not act or fail to act through ignorance, mistake, or accident.” Id. at 1021. Finding error, we explained that “the instruction given merged the concepts of ‘knowing’ and ‘willful’ without conveying the culpable state of mind that the term ‘willfully’ is designed to invoke in the criminal arena.” Id.

We conclude that the district court in this case erred by defining willfulness such that the jury could have convicted Liu without finding that he knew that his actions were unlawful.

### C. The Instructional Error Was Not Harmless

Liu’s convictions on the copyright infringement counts cannot stand unless the instructional error was harmless. “An error in describing an element of the offense in a jury instruction is harmless only if it is ‘clear beyond a reasonable doubt that a rational jury would have found the defendant guilty absent the error.’” *Munguia*, 704 F.3d at 603–04.

The conclusion was irresistible that the infringing CDs and DVDs were replicated in the Super DVD warehouse. The discs all were found there with the exception of the Norton Anti-Virus software, which was discovered at the Vertex warehouse along with purchase orders and shipping labels linking it to Liu and Super DVD. Almost all of the music CDs bore Liu's initials, "JL." Liu admitted to reproducing the Crouching Tiger DVDs for R & E Trading, and there was a written agreement from early 2001 between Super DVD and R & E to press 2,000 copies of the Beatles CD. Although Liu claimed to have no knowledge of how the other discs were made, suggesting that the orders may have been handled by his sales staff, it is unclear whether the jury disbelieved him, thought he had forgotten, or found his employees' acts attributable to him.

Whatever the case, Liu's state of mind was critical. Liu was aware of copyright laws and admittedly had been sued for copyright infringement in the past. His guilt thus hinged on whether he knew that his clients did not have authorization to replicate the disks at issue.

Liu presented evidence that his customers signed agreements stating that they had the copyright to the works in question and promising "to be responsible for all copyright related legal responsibilities." His expert witness testified that other replicators also rely on such agreements rather than carefully investigate each customer. Liu testified that he attempted to verify that there were no copyright violations on the Latin music compilations by listening to some of the tracks and satisfying himself that it was Valdez's voice. He further claimed that he did not realize R & E's order for Crouching Tiger DVDs was unauthorized until he became embroiled in the payment dispute, at which time he filed a lawsuit against R & E. The fact that he initiated a lawsuit over a dispute involving thousands of infringing copies of Crouching Tiger, Hidden Dragon that he created is arguably compelling evidence that he did not understand his conduct to have been wrongful.

We cannot say that the jury would not have credited some or all of this evidence had the jury appreciated its relevance. The evidence may have supported a finding that Liu did not know that he was illegally copying copyrighted material and thus he did not willfully infringe the copyrights. Therefore, the failure to provide a proper willfulness instruction was not harmless beyond a reasonable doubt.

We reject the government's contention that any error was harmless because, on the second day of trial, the district court correctly described the concept of willfulness to the jury. The court stated that "one of the issues in this case [is that] the government claims that Mr. Liu did certain conduct

willfully, which means that he did it intentionally, that he knew what was going on and he knew that it was a violation of someone's rights under the copyright laws, or he had good reason to know that." But this statement is itself problematic. Having "good reason to know" one is violating the law is not tantamount to knowing it.

Even if the court's statement accurately conveyed the willfulness standard to the jury, a correct statement of the law given during trial does not cure an incorrect one delivered immediately prior to deliberations. See *Seltzer v. Chesley*, 512 F.2d 1030, 1035 (9th Cir.1975) ("Erroneous instructions can be corrected by the trial judge only by expressly correcting them and by directing the members of the jury to expunge the erroneous statements from their minds.").

Further, the district court's statement about willfulness was made in a context that had nothing to do with the elements of criminal copyright infringement. The court was in the middle of delivering unrelated comments about character evidence. It immediately minimized the need for the jury to pay attention to its comments, adding that "[t]hose are all things I'll tell you about when I give you my instructions on the law." Thus, it is inconceivable that the district court's partially correct statement on willfulness mid-trial overcame the effect of its erroneous statements in the oral and written jury instructions given to the jury immediately prior to deliberations.

Accordingly, we vacate Liu's convictions and sentence for criminal copyright infringement on counts one through three and remand to the district court. For reasons we will explain, count two must be dismissed.

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