

INTELLECTUAL PROPERTY
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Advanced Licensing Agreements 2017

Volume One

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 - 1. Works other than works made for hire
 - 2. Exclusive or nonexclusive grant of transfer or license of copyright or of any right under a copyright
 - 3. Executed by the author on or after Jan. 1, 1978
 - 4. Otherwise than by will
 - 5. Subject to termination under specified conditions
 - 6. Termination may be effected during 5-year period beginning 35 years from date of execution of the grant (or if grant covers the right of publication of the work, 35 years from date of

publication of work under the grant or 40 years from date of execution of grant, whichever is earlier)

7. If grant executed by one author, that author may terminate
 8. If grant executed by two or more authors of joint work, majority of authors who executed it may terminate
- D. Section 304 Terminations
1. Copyrights in first or renewal term as of Jan. 1, 1978
 2. Works other than works made for hire
 3. Exclusive or nonexclusive grant of transfer or license of the renewal copyright or of any right under it
 4. Executed by the author or specified heirs before Jan. 1, 1978
 5. Otherwise than by will
 6. Subject to termination under specified conditions
 7. Termination may be effected during 5-year period beginning 56 years from the date copyright was originally secured
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XVII. PREVIOUS “NEW” MEDIA

CONTENT LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the "Agreement") is made and entered into as of the ____ day of _____, 2015 (the "Effective Date"), by and between _____ ("Licensor"), a _____ corporation having its principal place of business at _____, and _____ ("Licensee"), a _____ corporation having its principal place of business at _____.

WHEREAS, Licensor publishes magazines and other print publications relating to _____;

WHEREAS, Licensee is a media, entertainment and information provider that uses the Internet to provide entertainment, news and information;

WHEREAS, Licensee desires to obtain from Licensor the right to use and distribute certain content developed by Licensor as defined herein; and

WHEREAS, Licensor is willing to grant such rights to Licensee in accordance with the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the terms and conditions set forth herein, the parties hereto hereby agree as follows:

1. DEFINITIONS

- 1.1 "Licensor Content" shall mean and be comprised of certain mutually agreed-upon content including but not limited to the information contained in the magazines and other print publications attached as Exhibit A hereto, and other specific information when mutually agreed upon or specifically referenced in this Agreement.
- 1.2 "Licensor Web Site" shall mean the site currently located at <http://www.Licensor.com>.
- 1.3 "Licensee Web Site" shall mean the site currently located at <http://www.Licensee.com>.
- 1.4 "Online Services" shall mean any systems for distributing or otherwise making available content via transmission, broadcast, public display, or other forms of delivery, whether direct or indirect, to end users, whether over telephone lines, cable television systems, optical fiber connections, cellular telephones, satellites, wireless

broadcast, interactive telephone products, and/or other mode(s) of transmission now known or hereafter developed.

2. LICENSE GRANT

- 2.1 Except as set forth in paragraph 3.1 of this Agreement, and subject to the provisions of paragraphs 2.2 and 4 below, Licensor hereby grants to Licensee a nonexclusive worldwide license during the Term of this Agreement to do the following with respect to the Licensor Content which will appear on Licensee's website unless otherwise stated herein:
- (a) To use, reproduce, copy, distribute, transmit, advertise, market, publicly display and publicly perform the Licensor Content in the Licensee Online Services as set forth in this Agreement;
 - (b) To authorize end users to download the Licensor Content or portions thereof for personal use as set forth in this Agreement, including the right to archive such Licensor Content indefinitely; and
 - (c) To archive the Licensor Content in the Licensee Online Services for the Term of the Agreement.
- 2.2 As a condition of the licenses granted pursuant to paragraph 2.1, Licensee shall require that all such use, reproduction, copying, distribution, transmission, advertising, marketing, display and performance of Licensor Content include the Licensor logo and a Licensor copyright notice, and, if applicable, links back to Licensor's website as set forth in Paragraph 5 of this Agreement.

3. LICENSOR OBLIGATIONS

On or before the Effective Date, Licensor shall provide to Licensee the Licensor Content referred to in Exhibit A. Licensor shall deliver any updates or upgrades to Licensor Content within thirty (30) days of such update or upgrade's publication in any form, including publication on Licensor's website. Licensor shall deliver the Licensor Content in HTML format via FTP. Licensee reserves the right to reject any Licensor Content submitted by Licensor within seven (7) days of Licensee's receipt thereof, such rejection not to be unreasonable. In the event that Licensee rejects Licensor Content, Licensor shall use reasonable efforts to submit alternative content within seven (7) days of Licensee's rejection.

4. LICENSE RESTRICTIONS

- 4.1 Licensee shall not market, distribute, sublicense, lease or rent the Licensor Content on a stand-alone basis (i.e., other than as part of the Licensee Online Services).
- 4.2 Licensee shall not edit, modify or revise the Licensor Content in any manner whatsoever without first obtaining Licensor's prior written consent thereto, which may be granted or withheld in Licensor's sole discretion.
- 4.3 Any and all rights not specifically granted herein to Licensee are reserved by Licensor.
- 4.4 Licensor and Licensee agree to prominently post a mutually approved disclaimer at the bottom of each item of Licensor Content submitted hereunder.

5. CO-BRANDING/PROMOTION

Licensor and Licensee agree to work together to create certain co-branded banners and/or pages on the _____ website and other co-branded advertising and joint promotions. Licensee shall use its good-faith efforts to promote Licensor as part of its co-branded advertising and promotions related to the _____ website. Licensor shall use its good-faith efforts to promote the _____ website, including but not limited to providing a graphic link to the Licensee home page and a description of Licensee and its services in a mutually agreeable format on the home page of Licensor's website. On all pages containing the Licensor Content, Licensee shall provide a textual link to a designated portion of Licensor's On-line Services.

6. EXCLUSIVITY

Notwithstanding anything to the contrary herein, Licensor shall not provide any Licensor Content to any third-party provider of online services whose primary focus is providing entertainment, news and information about _____. Nothing herein shall prohibit Licensor from providing Licensor Content on Licensor's website.

7. JOINT PROJECTS

Licensee and Licensor may, at a later date, agree to co-produce certain co-branded productions regarding subjects of public interest, provided that the parties are able to mutually agree upon the subjects, resources, content required by each party, the host site, and the time frame for each such co-production. Neither party shall be obligated to participate in any such co-production(s) during the Term of this Agreement.

8. PAYMENT

No payments shall be owed by either party to the other for the license granted herein. Each party shall be responsible for any expenses incurred by such party pursuant to this Agreement, and each party will retain any other revenue generated from its respective website or otherwise. The parties shall negotiate in good faith regarding possible investments and/or revenue participation in co-branded productions which the parties may agree to produce pursuant to paragraph 6 above.

9. WARRANTIES AND INDEMNITIES

9.1 Warranties.

- (a) Licensor warrants that (i) Licensor's performance under this Agreement shall not violate any agreement between Licensor and any third party or any obligation owed by Licensor to any third party; (ii) the Licensor Content, the operation of Licensor's website, any other products, services or information provided to Licensee, and any updates and modifications thereto, do not and shall not violate any applicable law or regulation or infringe any copyright, trademark, trade secret, patent or contractual rights of any third party; (iii) it has all right, power and authority necessary to enter into this Agreement; and (iv) it will not use the Licensor Content in any commercially unreasonable manner or in any manner that would disparage or discredit Licensee or its suppliers.
- (b) Licensee warrants that (i) Licensee's performance under this Agreement shall not violate any agreement between Licensee and any third party or any obligation owed by Licensee to any third party; (ii) any content provided by Licensee, the operation of Licensee's website, any other products, services or

information provided to Licensor, and any updates or modifications thereto, do not and shall not violate any applicable law or regulation or any copyright, trademark, trade secret, patent or contractual rights of any third party; (iii) it has all right, power and authority necessary to enter into this Agreement; and (iv) it will not use the Licensor Content in any commercially unreasonable manner or in any manner that would disparage or discredit Licensor or its suppliers.

- 9.2 EXCEPT AS SET FORTH HEREIN, ALL WARRANTIES, EXPRESS OR IMPLIED, ARE EXPRESSLY EXCLUDED AND DECLINED. EACH PARTY DISCLAIMS ANY IMPLIED WARRANTIES, PROMISES AND CONDITIONS OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE AND/OR NON-INFRINGEMENT, WHETHER AS TO ANY CONTENT OR SERVICES RENDERED BY LICENSEE OR LICENSOR AND/OR THE TECHNOLOGY DEPLOYED IN CONNECTION THEREWITH. EXCEPT AS SET FORTH HEREIN, LICENSEE MAKES NO REPRESENTATION THAT THE OPERATION OF LICENSEE'S WEBSITE WILL BE UNINTERRUPTED OR ERROR-FREE, AND LICENSEE WILL NOT BE LIABLE FOR THE CONSEQUENCES OF ANY INTERRUPTIONS OR ERRORS.
- 9.3 IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR ANY DIRECT, CONSEQUENTIAL, INDIRECT, INCIDENTAL, OR SPECIAL DAMAGES WHATSOEVER, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOSS OF BUSINESS PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION, AND THE LIKE, ARISING OUT OF THE USE OF OR INABILITY TO USE THE CONTENT OR LOGOS REFERRED TO IN THIS AGREEMENT, EVEN IF THE PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.
- 9.4 Indemnities. Each party (the "indemnifying party") shall, at its expense and at the other party's (the "indemnified party's") request, defend any third-party claim or action brought against the indemnified party, and the indemnified party's directors, officers, employees, licensees, agents, attorneys and independent contractors, (i) relating to the indemnifying party's website, content, network, products, services, and accessories or the marketing thereof, and (ii) to the extent it is based upon a claim that, if true, would constitute

a breach of the indemnifying party's warranties, representations, agreements or covenants set forth in this Agreement (collectively, "Indemnified Claims"); and the indemnifying party shall indemnify and hold harmless the indemnified party from and against any and all costs, damages and fees reasonably incurred by the indemnified party, including but not limited to fees of attorneys and other professionals, that are attributable to such Indemnified Claims. The indemnified party shall provide the indemnifying party prompt notice in writing of any such Indemnified Claims and provide the indemnifying party with reasonable information and assistance to help the indemnifying party to defend such Indemnified Claims.

10. INTELLECTUAL PROPERTY

Each party retains all rights, title and interest, including without limitation rights of trademark and copyright, in all of its property, including but not limited to trade names, trademarks, service marks, symbols, identifiers, formats, designs, devices, identifiers, and proprietary products, services and information owned by such party.

11. INDEPENDENT DEVELOPMENT

Nothing in this Agreement shall be construed as restricting Licensee's ability to acquire, license, develop, manufacture or distribute for itself, or have others acquire, license, develop, manufacture or distribute for Licensee, similar content, services, or technology performing the same or similar functions as the content, services or technology contemplated by this Agreement, or to market and distribute such similar technology in addition to, or in lieu of, the content, services, or technology contemplated by this Agreement.

12. TERM AND TERMINATION

- 12.1 The Term of the Agreement shall commence on the Effective Date and continue for ____ () years unless otherwise amended, extended, or terminated. ("Term"). The Agreement shall be automatically renewed for subsequent one (1)-year periods, unless either party shall provide written notice of termination to the other no later than sixty (60) days prior to the expiration date of the Agreement.
- 12.2 This Agreement may be terminated by either party prior to its natural expiration if any of the following events of default occurs:

(i) the other party materially fails to perform or comply with this Agreement or any provision hereof; (ii) the other party becomes insolvent or admits in writing its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors; or (iii) a petition under any bankruptcy act, receivership statute, or the like, as they now exist, or as they may be amended, is filed by the other party or by any third party, or an application for a receiver of the other party is made by anyone and such petition or application is not resolved favorably to such party within sixty (60) days after the filing thereof. Termination under (i) above shall be effective thirty (30) days after written notice of termination given by the non-defaulting party to the defaulting party, if the defaulting party's defaults have not been cured within such thirty (30)-day period. Termination under (ii) or (iii) above shall be effective upon notice. The rights and remedies provided in this paragraph 12.2 shall not be exclusive and are in addition to any other rights and remedies provided by law or this Agreement. In the event a non-defaulting party in its discretion elects not to terminate this Agreement, such election shall not be a waiver of any claims of that party relating to such default(s). Without limiting the foregoing, the non-defaulting party may elect to leave this Agreement in full force and effect and to institute legal action against the defaulting party for specific performance and/or damages suffered by such party as a result of the default(s).

12.3 Either party may terminate this Agreement at any time during the Term of the Agreement, for any reason, by providing written notice to the other party of such termination at least ninety (90) days in advance thereof.

13. NOTICES

All notices and requests in connection with this Agreement shall be deemed given as of the day they are received via messenger or delivery service, or three (3) days after they are deposited in the United States mail, postage prepaid, by certified or registered mail, return receipt requested, and addressed as follows:

Notices to Licensee:**Notices to Licensor:**

Licensee

Licensor

A party may change its address by giving the other party written notice thereof in the manner set forth above.

14. GENERAL

- 14.1 Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and merges all prior and contemporaneous communications. It may not be modified except by a written agreement dated subsequent to the date of this Agreement and signed on behalf of Licensee and Licensor by their respective duly authorized representatives.
- 14.2 Assignment. This Agreement may not be assigned by either party without the other party's prior written consent, and any purported assignment without such consent shall be null and void. Except as otherwise provided, this Agreement shall be binding upon and inure to the benefit of the parties' successors and permitted assigns. Notwithstanding the foregoing, either party may, without the other party's consent, assign this Agreement to (i) a parent, subsidiary, affiliate, division or corporation controlling, controlled by or under common control with the assigning party; (ii) a successor corporation related to the assigning party by merger, consolidation, nonbankruptcy reorganization or government action; or (iii) a purchaser of all or substantially all of the assigning party's assets.
- 14.3 Attorneys' Fees. In any action or suit to enforce any right or remedy under this Agreement or to interpret any provision of this Agreement, the prevailing party shall be entitled to recover its costs, including reasonable attorneys' fees.
- 14.4 Confidentiality. Each party shall hold in strictest confidence, shall not use or disclose to any third party, and shall take all necessary precautions to secure, any Confidential Information of the other party. Disclosure of such information shall be restricted solely to employees, agents, attorneys, consultants and representatives who

have been advised of their obligation with respect to Confidential Information. The term “Confidential Information” shall mean all non-public information that a party designates as being confidential, or which, under the circumstances of disclosure, ought to be treated as confidential. “Confidential Information” includes, without limitation, the terms and conditions of this Agreement, information relating to released or unreleased products or services, marketing or promotion of any product or service, business policies or practices, customers, potential customers or suppliers of information, trade secrets, source codes, documentation, formulae, technology, and information received from third parties that a party is obligated to treat as confidential. If a party has any questions as to what comprises such Confidential Information, that party shall consult with the other party. “Confidential Information” shall not include information that was known to a party prior to the other party’s disclosure, or information that becomes publicly available through no fault of the party.

- 14.5 Choice of Law. This Agreement shall be construed in accordance with the laws of the State of _____, and the parties consent to jurisdiction and venue in the state and federal courts sitting in _____.
- 14.6 Severability. If for any reason a court of competent jurisdiction finds any provision of this Agreement, or portion thereof, to be unenforceable, that provision of the Agreement shall be enforced to the maximum extent permissible so as to effect the intent of the parties, and the remainder of this Agreement shall continue in full force and effect. Failure by either party to enforce any provision of this Agreement shall not be deemed a waiver of future enforcement of that or any other provision. This Agreement has been negotiated by the parties and their respective counsel and shall be interpreted fairly in accordance with its terms and without any strict construction in favor of or against either party.
- 14.7 Waiver. No waiver of any breach of any provision of this Agreement shall constitute a waiver of any prior, concurrent or subsequent breach of the same or any other provision hereof, and no waiver shall be effective unless made in writing and signed by an authorized representative of the waiving party.

- 14.8 Headings. The section headings used in this Agreement are intended for convenience only and shall not be deemed to supersede or modify any provisions.
- 14.9 No Offer. This Agreement does not constitute an offer by either party and it shall not be effective until signed by both parties.
- 14.10 Equitable Relief. Licensor expressly disclaims any rights it may have either in contract or in tort to seek equitable relief against Licensee for a breach of this Agreement, including but not limited to temporary restraining orders, preliminary injunctions or specific performance. Licensor's sole remedy for any alleged breach of this Agreement shall be to seek monetary damages in a court of competent jurisdiction.
- 14.11 Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and such counterparts together shall constitute one instrument.
- 14.12 No Joint Venture. Nothing in this Agreement shall be construed as creating an employer-employee relationship, a partnership, or a joint venture between the parties.

WHEREBY, the parties have executed this Agreement as of the Effective Date.

LICENSOR

LICENSEE

By: _____

By: _____

Name (Print)

Name (Print)

Title

Title

Date

Date

PRODUCTION COMPANY, INC.
[address]

As of _____, 2015

Ms. Jane Q. Owner
[address]

Dear Ms. Owner:

The following shall constitute the agreement between you (“Owner”) and Production Company, Inc., a _____ corporation (“Producer”), regarding the literary property entitled “The Book”, together with all ideas, themes, names, titles, plots, concepts, illustrations, descriptions, characters, characterizations, events and incidents contained therein or related thereto, and all versions and adaptations thereof and all copyrights and trademark rights relating thereto (all of the foregoing being collectively referred to herein as the “Property”):

1. Grant of Option. In consideration of the payment to Owner of _____ Dollars (\$____) upon the complete execution hereof, Owner hereby grants to Producer the exclusive and irrevocable option (the “Option”) to purchase from Owner, for the purchase price set forth in this Agreement, all rights herein set forth in and to the Property.
2. Exercise of Option. Producer may exercise the Option at any time during the period (the “Option Period”) commencing on the date hereof and ending on the date which is one (1) year after the date hereof. Producer may extend the Option Period for an additional consecutive period of one (1) year by giving notice to Owner of such extension and by paying Owner the sum of _____ Dollars (\$____) at any time prior to the date the Option Period would otherwise expire. Any reference herein to the Option Period shall be deemed to refer to the Option Period as the same may be extended. In the event of the occurrence of one or more events of force majeure, or in the event that any claim is asserted involving any of the representations, warranties, covenants or agreements of Owner herein, the Option Period shall be deemed suspended for a period equal to the duration(s) of the said event(s) of force majeure or until such claim is settled or reduced to final judgment in a court of competent jurisdiction, and the date for exercise of the Option

shall be extended accordingly by adding thereto a number of days equal to the period of the said duration(s). The Option may be exercised only by notice given to Owner during the Option Period, provided that the Option shall in any event be deemed exercised upon commencement of principal photography of any television motion picture based on the Property produced by or under the authority of Producer during the Option Period.

3. Production Activities. Owner acknowledges that Producer may, during the Option Period, undertake development, pre-production and/or production activities in connection with any of the rights to be acquired by Producer hereunder if the Option is exercised, including, without limitation, the preparation and submission of treatments, teleplays and/or screenplays based upon the Property.
4. Rights Granted. Upon Producer's exercise of the Option, the following rights in and to the Property shall automatically vest in Producer, its successors, representatives, licensees and assigns, solely and exclusively and forever:
 - (a) Any and all motion picture, television, radio and allied rights of every kind, nature and description (whether or not such rights are now recognized or contemplated) throughout the universe, in and to the Property and all elements thereof. The rights conveyed to Producer hereunder include, but are not limited to, the entire motion picture rights, sequel and remake rights, series rights, performing rights, merchandising rights, mechanical reproduction and distribution rights, audio and/or visual recording and reproduction rights, live and recorded radio rights, standard and non-standard television and other broadcast and transmission rights (including, without limitation, network, syndication, pay, cable, MDS, DBS, SMATV, satellite, videocassette, videodisc, DVD, cartridge, and subscription television rights), Internet, online and electronic transmission rights, wireless rights, and all silent, sound, animated, talking and musical rights in and to the Property, in perpetuity, in any and all media and languages.
 - (b) The right to exploit all "Productions" in perpetuity throughout the universe in any and all media whether now known or hereafter created or devised and in any and all languages and in any manner as Producer, in its sole discretion, shall elect. As used herein, the term "Productions" shall mean any and all

productions of any sort or nature which are produced in connection with the rights herein granted to Producer.

- (c) The right to exploit all ancillary rights in the Productions, including, without limitation, the right to advertise, promote and publicize the Productions and the right to exercise merchandising and commercial tie-in rights in the Productions. In connection with such advertising, promotion and publicity, Producer shall have the right to prepare print versions of the Productions or elements thereof, containing not more than 7,500 words each. Further, Producer shall have the right to prepare or cause to be prepared novelizations based upon any teleplays and/or screenplays prepared by or under the authority of Producer.
- (d) The right to make any and all changes in and adaptations of the Property and/or any elements thereof in connection with the rights granted to Producer hereunder (including, without limitation, the right to revise, vary, change, and/or adapt the Property, add to and/or delete from the Property, and arrange, rearrange and/or transpose the Property and change the sequence thereof and change the characters and descriptions of the characters contained in the Property and/or any elements of the Property, and/or to use a portion or portions of the Property or the characters, plots or themes therein in conjunction with any other literary or dramatic material of any kind, in connection with the development and production of any and all Productions). Owner hereby waives any so-called “droit moral” or moral rights of authorship which Owner may have with respect to the Property, any and all Productions, and any elements thereof.
- (e) The right to use the name, likeness and biography of Owner in and in connection with the advertising, publicity and exploitation of the Productions.

Owner acknowledges that all rights in and to all Productions hereunder shall be the sole and absolute property of Producer for any and all purposes whatsoever in perpetuity.

5. Reserved Rights. Owner hereby reserves and does not grant to Producer, subject to the provisions of Paragraphs 4 and 6 hereof, print publication rights (other than novelization rights) and legitimate stage rights in the Property. Notwithstanding the foregoing,

Owner shall not exploit or permit others to exploit such legitimate stage rights during the period commencing on the date hereof and ending on the earlier of the date that is five (5) years after the initial United States exhibition of the Production or the date that is seven (7) years after the date of Producer's exercise of the Option unless, during such holdback period, a pilot and/or any episodes of an episodic television series shall have been produced, in which case Owner shall not exploit or permit the exploitation of such legitimate stage rights prior to the later of the expiration of such holdback period or five (5) years after the first commercial exhibition of the last episode of such episodic series.

6. Restrictions on Reserved Rights. It is understood that Owner shall have the right to write, publish and permit to be published print publications based on the Property, provided, however, that Owner shall not exercise or grant to any Person at any time, with respect to any such publication(s), any of the rights herein granted to Producer, and provided further that Producer shall have the right, without the payment of additional compensation to Owner, to use material contained in any such publication(s) in any manner as Producer shall determine in connection with the exercise by Producer of its rights hereunder.
7. Consideration. If Producer exercises the Option, as full and complete consideration for all rights, licenses and privileges granted by Owner to Producer hereunder, and for all representations, warranties, indemnities and agreements of Owner herein, Producer shall pay to Owner the following:
 - (a) The sum of _____ Dollars (\$____), less all option payment(s) paid to Owner pursuant to Paragraphs 1 and 2 hereof. The resulting sum shall be paid to Owner upon exercise of the Option.
 - (b) In the event that Producer produces an episodic television series based upon the Property, then, for each episode of such television series, the following applicable amount per episode, payable within thirty (30) days of the initial telecast of the respective episode:
 - (i) _____ Dollars (\$____) for each such episode not more than one-half (1/2) hour in length;

- (ii) _____ Dollars (\$____) for each such episode more than one-half (1/2) hour but not more than one (1) hour in length; and
- (iii) _____ Dollars (\$____) for each such episode more than one (1) hour in length.
- (c) In the event that Producer produces a feature-length motion picture based on the Property whose initial exhibition in the United States is as a theatrical motion picture by means of general theatrical release (the “Theatrical Motion Picture”), then Producer shall pay to Owner, in addition to the applicable amount(s) specified above, the sum of _____ Dollars (\$____), on or before thirty (30) days after said general theatrical release.
- (d) If, but only if, Producer produces a feature-length motion picture based on the Property which is a sequel to or remake of the Theatrical Motion Picture, and whose initial exhibition in the United States is as a theatrical motion picture by means of general theatrical release, then Producer shall pay to Owner for such sequel an amount equal to one-half (1/2) of the amount payable pursuant to Paragraph 7(c) above, and/or Purchaser shall pay to Owner for such remake an amount equal to one-third (1/3) of the amount payable pursuant to Paragraph 7(c) above, on or before thirty (30) days after said general theatrical release of the remake or sequel, as applicable.
- (e) An amount equal to ____ percent (_%) of Producer’s share of Net Profits, if any, derived from the exploitation of any television series or other Production(s) produced hereunder by or under the authority of Producer in exercise of the rights granted to Producer herein. “Net Profits”, as used herein, shall be defined, computed, paid and accounted for in accordance with Producer’s or Producer’s financier’s customary definition of net profits (including provisions for distribution fees customary in the U.S. entertainment business, recoupment of distribution expenses and production costs, overhead and interest), and the “Producer’s share” of Net Profits shall be the amount remaining to Producer after deducting all profit participations and other contingent compensation payable to third parties.

- (f) Owner shall not be entitled to any payments other than those provided for in this Paragraph 7 for any use or exploitation of the rights granted to Producer herein.
8. Credit. Owner shall be accorded credit on all positive prints of any television series or other Production(s) produced in the exercise of the rights granted to Producer herein, in substantially the following form: "Based on the book 'The Book' by Jane Q. Owner." All aspects of the aforesaid credit, including, without limitation, the size, style and placement thereof, shall be determined by Producer in its sole discretion. No casual or inadvertent failure of Producer or any third party to comply with the provisions of this paragraph shall constitute a breach of this Agreement.
9. Representations and Warranties. Owner hereby represents and warrants that: (a) Owner is the sole author of the Property and all elements thereof; (b) Owner is the sole and exclusive owner and proprietor throughout the universe of the Property and any and all rights therein; (c) Owner has the full right, power and authority to enter into this Agreement and to grant to Producer all the rights herein stated to be granted; (d) no motion picture, television, radio, dramatic or other version or adaptation of the Property has heretofore been produced, performed, authorized to be produced or performed, or copyrighted or registered for copyright, in any country of the world; (e) the Property is wholly original with Owner and has not been copied or adapted from any literary work or other work; (f) nothing contained in the Property shall infringe upon or in any way violate the copyright, right of privacy, right of publicity, right against defamation, trademark or trade name rights, or any other personal or proprietary right of any Person; (g) Owner has not granted to any Person nor will Owner grant to any Person any right or the option to acquire any right which would conflict or interfere with any of the rights granted to Producer hereunder or which would impair or diminish the value of the rights granted to Producer hereunder, nor has Owner in any manner encumbered any of said rights; (h) neither the exercise of the Option nor the exploitation of any of the rights granted to Producer herein will infringe upon or violate any rights of any Person whatsoever; (i) neither the Property nor any part thereof is in the public domain anywhere in the world; (j) the Property is entirely fictional and does not portray any real persons or other entities whether living or dead; (k) the Property was registered for copyright in the United States Copyright Office

in the name of _____ on _____, 20__, Entry No.: _____; and (I) Owner will pay all taxes in regard to compensation paid or payable to Owner under this Agreement and Owner hereby indemnifies Producer against any tax payments or penalties which Producer may pay as a result of payments not made by Owner. The representations, warranties and indemnities made by Owner in this Agreement shall survive the expiration of the Option Period regardless of whether Producer shall exercise the Option.

10. Indemnity. Owner will indemnify and hold harmless Producer and Producer's licensees, representatives, successors and assigns, and the employees, officers, directors, agents, representatives, attorneys and shareholders of each of them, from and against any and all claims, actions, damages, losses, liabilities, costs and expenses (including reasonable attorneys' fees) arising from or in connection with any claim of breach of any warranty, representation, covenant, undertaking or agreement made by Owner in this Agreement.
11. No Injunction. All the rights, licenses, privileges and property herein granted to Producer are irrevocable and not subject to rescission, restraint, or injunction under any or all circumstances. In the event of any breach of this Agreement or any portion thereof by Producer (including, without limitation, failure to accord credit pursuant to Paragraph 8 hereof), Owner's sole remedy shall be an action at law for damages, if any; and in no event shall Owner have the right to injunctive relief or to restrain or otherwise interfere with the distribution or exhibition of any Production or the exercise of any rights granted to Producer herein.
12. Other Documents. At the request of Producer or its attorneys, Owner shall promptly execute and deliver any and all additional documents and/or instruments, including without limitation a short-form assignment for purposes of recording in the Copyright Office, and shall do any and all things necessary or desirable to evidence Producer's rights hereunder or otherwise to effectuate the intent and purposes of this Agreement. Should Owner fail to so execute and deliver any such document(s) or instrument(s) or fail to do anything necessary or desirable to effectuate the purposes of this Agreement within five (5) business days of Producer's request therefor, Producer is hereby irrevocably appointed as Owner's true and lawful attorney-in-fact (such appointment being coupled with an interest) with the right, but not the obligation, to execute and/or record such

documents or instruments and/or to do any such things, in Owner's name and behalf but for Producer's benefit.

13. No Obligation. In the event that Producer shall exercise the Option, Producer shall have no obligation to produce any production(s) or otherwise to exploit the Property or any part(s) or element(s) thereof, and Producer's sole obligation in such regard shall be the payment of the applicable purchase price as specified in Paragraph 7(a) hereof.
14. Miscellaneous. This Agreement may not be changed or modified, nor may any provision hereof be waived, except in a writing signed by the parties hereto. This Agreement shall be construed in accordance with the internal laws of the State of _____ applicable to agreements entered into and wholly to be performed within said state, without regard to conflicts of laws principles. The state and federal courts having jurisdiction over _____ County, _____ shall have exclusive jurisdiction over any and all disputes arising under this Agreement or related to its subject matter. Producer shall have the right to assign this Agreement and all or any part of Producer's rights hereunder to any Person, without limitation, and upon any such assignment Producer shall be relieved of its obligations hereunder. Owner may not assign this Agreement or any rights hereunder without Producer's prior written consent, and any purported assignment by Owner shall be null and void. As used herein, the term "Person" shall include any natural person, firm or corporation or any group of individuals, firms or corporations, or any other entity. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, administrators, representatives, successors, licensees, and permitted assigns. By entering into this Agreement, Producer does not waive any rights it would have as a member of the general public in the absence of this Agreement.
15. More Formal Agreement. The parties intend to enter into a more formal agreement incorporating the terms and conditions hereof and other standard terms and conditions for agreements of this type. Until such time, if ever, as a more formal agreement is executed by the parties, this Agreement shall bind the parties and shall contain the entire understanding of Producer and Owner regarding its subject matter, and shall supersede any and all prior discussions, negotiations and understandings relating to its subject matter.

If the foregoing terms and conditions are in accordance with your understanding of our agreement, kindly indicate your acceptance thereof by signing below.

Very truly yours,

PRODUCTION COMPANY, INC.

By: _____

Title: _____

ACCEPTED AND AGREED TO:

Jane Q. Owner

**LICENSE AGREEMENT FOR SUBSCRIPTION VIDEO ON
DEMAND DELIVERY**

This License Agreement for SVOD Delivery (“Agreement”) is entered into as of the __ day of _____, 2017 (the “Effective Date”) by and between _____, a _____ corporation (“Licensee”) and _____, a _____ corporation (“Distributor”).

Recitals

Licensee owns and operates a subscription entertainment service providing its members with access to motion pictures, television and other digital entertainment products (collectively, “Titles”).

Distributor is in the business of distributing certain Titles.

Licensee and Distributor desire to enter into an agreement whereby Distributor will grant Licensee a limited, nonexclusive license to distribute those Titles set forth in Schedule A, within the United States, its territories and possessions (the “Territory”), all in accordance with the terms and conditions set forth below.

Agreement

In consideration of the mutual promises contained herein and such other good and valuable consideration, the parties hereto agree as follows:

1. DEFINITIONS

- 1.1 “Approved Devices” means a Personal Computer, Portable Device, Set-Top Box or Other Device that in each instance supports the DRM required pursuant to Section 2.3 and is capable of accessing the Licensee Service belonging to or in the possession of an Authorized User.
- 1.2 “Authorized User” means a home or private residential unit authorized by Licensee to receive all or any part of the Licensee Service solely on a subscription basis.
- 1.3 “Home Video Device” means all formats of “hard goods” self contained video devices that themselves embody (without need for further transfer of data or activation or authorization to enable playback for exhibition) a motion picture or other programming for exhibition by means of a playback device (i.e., tangible, fixed data-carrying media) now known or hereafter known or devised, including,

without limitation, (i) any and all forms of videocassettes, cartridges, phonograms, tape, video discs, laser discs, 8mm recordings and any other visual or optical recording, or (ii) any and all forms of DVD, HD DVD, Blu-Ray™, DVD-ROM, and internet access-ready DVDs, CD-I, video CD and CD-ROM, Video Compact Discs, or (iii) any and all forms of flash memory devices capable of storing audiovisual content.

- 1.4 “Interactive” means any exhibition of a Title by means of a viewing device (including any Approved Device) in which the end user or viewer has the ability to (i) choose the presentation of audio and/or video portions of the Title, including, without limitation, by means of determining how the audio and/or video portions are exhibited (e.g., different camera angles, audio tracks or background music) and/or manipulating, altering or affecting the participants, setting, progression of actual events as they occur, the outcome, or other key elements of the program, and/or (ii) engage in two-way transmissions that include the ability for the end user or viewer to access information, products and services related to the audiovisual signals, including without limitation by utilizing “hyperlinks” or other “click-through” options to link directly to an Internet web-page or similar location, or the activation of on-screen commands to access such pages or locations, in each case that offer such information, products, or services.
- 1.5 “Licensee Service” shall mean the point-to-point, streaming or downloaded content subscription distribution service presently entitled “_____” owned and operated by Licensee and providing its Authorized Users with on-demand access utilizing Permitted Means to the exhibition of motion pictures, television and other entertainment products in a variety of exhibition formats, including by means of high definition television to the extent expressly permitted hereunder, on an SVOD basis.
- 1.6 “Other Device” means an Internet-connected television monitor, DVD player, game console, media extender or similar device supporting the approved DRM.
- 1.7 “Permitted Means” means the encrypted transmission of a Title by means of the Internet or any other form of digital transmission utilizing internet protocol, including without limitation traditional and TCP/IP protocols, from Licensee-secured servers (utilizing optical fiber, DSL, coaxial cable or any other delivery system), to an Authorized User’s individual Approved Device located within

the Territory, using (a) the DRM as approved by Distributor or specified herein or (b) any other content protection system approved by Distributor. The Permitted Means shall expressly exclude the transmission of any Title to an Authorized User by any means not expressly granted herein (whether now known or hereafter devised) including, without limitation, via Wireless Transmission.

- 1.8 “Personal Computer” means an IP-enabled desktop or laptop computer supporting the approved DRM with a hard drive, keyboard and monitor, and shall not include any other IP-enabled devices such as Portable Devices, personal video recorders, set-top boxes, or the like.
- 1.9 “Portable Device” means a handheld audio/video playback device (e.g., iPod), cellular phone, “Smartphone”, pager, camera, personal digital assistant (including BlackBerrys and Treos and any successors thereto) and other mobile devices now known or hereafter devised that is capable of intelligibly playing back or exhibiting a Title, by being connected to the Internet or any other device (i.e., on a “side load” or “tethered” basis).
- 1.10 “Running Fee” shall have the meaning set forth in Section 4.2.2 below.
- 1.11 “Set-Top Box” means a set-top device which is made available to Authorized Users of the Licensee Service supporting the approved DRM and required for the reception, decoding and display of audio visual programming on a television set or a video monitor (which shall not include a display on a mobile phone) associated with such Set-Top Box. “Set-Top Box” shall not include a Personal Computer or Portable Device.
- 1.12 “Source Material” shall mean the source files of the Titles, artwork, metadata, and, as available, their trailers the specifications for which are detailed in Schedule B.
- 1.13 “Subscription Video-On-Demand” or “SVOD” means the encrypted electronic or other non-tangible exhibition of a program or programs on a program service pursuant to which a consumer may elect to view programming at a time of the consumer’s choosing and for which no “per-transaction” or “per-exhibition” charge is made and such consumer as a condition of receiving and/or viewing any particular program, provided that a periodic premium subscription fee (on no less than a monthly basis) must be charged to the authorized representative for the privilege of viewing such exhibition and

that neither an individual program nor the programming service may include advertising or sponsorship announcements or be in any way advertiser-supported.

- 1.14 “Start Date” means the date a Title is first available for distribution on the Licensee Service as set forth on Schedule A.
- 1.15 “Titles” shall mean those motion pictures, television and other digital entertainment products listed on Schedule A, as such list may be updated from time to time by mutual written agreement of both parties. The foregoing notwithstanding, Distributor may, with Licensee’s consent, not to be unreasonably withheld, by written notice to Licensee substitute for any Title during the period prior to the commencement of its License Period, a comparable motion picture, television or other digital entertainment product.
- 1.16 “Title License Period” shall mean the period beginning upon the Start Date and ending as of the End Date set forth for each Title on Schedule A.
- 1.17 “Wireless Transmission” means delivery by means of wireless digital networks for commercial mobile radio services integrated through the use of any protocol now known or hereafter in existence, including, without limitation, the Wireless Application Protocol, Wi-Fi (e.g., 802.11(g)), Wi-Max, 2G, 3G, 4G, DVB-H, DMB, EV-DO, or any successor or similar digital technology for display on any viewing device (including, without limitation, personal digital assistants, mobile phones, pagers, or other Portable Devices) which is capable of wirelessly sending and/or receiving voice and/or audio and/or data and/or video communications.

2. GRANT OF LICENSE AND DELIVERY

- 2.1 In consideration for Licensee’s payment of the Minimum Guarantees and Running Fees for each Title and subject to the terms and conditions set forth herein, Distributor hereby grants to Licensee with respect to each Title a limited, non-assignable, nonexclusive license to distribute such Title by the Permitted Means to Authorized Users within the Territory during its Title License Period on an SVOD basis via the Licensee Service for receipt and viewing on Approved Devices and to distribute and utilize such promotional and advertising materials as Distributor may have available as to such Title and which Distributor determines may be appropriate for use by Licensee hereunder solely to promote the availability of

such Title on the Licensee Service (“Advertising Materials”) to potential Authorized Users in the Territory. Distributor reserves all rights not expressly granted to Licensee hereunder. The rights reserved by Distributor include, but are not limited to, the right to transmit and exhibit each Title by each of the following means and methods: all forms of television (including, without limitation, free television, basic cable television, pay television, and pay-per-view television); all forms of video-on-demand other than SVOD, whether delivered via television or the Internet or otherwise; all forms of Home Video Device exhibition; theatrical exhibition and non-theatrical exhibition; all forms of Interactive exhibition; and all forms of Wireless Transmission. In addition, all of the rights granted to Licensee hereunder are non-exclusive, and Distributor reserves the right to license any or all of the Titles to third parties for exhibition by means of SVOD in the Territory concurrently with the rights granted hereunder. It is explicitly understood that the entering into of this Agreement shall not be construed as granting to Licensee any interest in the copyright or any other right (other than the licenses expressly granted to Licensee hereunder) in the Titles and other picture materials provided by Distributor, and nothing contained in this Agreement is intended to convey or will convey to Licensee any ownership or other proprietary interests in the Titles and other picture materials other than the rights expressly granted herein.

- 2.2 2.2.1 Licensee shall make all Titles continuously available (i.e., twenty-four (24) hours each day) on the Licensee Service during their respective Title License Periods, and all Titles shall be continuously listed on the Program Menu or Guide for the Licensee Service, unless a Title is earlier withdrawn in accordance with the applicable provisions hereof. Notwithstanding anything in this Agreement to the contrary, Licensee acknowledges and agrees that the Titles may not be exhibited or utilized in any fashion in connection with any service other than the Licensee Service (including, for example, but not by way of limitation, services other than the Licensee Service now or in the future owned or controlled by, for or in connection with Licensee or any present or future Affiliate of Licensee).

- 2.2.2 Licensee shall market, advertise, and promote the Titles on a fair, equitable and non-discriminatory basis with respect to comparable motion pictures, television programs and other programs of other comparable licensors, including without limitation any Major Studio licensor.
- 2.2.3 Licensee shall have no right to modify, enhance, edit, translate, adapt, perform, display or create derivative works based on or otherwise alter the Titles, except as necessary to format and configure the Titles for the purpose of exhibiting the same to Authorized Users in accordance with the terms of this Agreement. Under no circumstances shall Licensee make or authorize any other modifications or changes to the Licensed Titles including, without limitation, editorial or contextual changes, incorporation of any audiovisual, graphical, text or other forms of advertising, or changes to any trademarks, copyright notices or any other attribution, artwork or materials displayed or associated with any Title, without the prior approval of Distributor in each case, in Distributor's sole discretion.
- 2.2.4 Without Distributor's prior written consent, Licensee shall not, and shall not authorize any third party to, place any commercial messages or advertising: (i) in any Title or (ii) other than Service branding, on any page of the Service.
- 2.2.5 This Agreement only grants Distributor the right to distribute Titles in Standard Definition or lower resolution formats. This Agreement does not grant Distributor any right to distribute any Title or any portion thereof in any resolution greater than Standard Definition. The foregoing notwithstanding, in the event Distributor, in its sole discretion, at any time during the Term grants to any third-party licensee or distributor of SVOD rights to a Title or Titles in the Territory the right to distribute such Title or Titles in a format of higher resolution than Standard Definition, it shall within thirty (30) days of such grant give Licensee written notice of such grant together with any additional levels of security imposed upon such third-party licensee as a condition to such grant of a higher-resolution format distribution right. Licensee may thereafter in its sole discretion by written notice to Distributor elect itself to obtain such grant of a higher-resolution format distribution right to such Title or Titles

provided that Licensee in such written notice agrees to comply with any such additional levels of security, to the same extent of effective security as that provided for by such third-party licensee or distributor.

- 2.2.6 Licensee may not authorize or permit Authorized Users to create copies of Titles for playback on devices of any sort and shall assure that Titles are delivered pursuant to a DRM setting of “Copy Never”; provided that an Authorized User may be authorized during the License Period for a Title to transfer a single copy of such Title solely among up to a total of four (4) Approved Devices belonging to or in the possession of such Authorized User.
- 2.2.7 Licensee will not sublicense, transfer, convey or assign to any third party any of the rights granted to Licensee herein or otherwise sell, distribute or transmit the Titles in connection with or via any service other than the Licensee Service specifically contemplated herein, whether or not such other service is owned, operated and/or managed by or on behalf of Licensee or any of Licensee’s Affiliates.
- 2.2.8 As a condition to Licensee’s authorization or enabling of the display, distribution and/or use of any Titles by or to any Authorized User, Licensee shall require that each Authorized User has affirmatively acknowledged and agreed to be bound by and comply with Licensee’s terms and conditions associated with the use of the Licensee Service and all Titles available in connection therewith, including, without limitation, an end user license agreement (the “Terms of Use”), and Licensee shall use commercially reasonable efforts in accordance with prevailing industry standards (e.g., use of “click-wrap” or “click-through” assent) to ensure that such Terms of Use constitute an enforceable agreement between Licensee and such Authorized User. The Terms of Use shall, at a minimum, contain terms and conditions that govern the permitted use of Titles by an Authorized User, consistent with the rights granted and restrictions set forth herein. Licensee will establish commercially reasonable procedures in accordance with prevailing industry standards to ensure that each Authorized User agrees to comply with the Terms

of Use and that provide for appropriate action to be undertaken in Licensee's good-faith discretion with respect to any Authorized User who violates the Terms of Use. Notwithstanding the foregoing, Distributor reserves all of its rights and remedies at law and equity against any Authorized User and any other third parties who infringe, violate or otherwise misappropriate any of Distributor's rights in and to the Titles.

- 2.2.9 The Licensee Service will not advertise, display or offer any pornographic, X-rated (or its equivalent) or "adult content" (as such term is used in the entertainment industry, but which does not include R-rated titles or unrated or NC-17 "art-house" films).
 - 2.2.10 This Agreement only grants Licensee the right to distribute Licensed Titles via Permitted Means to Approved Devices.
 - 2.2.11 Licensee will comply with all applicable laws, rules and regulations of any governmental authority to whose jurisdiction it is subject in connection with the Licensee Service, including without limitation COPPA and CAN SPAM.
- 2.3 Licensee represents and warrants that as of the commencement of distribution of Titles on the Licensee Service, Licensee shall have put in place on such Licensee Service, and Licensee agrees that it will maintain on such Licensee Service throughout the Term, industry-standard encoding, encryption, DRM, digital and physical security systems and technologies ("Security Measures") to prevent theft, pirating and unauthorized exhibition (including, without limitation, exhibition to unauthorized recipients and/or exhibition outside the Territory), and unauthorized copying of a Title or any part thereof and that such Security Measures shall be no less stringent or robust than the Security Measures that Licensee employs on such Licensee Service with respect to comparable programs distributed in comparable media that are licensed from any other distributor or provider of programming. Distributor shall have the right upon ten (10) days' prior written notice, during regular business hours, at Distributor's sole cost, to inspect and review Licensee's delivery, security, and copy control/protection systems (including in any off-site facilities used by Licensee) from time to time as Distributor deems necessary, but in no event more than once during any calendar year. Licensee shall promptly notify Distributor if it

changes and/or modifies its Security Measures during the term of this Agreement in a manner that materially degrades their effectiveness, and Distributor shall have the right to inspect such changed and/or modified Security Measures. Licensee shall employ digital rights management (“DRM”) protection complying with the requirements set forth in Schedule C set at “Copy Never” with respect to any exhibition or distribution of the Titles. Licensee shall not remove, strip, alter, deactivate or otherwise degrade any protection or identification information or technology that Distributor embeds in any Title. Distributor shall deliver the Source Material for each Title to Licensee at the address provided by Licensee no earlier than ninety (90) days and no later than thirty (30) days prior to the start of the Title License Period or such other date as may be mutually agreed upon by the parties. Clones of such Source Materials will be loaned to Licensee for a period of sixty (60) days or such other time as may be mutually agreed upon by the parties for the purpose of encoding pursuant to Section 2.4 below.

- 2.4 The parties shall mutually agree upon the appropriate source for encoding, and Distributor shall deliver such mutually agreed-upon Source Material to Licensee. The Source Material will be of the same high quality and resolution of Source Material as is made available by Distributor to any third-party SVOD licensee in any format during the Title License Period. Examples of Source Material, which Licensee may request, are listed on Schedule B. Distributor shall loan to Licensee, at no cost, clones of such Source Material, which will be returned to Distributor.
- 2.5 Licensee will, at its sole cost and expense, encode and create files of each Title from the Source Materials, from which streaming and downloaded exhibitions of such Title may be exhibited to Authorized Users via the Licensee Service.
- 2.6 Without limiting any of the foregoing, Licensee agrees that each Title exhibited to Authorized Users shall, at Licensee’s expense, be secured from unauthorized distribution through an encryption or encoding technology that is in accordance with Section 2.3.

3. TERM

- 3.1 This Agreement shall commence as of the Effective Date and end on the date ___ () years thereafter (“Term”).

- 3.2 Except as otherwise provided herein, if either party is in default hereunder, the non-defaulting party may give notice of such default, and if the defaulting party does not cure such default within thirty (30) days after notice, the non-defaulting party may thereafter, in addition to all other remedies available, terminate this Agreement. For the avoidance of doubt, the cure period with respect to any Security Breach or Suspension Notice shall be as defined in Section 7.1. If Licensee terminates this Agreement due to a material default by Distributor, Distributor will refund or credit the unearned portion, if any, of the Minimum Guarantees back to Licensee within thirty (30) days of termination. Any of the following events shall be considered events of material default pursuant to the Agreement: (i) if Licensee fails to make payment of any amounts payable in accordance with the terms of the Agreement; (ii) if a party fails to duly perform or observe any material term, covenant or condition of the Agreement that such party is required to keep and perform (other than a payment obligation as set forth in clause (i) above); (iii) if a party shall be adjudicated a bankrupt or shall file a petition in bankruptcy or shall make an assignment for the benefit of creditors or shall take advantage of the provisions of any bankruptcy or debtor's relief act; (iv) if an involuntary petition in bankruptcy is filed against a party and is not vacated or discharged within thirty (30) days; (v) if a receiver is appointed for a substantial portion of a party's property and is not discharged within thirty (30) days; and/or (vi) if a party makes or attempts to make any assignment, transfer, or sublicense of this Agreement without the other party's written consent, except as otherwise permitted hereunder.
- 3.3 Upon the expiration or earlier termination of this Agreement, all prospective rights and obligations of the parties under this Agreement will be extinguished, except for those rights and obligations that either by their express terms survive or are otherwise necessary for the enforcement of the Agreement.

4. LICENSE FEES

- 4.1 Licensee shall pay to Distributor with respect to each Title a "License Fee" in the amount set forth with respect to such Title on Schedule A.

4.2 Timing of Payment

4.2.1 The License Fee for each Title shall be payable as follows:

- (i) _____ percent (___%) within thirty (30) days of the later to occur of (a) the delivery to Licensee of the Services File for such Title; and (b) the receipt by Licensee from Distributor of an invoice for such amount; and
- (ii) _____ percent (___%) within the later to occur of (a) the date twelve (12) months following the Effective Date; and (b) the receipt by Licensee from Distributor of an invoice for such amount.

5. REPORTING

With respect to each calendar quarter during the Term, Licensee shall deliver to Distributor an electronic report (“Detail Report”) that sets out on a Title-by-Title basis the number of Views of each Title during such calendar month and in the aggregate for each prior calendar month during the Title License Period for such Title. Said Detail Reports shall pertain solely to the Titles and be no less detailed than that provided by Licensee to any of its other content providers for the Licensee Service and shall be provided to Distributor no later than _____ (___) days following the end of each such calendar quarter.

6. WITHDRAWAL

In addition to and not in derogation of its other rights pursuant to the Agreement, including without limitation pursuant to Section 7.1, Distributor shall have the right to withdraw any Title (a “Withdrawn Title”) from the Licensee Service at any time in Distributor’s sole discretion. Licensee will remove any Withdrawn Title within forty-eight (48) hours of receipt of a written or electronic notice to such effect from Distributor. Distributor shall, within thirty (30) days of such early withdrawal, refund to Licensee an amount (the “Refund”) equal to the product of: (i) the Refund Percentage set forth on Schedule D applicable to the portion of the Title License Period for such Title that has elapsed at the time of such withdrawal, multiplied by (ii) the License Fee for such Title. The foregoing notwithstanding, in the event such withdrawal is the result of a breach by Licensee of any of the terms of this Agreement, Distributor shall not be obligated to make a refund for such withdrawn Title to Licensee, whether pursuant to delivery of a Failure Notice or otherwise.

7. SUSPENSION AND REINSTATEMENT

- 7.1 In the event that Licensee becomes aware of any circumvention or failure of Licensee's secure storage, distribution, copy protection system, anti-piracy, or geofiltering technology that results or may result in the unauthorized availability of any Title, Licensee will provide notice to Distributor within twenty-four (24) hours describing in reasonable detail such circumvention or failure and Licensee's response thereto (a "Failure Notice"). Licensee will provide continuing reports to Distributor regarding its response to the Security Breach until it is cured.
- 7.2 Upon delivery of a Failure Notice or otherwise, Distributor shall have the right immediately to suspend the availability of any or all Titles through the Licensee Service in the event and during the pendency of a Security Breach by notifying Licensee of such suspension (a "Suspension Notice"). "Security Breach" means a circumvention or failure of Licensee's anti-piracy, DRM or geofiltering measures or other secure distribution system(s) or technology that results or may result in the unauthorized availability of any Title, which unauthorized availability may, in the sole judgment of Distributor, result in harm to Distributor or its business. Upon its receipt of a Suspension Notice, Licensee shall immediately remove the Title or make the Title inaccessible from the Licensee Service as soon as commercially feasible (but in no event more than twenty-four (24) hours after receipt of such Suspension Notice). If the cause of the Security Breach that gave rise to a Suspension Notice is corrected, repaired, solved or otherwise addressed to Distributor's satisfaction, the period of suspension with respect to such Title(s) shall terminate upon written notice from Distributor and Licensee's ability to distribute such Title shall resume immediately. In addition to and not in derogation of the foregoing or any other rights of Distributor under this Agreement, after three (3) such suspensions, Distributor shall have the right in its sole discretion to terminate this Agreement and withdraw all Titles from the Licensee Service; provided that subject to the final sentence of Section 6, if Distributor does so it will within thirty (30) days following such termination and withdrawal pay to Licensee a Refund (as defined in Section 6) for each Title so withdrawn.

8. REPRESENTATIONS AND WARRANTIES

- 8.1 Licensee represents and warrants that (i) it has full authority, capacity and ability to execute this Agreement and to perform all of its obligations hereunder, (ii) it shall at all times employ DRM and geofiltering technology in accordance with Section 2.3, and (iii) it shall not distribute the Titles other than as expressly permitted hereunder. Licensee will defend, indemnify and hold Distributor, its directors, officers and employees, harmless from any breach of the representations and warranties made herein.
- 8.2 Distributor represents and warrants that (i) it has full authority, capacity and ability to execute this Agreement and to perform all of its obligations hereunder (ii) it has all right, title and interest necessary to grant the license rights hereunder and, other than with respect to non-dramatic music performance rights, that Licensee's distribution as contemplated hereunder shall not violate or infringe any rights of other parties, including any third-party providers of content contained in any Title hereunder, (iii) there are no encumbrances against or any claims, actions, suits or other proceedings pending or, to the best of Distributor's knowledge, threatened with respect to any Titles hereunder that would interfere with Licensee's distribution thereof, and (iv) the Titles hereunder will not when exhibited in accordance with the terms and conditions of this Agreement violate any applicable law, rule or regulation. Distributor will defend, indemnify and hold Licensee, its directors, officers and employees, harmless from any breach of the representations and warranties made herein.
- 8.3 Distributor represents that the Titles delivered hereunder shall be of good quality, reasonably free of defects and otherwise fit for the particular purpose intended hereunder. Distributor shall, without undue delay and at its cost and expense, replace any defective product and deliver such replacement to Licensee.

9. CONFIDENTIALITY

Each party agrees that it shall not disclose to any third party (except for third-party income participants, only to the extent necessary and provided such parties are bound to a confidentiality agreement with substantially the same terms as provided herein) other than to fulfill its obligations under this Agreement the terms of this Agreement which are

to be kept confidential except as may otherwise be required to comply with a court order or federal securities laws. Each party shall take every reasonable precaution to protect the confidentiality of such information. This section shall survive the expiration or earlier termination of this Agreement. Notwithstanding anything in this section to the contrary, any information (i) required by legal process or regulatory requirements to be disclosed, (ii) already in the public domain or (iii) released through no fault of the parties, will not be considered confidential information hereunder.

10. GENERAL PROVISIONS

- 10.1 The laws of the State of California will govern this Agreement, without reference to its choice of law rules. All disputes arising under this Agreement which cannot be resolved informally will be submitted for binding arbitration before a single arbitrator (who shall have experience in the entertainment industry) in Los Angeles, California pursuant to the Commercial Arbitration Rules of the American Arbitration Association; provided that neither party shall be precluded from seeking equitable relief to protect or enforce its rights hereunder during the pendency of such an arbitration. The award of the arbitrator will be final and binding and may be entered for judgment in any court of competent jurisdiction in Los Angeles County. Any dispute or portion thereof, or any claim for a particular form of relief (not otherwise precluded by any other provision of this Agreement), that may not be arbitrated pursuant to applicable state or federal law may be heard only in a court of competent jurisdiction in Los Angeles County.
- 10.2 This Agreement sets forth the entire agreement and understanding of the parties with respect to the subject matter hereof and cannot be amended except by a writing signed by each party.
- 10.3 Notwithstanding anything else herein, Licensee shall only distribute the Titles as expressly provided herein.
- 10.4 Licensee shall be solely responsible for any and all third-party clearances and payments, including without limitation music performance, if any, in connection with its distribution of the Titles.
- 10.5 Licensee shall not cut, edit, alter, or otherwise modify the Titles or the Source Material, or authorize any of the same, without Distributor's prior written consent. In no event shall Licensee remove, cut, edit, alter, or otherwise modify any credits, copyright notices, or

trademarks associated with the Titles, or authorize any of the same. Licensee's rights under this Agreement shall be subject to, and Licensee expressly agrees to abide by, all contractual restrictions with respect to each Title. Licensee may advertise and market the availability of the Titles on the Licensee Service utilizing any and all means, methods, processes or media; provided, however, that in doing so, Licensee shall only use those marketing materials provided by Distributor or approved by Distributor in writing (e-mail is acceptable for this purpose) and shall abide by the guidelines and restrictions thereon.

- 10.6 No waiver of any provision of this Agreement shall constitute a continuing waiver, and no waiver shall be effective unless made in a signed writing.
- 10.7 Notices and other communications required or permitted to be given hereunder shall be given in writing and delivered in person, sent via certified mail, or delivered by nationally-recognized courier service, properly addressed and stamped with the required postage, to the person signing this Agreement on behalf of the applicable party at its address specified below (and, in the case of Distributor, with a courtesy copy to _____ at _____, Attn: _____) and shall be deemed effective upon receipt. Either party may from time to time change the person to receive notices or its address by giving the other party written notice of the change.
- 10.8 Neither party may assign this Agreement or its rights or obligations hereunder without the other party's prior written consent, which shall not be unreasonably withheld. Notwithstanding the foregoing, the parties may assign this Agreement without obtaining the consent of the other party to any affiliated entity or in connection with any merger, consolidation, reorganization, sale of all or substantially all of its assets, or similar transaction.
- 10.9 At no time in the past, present, or future shall the relationship between Distributor and Licensee be deemed or intended to constitute an agency, partnership, joint venture, or a collaboration for the purpose of sharing any profits or ownership in common. Neither party shall have the right, power, or authority at any time to act on behalf of or to represent the other party, but each party hereto shall be separately and entirely liable for its own debts in all aspects.

- 10.10 All representations and warranties of the parties made pursuant to the Agreement, and Sections 8, 9 and 10 of this Agreement, shall survive the termination or expiration of this Agreement.
- 10.11 The parties acknowledge and agree that the Titles are unique and irreplaceable properties and that the unauthorized exhibition or exploitation of such Titles will result in substantial and irreparable harm to Distributor and its business and operations that is not readily quantifiable, as it may affect the value of the Titles and the ability of Distributor to protect its rights in such Titles or to license such rights to others. Accordingly, Licensee agrees that money damages would not adequately compensate Distributor for the unauthorized exhibition or exploitation of the Titles. Licensee agrees that Distributor shall be entitled to an injunction (both preliminary and permanent) precluding any such unauthorized exhibition or exploitation. This right to an injunction shall be cumulative and not exclusive of any other rights, remedies, powers or privileges provided by law or this Agreement.
- 10.12 Distributor will have the unilateral right to suspend this Agreement upon written notice to Licensee in the event that any law or regulation adversely affecting the material terms and conditions of this Agreement, now or in the future, modifies or limits the use of DRM, copy protection or other security measures such that Licensee cannot legally implement or substantially comply with the terms of Section 2.3 or Section 7 of this Agreement or implement alternative and substantially comparable security or copy-protection measures to those so affected to the satisfaction of Distributor, such satisfaction not to be unreasonably or discriminatorily conditioned or withheld, which suspension will be effective upon receipt of such notice. If Licensee cannot implement alternative and substantially comparable security or copy-protection measures to those so affected within thirty (30) days of such notice, Distributor will have the right to terminate this Agreement upon providing Licensee written notice to that effect, such termination effective upon receipt of such notice.
- 10.13 No remedy conferred on either Party by any of the specific provisions of this Agreement is intended to be exclusive of any other remedy which is otherwise available to either party at law, in equity, by statute or otherwise, and except as otherwise expressly

provided for herein, each and every other remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or thereafter existing at law, in equity, by statute or otherwise. The election of any one or more of such remedies will not constitute a waiver of the right to pursue any other available remedies.

- 10.14 If Licensee shall be prevented from offering Titles by means of the Licensee Service, or if Distributor shall be prevented from delivering any Titles, by reason of an event of force majeure, the affected party shall attempt to eliminate the force majeure contingency and such performance shall be excused to the extent that it is prevented by reason of such an event of force majeure. For purposes of this Agreement, an “event of force majeure” in respect of a party shall mean, to the extent beyond the control of such party, any governmental action, nationalization, expropriation, confiscation, seizure, allocation, embargo, prohibition of import or export of goods or products, regulation, order or restriction (whether foreign, federal or state), war (whether or not declared), civil commotion, disobedience or unrest, insurrection, public strike, riot or revolution, lack of or shortage of, or inability to obtain, any labor, machinery, materials, fuel, supplies or equipment from normal sources of supply, strike, work stoppage or slowdown, lockout, or other labor dispute, fire, flood, drought, other natural calamity, damage or destruction to plant and/or equipment, or any other accident, condition, cause, contingency or circumstance (including, without limitation, acts of God) beyond the control of such party. An event of force majeure does not, however, include any party’s financial inability to make any of the payments required to be made under this Agreement, nor shall any event of force majeure relieve Licensee from the obligation to make any payments under this Agreement, provided the Titles are delivered to Licensee.
- 10.15 As between Distributor and Licensee, Licensee will be responsible for determining, collecting, and remitting all taxes that are required by law to be determined, collected and remitted with respect to the distribution of the Titles to Authorized Users.
- 10.16 The division of this Agreement into separate sections, subsections and/or exhibits and the insertion of titles or headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

10.17 This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and which together shall constitute one document.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

DISTRIBUTOR
Distributor

LICENSEE

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Address for Notice:

Attn:

With a copy to:

With a copy to:
Licensee

Attn:

Attn:

SCHEDULE A

Titles

Title	Start Date	End Date	Length of License	License Fee

SCHEDULE B

Source Material Requirements and Specifications

SCHEDULE C
Security Specifications

SCHEDULE D

License Fee Refund Percentage

2012 WL 2317364
Only the Westlaw citation is currently
available.

United States District Court,
C.D. California.

Alexandre SINOUGUINE
v.
MEDIACHASE LTD., et al.

No. CV 11–6113–JFW (AGRx). | June 11, 2012.

Attorneys and Law Firms

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Pasadena, CA, for Plaintiff.

Shari Mulrooney Wollman, Mark S. Lee, Don
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Opinion

**ORDER GRANTING MEDIACHASE, LTD.,
CHRIS LUTZ AND JULIE MAGBOJOS'
MOTION FOR: (1) SUMMARY JUDGMENT
ON PLAINTIFF'S COMPLAINT AND
COUNTERCLAIMS; MEDIACHASE'S
DECLARATORY RELIEF CLAIMS; AND (2)
PARTIAL SUMMARY JUDGMENT ON
MEDIACHASE'S COPYRIGHT
INFRINGEMENT COUNTERCLAIMS [filed
4/23/12; Docket No. 77]**

Honorable JOHN F. WALTER, District Judge.

*1 On April 23, 2012, Defendants Christ Lutz ("Lutz"), Julie Magbojos ("Magbojos"), and Mediachase, Ltd. ("Mediachase") (collectively, "Defendants") filed a Motion for: (1) Summary Judgment on Plaintiff's Complaint and Counterclaims; Mediachase's Declaratory Relief Claims; and (2) Partial Summary Judgment on Mediachase's Copyright Infringement Counterclaims ("Motion"). On April 30, 2012, Plaintiff Alexandre Siniouguine ("Siniouguine") filed his Opposition. On May 7, 2012, Defendants filed a Reply. On May 25, 2012, Siniouguine filed his Sur-Reply pursuant to the Court's May 18, 2012 Order. On June 1, 2012, Defendants filed their Response to Siniouguine's Sur-Reply.

Pursuant to Rule 78 of the Federal Rules of Civil Procedure and Local Rule 7–15, the Court found the matter appropriate for submission on the papers without oral argument. The matter was, therefore, removed from the Court's June 11, 2012 hearing calendar and the parties were given advance notice. After considering the moving, opposing, and reply papers, and the arguments therein, the Court rules as follows:

I. Factual and Procedural Background¹

A. The Relationship Between Mediachase and Siniouguine

Mediachase develops computer software used by businesses and provides consulting work related to its software. Mediachase was founded as a "start-up" by Lutz and his brother and sister in 1997. Currently, Lutz is Mediachase's Senior Vice President of Professional Services, and Magbojos, who has worked at Mediachase since 2000, is its President.

Siniouguine is a Russian national who was hired by Mediachase to work as an "application developer" in 1999 pursuant to the Mediachase, Ltd Deal Memo (the "1999 Agreement").² The 1999 Agreement was signed by Siniouguine and Mediachase's then-Treasurer, Melanie Lutz, who is Lutz's sister. The 1999 Agreement provides for an "at will" employment relationship between Siniouguine and Mediachase, and Siniouguine has worked continuously for Mediachase pursuant to the 1999 Agreement from 1999 until March 2011. In addition, the 1999 Agreement provides, in relevant part:

Company [Mediachase] shall own all the results and proceeds of Artist's [Siniouguine's] services hereunder, and all materials produced thereby and/or suggested or furnished by Artist, of any kind and nature whatsoever (collectively, "Results"), and all rights therein (including without limitation, all copyrights and copyright renewals and extensions), as a "work-made-for-hire" specially ordered or commissioned by Company, in perpetuity throughout the universe. If under applicable law the foregoing is not effective to place authorship and ownership of the Results and all rights therein in Company, then to the fullest extent allowed and for the full

term of protection otherwise accorded under applicable law, Artist hereby assigns all right, title and interest in the Results throughout the universe in perpetuity.

Siniouguine's primary responsibility during his employment with Mediachase involved writing code used in various computer programs that Mediachase offered to the public. Siniouguine's other responsibilities at Mediachase included handling customer support for Mediachase; reviewing marketing materials; assisting in the creation of user manuals; handling maintenance and upkeep of Mediachase's website; representing Mediachase at industry conferences; performing consulting work; coordinating with other programmers on projects; and working on client-specific projects.

*2 During his employment with Mediachase, Siniouguine received compensation and other benefits every month from the beginning of his employment in 1999 until he left the company in 2011, though the amount and nature of that compensation and those benefits varied according to the financial condition of Mediachase. Siniouguine's compensation included a salary; payment of rent for an apartment in Los Angeles; payment of medical and/or dental insurance benefits; and payment for a cell phone. During the entire time Siniouguine was employed by Mediachase, he received at least one of the above forms of compensation, and, with the exception of a few months, Siniouguine received at least two if not all four forms of compensation. In addition, Siniouguine's business related expenses were reimbursed directly by Mediachase during this period.

During Siniouguine's employment, Mediachase also provided him with the equipment and facilities required to perform his work, including a laptop computer, development software, miscellaneous software, and an office.³ Siniouguine occasionally worked from home, but when he did work from home he was required to log into Mediachase's server so that Mediachase could track and coordinate his programming efforts with those of other Mediachase employees who were working on the same programs. Siniouguine was also required to use Mediachase's project management collaboration software so that other members of the development team could track his progress. Mediachase also hired and paid for all persons who assisted Siniouguine in completing his work

assignments.

B. The Creation of Calendar.NET and ECF

In approximately 2003, Mediachase decided to develop a component calendar program, and began offering its calendar program, Calendar.NET, to the public later that same year. Siniouguine and other employees of Mediachase wrote and developed the code for the various versions of Calendar.NET that were released to the public. Siniouguine's last involvement with the Calendar.NET program was in 2007.

In approximately May 2004, Lutz and Siniouguine began developing what came to be known as Mediachase's ECF, which is a program that allows businesses to sell products from their website. Siniouguine and other employees of Mediachase wrote the various versions of the code for ECF and ECF first became available to the public in approximately September 2004. Since its initial release, Mediachase has released upgraded versions of ECF annually.

Both Calendar.NET and ECF (collectively, the "Programs") allow Mediachase's customers to combine their own programming and content with Mediachase's programs to develop a final product that is customized to meet the customer's specific needs and requirements. As a result, Mediachase's license agreements with its customers provide that Mediachase will at all times retain ownership of the copyrights in the Programs, and that Mediachase's customers will own the copyright in the programming and content that they integrated into the Programs.

C. Procedural History

*3 On July 25, 2011, Siniouguine filed his Complaint against Defendants, alleging copyright infringement of the ECF Program, an accounting based on the alleged copyright infringement of the ECF program, and a declaration of copyright ownership of the ECF program. On September 19, 2011, Defendants filed their Answer to Siniouguine's Complaint, and Mediachase filed its Counterclaim against Siniouguine and Virtosoftware, seeking a declaration that Mediachase was the copyright owner of the ECF program, seeking to invalidate Siniouguine's copyright application for the ECF program, and

alleging claims for copyright infringement of the ECF Program, misappropriation of trade secrets, breach of contract, fraud, conversion, and unfair competition.

On November 3, 2011, Siniouguine and Virtosoftware filed their Answer to Mediachase's Counterclaim, and Siniouguine filed a new Counterclaim against Mediachase alleging the identical copyright infringement, accounting, and declaratory relief claims only now relating to the Calendar.NET program. On November 28, 2012, Mediachase filed its Answer to Siniouguine's Counterclaim and its Supplemental Counterclaim, seeking a declaration that Siniouguine does not own the copyright in the Calendar.NET program, seeking to invalidate Siniouguine's copyright application for the Calendar.NET program, and alleging a claim for breach of contract.

In their Motion, Defendants argue that the undisputed facts establish that Mediachase, and not Siniouguine, owns the copyrights in and to the Programs either by assignment or by application of the "work made for hire" doctrine or both, and that judgment should be entered in favor of Mediachase on each of Siniouguine's claims asserted in the Complaint and Siniouguine's Counterclaim; on Mediachase's declaratory relief claims alleged in Mediachase's Counterclaim and in Mediachase's Supplemental Counterclaim; and the Court should enter partial summary judgment establishing Mediachase's ownership of the Programs on all remaining claims and defenses, including Mediachase's claim for copyright infringement, in which ownership of the copyrights in the Programs is an element.

II. Legal Standard

Summary judgment is proper where "the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(a). The moving party has the burden of demonstrating the absence of a genuine issue of fact for trial. See *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). Once the moving party meets its burden, a party opposing a properly made and supported motion for summary judgment may not rest upon mere denials but must set out specific facts showing a genuine issue for trial. *Id.* at 250; Fed.R.Civ.P. 56(c), (e); see also *Taylor v. List*, 880 F.2d 1040,

1045 (9th Cir.1989) ("A summary judgment motion cannot be defeated by relying solely on conclusory allegations unsupported by factual data."). In particular, when the non-moving party bears the burden of proving an element essential to its case, that party must make a showing sufficient to establish a genuine issue of material fact with respect to the existence of that element or be subject to summary judgment. See *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). "An issue of fact is not enough to defeat summary judgment; there must be a genuine issue of material fact, a dispute capable of affecting the outcome of the case." *American International Group, Inc. v. American International Bank*, 926 F.2d 829, 833 (9th Cir.1991) (Kozinski, dissenting).

*4 An issue is genuine if evidence is produced that would allow a rational trier of fact to reach a verdict in favor of the non-moving party. *Anderson*, 477 U.S. at 248. "This requires evidence, not speculation." *Meade v. Cedarapids, Inc.*, 164 F.3d 1218, 1225 (9th Cir.1999). The Court must assume the truth of direct evidence set forth by the opposing party. See *Hanon v. Dataproducts Corp.*, 976 F.2d 497, 507 (9th Cir.1992). However, where circumstantial evidence is presented, the Court may consider the plausibility and reasonableness of inferences arising therefrom. See *Anderson*, 477 U.S. at 249-50; *TW Elec. Serv., Inc. v. Pacific Elec. Contractors Ass'n*, 809 F.2d 626, 631-32 (9th Cir.1987). Although the party opposing summary judgment is entitled to the benefit of all reasonable inferences, "inferences cannot be drawn from thin air; they must be based on evidence which, if believed, would be sufficient to support a judgment for the nonmoving party." *American International Group*, 926 F.2d at 836-37. In that regard, "a mere 'scintilla' of evidence will not be sufficient to defeat a properly supported motion for summary judgment; rather, the nonmoving party must introduce some 'significant probative evidence tending to support the complaint.'" *Summers v. Teichert & Son, Inc.*, 127 F.3d 1150, 1152 (9th Cir.1997).

III. Discussion

A. The 1999 Agreement Establishes Mediachase's Ownership of the Copyrights in the Programs.

Based on the undisputed facts and viewing the evidence in the light most favorable to Siniouguine, the Court concludes that, pursuant to the 1999 Agreement, Mediachase is the owner of the copyrights in the Programs.⁴ The 1999 Agreement clearly provides that the Programs were “works made for hire” that were “specially ordered or commissioned,” and, thus, Mediachase, as the party commissioning the Programs, is the author and owner of the copyrights. In addition, to the extent the Programs were not “works made for hire” and Siniouguine could somehow be considered the author and original owner of the copyrights in the Programs, he has transferred any ownership rights in the Programs to Mediachase pursuant to the express terms of the 1999 Agreement.

1. The 1999 Agreement Establishes That the Programs Were “Works Made for Hire” Because They Were “Specially Ordered or Commissioned.”

A “work made for hire” is an exception to the general rule that the author of a work is the owner of the copyright in that work. 17 U.S.C. § 201(a), (b). In the case of works made for hire, “the employer or other person for whom the work was prepared is considered the author” and, thus, the copyright owner of the work. *Id.* Section 101(2) states that certain works “shall be considered a work made for hire” when they are “specially ordered or commissioned” and “the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.” Such works may be “for hire” even if the person creating them is an independent contractor rather than employee. 17 U.S.C. § 201(b); *Community For Creative Non-Violence v. Reid* (“CCNV”), 490 U.S. 730, 742, 109 S.Ct. 2166, 104 L.Ed.2d 811 (1989) (holding that Section 101(2) work for hire doctrine applies to independent contractors); *Warren v. Fox Family Worldwide, Inc.*, 328 F.3d 1136, 1140–42 (9th Cir.2003) (holding that pursuant to the express agreement of the parties, work for hire doctrine applied to works created by independent contractor that were specially commissioned by defendant).

⁴ In this case, the Programs easily qualify as “works made for hire” under Section 101(2). Siniouguine and Mediachase expressly agreed that the Programs would be works made for hire in their 1999 Agreement. In addition, the Programs qualify

as “works made for hire” under Section 101(2) because they are both “contributions to a collective work” and “compilations.” The Programs meet the requirements for “contributions to a collective work” because they are separate and independently protectable works that are intended to be combined with customers’ own programming and content to create a collective whole, namely a fully functioning commercial website. *See id.* (defining a “collective work” as “a work ... constituting separate and independent works in themselves [that] are assembled into a collective whole.”). Moreover, the Programs meet the requirements for “compilations” because they include an original selection, arrangement and organization of nonliteral elements in their code. Such nonliteral elements of a computer program are a “compilation insofar as the concepts of selection, arrangement and organization ... are included in the analysis of a computer program’s structure.” *Computer Assoc. Int’l, Inc. v. Alta, Inc.*, 982 F.2d 693, 711–12 (2d Cir.1992); *Logcam Inclusive, Inc. v. W.P. Stewart & Co.*, 2004 WL 1781009, *9 (S.D.N.Y.2004) (holding that a computer program is a “compilation” and thus subject to 17 U.S.C. § 101(2) “work made for hire” status).

Finally, the Programs were “specially ordered or commissioned” as required by Section 101(2). Works are “specially commissioned” when one person or company asks another to prepare a copyrightable work to benefit the requesting party. *Playboy Enterprises*, 53 F.3d at 563. The 1999 Agreement expressly states that Siniouguine’s work was “specially ordered or commissioned” by Mediachase, and Siniouguine was employed specifically to create those programs for the benefit Mediachase. Thus, the Programs satisfy the definition of “specially commissioned” works. *Warren*, 328 F.3d at 1140–42 (holding that “specially commissioned” status of independent contractor’s work was “conclusively demonstrated” by employment agreements, even though they “did not use the talismanic words ‘specially ordered or commissioned’”).

Because the Programs are “specially commissioned” works made for hire, Mediachase is the author and sole copyright owner of the Programs.

2. Siniouguine Transferred the Copyrights in the Programs to Mediachase.

The copyright in a computer program is generally owned by the person that “authored” it. 17 U.S.C. § 201(a). However, an author may transfer the copyright in a work by a signed writing. 17 U.S.C. § 204(a). The writing requirement exists to enhance “predictability and certainty of copyright ownership.” *Effects Associates, Inc. v. Cohen*, 908 F.2d 555, 557 (9th Cir.1990). The writing “doesn’t have to be the *Magna Charta*; a one-line pro forma statement will do.” *Id.* at 557. Further, “[n]o magic words must be included in a document to satisfy § 204(a).” *Radio Television Espanola S.A. v. New World Entertainment, Ltd.*, 183 F.3d 922, 927 (9th Cir.1999). The writing must merely show an agreement to transfer copyright. See *Playboy Enterprises, Inc. v. Dumas*, 53 F.3d 549, 564 (2d Cir.1995).

*6 In this case, it is undisputed that Siniouguine signed the 1999 Agreement in which he assigned “all right, title and interest in the Results [of his work for Mediachase to Mediachase] throughout the universe in perpetuity.” Siniouguine’s signing of this writing “predictably” and with “certainty” establishes that he assigned whatever copyright interest he may have had in the Programs to Mediachase, and that Mediachase, not Siniouguine, owns the copyrights in the Programs. See *Effects Associates*, 908 F.2d at 557; *Warren*, 328 F.3d at 1141–42 (holding that agreements providing that a company would “own all right, title and interest in and to [an independent contractor’s] services and the results and proceeds thereof” established that the company, rather than the independent contractor, owned the copyright in the works the independent contractor created for the company).

Accordingly, even if Siniouguine could be considered the author of the Programs, Mediachase is now the sole owner of the copyrights in the Programs because Siniouguine transferred any ownership interest in the Programs to Mediachase pursuant to the express terms of the 1999 Agreement.

B. Siniouguine’s Work in Developing the Programs was Done in the Course and Scope of His Employment with Mediachase.

Even if the 1999 Agreement did not conclusively establish Mediachase’s copyright ownership of the Programs, the undisputed facts demonstrate that although Siniouguine contributed to the development of the Programs, they were created in

the course and scope of his employment, and, thus, the Programs qualify as “works for hire” under 17 U.S.C. § 101(1). The Copyright Act provides that “a work prepared by an employee within the scope of his or her employment” is a “work made for hire.” 17 U.S.C. § 101(1).

1. Siniouguine Was an Employee of Mediachase.

While the terms “employee,” “employer” and “scope of employment” in Section 101(1) are not defined in the Copyright Act, the Supreme Court has “concluded that Congress intended” such terms “to be understood in light of agency law,” and, thus, “have relied on the general common law of agency” to determine whether someone was, in fact, an “employee” working within the course and scope of his or her “employment.” *CCNY*, 490 U.S. at 740–41. The Supreme Court and Ninth Circuit have identified several factors that are helpful in evaluating and determining “employee status” for copyright law purposes.⁵ *Id.* at 751–52; *JustMed, Inc. v. Byce*, 600 F.3d 1118 (9th Cir.2010). These factors “must be assessed and weighed, with no one factor being decisive.” *CCNY*, 490 U.S. at 751–52; see also *Nationwide Mutual Ins. Co. v. Darden*, 503 U.S. 318, 324, 112 S.Ct. 1344, 117 L.Ed.2d 581 (1992).

Indeed, the Ninth Circuit recently affirmed a trial court’s determination of “employee” status even though several of the relevant factors weighed against such a determination. In *JustMed*, 600 F.3d at 1125–1128, the Ninth Circuit held that a computer programmer was an employee under 17 U.S.C. § 101(1) even though there was evidence that he worked from home, that his work was not directly supervised by the company, that he set his own hours, that he performed highly skilled work, that he did not receive benefits, and that he was not treated as an employee for tax purposes. See also *Miller v. CP Chems., Inc.*, 808 F.Supp. 1238, 1242–44 (D.S.C.1992) (summary judgment for defendant company granted on copyright infringement claim brought by employee because the computer program the employee wrote was incidental to his employment, specific to the employer’s products, and intended to serve the employer, even though the employee was not hired to write programs, did so at home, and was not separately compensated for the work he did in writing the program).

⁵7 In this case, despite Siniouguine’s arguments to

the contrary, the undisputed facts demonstrate that Siniouguine was employed by Mediachase for twelve years. In fact, Siniouguine himself repeatedly admitted that he was employed by Mediachase in documents he signed during his employment and prior to this litigation.⁶ For example, in November 2002 Siniouguine identified himself as Mediachase's "employee" in an "Employee Application" for medical insurance coverage. In 2009, Siniouguine signed a lease application in which he stated Mediachase was his "current" employer and that Mediachase had been his "employer" for "10 years." In 2010, Siniouguine signed credit application documents for an automobile lease that he "certified" were "accurate and complete" in which he wrote that he had been "employed" by Mediachase for "10 years," that Mediachase was his "present employer," that he received a "monthly" salary from Mediachase, and that Chris Lutz was his "Boss."

In addition to Siniouguine's admissions, an analysis and application of the multifactor test articulated in *CCNV* and *JustMed* demonstrates that Siniouguine was an employee of Mediachase. The fact that the 1999 Agreement contemplated a relationship of indefinite duration and that Siniouguine worked for Mediachase for twelve years weighs in favor of a finding that Siniouguine was an employee of Mediachase. *JustMed*, 600 F.3d at 1126 (holding that "the fact that the parties contemplated a relationship of indefinite duration cuts in favor of finding" a computer programmer working for a high tech start up company was an employee of that company). Likewise, the fact that Siniouguine was not hired to work on a single program and, in fact, worked on multiple computer programs and other projects supports a finding that Siniouguine was an employee of Mediachase. *Id.* (holding that a computer programmer's work updating the company's website and demonstrating its products at trade shows supported a determination that he was an employee of the company). The fact that Siniouguine's work as a computer programmer was integral to Mediachase's regular business activity also supports a finding that he was an employee. *Id.* at 1127 (holding that "[i]t seems highly unlikely that JustMed would leave such an important, continuous responsibility to an independent contractor who would terminate his relationship with the company upon completing a working version of the software"). Moreover, the fact that

Siniouguine received regular monthly compensation and benefits, even though the amount and type of compensation and benefits varied, from 1999 until he left Mediachase in 2011 weighs "heavily" in favor of a finding that Siniouguine was an employee of Mediachase. *Id.* (holding that payment of a regular monthly salary, even when much of the salary was in the form of stock, weighed "heavily" in favor of finding employee status). Furthermore, while "control of the manner and means by which" a programmer creates source code is not as important a factor in determining if a programmer is an employee of a start up, Mediachase nonetheless exercised significant control over Siniouguine. *Id.* For example, Siniouguine's supervisors suggested improvements and required certain changes to the code he wrote, and required him to log onto Mediachase's server and use its project management collaboration software during the time he wrote his code so that his programming efforts could be tracked and coordinated with other members of the team. Finally, although Siniouguine did occasionally work from home, Mediachase provided him with an office and all of the equipment and computer programs that he required during his employment with Mediachase, all of which favor a determination that Siniouguine was Mediachase's employee. *Id.*

2. Siniouguine Helped Create the Programs Within the Course and Scope of His Employment.

⁶ Generally, Courts look at three factors to determine whether an employee's work was created "in the course and scope" of his employment under Section 101(1):(a) whether the work is of the kind the employee is employed to perform; (b) whether the work occurs substantially within the authorized time and space limits; and (c) whether the motivation for the work is, at least in part, to serve the employer's needs. *CCNV*, 490 U.S. at 739-40. However, the "time and space limits" factor has been deemed unimportant in the computer programming setting. *JustMed*, 600 F.3d at 1127 (holding that the fact programmer worked from home "not particularly relevant"); *Miller*, 808 F.Supp. at 1242 (holding that computer program prepared at home during off hours without direction or extra compensation from employer was a work for hire).

In this case, Siniouguine was employed to write

code for computer programs, he wrote the code for the Programs during the course of his employment by Mediachase, and Mediachase marketed those programs to the public. In light of the overwhelming evidence offered by Defendants and in absence of any admissible evidence by Siniouguine, the Court concludes that Siniouguine's work was performed within the "course and scope" of his employment. As a result, the Programs satisfy the test for "works for hire" under Section 101(1) and are owned by Mediachase.

C. Because Mediachase Owns the Copyrights in the Programs, It Is Entitled to Summary Judgment and Partial Summary Judgment on All The Claims and Counterclaims Which Are Based on Ownership of the Copyrights in the Programs.

The Court's determination that Mediachase, and not Siniouguine, owns the copyrights in the Programs disposes of the majority of the claims in this action. Specifically, Defendants are entitled to judgment on each of the claims in which proof of ownership of the copyrights in the Programs is dispositive. See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir.2001) (holding that plaintiff must prove ownership of valid copyright to prevail on a copyright infringement claim); *Davenport v. Litton Long Servicing, LP*, 725 F.Supp.2d 862, 881 (N.D.Cal.2010) (dismissing accounting claim because there was no viable underlying claim). Accordingly, with regard to the claims for relief asserted by Siniouguine in his Complaint for: 1. Copyright Infringement, 2. Accounting, 3. Declaratory Relief, 4. Demand for Jury Trial [filed July 25, 2011; Docket No.1], judgment shall be entered in favor of Defendants on Siniouguine's claims for copyright infringement, accounting, and declaratory relief. In addition, with regard to the counterclaims asserted by Mediachase in the Answer of Defendants Mediachase, Ltd., Chris Lutz, and Julie Magbojos, and Counterclaim of Defendant Mediachase, Ltd. [filed September 19, 2011; Docket No. 14], the Court finds and declares as to the first claim for declaratory relief that Mediachase, rather than Siniouguine, owns the copyright in and to the ECF computer program identified in Copyright Registration No. TX0007329315; and finds and declares as to the second claim for declaratory relief that Siniouguine's copyright application for the ECF computer program attached to his Complaint is invalid as Mediachase, rather than

Siniouguine, owns the copyright in and to that program. Moreover, with regard to the counterclaims asserted by Siniouguine in the Answer of Plaintiff and Counter-Defendant Alexandre Siniouguine and Counter-Defendant VirtoSoftware and Counterclaim of Plaintiff and Counter-Defendant Alexandre Siniouguine [filed November 4, 2012; Docket No. 29], judgment shall be entered in favor of Mediachase on Siniouguine's claims for copyright infringement, accounting, and declaratory relief. Furthermore, with regard to the additional counterclaims asserted by Mediachase in the Answer of Defendant and Counter-Claimant and Counter-Defendant Mediachase, Ltd. to the Counterclaims of Plaintiff and Counter-Defendant and Counter-Claimant Alexandre Siniouguine, and Second Supplemental Counterclaim of Mediachase, Ltd. [filed November 28, 2011; Docket No. 34], the Court finds and declares as to the first claim for declaratory relief stated therein that Mediachase, rather than Siniouguine, owns the copyright in and to the Calendar.NET computer program identified in Copyright Registration No. TX0007396494; and finds and declares as to the second claim for declaratory relief stated therein that Siniouguine's copyright application for the Calendar.NET computer program identified in Registration No. TX0007412872 is invalid because Mediachase, rather than Siniouguine, owns the copyright in and to that program. Finally, with regard to Mediachase's third claim for relief for copyright infringement set forth in Mediachase's Counterclaim and on all claims and defenses in Mediachase's Counterclaim and Mediachase's Supplemental Counterclaim for which ownership of the programs is at issue, partial summary judgment shall be entered adjudicating that Mediachase owns the copyright in and to the ECF computer program and Calendar.NET programs described in those claims and defenses, as identified in Copyright Registration Nos. TX0007329315, TX0007396494 and TX0007412872.

IV. Conclusion

*9 For all the foregoing reasons, Defendants' Motion is **GRANTED**.

IT IS SO ORDERED.

Parallel Citations

Sinouguine v. Mediachase Ltd., Not Reported in F.Supp.2d (2012)

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Footnotes

- 1 To the extent any of these facts are disputed, they are not material to the disposition of this motion. In addition, to the extent that the Court has relied on evidence to which the parties have objected, the Court has considered and overruled those objections. As to the remaining objections, the Court finds that it is unnecessary to rule on those objections because the disputed evidence was not relied on by the Court.
- 2 Mediachase is mistakenly identified as “Mediachase LLC” in the 1999 Agreement due to a typographical error.
- 3 Mediachase also provided Sinouguine with business cards, which listed his titles as “Lead Architect” and “Senior Developer,” and described him as part of Mediachase’s “Management Team” from 2003 until he left the company in 2011. Sinouguine also used a Mediachase email address in connection with work he performed for Mediachase.
- 4 While Sinouguine raises several arguments regarding the validity and enforceability of the 1999 Agreement, none of those arguments are persuasive or supported by the evidence. Sinouguine argues that the 1999 Agreement is ambiguous because it identifies Mediachase as a limited liability company instead of a corporation and the term “Company” used in the 1999 Agreement is not defined and, thus, might not refer to Mediachase. However, Sinouguine confirms in his own declaration that there was no ambiguity about the identity of his employer: “I had an interview with Mediachase in August of 1999 and was hired in September of 1999.... I executed the 1999 Agreement for the purpose of obtaining [an H-1 B] visa.” Similarly, Sinouguine’s argument that the 1999 Agreement was never “put into effect” is contradicted by his own declaration. Sinouguine states that after executing the 1999 Agreement and in order to get a work visa, he “began employment with Defendant Mediachase, performing consulting services and also developing some computer applications.” Sinouguine’s arguments that the 1999 Agreement was terminated are equally unpersuasive. Sinouguine argues that he is not bound by the 1999 Agreement because he was terminated in August 2002. However, it is undisputed that Sinouguine was still employed by Mediachase in 2011. Thus, even if he was terminated in 2002 and subsequently re-hired, that brief termination would not affect the validity or enforceability of the 1999 Agreement after he resumed his employment. *See, e.g., Featherling v. Hovensa LLC*, 2009 WL 497664, *2 (D.Vt. Feb.26, 2009) (holding that arbitration provision in employment agreement was still enforceable despite brief termination because the agreement was “never revoked, but at most, temporarily supplanted”). In addition, the email that Sinouguine relies upon to demonstrate that he was terminated by Mediachase in 2002 demonstrates the opposite—that Sinouguine was part of the “skeleton team” that remained employed by Mediachase when it was required to downsize in 2002. Moreover, Sinouguine does not dispute that Mediachase paid his rent and medical insurance throughout 2002. Alternatively, Sinouguine argues that the 1999 Agreement was terminated in 2002 because he did not receive a salary during part of 2002. However, Sinouguine admits that he received other forms of compensation during this same period, and he does not dispute that if Mediachase breached the 1999 Agreement by failing to pay his salary, his remedy was limited to an action for monetary damages, which would not result in the termination of the 1999 Agreement. *Warren v. Fox Family Worldwide, Inc.*, 328 F.3d 1136, 1143 (9th Cir.2003) (holding that alleged failure to pay royalties owed pursuant to employment agreement did not affect company’s copyright ownership pursuant to that agreement because the agreement provided “that money damages would remedy any breach”). Sinouguine’s argument that minor changes in his compensation or work conditions throughout the term of his employment terminated the 1999 Agreement are also unpersuasive. *See, e.g., Han v. Mobil Oil Corp.*, 73 F.3d 872, 877 (9th Cir.1995) (holding that a written agreement that modifies only some terms of a prior written agreement constitutes a partial modification of the original agreement’s terms and “[s]uch a modification only supersedes those terms to which it relates”). Finally, Sinouguine’s argument that the 1999 Agreement was terminated when he executed a new agreement with Mediachase in 2011 is patently frivolous because Sinouguine admits that he never executed the proposed 2011 agreement.
- 5 The factors include: (1) the hiring party’s right to control the manner and means by which the product is accomplished; (2) the skill required; (3) the source of the instrumentalities and tools; (4) the location of the work; (5) the duration of the relationship between the parties; (6) whether the hiring party has the right to assign additional projects to the hired party; (7) the extent of the hired party’s discretion over when and how long to work; (8) the method of payment; (9) the hired party’s role in hiring and paying assistants; (10) whether the work is part of the regular business of the hiring party; (11) whether the hiring party is in business; (12) the provision of employee benefits; and (13) the tax treatment of the hired party. *CCNY*, 490 U.S. at 751–52.
- 6 Sinouguine has also identified Mediachase as his employer on internet social media.

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premiums owed) are satisfactorily completed; and (B) cover damage to property occurring after the effective date described in subparagraph (A) that resulted from the flooding of the Missouri River that commenced on June 1, 2011, if the property did not suffer damage or loss as a result of such flooding before the effective date described in subparagraph (A).

Moving Ahead for Progress in the 21st Century Act, Pub.L. No. 112-141, § 100227(b), 126 Stat. 405, 943-44 (2012).

To benefit from the FIRA, a claimant must prove possession of “eligible coverage.” Eligible coverage is “coverage” under a new or modified insurance contract that was purchased between May 1 and June 6, 2011, for property that was damaged by the Missouri River flood that commenced on June 1, 2011. The Hoddes purchased flood insurance on May 31, 2011, which was to become effective on June 30, 2011, due to the SFIP waiting period. After hearing of FEMA’s designation, rather than leave the SFIPs in place, on June 20, 2011, the Hoddes canceled the SFIPs and sought full reimbursement of their premiums. As such, the Hoddes were never actually covered for any flood loss. Nothing in the FIRA’s subsection (b)(1) describing the term “eligible coverage” includes insurance contracts voluntarily canceled by the insured before their effective date. *Coverage*, Black’s Law Dictionary (10th ed.2014) (including the definitions “[i]nclusion of a risk under an insurance policy” and “the risks within the scope of an insurance policy”). Upon cancellation of the SFIPs purchased on May 31, the Hoddes had no policy and hence no coverage for any flooding event.

The Hoddes argue that the FIRA is remedial legislation intended “to aid those persons who had purchased flood insurance” during the applicable time period

and who suffered damage. Accordingly, they argue that the FIRA should not be construed to distinguish between those that kept the insurance and those that canceled it and received a refund of their premiums. They reason that “[i]f Congress intended to [exclude those that canceled the insurance], they could easily have done so by excluding policies that were cancel[ed].” Unfortunately, prematurely canceling the policy effectively placed the Hoddes outside the ambit of those persons who had purchased flood insurance. The FIRA does not contain language to reinstate the SFIPs that were canceled before they became effective.

III. *Conclusion*

Accordingly, we affirm the judgment of the district court.



Stephanie LENZ, Plaintiff-
Appellee/Cross-
Appellant,

v.

UNIVERSAL MUSIC CORP.; Universal
Music Publishing Inc.; Universal Music
Publishing Group Inc., Defendants-
Appellants/Cross-Appellees.

Nos. 13-16106, 13-16107.

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted July 7, 2015.

Filed Sept. 14, 2015.

Amended March 17, 2016.

Background: User of internet posting website brought action alleging that copy-

right holder made material misrepresentation by issuing takedown notification without proper consideration of fair use doctrine, in violation Digital Millennium Copyright Act (DMCA). The United States District Court for the Northern District of California, Jeremy D. Fogel, J., 2013 WL 271673, denied cross-motions for summary judgment, and parties filed interlocutory cross-appeals.

Holdings: The Court of Appeals, Tallman, Circuit Judge, held that:

- (1) addressing an issue of first impression, DMCA required copyright holder to consider whether potentially infringing material was fair use before issuing takedown notification;
- (2) fact issues remained as to whether holder had subjective good faith belief that posting was not fair use;
- (3) plaintiff failed to demonstrate that holder was willfully blind as to whether her posting was fair use; and
- (4) plaintiff could seek recovery of nominal damages.

Affirmed.

M. Smith, Circuit Judge, filed opinion concurring in part and dissenting in part.

1. Federal Courts ⇔3604(4)

The Court of Appeals reviews de novo the district court's denial of summary judgment.

2. Federal Courts ⇔3604(4), 3675

When reviewing the district court's denial of summary judgment, the Court of Appeals must determine whether the evidence, viewed in a light most favorable to the non-moving party, presents any genuine issues of material fact and whether the district court correctly applied the law.

3. Federal Courts ⇔3604(4), 3675

On cross-motions for summary judgment, court of appeals evaluates each motion independently, giving the nonmoving

party in each instance the benefit of all reasonable inferences.

4. Federal Courts ⇔3546(3)

When evaluating an interlocutory appeal, the Court of Appeals may address any issue fairly included within the certified order because it is the order that is appealable, and not the controlling question identified by the district court; the Court may therefore address those issues material to the order from which appeal has been taken.

5. Statutes ⇔1108, 1242

If statute's language is clear, court may look no further than that language in determining statute's meaning; court looks to legislative history only if statute is unclear.

6. Copyrights and Intellectual Property ⇔67.3

Digital Millennium Copyright Act (DMCA) required copyright holder to consider whether potentially infringing material was fair use before issuing takedown notification of video posted on internet website. 17 U.S.C.A. §§ 107, 512(e)(3)(A)(v).

7. Copyrights and Intellectual Property ⇔67.3

Fair use is an authorization under the law as contemplated by Digital Millennium Copyright Act (DMCA) provision requiring a takedown notification to include a "statement that the complaining party has a good faith belief that the use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law." 17 U.S.C.A. § 512(e)(3)(A)(v).

8. Statutes ⇔1181

When there is no indication that Congress intended specific legal meaning for

term, court may look to sources such as dictionaries for definition.

9. Copyrights and Intellectual Property
↔53.2

Anyone who makes fair use of work is not infringer of copyright with respect to such use. 17 U.S.C.A. § 107.

10. Copyrights and Intellectual Property
↔67.3

Copyright holder need only form subjective good faith belief that use is not authorized before issuing takedown notification pursuant to Digital Millennium Copyright Act (DMCA). 17 U.S.C.A. § 512(c)(3)(A)(v).

11. Copyrights and Intellectual Property
↔89(2)

Genuine issue of material fact as to whether copyright holder had subjective good faith belief that video posted on internet site was not fair use of its musical composition precluded summary judgment in holder's favor in poster's action alleging that copyright holder made material misrepresentation by issuing takedown notification, in violation Digital Millennium Copyright Act (DMCA). 17 U.S.C.A. § 512(c)(3)(A)(v), (f).

12. Copyrights and Intellectual Property
↔67.3

Willful blindness doctrine may be used to determine whether copyright holder knowingly materially misrepresented that it held good faith belief that offending activity was not fair use, in violation of Digital Millennium Copyright Act (DMCA). 17 U.S.C.A. § 512(c)(3)(A)(v), (f).

13. Copyrights and Intellectual Property
↔67.3

To demonstrate willful blindness, plaintiff asserting claim under Digital Millennium Copyright Act (DMCA) based on defendant's alleged material misrepresentation that it held good faith belief that

offending activity was not fair use must establish that: (1) defendant subjectively believed there was high probability that video constituted fair use, and (2) it took deliberate actions to avoid learning of this fair use. 17 U.S.C.A. § 512(c)(3)(A)(v), (f).

14. Copyrights and Intellectual Property
↔67.3

User of internet posting website failed to demonstrate that copyright holder was willfully blind as to whether her posting on internet site was fair use of its musical composition, for purposes of determining whether copyright holder acted in good faith when it issued takedown notification pursuant to Digital Millennium Copyright Act (DMCA), absent evidence suggesting that holder subjectively believed either that there was high probability that any given video might make fair use of composition or that her video in particular made fair use of song. 17 U.S.C.A. § 512(c)(3)(A)(v), (f).

15. Copyrights and Intellectual Property
↔87(5)

Plaintiff may seek recovery of nominal damages under Digital Millennium Copyright Act (DMCA) for injury incurred as result of copyright holder's material misrepresentation in issuing takedown notification. 17 U.S.C.A. § 512(f).

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Appeal from the United States District Court for the Northern District of California, Jeremy D. Fogel, District Judge, Presiding. D.C. No. 5:07-cv-03783-JF.

Before: RICHARD C. TALLMAN, MILAN D. SMITH, JR., and MARY H. MURGUIA, Circuit Judges.

Opinion by Judge TALLMAN; Partial Concurrence and Partial Dissent by Judge MILAN D. SMITH, JR.

TALLMAN, Circuit Judge:

ORDER

The opinion and dissent filed on September 14, 2015 and published at 801 F.3d 1126 are hereby amended. The amended

opinion and dissent are filed concurrently with this order.

With these amendments, the panel has voted to deny Universal's petition for panel rehearing and Lenz's petition for panel rehearing. Judge Tallman and Judge Murguia have voted to deny Lenz's petition for rehearing en banc, and Judge M. Smith has voted to grant Lenz's petition for rehearing en banc.

The full court has been advised of the petition for rehearing en banc. No judge has requested a vote on whether to rehear the matter en banc. Fed. R.App. P. 35(b).

Universal's petition for panel rehearing is **DENIED**. Lenz's petition for panel rehearing or rehearing en banc is **DENIED**. No future petitions for panel rehearing or petitions for rehearing en banc will be entertained.

OPINION

Stephanie Lenz filed suit under 17 U.S.C. § 512(f)—part of the Digital Millennium Copyright Act (“DMCA”)—against Universal Music Corp., Universal Music Publishing, Inc., and Universal Music Publishing Group (collectively “Universal”). She alleges Universal misrepresented in a takedown notification that her 29-second home video (the “video”) constituted an infringing use of a portion of a composition by the Artist known as Prince, which Universal insists was unauthorized by the law. Her claim boils down to a question of whether copyright holders have been abusing the extrajudicial takedown procedures provided for in the DMCA by declining to first evaluate whether the content qualifies as fair use. We hold that the statute requires copyright holders to consider fair use before sending a takedown notification, and that in this case, there is a triable issue as to whether the copyright holder formed a subjective good faith belief that the use was not authorized by law. We

affirm the denial of the parties' cross-motions for summary judgment.

I

Founded in May 2005, YouTube (now owned by Google) operates a website that hosts user-generated content. *About YouTube*, YouTube.com, <https://www.youtube.com/yt/about/> (last visited September 4, 2015). Users upload videos directly to the website. *Id.* On February 7, 2007, Lenz uploaded to YouTube a 29-second home video of her two young children in the family kitchen dancing to the song *Let's Go Crazy* by Prince.¹ Available at <https://www.youtube.com/watch?v=N1KfJHFwIhQ> (last visited September 4, 2015). She titled the video "Let's Go Crazy' # 1." About four seconds into the video, Lenz asks her thirteen month-old son "what do you think of the music?" after which he bobs up and down while holding a push toy.

At the time Lenz posted the video, Universal was Prince's publishing administrator responsible for enforcing his copyrights. To accomplish this objective with respect to YouTube, Robert Allen, Universal's head of business affairs, assigned Sean Johnson, an assistant in the legal department, to monitor YouTube on a daily basis. Johnson searched YouTube for Prince's songs and reviewed the video postings returned by his online search query. When reviewing such videos, he evaluated whether they "embodied a Prince composition" by making "significant use of . . . the composition, specifically if the song was recognizable, was in a significant portion of the video or was the focus of the video." According to Allen, "[t]he

general guidelines are that . . . we review the video to ensure that the composition was the focus and if it was we then notify YouTube that the video should be removed."

Johnson contrasted videos that met this criteria to those "that may have had a second or less of a Prince song, literally a one line, half line of Prince song" or "were shot in incredibly noisy environments, such as bars, where there could be a Prince song playing deep in the background . . . to the point where if there was any Prince composition embodied . . . in those videos that it was distorted beyond reasonable recognition." None of the video evaluation guidelines explicitly include consideration of the fair use doctrine.

When Johnson reviewed Lenz's video, he recognized *Let's Go Crazy* immediately. He noted that it played loudly in the background throughout the entire video. Based on these details, the video's title, and Lenz's query during the video asking if her son liked the song, he concluded that Prince's song "was very much the focus of the video." As a result, Johnson decided the video should be included in a takedown notification sent to YouTube that listed more than 200 YouTube videos Universal believed to be making unauthorized use of Prince's songs.² The notice included a "good faith belief" statement as required by 17 U.S.C. § 512(c)(3)(A)(v): "We have a good faith belief that the above-described activity is not authorized by the copyright owner, its agent, or the law."

After receiving the takedown notification, YouTube removed the video and sent

1. YouTube is a for-profit company that generates revenues by selling advertising. If users choose to become "content partners" with YouTube, they share in a portion of the advertising revenue generated. Lenz is not a content partner and no advertisements appear next to the video.

2. "[T]he parties do not dispute that Lenz used copyrighted material in her video or that Universal is the true owner of Prince's copyrighted music." *Lenz v. Universal Music Corp.*, 572 F.Supp.2d 1150, 1153-54 (N.D.Cal.2008).

Lenz an email on June 5, 2007, notifying her of the removal. On June 7, 2007, Lenz attempted to restore the video by sending a counter-notification to YouTube pursuant to § 512(g)(3). After YouTube provided this counter-notification to Universal per § 512(g)(2)(B), Universal protested the video's reinstatement because Lenz failed to properly acknowledge that her statement was made under penalty of perjury, as required by § 512(g)(3)(C). Universal's protest reiterated that the video constituted infringement because there was no record that "either she or YouTube were ever granted licenses to reproduce, distribute, publicly perform or otherwise exploit the Composition." The protest made no mention of fair use. After obtaining *pro bono* counsel, Lenz sent a second counter-notification on June 27, 2007, which resulted in YouTube's reinstatement of the video in mid-July.

II

Lenz filed the instant action on July 24, 2007, and her Amended Complaint on August 15, 2007. After the district court dismissed her tortious interference claim and request for declaratory relief, Lenz filed her Second Amended Complaint on April 18, 2008, alleging only a claim for misrepresentation under § 512(f). The district court denied Universal's motion to dismiss the action.

On February 25, 2010, the district court granted Lenz's partial motion for summary judgment on Universal's six affirmative defenses, including the third affirmative defense that Lenz suffered no damages. Both parties subsequently moved for summary judgment on Lenz's § 512(f) misrepresentation claim. On January 24, 2013, the district court denied both motions in an order that is now before us.

The district court certified its summary judgment order for interlocutory appeal

under 28 U.S.C. § 1292(b), and stayed proceedings in district court pending resolution of the appeal. We granted the parties permission to bring an interlocutory appeal.

III

[1-3] We review *de novo* the district court's denial of summary judgment. When doing so, we "must determine whether the evidence, viewed in a light most favorable to the non-moving party, presents any genuine issues of material fact and whether the district court correctly applied the law." *Warren v. City of Carlsbad*, 58 F.3d 439, 441 (9th Cir.1995). On cross-motions for summary judgment, we evaluate each motion independently, "giving the nonmoving party in each instance the benefit of all reasonable inferences." *ACLU v. City of Las Vegas*, 333 F.3d 1092, 1097 (9th Cir.2003).

[4] When evaluating an interlocutory appeal, we "may address any issue fairly included within the certified order because it is the *order* that is appealable, and not the controlling question identified by the district court." *Yamaha Motor Corp., U.S.A. v. Colthoun*, 516 U.S. 199, 205, 116 S.Ct. 619, 133 L.Ed.2d 578 (1996) (emphasis in original) (quotation omitted). We may therefore "address those issues *material* to the order from which appeal has been taken." *In re Cinematronics, Inc.*, 916 F.2d 1444, 1449 (9th Cir.1990) (emphasis in original) (permitting appellate review of a ruling issued prior to the order certified for interlocutory appeal).

IV

Effective on October 28, 1998, the DMCA added new sections to existing copyright law by enacting five Titles, only one of which is relevant here: Title II—Online Copyright Infringement Liability

Limitation Act—now codified in 17 U.S.C. § 512. Sections 512(e), (f), and (g) are at the heart of the parties' dispute.

A

Section 512(c) permits service providers, e.g., YouTube or Google, to avoid copyright infringement liability for storing users' content if—among other requirements—the service provider “expeditiously” removes or disables access to the content after receiving notification from a copyright holder that the content is infringing. 17 U.S.C. § 512(c). Section 512(c)(3)(A) sets forth the elements that such a “takedown notification” must contain. These elements include identification of the copyrighted work, identification of the allegedly infringing material, and, critically, a statement that the copyright holder believes in good faith the infringing material “is not authorized by the copyright owner, its agent, or the law.” *Id.* § 512(c)(3)(A). The procedures outlined in § 512(c) are referred to as the DMCA's “takedown procedures.”

To avoid liability for disabling or removing content, the service provider must notify the user of the takedown. *Id.* § 512(g)(1)–(2). The user then has the option of restoring the content by sending a counter-notification, which must include a statement of “good faith belief that the material was removed or disabled as a result of mistake or misidentification. . . .” *Id.* § 512(g)(3)(C). Upon receipt of a valid counter-notification, the service provider must inform the copyright holder of the counter-notification and restore the content within “not less than 10, nor more than 14, business days,” unless the service provider receives notice that the copyright holder has filed a lawsuit against the user seeking to restrain the user's infringing behavior. *Id.* § 512(g)(2)(B)–(C). The procedures outlined in § 512(g) are referred to as the DMCA's “put-back procedures.”

If an entity abuses the DMCA, it may be subject to liability under § 512(f). That section provides: “Any person who knowingly materially misrepresents under this section—(1) that material or activity is infringing, or (2) that material or activity was removed or disabled by mistake or misidentification, shall be liable for any damages. . . .” *Id.* § 512(f). Subsection (1) generally applies to copyright holders and subsection (2) generally applies to users. Only subsection (1) is at issue here.

B

[5–7] We must first determine whether 17 U.S.C. § 512(c)(3)(A)(v) requires copyright holders to consider whether the potentially infringing material is a fair use of a copyright under 17 U.S.C. § 107 before issuing a takedown notification. Section 512(c)(3)(A)(v) requires a takedown notification to include a “statement that the complaining party has a good faith belief that the use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.” The parties dispute whether fair use is an authorization under the law as contemplated by the statute—which is so far as we know an issue of first impression in any circuit across the nation. “Canons of statutory construction dictate that if the language of a statute is clear, we look no further than that language in determining the statute's meaning. . . . A court looks to legislative history only if the statute is unclear.” *United States v. Lewis*, 67 F.3d 225, 228–29 (9th Cir.1995) (citations omitted). We agree with the district court and hold that the statute unambiguously contemplates fair use as a use authorized by the law.

Fair use is not just excused by the law, it is wholly authorized by the law. In 1976, Congress codified the application of a

four-step test for determining the fair use of copyrighted works:

Notwithstanding the provisions of sections 106 and 106A, *the fair use of a copyrighted work*, . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, *is not an infringement of copyright*. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (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.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107 (emphasis added). The statute explains that the fair use of a copyrighted work is permissible because it is a non-infringing use.

[8] While Title 17 of the United States Code (“Copyrights”) does not define the term “authorize” or “authorized,” “[w]hen there is no indication that Congress intended a specific legal meaning for the term, the court may look to sources such as dictionaries for a definition.” *United States v. Mohrbacher*, 182 F.3d 1041, 1048 (9th Cir.1999). Black’s Law Dictionary defines “authorize” as “1. To give legal authority; to empower” and “2. To formally approve; to sanction.” *Authorize*, Black’s Law Dictionary (10th ed. 2014). Because 17 U.S.C. § 107 both “empowers” and

“formally approves” the use of copyrighted material if the use constitutes fair use, fair use is “authorized by the law” within the meaning of § 512(c). See also 17 U.S.C. § 108(f)(4) (“Nothing in this section in any way affects the *right* of fair use as provided by section 107. . . .” (emphasis added)).

[9] Universal’s sole textual argument is that fair use is not “authorized by the law” because it is an affirmative defense that excuses otherwise infringing conduct. Universal’s interpretation is incorrect as it conflates two different concepts: an affirmative defense that is labeled as such due to the procedural posture of the case, and an affirmative defense that excuses impermissible conduct. Supreme Court precedent squarely supports the conclusion that fair use does not fall into the latter camp: “[A]nyone who . . . makes a fair use of the work is not an infringer of the copyright with respect to such use.” *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 433, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984).

Given that 17 U.S.C. § 107 expressly authorizes fair use, labeling it as an affirmative defense that excuses conduct is a misnomer:

Although the traditional approach is to view “fair use” as an affirmative defense, this writer, speaking only for himself, is of the opinion that it is better viewed as a right granted by the Copyright Act of 1976. Originally, as a judicial doctrine without any statutory basis, fair use was an infringement that was excused—this is presumably why it was treated as a defense. As a statutory doctrine, however, fair use is not an infringement. Thus, since the passage of the 1976 Act, fair use should no longer be considered an infringement to be excused; instead, it is logical to view fair use as a right. Regardless of how fair use is viewed, it

is clear that the burden of proving fair use is always on the putative infringer. *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532, 1542 n. 22 (11th Cir.1996) (Birch, J.). We agree. Cf. Lydia Pallas Loren, *Fair Use: An Affirmative Defense?*, 90 Wash. L. Rev. 685, 688 (2015) (“Congress did not intend fair use to be an affirmative defense—a defense, yes, but not an affirmative defense.”). Fair use is therefore distinct from affirmative defenses where a use infringes a copyright, but there is no liability due to a valid excuse, e.g., misuse of a copyright, *Practice Management Information Corp. v. American Medical Ass’n*, 121 F.3d 516, 520 (9th Cir.1997), and laches, *Danjag LLC v. Sony Corp.*, 263 F.3d 942, 950–51 (9th Cir.2001).

Universal concedes it must give due consideration to other uses authorized by law such as compulsory licenses. The introductory language in 17 U.S.C. § 112 for compulsory licenses closely mirrors that in the fair use statute. Compare 17 U.S.C. § 112(a)(1) (“Notwithstanding the provisions of section 106, . . . it is not an infringement of copyright for a transmitting organization entitled to transmit to the public a performance or display of a work . . . to make no more than one copy or phonorecord of a particular transmission program embodying the performance or display . . .”), with *id.* § 107 (“Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work . . . is not an infringement of copyright.”). That fair use may be labeled as an affirmative defense due to the procedural posture of the case is no different than labeling a license an affirmative defense for the same reason. Compare *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 573 & n. 3, 590, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994) (stating that “fair use is an affirmative defense” where the district court converted a motion to dismiss based on fair use into a motion for summary judgment), with *A & M Records, Inc. v. Napster, Inc.*,

239 F.3d 1004, 1025–26 (9th Cir.2001) (“Napster contends that . . . the district court improperly rejected valid affirmative defenses of . . . implied license . . .”). Thus, Universal’s argument that it need not consider fair use in addition to compulsory licenses rings hollow.

Even if, as Universal urges, fair use is classified as an “affirmative defense,” we hold—for the purposes of the DMCA—fair use is uniquely situated in copyright law so as to be treated differently than traditional affirmative defenses. We conclude that because 17 U.S.C. § 107 created a type of non-infringing use, fair use is “authorized by the law” and a copyright holder must consider the existence of fair use before sending a takedown notification under § 512(c).

C

We must next determine if a genuine issue of material fact exists as to whether Universal knowingly misrepresented that it had formed a good faith belief the video did not constitute fair use. This inquiry lies not in whether a court would adjudge the video as a fair use, but whether Universal formed a good faith belief that it was not. Contrary to the district court’s holding, Lenz may proceed under an actual knowledge theory, but not under a willful blindness theory.

1

[10] Though Lenz argues Universal should have known the video qualifies for fair use as a matter of law, we have already decided a copyright holder need only form a subjective good faith belief that a use is not authorized. *Rossi v. Motion Picture Ass’n of Am. Inc.*, 391 F.3d 1000 (9th Cir.2004). In *Rossi*, we explicitly held that “the ‘good faith belief’ requirement in § 512(c)(3)(A)(v) encompasses a subjective, rather than objective

standard,” and we observed that “Congress understands this distinction.” *Id.* at 1004. We further held:

When enacting the DMCA, Congress could have easily incorporated an objective standard of reasonableness. The fact that it did not do so indicates an intent to adhere to the subjective standard traditionally associated with a good faith requirement. . . .

In § 512(f), Congress included an expressly limited cause of action for improper infringement notifications, imposing liability only if the copyright owner’s notification is a knowing misrepresentation. A copyright owner cannot be liable simply because an unknowing mistake is made, even if the copyright owner acted unreasonably in making the mistake. Rather, there must be a demonstration of some actual knowledge of misrepresentation on the part of the copyright owner.

Id. at 1004–05 (citations omitted). Neither of these holdings are dictum. See *United States v. Johnson*, 256 F.3d 895, 914 (9th Cir.2001) (en banc) (“[W]here a panel confronts an issue germane to the eventual resolution of the case, and resolves it after reasoned consideration in a published opinion, that ruling becomes the law of the circuit, regardless of whether doing so is necessary in some strict logical sense.”). We therefore judge Universal’s actions by the subjective beliefs it formed about the video.

3. Although the panel agrees on the legal principles we discuss herein, we part company with our dissenting colleague over the propriety of resolving on summary judgment Universal’s claim to subjective belief that the copyright was infringed. The dissent would find that no triable issue of fact exists because Universal did not specifically and expressly consider the fair-use elements of 17 U.S.C.

2

[11] Universal faces liability if it knowingly misrepresented in the takedown notification that it had formed a good faith belief the video was not authorized by the law, i.e., did not constitute fair use. Here, Lenz presented evidence that Universal did not form any subjective belief about the video’s fair use—one way or another—because it failed to consider fair use at all, and knew that it failed to do so. Universal nevertheless contends that its procedures, while not formally labeled consideration of fair use, were tantamount to such consideration. Because the DMCA requires consideration of fair use prior to sending a takedown notification, a jury must determine whether Universal’s actions were sufficient to form a subjective good faith belief about the video’s fair use or lack thereof.³

To be clear, if a copyright holder ignores or neglects our unequivocal holding that it must consider fair use before sending a takedown notification, it is liable for damages under § 512(f). If, however, a copyright holder forms a subjective *good faith* belief the allegedly infringing material does not constitute fair use, we are in no position to dispute the copyright holder’s belief even if we would have reached the opposite conclusion. A copyright holder who pays lip service to the consideration of fair use by claiming it formed a good faith belief when there is evidence to the contrary is still subject to § 512(f) liability. *Cf. Disney Enters., Inc. v. Hotfile Corp.*, No. 11–cv–20427, 2013 WL 6336286, at *48

§ 107. But the question is whether the analysis Universal did conduct of the video was sufficient, not to conclusively establish as a matter of law that the video’s use of *Let’s Go Crazy* was fair, but to form a subjective good faith belief that the video was infringing on Prince’s copyright. And under the circumstances of this case, that question is for the jury, not this court, to decide.

(S.D.Fla. Sept. 20, 2013) (denying summary judgment of § 512(f) counterclaim due to “sufficient evidence in the record to suggest that [Plaintiff] Warner intentionally targeted files it knew it had no right to remove”); *Rosen v. Hosting Servs., Inc.*, 771 F.Supp.2d 1219, 1223 (C.D.Cal.2010) (denying summary judgment of § 512(f) counterclaim where the takedown notification listed four URL links that did not contain content matching the description of the purportedly infringed material); *Online Policy Grp. v. Diebold, Inc.*, 337 F.Supp.2d 1195, 1204–05 (N.D.Cal.2004) (“[T]here is no genuine issue of fact that Diebold knew—and indeed that it specifically intended—that its letters to OPG and Swarthmore would result in prevention of publication of that content. . . . The fact that Diebold never actually brought suit against any alleged infringer suggests strongly that Diebold sought to use the DMCA’s safe harbor provisions—which were designed to protect ISPs, not copyright holders—as a sword to suppress publication of embarrassing content rather than as a shield to protect its intellectual property.”).

3

[12] We hold the willful blindness doctrine may be used to determine whether a copyright holder “knowingly materially misrepresent[ed]” that it held a “good faith belief” the offending activity was not a fair use. See 17 U.S.C. § 512(c)(3)(A)(v), (f). “[T]he willful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA.” *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 35 (2d Cir.2012) (interpreting how a party can establish the “actual knowledge”—a subjective belief—required by § 512(c)(1)(A)(i)); see also *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006, 1023 (9th Cir.2013) (“Of course, a service provider

cannot willfully bury its head in the sand to avoid obtaining such specific knowledge.” (citing *Viacom*, 676 F.3d at 31)). But, based on the specific facts presented during summary judgment, we reject the district court’s conclusion that Lenz may proceed to trial under a willful blindness theory.

[13] To demonstrate willful blindness a plaintiff must establish two factors: “(1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact.” *Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 131 S.Ct. 2060, 2070, 179 L.Ed.2d 1167 (2011). “Under this formulation, a willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts.” *Id.* at 2070–71. To meet the *Global-Tech* test, Lenz must demonstrate a genuine issue as to whether—before sending the takedown notification—Universal (1) subjectively believed there was a high probability that the video constituted fair use, and (2) took deliberate actions to avoid learning of this fair use.

[14] On summary judgment Lenz failed to meet a threshold showing of the first factor. To make such a showing, Lenz must provide evidence from which a juror could infer that Universal was aware of a high probability the video constituted fair use. See *United States v. Yi*, 704 F.3d 800, 805 (9th Cir.2013). But she failed to provide any such evidence. The district court therefore correctly found that “Lenz does not present evidence suggesting Universal subjectively believed either that there was a high probability any given video might make fair use of a Prince composition or her video in particular made fair use of Prince’s song ‘Let’s Go

Crazy.’” Yet the district court improperly denied Universal’s motion for summary judgment on the willful blindness theory because Universal “has not shown that it *lacked* a subjective belief.” By finding blame with Universal’s inability to show that it “*lacked* a subjective belief,” the district court improperly required Universal to meet its burden of persuasion, even though Lenz had failed to counter the initial burden of production that Universal successfully carried. See *Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986); *Nissan Fire & Marine Ins. Co. v. Fritz Cos., Inc.*, 210 F.3d 1099, 1102 (9th Cir.2000). Lenz may not therefore proceed to trial on a willful blindness theory.

V

[15] Section 512(f) provides for the recovery of “any damages, including costs and attorneys[] fees, incurred by the alleged infringer . . . who is injured by such misrepresentation, as the result of the service provider relying upon such misrepresentation in removing or disabling access to the material or activity claimed to be infringing. . . .” 17 U.S.C. § 512(f). We hold a plaintiff may seek recovery of nominal damages for an injury incurred as a result of a § 512(f) misrepresentation.

Universal incorrectly asserts that Lenz must demonstrate she incurred “actual monetary loss.” Section 512(k) provides a definition for “monetary relief” as “damages, costs, attorneys[] fees, and any other form of monetary payment.” The term “monetary relief” appears in § 512(a), (b)(1), (c)(1), and (d), but is notably absent from § 512(f). As a result, the damages

an alleged infringer may recover under § 512(f) from “any person” are broader than monetary relief.⁴ Cf. *United States v. James*, 478 U.S. 597, 605, 106 S.Ct. 3116, 92 L.Ed.2d 483 (1986) (“Congress’ choice of the language ‘any damage’ . . . undercuts a narrow construction.”), *abrogated on other grounds by Cent. Green Co. v. United States*, 531 U.S. 425, 121 S.Ct. 1005, 148 L.Ed.2d 919 (2001). Because Congress specified the recovery of “any damages,” we reject Universal’s contention that Congress did not indicate its intent to depart from the common law presumption that a misrepresentation plaintiff must have suffered a monetary loss. See *Keene Corp. v. United States*, 508 U.S. 200, 208, 113 S.Ct. 2035, 124 L.Ed.2d 118 (1993) (“Where Congress includes particular language in one section of a statute but omits it in another, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.” (quotation omitted)).

Lenz may seek recovery of nominal damages due to an unquantifiable harm suffered as a result of Universal’s actions.⁵ The DMCA is akin to a statutorily created intentional tort whereby an individual may recover nominal damages for a “knowingly material misrepresent[ation] under this section [512].” 17 U.S.C. § 512(f); cf. *Memphis Cmty. Sch. Dist. v. Stachura*, 477 U.S. 299, 305, 106 S.Ct. 2537, 91 L.Ed.2d 249 (1986) (“We have repeatedly noted that 42 U.S.C. § 1983 creates a species of tort liability in favor of persons who are deprived of rights, privileges, or immunities secured to them by the Constitution. Accordingly, when § 1983 plaintiffs seek damages for violations of constitutional

4. Title I of the DMCA specifies recovery for “actual damages.” 17 U.S.C. § 1203(c)(1)(A). If Congress intended to similarly limit the recovery of § 512(f) damages to pecuniary losses, it could have chosen to do so.

5. Lenz may not recover nominal damages for “impairment of free speech rights.” No authority supports the recovery of nominal damages caused by a private actor’s chilling of free speech rights. All of the cases Lenz cites address challenges to governmental action.

rights, the level of damages is ordinarily determined according to principles derived from the common law of torts.” (quotation and citations omitted).

“In a number of common law actions associated with intentional torts, the violation of the plaintiff’s right has generally been regarded as a kind of legal damage in itself. The plaintiff who proves an intentional physical tort to the person or to property can always recover nominal damages.” 3 Dan B. Dobbs et al., *The Law of Torts* § 480 (2d ed. 2011). The tort need not be physical in order to recover nominal damages. Defamation, for example, permits the recovery of nominal damages:

A nominal damage award can be justified in a tort action only if there is some reason for awarding a judgment in favor of a claimant who has not proved or does not claim a compensable loss with sufficient certainty to justify a recovery of compensatory or actual damages. There may be such a reason in an action for defamation, since a nominal damage award serves the purpose of vindicating the plaintiff’s character by a verdict of the jury that establishes the falsity of the defamatory matter.

W. Page Keeton et al., *Prosser and Keeton on Torts* § 116A, at 845 (5th ed. 1984). Also, individuals may recover nominal damages for trespass to land, even though the trespasser’s “presence on the land causes no harm to the land [or] its possessor” Restatement (Second) of Torts § 163 & cmts. d, e (1965).

The district court therefore properly concluded in its 2010 order:

The use of “any damages” suggests strongly Congressional intent that recovery be available for damages even if they do not amount to . . . substantial economic damages. . . . Requiring a plaintiff who can [show that the copyright holder knowingly misrepresented its subjective good faith] to demonstrate

in addition not only that she suffered damages but also that those damages were economic and substantial would viti-ate the deterrent effect of the statute.

Lenz v. Universal Music Corp., No. C 07–3783 JF, 2010 WL 702466, at *10 (N.D.Cal., Feb. 25, 2010). Relying on this opinion, the Southern District of Florida held the same. *Hotfile*, 2013 WL 6336286, at *48 (“[T]he Court observes that the quantity of economic damages to Hotfile’s system is necessarily difficult to measure with precision and has led to much disagreement between the parties and their experts. Notwithstanding this difficulty, the fact of injury has been shown, and Hotfile’s expert can provide the jury with a non-speculative basis to assess damages.”).

We agree that Lenz may vindicate her statutorily created rights by seeking nominal damages. Because a jury has not yet determined whether Lenz will prevail at trial, we need not decide the scope of recoverable damages, i.e., whether she may recover expenses following the initiation of her § 512(f) suit or *pro bono* costs and attorneys’ fees, both of which arose as a result of the injury incurred.

VI

Copyright holders cannot shirk their duty to consider—in good faith and prior to sending a takedown notification—whether allegedly infringing material constitutes fair use, a use which the DMCA plainly contemplates as authorized by the law. That this step imposes responsibility on copyright holders is not a reason for us to reject it. *Cf. Consumer Prod. Safety Comm’n v. GTE Sylvania, Inc.*, 447 U.S. 102, 123–24, 100 S.Ct. 2051, 64 L.Ed.2d 766 (1980) (“[A]ny increased burdens imposed on the Commission as a result of its compliance with [the Consumer Product Safety Act] were intended by Congress in striking

an appropriate balance between the interests of consumers and the need for fairness and accuracy with respect to information disclosed by the Commission. Thus, petitioners' claim that the Commission's compliance with the requirements of [the Act] will impose undue burdens on the Commission is properly addressed to Congress, not to this Court."). We affirm the district court's order denying the parties' cross-motions for summary judgment.

AFFIRMED. Each party shall bear its own costs.

M. SMITH, Circuit Judge, concurring in part and dissenting in part:

I concur in all but Part IV.C of the majority opinion. However, I disagree with the majority's conclusion that "whether Universal's actions were sufficient to form a subjective good faith belief about the video's fair use or lack thereof" presents a triable issue of fact. Universal admittedly did not consider fair use before notifying YouTube to take down Lenz's video. It therefore could not have formed a good faith belief that Lenz's video was infringing, and its notification to the contrary was a knowing material misrepresentation. Accordingly, I would hold that Lenz is entitled to summary judgment.

I agree with the majority's conclusion that § 512(c)(3)(A)(v) requires copyright holders to consider whether potentially infringing material is a fair use before issuing a takedown notice. As the majority explains, a takedown notice must contain "[a] statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law." 17 U.S.C. § 512(c)(3)(A)(v). Because fair use of

copyrighted material is not an infringement of copyright, such use is "authorized by . . . the law." See *id.* § 107. Therefore, in order to form "a good faith belief that use of the material in the manner complained of is not authorized by . . . the law," § 512(c)(3)(A)(v), a party must consider the doctrine of fair use. I also agree with the majority that § 512(f) provides a party injured by a violation of § 512(c)(3)(A)(v) with a right of action for damages, including nominal damages.

However, I part ways with the majority on two issues. First, I would clarify that § 512(f)'s requirement that a misrepresentation be "knowing[]" is satisfied when the party knows that it is ignorant of the truth or falsity of its representation. Second, I would hold that Universal's actions were insufficient as a matter of law to form a subjective good-faith belief that Lenz's video was not a fair use.

I

Section 512(f) requires that a misrepresentation be "knowing[]" to incur liability. In my view, when the misrepresentation concerns § 512(c)(3)(A)(v), the knowledge requirement is satisfied when the party knows that it has not considered fair use. That is, Universal need not have known that the video was a fair use, or that its actions were insufficient to form a good-faith belief about fair use. It need only have known that it had not considered fair use as such.¹

As the majority explains, we have previously held in *Rossi v. Motion Picture Ass'n of Am. Inc.* that "the 'good faith belief' requirement in § 512(c)(3)(A)(v) encompasses a subjective, rather than objective, standard." 391 F.3d 1000, 1004 (9th Cir.2004). *Rossi* reasoned that a subjec-

1. I do not believe that, in this regard, my construction conflicts with that of the majority. Although the majority does not squarely address § 512(f)'s scienter requirement, it

leaves for the jury only the question "whether Universal's actions were sufficient to form a subjective good faith belief about the video's fair use or lack thereof."

tive standard comported with § 512(f)'s requirement that actionable misrepresentations be "knowing[]", and ultimately held that liability under § 512(f) requires "a demonstration of some actual knowledge of misrepresentation on the part of the copyright owner." 391 F.3d at 1005.

Universal urges us to construe *Rossi* to mean that liability attaches under § 512(f) only if a party subjectively believes that its assertion is false. But under long-settled principles of deceit and fraudulent misrepresentation, a party need only know that it is ignorant of the truth or falsity of its representation for its misrepresentation to be knowing. For example, in *Cooper v. Schlesinger*, 111 U.S. 148, 155, 4 S.Ct. 360, 28 L.Ed. 382 (1884), the Supreme Court explained that "a statement recklessly made, without knowledge of its truth, [is] a false statement knowingly made, within the settled rule."² Similarly, under the common law, "[a] misrepresentation is fraudulent if the maker . . . knows or believes that the matter is not as he represents it to be, . . . [or] knows that he does not have the basis for his representation that he states or implies." Restatement (Second) of Torts § 526 (emphasis added).³

One who asserts a belief that a work is infringing without considering fair use lacks a basis for that belief. It follows that one who *knows* that he has not considered fair use *knows* that he lacks a basis for that belief. That is sufficient "actual knowledge of misrepresentation" to meet

the scienter requirement of § 512(f). See *Rossi*, 391 F.3d at 1005. Thus, to be held liable under § 512(f), Universal need only have failed to consider fair use, and known that it had failed to consider fair use.

II

It is undisputed that Universal's policy was to issue a takedown notice where a copyrighted work was used as "the focus of the video" or "prominently featured in the video." By Universal's own admission, its agents were not instructed to consider whether the use was fair. Instead, Universal directed its agents to spare videos that had "a second or less of a Prince song" or where the song was "distorted beyond reasonable recognition." And yet, from this, the majority concludes that "whether Universal's actions were sufficient to form a subjective good faith belief about the video's fair use or lack thereof" presents a triable issue of fact.

I respectfully disagree. The Copyright Act explicitly enumerates the factors to be considered in assessing whether use of copyrighted material is fair. 17 U.S.C. § 107. Universal's policy was expressly to determine whether a video made "significant use"—not *fair* use—of the work. Nothing in Universal's methodology considered the purpose and character of the use, the commercial or noncommercial nature of the use, or whether the use would have a significant impact on the market for the copyrighted work.⁴ See § 107. There

2. See also *Sovereign Pochontas Co. v. Bond*, 120 F.2d 39, 39–40 (D.C.Cir.1941); *Knickerbocker Merch. Co. v. United States*, 13 F.2d 544, 546 (2d Cir.1926); *L. J. Mueller Furnace Co. v. Cascade Foundry Co.*, 145 F. 596, 600 (3d Cir.1906); *Hindman v. First Nat'l Bank*, 112 F. 931, 944 (6th Cir.1902).

3. The Second Restatement refers to "fraudulent misrepresentation," rather than "knowing" misrepresentation. See Restatement (Second) of Torts § 526. However, as the Restatement clarifies, the requirement that a

misrepresentation be "fraudulent" refers "solely" to the party's *knowledge* of misrepresentation. See *id.* cmt. a. The Restatement's definition of "fraudulent" is therefore persuasive authority for construing the meaning of "knowingly."

4. Had Universal properly considered the statutory elements of fair use, there is no doubt that it would have concluded that Lenz's use of *Let's Go Crazy* was fair. See, e.g., *TCA Television Corp. v. McCollum*, 2015 WL 9255341 (S.D.N.Y. Dec. 17, 2015) (finding on

is therefore no disputed issue of fact: Universal did *not* consider fair use before issuing a takedown notice.

Moreover, Universal *knew* it had not considered fair use, because § 107 explicitly supplies the factors that “shall” be considered in determining whether a use is fair. *Id.* I see no reason in law or logic to excuse copyright holders from the general principle that knowledge of the law is presumed. See *United States v. Int’l Minerals & Chem. Corp.*, 402 U.S. 558, 562–63, 91 S.Ct. 1697, 29 L.Ed.2d 178 (1971) (holding that the use of the word “knowingly” did not evince a legislative intent to “carv[e] out an exception to the general rule that ignorance of the law is no excuse”). As explained above, that is sufficient in my view to conclude that Universal’s takedown notice was a knowing misrepresentation.

Based on *Rossi*’s holding that a subjective good-faith belief in infringement is sufficient to satisfy § 512(c)(3)(A)(v), 391 F.3d at 1005, the majority disagrees. But the majority’s reading of *Rossi* would insulate from liability *any* subjective belief in infringement, no matter how poorly formed. *Rossi* did not abrogate the statutory requirement that the belief be held in good faith. I would therefore hold that a belief in infringement formed consciously without considering fair use is no good-faith belief at all. See *Cooper*, 111 U.S. at 155, 4 S.Ct. 360 (holding that such a belief

is a knowing misrepresentation). And to assert in good faith that a use is not fair, a party must consider the statutory elements of fair use set forth in § 107. Merely evaluating whether a use is “significant” is not enough.

The majority’s unfortunate interpretation of § 512(f) would permit a party to avoid liability with only the most perfunctory attention to fair use. Such a construction eviscerates § 512(f) and leaves it toothless against frivolous takedown notices. And, in an era when a significant proportion of media distribution and consumption takes place on third-party safe harbors such as YouTube,⁵ if a creative work can be taken down without meaningfully considering fair use, then the viability of the concept of fair use itself is in jeopardy. Such a construction of § 512(f) cannot comport with the intention of Congress.

* * *

In sum: Universal represented that it had formed a good-faith belief that Lenz’s video was an infringement of copyright—that is, that the video was not fair use. Because Universal did not actually consider the factors constituting fair use, its representation was false—a misrepresentation. Because those factors are set forth in § 107 (and § 107 expressly states that a fair use “is not an infringement of copyright”), Universal’s misrepresentation was knowing. And because there is no further

a motion to dismiss that the use in a Broadway show of one minute and seven seconds of the Abbott and Costello routine *Who’s On First?* was fair because the use was “highly transformative” and unlikely to usurp the market for the original); *SOFA Entm’t, Inc. v. Dodger Prods., Inc.*, 709 F.3d 1273 (9th Cir. 2013) (affirming summary judgment that use of a seven-second clip of *The Ed Sullivan Show* was fair for similar reasons). Universal’s “significant use” analysis, by contrast, is more like determining whether a use is *de*

minimis, a much more stringent test than fair use. See *Sandoval v. New Line Cinema Corp.*, 147 F.3d 215, 217 (2d Cir.1998).

5. See *Statistics, YouTube*, <https://www.youtube.com/yt/press/statistics.html> (last visited Feb. 2, 2016) (reporting that “every day people watch hundreds of millions of hours on YouTube” and that YouTube “reaches more 18–34 and 18–49 year-olds than any cable network in the U.S.”).

disputed issue of fact concerning liability, I respectfully dissent.



Robert P. MOSIER, as Receiver for Private Equity Management Group Inc. and Private Equity Management Group, LLC and their subsidiaries and affiliates, Plaintiff–Appellant,

v.

**STONEFIELD JOSEPHSON, INC.,
CPAs, a California corporation,
Defendant–Appellee.**

No. 13–56453.

United States Court of Appeals,
Ninth Circuit.

Argued and Submitted Oct. 23, 2015.

Filed Feb. 23, 2016.

Background: Court-appointed receiver for company, which former directors and managers allegedly used to defraud investors in Ponzi scheme, brought action against accountants, asserting claims for professional negligence, aiding and abetting wrongful conversion, and unjust enrichment, based on allegations that accountants' reports and related conduct materially misrepresented company's financial condition, allowing company management to prolong scheme. The United States District Court for the Central District of California, Philip S. Gutierrez, J., 2013 WL 4859635, entered summary judgment in accountants' favor. Receiver appealed.

Holdings: The Court of Appeals, Stephen S. Trott, Senior Circuit Judge, held that:

(1) receiver was required to prove that investors reasonably relied on accountants' audits in order to prevail on professional negligence and aiding and abetting conversion claims;

- (2) former directors and managers of company could not have relied on truth of accountants' representations;
- (3) investor's statement was inadmissible hearsay;
- (4) finding that investors in company received accountants' financial statements and reasonably relied on them was not supported by direct or substantial evidence;
- (5) receiver's expert's opinion was speculative; and
- (6) accountants were not unjustly enriched.

Affirmed.

1. Accountants ⇔10.1

Corporations and Business Organizations ⇔1852

In order for court-appointed receiver for company, which former directors and managers allegedly used to defraud investors in Ponzi scheme, to prove that accountants' alleged misrepresentation of company's financial condition was proximate cause of harm to company, as required to prevail, at summary judgment stage, on its professional negligence and aiding and abetting of conversion claims against accountants, receiver was required to prove that investors reasonably relied on accountants' audits.

2. Accountants ⇔10.1

Former directors and managers for company, which was allegedly used to defraud investors in Ponzi scheme, knew of and participated in the fraud, and thus could not have relied on truth of accountants' allegedly fraudulent representations of company's financial condition, in its audits, as required for court-appointed receiver for company to prevail, at summary judgment stage, on its professional negligence claim against accountants, based on



applies, and provide a reason for each suggestion or recommendation.

We encourage you to submit comments through the Federal eRulemaking Portal at <http://www.regulations.gov>. If your material cannot be submitted using <http://www.regulations.gov>, contact the person in the **FOR FURTHER INFORMATION CONTACT** section of this document for alternate instructions.

We accept anonymous comments. All comments received will be posted without change to <http://www.regulations.gov> and will include any personal information you have provided. For more about privacy and the docket, you may review a Privacy Act notice regarding the Federal Docket Management System in the March 24, 2005, issue of the **Federal Register** (70 FR 15086).

Documents mentioned in this notice, and all public comments, are in our online docket at <http://www.regulations.gov> and can be viewed by following that Web site's instructions. Additionally, if you go to the online docket and sign up for email alerts, you will be notified when comments are posted or a final rule is published.

List of Subjects in 33 CFR Part 117

Bridges.

For the reasons discussed in the preamble, the Coast Guard proposes to amend 33 CFR part 117 as follows:

PART 117—DRAWBRIDGE OPERATION REGULATIONS

■ 1. The authority citation for part 117 continues to read as follows:

Authority: 33 U.S.C. 499; 33 CFR 1.05-1; Department of Homeland Security Delegation No. 0170.1.

■ 2. Revise § 117.635 to read as follows:

§ 117.635 Keweenaw Waterway

The draw of the US41 bridge, mile 16.0 between Houghton and Hancock, shall open on signal; except that from April 15 through December 14, between midnight and 4 a.m., the draw shall be placed in the intermediate position and open on signal if at least 2 hours notice is given. From December 15 through April 14 the draw shall open on signal if at least 12 hours notice is given.

Dated: July 12, 2016.

J.E. Ryan,

Rear Admiral, U.S. Coast Guard, Commander, Ninth Coast Guard District.

[FR Doc. 2016-17544 Filed 7-22-16; 8:45 am]

BILLING CODE 9110-04-P

LIBRARY OF CONGRESS

Copyright Royalty Board

37 CFR Part 385

[Docket No. 16-CRB-0003-PR (2018-2022)]

Determination of Rates and Terms for Making and Distributing Phonorecords (Phonorecords III)

AGENCY: Copyright Royalty Board, Library of Congress.

ACTION: Proposed rule.

SUMMARY: The Copyright Royalty Judges publish for comment proposed regulations that set rates and terms applicable during the period beginning January 1, 2018, and ending December 31, 2022, for the section 115 statutory license for making and distributing phonorecords of nondramatic musical works.

DATES: Comments and objections, if any, are due no later than August 24, 2016.

ADDRESSES: The proposed rule is posted on the agency's Web site (www.loc.gov/crb) and on the web at Regulations.gov (www.regulations.gov). Interested parties should submit electronic comments via email to crb@loc.gov. Those who chose not to submit comments electronically should see How to Submit Comments in the **SUPPLEMENTARY INFORMATION** section below for physical addresses and further instructions.

FOR FURTHER INFORMATION CONTACT: Kimberly Whittle, Attorney Advisor, by telephone at (202) 707-7658, or by email at crb@loc.gov.

SUPPLEMENTARY INFORMATION:

Background

Section 115 of the Copyright Act, title 17 of the United States Code, requires a copyright owner of a nondramatic musical work to grant a license (also known as the "mechanical" compulsory license) to any person who wants to make and distribute phonorecords of that work, provided that the copyright owner has allowed phonorecords of the work to be produced and distributed, and that the licensee complies with the statute and regulations. In addition to the production or distribution of physical phonorecords (compact discs, vinyl, cassette tapes, and the like), section 115 applies to digital transmissions of phonorecords, including permanent digital downloads and ringtones.

Chapter 8 of the Copyright Act requires the Copyright Royalty Judges (Judges) to conduct proceedings every five years to determine the rates and

terms for the section 115 license. 17 U.S.C. 801(b)(1), 804(b)(4). Accordingly, the Judges commenced the current proceeding in January 2016, by publishing notice of the commencement and a request that interested parties submit petitions to participate. See 81 FR 255 (Jan. 5, 2016).

The Judges received petitions to participate in the current proceeding from Amazon Digital Services, Inc.; Apple, Inc.; American Society of Composers, Authors and Publishers (ASCAP); Broadcast Music, Inc. (BMI); Church Music Publishers Association; David Powell; Deezer S.A.; Digital Media Association (DIMA); Gear Publishing Co.; GEO Music Group; Google, Inc.; Music Reports, Inc.; Nashville Songwriters Association International; National Music Publishers Association; Harry Fox Agency; Omnifone Group Limited; Pandora Media, Inc.; Recording Industry Association of America, Inc. (RIAA); Rhapsody International, Inc.; Songwriters of North America; Sony Music Entertainment; SoundCloud Limited; Spotify USA Inc.; Universal Music Group (UMG); and Warner Music Group (WGM).

The Judges gave notice to all participants of the three-month negotiation period required by 17 U.S.C. 803(b)(3) and directed that, if the participants were unable to negotiate a settlement, they should submit Written Direct Statements no later than October 3, 2016. On June 15, 2016, the Judges received a motion stating that several participants¹ had reached a partial settlement "among a significant portion of the sound recording and music publishing industries" regarding the rates and terms under Section 115 of the Copyright Act for physical phonorecords, permanent digital downloads, and ringtones for 2018–2022 rate period and seeking approval of that partial settlement. See *Joint Motion to Adopt Partial Settlement*, Docket No. 16-CRB-0003-PR (2018–2022) at 1 (June 15, 2016) (Motion).

The settlement proposes "that the royalty rates and terms presently set forth in 37 C.F.R. Part 385 Subpart A should be continued for the rate period at issue in the Proceeding, with one minor conforming update, namely, that an outdated cross reference in section 385.4 regarding statements of account be updated, and that the continued rates

¹The participants filing the motion were Church Music Publishers Association, Nashville Songwriters Association International, National Music Publishers Association, Harry Fox Agency, and Songwriters of North America (collectively self-named the "Copyright Owners"), and licensees UMG and WGM.

should apply to "Subpart A Configurations made and distributed by or on behalf of UMG and WMG" and, in the Judges' discretion, to other licensees. Motion at 3.

Section 801(b)(7)(A) of the Copyright Act authorizes the Judges to adopt rates and terms negotiated by "some or all of the participants in a proceeding at any time during the proceeding" provided they are submitted to the Judges for approval. This section provides that Judges shall provide notice and an opportunity to comment on the agreement to (1) those that would be bound and (2) participants in the proceeding that would be bound by the terms, rates, or other determination set by the agreement. See section 801(b)(7)(A). The Judges may decline to adopt the agreement as a basis for statutory terms and rates for participants not party to the agreement if any participant objects and the Judges conclude that the agreement does not provide a reasonable basis for setting statutory terms or rates. *Id.*

If the Judges adopt rates and terms reached pursuant to a negotiated settlement, those rates and terms are binding on all copyright owners of musical works and those using the musical works in the activities described in the proposed regulations.

Proposed Adjustments to Rates and Terms

In publishing the parties' proposed rates and terms, the Judges are making the requested change in the cross reference because it is clearly outdated. The text of the section it refers to merely says "reserved." In addition, the Judges propose adding the dates of the five-year period to the "General" section in order to specify the applicable dates of the rates and terms.

In the event the Judges determine not to adopt the proposed regulations for all copyright owners of musical works licensed under section 115 for the making or distributing of physical or digital phonorecords, the parties have proposed the following revised definition of *licensee*², which would make the rates in the partial settlement applicable only to "Subpart A Configurations made and distributed by or on behalf of [licensees] UMG and WMG":

Licensee is Capitol Christian Music Group, Inc., Capitol Records, LLC, UMG Recordings, Inc., Warner Music Inc., any of their

²The current definition is: "Licensee is a person or entity that has obtained a compulsory license under 17 U.S.C. 115, and the implementing regulations, to make and distribute phonorecords of a nondramatic musical work, including by means of a digital phonorecord delivery." 37 CFR 385.2.

respective successors, and any entity controlling, controlled by, or under common control with any such entity, when it has obtained a compulsory license under 17 U.S.C. 115, and the implementing regulations, to make and distribute phonorecords of a nondramatic musical work, including by means of a digital phonorecord delivery.

The Judges solicit comments on whether they should adopt the proposed regulations, including the change in the cross reference, as statutory rates and terms relating to the making and distribution of physical or digital phonorecords of nondramatic musical works for the participants that submitted the Motion. In addition, the Judges seek comment on whether they should apply the rates and terms in the partial settlement to all copyright owners and licensees and whether they should specify the five-year period in the regulation.

Comments and objections must be submitted no later than August 24, 2016.

How To Submit Comments

Interested members of the public must submit comments to only *one* of the following addresses. If not commenting by email or online, commenters must submit an original of their comments, five paper copies, and an electronic version in searchable PDF format on a CD.

Email: crb@loc.gov; or

Online: <http://www.regulations.gov>; or
U.S. mail: Copyright Royalty Board,
P.O. Box 70977, Washington, DC 20024-0977; or

Overnight service (only USPS Express Mail is acceptable): Copyright Royalty Board, P.O. Box 70977, Washington, DC 20024-0977; or

Commercial courier: Address package to: Copyright Royalty Board, Library of Congress, James Madison Memorial Building, LM-403, 101 Independence Avenue SE., Washington, DC 20559-6000. Deliver to: Congressional Courier Acceptance Site, 2nd Street NE., and D Street NE., Washington, DC; or

Hand delivery: Library of Congress, James Madison Memorial Building, LM-401, 101 Independence Avenue SE., Washington, DC 20559-6000.

List of Subjects in 37 CFR Part 385

Copyright, Phonorecords, Recordings.

Proposed Regulations

For the reasons set forth in the preamble, the Copyright Royalty Judges propose to amend 37 CFR part 385 as follows:

PART 385—RATES AND TERMS FOR USE OF MUSICAL WORKS UNDER COMPULSORY LICENSE FOR MAKING AND DISTRIBUTING OF PHYSICAL AND DIGITAL PHONORECORDS

■ 1. The authority citation for part 385 continues to read as follows:

Authority: 17 U.S.C. 115, 801(b)(1), 804(b)(4).

§ 385.1 [Amended]

■ 2. Section 385.1(a) is amended by adding " , during the period January 1, 2018, through December 31, 2022" after "17 U.S.C. 115".

§ 385.4 [Amended]

■ 3. Section 385.4 is amended by removing "§ 201.19(e)(7)(f)" and adding "§ 210.16(g)(1)" in its place.

Dated: July 19, 2016.

Suzanne M. Barnett,
Chief Copyright Royalty Judge.

[FR Doc. 2016-17437 Filed 7-22-16; 8:45 am]

BILLING CODE 1410-72-P

ENVIRONMENTAL PROTECTION AGENCY

40 CFR Part 63

[EPA-HQ-OAR-2011-0817; FRL-9949-45-OAR]

RIN 2060-A598

National Emission Standards for Hazardous Air Pollutants for the Portland Cement Manufacturing Industry


AGENCY: Environmental Protection Agency (EPA).

ACTION: Proposed rule.

SUMMARY: The Environmental Protection Agency (EPA) is proposing to amend the National Emission Standards for Hazardous Air Pollutants for the Portland Cement Manufacturing Industry. In the "Rules and Regulations" section of this **Federal Register**, we are publishing a direct final rule, without a prior proposed rule, that corrects an inadvertent error and temporarily revises the testing and monitoring requirements for hydrochloric acid (HCl) due to the current unavailability of a calibration gas used for quality assurance purposes. If we receive no adverse comment, we will not take further action on this proposed rule.

DATES: Written comments must be received by August 24, 2016.

ADDRESSES: Submit your comments, identified by Docket ID No. EPA-HQ-

 KeyCite Yellow Flag - Negative Treatment
Distinguished by [Kennedy v. Gish, Sherwood & Friends, Inc.](#),
E.D.Mo., November 5, 2015

804 F.3d 202
United States Court of Appeals,
Second Circuit.

The AUTHORS GUILD, Betty Miles, Jim Bouton, Joseph Goulden, individually and on behalf of all others similarly situated, Plaintiff–Appellants, Herbert Mitgang, Daniel Hoffman, individually and on behalf of all others similarly situated, Paul Dickson, The McGraw–Hill Companies, Inc., Pearson Education, Inc., Simon & Schuster, Inc., Association of American Publishers, Inc., Canadian Standard Association, John Wiley & Sons, Inc., individually and on behalf of all others similarly situated, Plaintiffs,
v.
GOOGLE, INC., Defendant–Appellee.

Docket No. 13–4829–cv. | Argued:
Dec. 3, 2014. | Decided: Oct. 16, 2015.

Synopsis

Background: Authors of published books under copyright brought putative class copyright infringement action against internet search engine, claiming that search engine's project, which made digital copies of books submitted by major libraries, and allowed the public to search the texts of the digitally copied books and see displays of snippets of text, infringed on authors' copyrights. [Following rejection of proposed settlement](#), 770 F.Supp.2d 666, and vacatur of class certification, 721 F.3d 132, the [United States District Court for the Southern District of New York](#), [Chin, J.](#), 954 F.Supp.2d 282, granted summary judgment to search engine under fair use doctrine. Authors appealed.

Holdings: The Court of Appeals, [Leval](#), Circuit Judge, held that:

[1] first fair use factor, the purpose and character of the use, supported finding search engine's activities were protected by fair use;

[2] second fair use factor, the nature of the copyrighted work, supported finding search engine's activities were protected by fair use;

[3] third fair use factor, amount and substantiality of the portion used in relation to the copyrighted work as a whole, supported finding search engine's activities were protected by fair use;

[4] fourth fair use factor, the effect of the use upon the potential market for or value of the copyrighted work, supported finding search engine's activities were protected by fair use;

[5] search engine's activities did not usurp authors' right to produce derivative works;

[6] there was no evidence that search engine's creation of digital copies exposed the books to the risk that hackers might gain access and make the books widely available; and

[7] search engine's provision of digital copies to participating libraries that already owned the books did not infringe on authors' copyrights.

Affirmed.

West Headnotes (20)

[1] **Copyrights and Intellectual Property**

➡ [Nature of statutory copyright](#)

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.

[2 Cases that cite this headnote](#)

[2] **Copyrights and Intellectual Property**

➡ [Nature of statutory copyright](#)

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.

[Cases that cite this headnote](#)

[3] **Copyrights and Intellectual Property**

↔ [Presumptions and burden of proof](#)

As fair use is an affirmative defense, the party asserting fair use bears the burden of proof. [17 U.S.C.A. § 107.](#)

[Cases that cite this headnote](#)

[4] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

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. [17 U.S.C.A. § 107.](#)

[Cases that cite this headnote](#)

[5] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

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. [17 U.S.C.A. § 107.](#)

[Cases that cite this headnote](#)

[6] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

Under the transformative purpose factor for fair use, the would-be fair user of another's work must have justification for the taking. [17 U.S.C.A. § 107.](#)

[Cases that cite this headnote](#)

[7] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

Under the transformative purpose factor for fair use, 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. [17 U.S.C.A. § 107.](#)

[Cases that cite this headnote](#)

[8] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

Among the best recognized justifications for copying from another's work under the transformative purpose factor of fair use is to provide comment on it or criticism of it. [17 U.S.C.A. § 107.](#)

[Cases that cite this headnote](#)

[9] **Copyrights and Intellectual Property**

↔ [Copying](#)

Internet search engine's making of a digital copy of copyrighted books, for the purpose of enabling a search for identification of books containing a term of interest to the searcher, was a highly transformative purpose, thus supporting finding that search engine's activities constituted fair use, even though search engine allowed searchers to read snippets from the book searched and search engine was a profit-motivated company, where the result of a word search was different in purpose, character, expression, meaning, and message from the page, and the book, from which it was drawn, and the snippets were designed to show a searcher just enough context surrounding the searched term to help evaluate whether the book fell within the scope of interest without revealing so much as to threaten the author's copyright interests. [17 U.S.C.A. § 107.](#)

[Cases that cite this headnote](#)

[10] **Copyrights and Intellectual Property**

↔ [Ideas and concepts in general](#)

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.

[Cases that cite this headnote](#)

[11] **Copyrights and Intellectual Property**

↔ [Copying](#)

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, the factor favored finding that internet search engine's making of a digital copy of copyrighted books, for the purpose of enabling a search for identification of books containing a term of interest to the searcher, constituted fair use, not simply because the copyrighted works were factual, but because the secondary use transformatively provided valuable information about the original, rather than replicating protected expression in a manner that provided a meaningful substitute for the original. [17 U.S.C.A. § 107](#).

[Cases that cite this headnote](#)

[12] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

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. [17 U.S.C.A. § 107](#).

[Cases that cite this headnote](#)

[13] **Copyrights and Intellectual Property**

↔ [Copying](#)

The amount and substantiality of the portion used by internet search engine in making of a digital copy of copyrighted books, for the purpose of enabling a search for identification of books containing a term of interest to the searcher, in relation to the copyrighted work as a whole supported finding that search engine's activities constituted fair use, even though search engine made an unauthorized copy of the

entire copyrighted books and allowed searchers to read snippets from the book searched, where the digital copy of books were not publicly available, a complete copy was required to enable search functions to reveal limited, important information about the books, and search engine implemented several protections that substantially prevented its results from serving as an effectively competing substitute for copyrighted books. [17 U.S.C.A. § 107](#).

[Cases that cite this headnote](#)

[14] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

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. [17 U.S.C.A. § 107](#).

[Cases that cite this headnote](#)

[15] **Copyrights and Intellectual Property**

↔ [Fair use and other permitted uses in general](#)

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 fair use factor, the effect of the copying use upon the potential market for or value of the copyrighted work, is of great importance in making a fair use assessment. [17 U.S.C.A. § 107](#).

[1 Cases that cite this headnote](#)

[16] **Copyrights and Intellectual Property**

↔ [Copying](#)

The effect of internet search engine's making of a digital copy of copyrighted books, for the purpose of enabling a search for identification of books containing a term of interest to the searcher, upon the potential market for

or value of the copyrighted work supported finding that search engine's activities constituted fair use, even though search engine's provision of snippets from the books searched could cause some loss of sales, where the normal purchase price of a book was relatively low in relation to the cost of manpower needed to obtain an arbitrary assortment of randomly scattered snippets, and the provision of snippets was unlikely to satisfy a searcher's interest in the protected aspects of an author's work. 17 U.S.C.A. § 107.

Cases that cite this headnote

[17] **Copyrights and Intellectual Property**

↔ Copying

Internet search engine's making of a digital copy of copyrighted books, for the purpose of enabling a search for identification of books containing a term of interest to the searcher, did not usurp authors' right to produce derivative works, as the copyright protection of authors' books did not include an exclusive derivative right to supply such information through query of a digitized copy. 17 U.S.C.A. § 106(2).

Cases that cite this headnote

[18] **Copyrights and Intellectual Property**

↔ Fair use and other permitted uses in general

If, in the course of making an arguable fair use of a copyrighted work, a secondary user unreasonably exposed the rights holder to destruction of the value of the copyright resulting from the public's opportunity to employ the secondary use as a substitute for purchase of the original, even though this was not the intent of the secondary user, this might well furnish a substantial rebuttal to the secondary user's claim of fair use. 17 U.S.C.A. § 107.

Cases that cite this headnote

[19] **Copyrights and Intellectual Property**

↔ Copying

There was no evidence that internet search engine's storage of its digitized copies of

copyrighted books exposed the books to the risk that hackers might gain access and make the books widely available, thus destroying the value of the copyrights, as would weigh against finding the copying protected by fair use, where the digital copies were stored on computers walled off from public internet access and protected by the same impressive security measures used by the search engine to protect its own confidential information. 17 U.S.C.A. § 107.

Cases that cite this headnote

[20] **Copyrights and Intellectual Property**

↔ Copying

Internet search engine's creation for each library of a digital copy of that library's already-owned book, in order to permit that library to make fair use through provision of digital searches, did not infringe on authors' copyrights to their books, even if the provision of copies to libraries created possibility that libraries might mishandle their digital copies, where the library's own creation of a digital copy to enable its provision of fair use digital searches would not have constituted infringement, and each library's contract with search engine committed the library to use its digital copy only in a manner consistent with the copyright law, and to take precautions to prevent dissemination of their digital copies to the public at large. 17 U.S.C.A. § 107.

1 Cases that cite this headnote

Attorneys and Law Firms

*206 Paul M. Smith, Jenner & Block LLP, Washington, DC (Edward H. Rosenthal, Jeremy S. Goldman, Anna Kadyshevich, Andrew D. Jacobs, Frankfurt Kurnit Klein & Selz PC, New York, N.Y., on the brief), for Plaintiff-Appellants.

Seth P. Waxman, Wilmer Cutler Pickering Hale and Dorr LLP, Washington, D.C. (Louis R. Cohen, Daniel P. Kearney, Jr., Weili J. Shaw, Wilmer Cutler Pickering Hale and Dorr LLP, Washington D.C. & Daralyn J. Durie, Joseph C. Gratz,

Durie Tangri LLP, San Francisco, CA, on the brief), for Defendant–Appellee.

Before: LEVAL, CABRANES, PARKER, Circuit Judges.

Opinion

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 *207 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. *Authors Guild, Inc. v. Google Inc.*, 954 F.Supp.2d 282, 294 (S.D.N.Y.2013). 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 *208 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.¹ 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.²

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.³ 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.⁴ 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.⁵ 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. *Authors Guild, Inc.*, 954 F.Supp.2d at 287. 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." *Id.*⁶

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 book⁷ in the Google Books database *210 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.⁸ Through the *211 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.⁹ 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. *Authors Guild v. Google Inc.*, 770 F.Supp.2d 666, 679–680 (S.D.N.Y.2011).

On October 14, 2011, Plaintiffs filed a fourth amended class action complaint, which is the operative complaint for this appeal. See Dist. Ct. Docket No. 985. The district court certified a class on May 31, 2012. *Authors Guild v. Google Inc.*, 282 F.R.D. 384 (S.D.N.Y.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. *Authors Guild*, 954 F.Supp.2d at 284. 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. *Id.* at 290. The court entered judgment initially on November 27, 2013, followed by an amended judgment on December 10, 2013, dismissing *212 Plaintiffs’ claims with prejudice. Plaintiffs filed timely notice of appeal.

DISCUSSION ¹⁰

I. The Law of Fair Use

[1] [2] 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).¹¹ 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 1710,¹² 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.*

[3] Section 107, in its present form,¹³ provides:

[T]he fair use of a copyrighted work ... for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a ***213** 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.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

¹³ 17 U.S.C. § 107. As the Supreme Court has designated fair use an affirmative defense, *see Campbell*, 510 U.S. at 590, 114 S.Ct. 1164, the party asserting fair use bears the burden of proof, *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 918 (2d Cir.1994).

The statute’s wording, derived from a brief observation of Justice Joseph Story in *Folsom v. Marsh*,¹⁴ does not furnish standards for recognition of fair use. Its instruction to consider the “purpose and character” of the secondary use and the “nature” of the copyrighted work does not explain what types of “purpose and character” or “nature” favor a finding of fair use and which do not. In fact, as the Supreme Court observed in *Campbell*, the House Report makes clear that, in passing the statute, Congress had no intention of normatively dictating fair use policy. The purpose of the enactment was to give recognition in the statute itself to such an important part of copyright law developed by the courts through the common law process. “Congress meant § 107 ‘to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way,’ and intended that courts continue the common-law tradition of fair use adjudication.” *Campbell*, 510 U.S. at 577, 114 S.Ct. 1164 (quoting H.R.Rep. No. 94-1476, at 66 (1976), S.Rep. No. 94-473, at 62 (1975), U.S. Code Cong. & Admin. News 5659, 5679 (1976)). Furthermore, notwithstanding fair use’s long common-law history, not until the *Campbell* ruling in 1994 did courts undertake to explain the standards for finding fair use.

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 ***214** 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

[4] (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.

[5] [6] [7] [8] 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 *215 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).¹⁵ 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 original¹⁶ or provision of information about ***216** it,¹⁷ tends most clearly to satisfy *Campbell*'s notion of the “transformative” purpose involved in the analysis of Factor One.¹⁸

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.)

[9] (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 ***217** *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 *218 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 dictum 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.¹⁹

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 *219 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.²⁰

***220 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.

[10] 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.²¹

[11] 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.

***221 C. Factor Three**

[12] 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.²² 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.

[13] (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.²³ 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.²⁴ 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 *222 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, *223 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

[14] [15] 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.

[16] 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 *224 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. Hoehling 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 ***225** 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.

III. Derivative Rights in Search and Snippet View

[17] Plaintiffs next contend that, under Section 106(2), they have a derivative right in the application of search and snippet view functions to their works, and that Google has usurped their exclusive market for such derivatives.

There is no merit to this argument. As explained above, Google does not infringe Plaintiffs' copyright in their works by making digital copies of them, where the copies are used to enable the public to get information about the works, such as whether, and how often they use specified words or terms (together with peripheral snippets of text, sufficient to show the context in which the word is used but too small to provide a meaningful substitute for the work's copyrighted expression). The copyright resulting from the Plaintiffs' authorship of their works does not include an exclusive right to furnish the kind of information about the works that Google's programs provide to the public. For substantially the same reasons, the copyright that protects Plaintiffs' works does not include an exclusive derivative right to supply such information through query of a digitized copy.

The extension of copyright protection beyond the copying of the work in its original form to cover also the copying of a derivative reflects a clear and logical policy choice. An author's right to control and profit from the dissemination of her work ought not to be evaded by conversion of the work into a different form. The author of a book written in English should be entitled to control also the dissemination of the same book translated into other languages, or a conversion of the book into a film. The copyright of a composer of a symphony or song should cover also conversions of the

piece into scores for different instrumentation, as well as into recordings of performances.

This policy is reflected in the statutory definition, which explains the scope of the “derivative” largely by examples—including “a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, [or] condensation”—before adding, “or any other form in which a work may be recast, transformed, or adapted.” 17 U.S.C. § 101.²⁵ As noted above, this definition, while imprecise, strongly implies that derivative works over which the author of the original enjoys exclusive rights ordinarily are those that represent the protected aspects of the original work, *i.e.*, its expressive content, converted into an altered form, such as the conversion of a novel into a film, the translation of a writing into a different language, the reproduction of a painting in the form of a poster or post card, recreation of a cartoon character in the form of a three-dimensional plush toy, adaptation of a musical composition for different instruments, or other similar conversions. If Plaintiffs’ claim were based on Google’s converting their books into a digitized form and making that digitized version accessible to the public, their claim would be strong. But as noted above, Google *226 safeguards from public view the digitized copies it makes and allows access only to the extent of permitting the public to search for the very limited information accessible through the search function and snippet view. The program does not allow access in any substantial way to a book’s expressive content. Nothing in the statutory definition of a derivative work, or of the logic that underlies it, suggests that the author of an original work enjoys an exclusive derivative right to supply information about that work of the sort communicated by Google’s search functions.

Plaintiffs seek to support their derivative claim by a showing that there exist, or would have existed, paid licensing markets in digitized works, such as those provided by the Copyright Clearance Center or the previous, revenue-generating version of the Google Partners Program. Plaintiffs also point to the proposed settlement agreement rejected by the district court in this case, according to which Google would have paid authors for its use of digitized copies of their works. The existence or potential existence of such paid licensing schemes does not support Plaintiffs’ derivative argument. The access to the expressive content of the original that is or would have been provided by the paid licensing arrangements Plaintiffs cite is far more extensive than that which Google’s search and snippet view functions provide. Those arrangements

allow or would have allowed public users to read substantial portions of the book. Such access would most likely constitute copyright infringement if not licensed by the rights holders. Accordingly, such arrangements have no bearing on Google’s present programs, which, in a non-infringing manner, allow the public to obtain limited data about the contents of the book, without allowing any substantial reading of its text.

Plaintiffs also seek to support their derivative claim by a showing that there is a current *unpaid* market in licenses for partial viewing of digitized books, such as the licenses that publishers currently grant to the Google Partners program and Amazon’s Search Inside the Book program to display substantial portions of their books. Plaintiffs rely on *Infinity Broadcast Corporation v. Kirkwood*, 150 F.3d 104 (2nd Cir.1998) and *United States v. American Society of Composers, Authors and Publishers (ASCAP)*, 599 F.Supp.2d 415 (S.D.N.Y.2009) for the proposition that “a secondary use that replaces a comparable service licensed by the copyright holder, even without charge, may cause market harm.” Pls.’ Br. at 51. In the cases cited, however, the purpose of the challenged secondary uses was not the dissemination of information *about* the original works, which falls outside the protection of the copyright, but was rather the re-transmission, or re-dissemination, of their expressive content. Those precedents do not support the proposition Plaintiffs assert—namely that the availability of licenses for providing unprotected information about a copyrighted work, or supplying unprotected services related to it, gives the copyright holder the right to exclude others from providing such information or services.

While the telephone ringtones at issue in the *ASCAP* case Plaintiffs cite are superficially comparable to Google’s snippets in that both consist of brief segments of the copyrighted work, in a more significant way they are fundamentally different. While it is true that Google’s snippets display a fragment of expressive content, the fragments it displays result from the appearance of the term selected by the searcher in an otherwise arbitrarily selected snippet of text. Unlike the reading experience that the Google Partners program or the Amazon Search Inside the *227 Book program provides, the snippet function does not provide searchers with any meaningful experience of the expressive content of the book. Its purpose is not to communicate copyrighted expression, but rather, by revealing to the searcher a tiny segment surrounding the searched term, to give some minimal contextual information to help the searcher learn whether the book’s use of that term will be of

interest to her. The segments taken from copyrighted music as ringtones, in contrast, are selected precisely because they play the most famous, beloved passages of the particular piece—the expressive content that members of the public want to hear when their phone rings. The value of the ringtone to the purchaser is not that it provides information but that it provides a mini-performance of the most appealing segment of the author's expressive content. There is no reason to think the courts in the cited cases would have come to the same conclusion if the service being provided by the secondary user had been simply to identify to a subscriber in what key a selected composition was written, the year it was written, or the name of the composer. These cases, and the existence of unpaid licensing schemes for substantial viewing of digitized works, do not support Plaintiffs' derivative works argument.

IV. Plaintiffs' Exposure to Risks of Hacking of Google's Files

[18] Plaintiffs argue that Google's storage of its digitized copies of Plaintiffs' books exposes them to the risk that hackers might gain access and make the books widely available, thus destroying the value of their copyrights. Unlike the Plaintiffs' argument just considered based on a supposed derivative right to supply information about their books, this claim has a reasonable theoretical basis. If, in the course of making an arguable fair use of a copyrighted work, a secondary user unreasonably exposed the rights holder to destruction of the value of the copyright resulting from the public's opportunity to employ the secondary use as a substitute for purchase of the original (even though this was not the intent of the secondary user), this might well furnish a substantial rebuttal to the secondary user's claim of fair use. For this reason, the *Arriba Soft* and *Perfect 10* courts, in upholding the secondary user's claim of fair use, observed that thumbnail images, which transformatively provided an Internet pathway to the original images, were of sufficiently low resolution that they were not usable as effective substitutes for the originals. *Arriba Soft*, 336 F.3d 811 at 819; *Perfect 10*, 508 F.3d at 1165.

While Plaintiffs' claim is theoretically sound, it is not supported by the evidence. In *HathiTrust*, we faced substantially the same exposure-to-piracy argument. The record in *HathiTrust*, however, “document[ed] the extensive security measures [the secondary user] ha[d] undertaken to safeguard against the risk of a data breach,” evidence which was un rebutted. 755 F.3d at 100. The *HathiTrust* court thus

found “no basis ... on which to conclude that a security breach is likely to occur, much less one that would result in the public release of the specific copyrighted works belonging to any of the plaintiffs in this case.” *Id.* at 100–101 (citing *Clapper v. Amnesty Int'l USA*, — U.S. —, 133 S.Ct. 1138, 1143, 185 L.Ed.2d 264 (2013) (finding that risk of future harm must be “certainly impending,” rather than merely “conjectural” or “hypothetical,” to constitute a cognizable injury-in-fact), and *Sony Corp.*, 464 U.S. at 453–454, 104 S.Ct. 774 (concluding that time-shifting using a Betamax is fair use because the copyright owners' “prediction that live television or movie audiences will decrease” was merely “speculative”)).

*228 [19] Google has documented that Google Books' digital scans are stored on computers walled off from public Internet access and protected by the same impressive security measures used by Google to guard its own confidential information. As Google notes, Plaintiffs' own security expert praised these security systems, remarking that “Google is fortunate to have ample resources and top-notch technical talents” that enable it to protect its data. JA 1558, 1570. Nor have Plaintiffs identified any thefts from Google Books (or from the Google Library Project). Plaintiffs seek to rebut this record by quoting from Google's July 2012 SEC filing, in which the company made legally required disclosure of its potential market risks.²⁶ Google's prudent acknowledgment that “security breaches could expose [it] to a risk of loss ... due to the actions of outside parties, employee error, malfeasance, or otherwise,” however, falls far short of rebutting Google's demonstration of the effective measures it takes to guard against piratical hacking. Google has made a sufficient showing of protection of its digitized copies of Plaintiffs' works to carry its burden on this aspect of its claim of fair use and thus to shift to Plaintiffs the burden of rebutting Google's showing. Plaintiffs' effort to do so falls far short.

V. Google's Distribution of Digital Copies to Participant Libraries

[20] Finally, Plaintiffs contend that Google's distribution to a participating library of a digital copy of Plaintiffs' books is not a fair use and exposes the Plaintiffs to risks of loss if the library uses its digital copy in an infringing manner, or if the library fails to maintain security over its digital copy with the consequence that the book may become freely available as a result of the incursions of hackers. The claim fails.

Although Plaintiffs describe the arrangement between Google and the libraries in more nefarious terms, those arrangements are essentially that each participant library has contracted with Google that Google will create for it a digital copy of each book the library submits to Google, so as to permit the library to use its digital copy in a non-infringing fair use manner. The libraries propose to use their digital copies to enable the very kinds of searches that we here hold to be fair uses in connection with Google's offer of such searches to *229 the Internet public, and which we held in *HathiTrust* to be fair uses when offered by HathiTrust to its users. The contract between Google and each of the participating libraries commits the library to use its digital copy only in a manner consistent with the copyright law, and to take precautions to prevent dissemination of their digital copies to the public at large.

In these circumstances, Google's creation for each library of a digital copy of that library's already owned book in order to permit that library to make fair use through provision of digital searches is not an infringement. If the library had created its own digital copy to enable its provision of fair use digital searches, the making of the digital copy would not have been infringement. Nor does it become an infringement because, instead of making its own digital copy, the library contracted with Google that Google would use its expertise and resources to make the digital conversion for the library's benefit.

We recognize the possibility that libraries may use the digital copies Google created for them in an infringing manner. If they do, such libraries may be liable to Plaintiffs for their infringement. It is also possible that, in such a suit, Plaintiffs might adduce evidence that Google was aware of or encouraged such infringing practices, in which case Google could be liable as a contributory infringer. But on the present record, the possibility that libraries may misuse their digital copies is sheer speculation. Nor is there any basis on the present record to hold Google liable as a contributory infringer based on the mere speculative possibility that

libraries, in addition to, or instead of, using their digital copies of Plaintiffs' books in a non-infringing manner, may use them in an infringing manner.

We recognize the additional possibility that the libraries might incur liability by negligent mishandling of, and failure to protect, their digital copies, leaving them unreasonably vulnerable to hacking. That also, however, is nothing more than a speculative possibility. There is no basis in the record to impose liability on Google for having lawfully made a digital copy for a participating library so as to enable that library to make non-infringing use of its copy, merely because of the speculative possibility that the library may fail to guard sufficiently against the dangers of hacking, as it is contractually obligated to do. Plaintiffs have failed to establish any basis for holding Google liable for its creation of a digital copy of a book submitted to it by a participating library so as to enable that library to make fair use of it. ²⁷

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.

***230 CONCLUSION**

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

***231 APPENDIX A**

Books

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Copyright for the eighties: cases and materials



Alan Latman, Robert A. Gorman, Jane C. Ginsburg

Michie Co., 1985 - Law - 624 pages

★★★★★

0 Reviews

ISBN: 0

From inside the book

fair use

72 pages matching gorman ginsburg fair use in this book

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1950), stated that such activity could not be considered a fair use. Moreover, the court assigned the "apparent lack of independent research" as an additional reason for refusing to honor defendant's fair use claim. With this conclusion we disagree as a matter of law.

In *Tolsky v. Bruce Publishing Co.*, *supra*, the Seventh Circuit affirmed the grant of an injunction, in favor of an author who had written a careful biography of Hans Christian Andersen based on exhaustive research into Danish sources.

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452

RIGHTS, LIMITATIONS AND REMEDIES

standards for applying the fair use defense in narrow cases, like the standards

Page 456

456

RIGHTS, LIMITATIONS AND REMEDIES

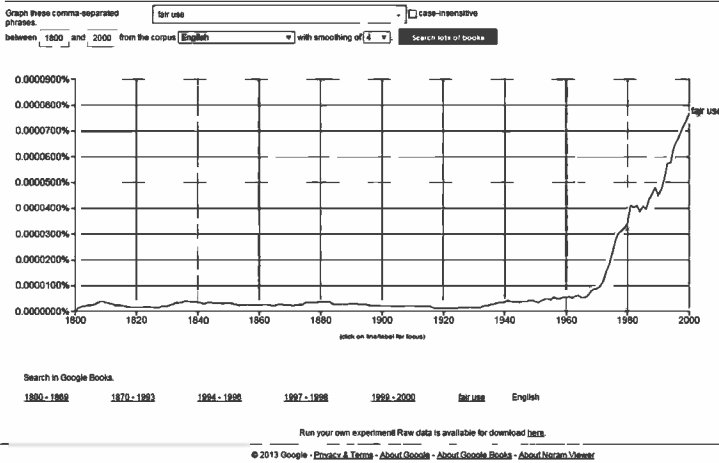
a finding of fair use," and that "all four factors [in § 107] must be considered

Where's the rest of this book?

Results 1-3 of 72

APPENDIX B

Google books Ngram Viewer



All Citations

804 F.3d 202, 116 U.S.P.Q.2d 1423

Footnotes

- 1 The Authors Guild, a membership organization of published authors, is also a plaintiff and appellant, seeking injunctive and declaratory relief on behalf of its members. However, in a separate case, this court found that, under the Copyright Act, the Authors Guild lacks standing to sue for copyright infringement on its members' behalf. *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 94 (2d Cir.2014). As the three individual author-plaintiffs clearly do have standing, their suit and their appeal are properly adjudicated, notwithstanding the Authors Guild's lack of standing. See *Bowsher v. Synar*, 478 U.S. 714, 721, 106 S.Ct. 3181, 92 L.Ed.2d 583 (1986) (finding that where one appellee had standing, the court need not consider the standing of other appellees in order to determine the merits of the appeal).
- 2 Google now honors requests to remove books from snippet view. Some Plaintiffs appear to have had books removed from snippet view.
- 3 Libraries participating in the Library Project at the time the suit was filed included the University of Michigan, the University of California, Harvard University, Stanford University, Oxford University, Columbia University, Princeton University, Ghent University, Keio University, the Austrian National Library, and the New York Public Library.
- 4 Appendix A exhibits, as an example, a web page that would be revealed to a searcher who entered the phrase "fair use," showing snippets from ALAN LATMAN, ROBERT A. GORMAN, & JANE C. GINSBURG, COPYRIGHT FOR THE EIGHTIES (1985).
- 5 Appendix B exhibits the ngram for the phrase "fair use."
- 6 For discussions and examples of scholarship and journalism powered by searchable digital text repositories, see, e.g., David Bamman & David Smith, *Extracting Two Thousand Years of Latin from a Million Book Library*, J. COMPUTING & CULTURAL HERITAGE 5 (2012), 1–13; Jean-Baptiste Michel et al., *Quantitative Analysis of Culture Using Millions of Digitized Books*, SCIENCE 331 (Jan. 14, 2011), 176–182; Marc Egnal, *Evolution of the Novel in the United States: The Statistical Evidence*, 37 SOC. SCI. HIST. 231 (2013); Catherine Rampell, *The 'New Normal' Is Actually Pretty Old*, N.Y. TIMES ECONOMIX BLOG (Jan. 11, 2011), http://economix.blogs.nytimes.com/2011/01/11/the-new-normal-is-actually-pretty-old/?_r=0; and Christopher Forstall et al., *Modeling the Scholars: Detecting Intertextuality through Enhanced Word-Level N-Gram Matching*, DIGITAL SCHOLARSHIP IN THE HUMANITIES (May 15, 2014), <http://dx.doi.org/10.1093/dlcl/fqu014>.

- 7 For unconventionally formatted books, the number of snippets per page may vary so as to approximate the same effect. The pages of a book of unusually tall, narrow format may be divided into more than eight horizontal snippets, while the pages of an unusually wide, short book may be divided into fewer than eight snippets.
- 8 For example, the “Cooperative Agreement” between Google and the University of Michigan (“U of M”) provides, *inter alia*, that:
- Both Google and U of M agree and intend to perform this Agreement pursuant to copyright law. If at any time, either party becomes aware of copyright infringement under this agreement, that party shall inform the other as quickly as reasonably possible.... U of M shall have the right to use the U of M Digital Copy ... as part of services offered on U of M’s website. U of M shall implement technological measures (e.g., through use of the robots.txt protocol) to restrict automated access to any portion of the U of M Digital Copy or the portions of the U of M website on which any portion of the U of M Digital Copy is available. U of M shall also make reasonable efforts (including but not limited to restrictions placed in Terms of Use for the U of M website) to prevent third parties from (a) downloading or otherwise obtaining any portion of the U of M Digital Copy for commercial purposes, (b) redistributing any portions of the U of M Digital Copy, or (c) automated and systematic downloading from its website image files from the U of M Digital Copy. U of M shall restrict access to the U of M Digital Copy to those persons having a need to access such materials and shall also cooperate in good faith with Google to mutually develop methods and systems for ensuring that the substantial portions of the U of M Digital Copy are not downloaded from the services offered on U of M’s website or otherwise disseminated to the public at large.
- JA 233.
- Google’s agreement with Stanford appears to be less restrictive on Stanford than its agreements with other libraries. It ostensibly permits Stanford’s libraries to “provide access to or copies from the Stanford Digital Copy” to a wide range of users, including individuals authorized to access the Stanford University Network, individuals affiliated with “partner research libraries,” and “education, research, government institutions and libraries not affiliated with Stanford,” CA 133, and to permit authorized individuals to download or print up to ten percent of Stanford Digital Copy. On the other hand, the agreement requires Stanford to employ its digital copies in conformity with the copyright law. Without evidence to the contrary, which Plaintiffs have not provided, it seems reasonable to construe these potentially conflicting provisions as meaning that Stanford may do the enumerated things ostensibly permitted only to the extent that doing so would be in conformity with the copyright law.
- 9 A year earlier, authors brought suit against the HathiTrust Digital Library, alleging facts that are closely related, although not identical, to those alleged in the instant case. *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 91 (2d Cir.2014).
- 10 The district court had subject-matter jurisdiction over this federal copyright action pursuant to 28 U.S.C. §§ 1331 and 1338(a). This court has jurisdiction over the appeal from the final decision of the district court pursuant to 28 U.S.C. § 1291. We review an order granting summary judgment *de novo*, drawing all reasonable factual inferences in favor of the non-moving party. *Ment Bros. Iron Works Co., Inc. v. Interstate Fire & Cas. Co.*, 702 F.3d 118, 120–21 (2d Cir.2012).
- 11 A similar message is reflected in England’s original copyright enactment, “An Act for the Encouragement of Learning, by Vesting the Copies of Printed Books in the Authors,” which explains as its purpose “the Encouragement of Learned Men to Compose and Write useful Books.” Statute of Anne [1710].
- 12 *Id.*
- 13 The last sentence was added in 1992, rejecting this court’s assertion in *Salinger v. Random House, Inc.* that unpublished works “normally enjoy insulation from fair use copying.” 811 F.2d 90, 95 (2d Cir.1987). See Pub.L. 102–492, Oct. 24, 1992, 106 Stat. 3145.
- 14 9 F. Cas. 342, 348 (C.C.D.Mass.1841) (“[W]e must often, in deciding questions of this sort, look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.”).
- 15 The full text of the statutory definition is as follows: “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, abridgement, 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.
- 16 See, e.g., *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1269–1271 (11th Cir.2001) (copying from original to support parodic criticism of original’s moral code justified as transformative fair use purpose).
- 17 See, e.g., *HathiTrust*, 755 F.3d at 97–98 (justifying as transformative fair use purpose the digital copying of original for purpose of permitting searchers to determine whether its text employs particular words); *A.V. ex rel. Vanderhye v.*

Paradigms LLC, 562 F.3d 630, 638–640 (4th Cir.2009) (justifying as transformative fair use purpose the complete digital copying of a manuscript to determine whether the original included matter plagiarized from other works); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir.2007) (justifying as transformative fair use purpose the use of a digital, thumbnail copy of the original to provide an Internet pathway to the original); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818–819 (9th Cir.2003) (same); *Bond v. Blum*, 317 F.3d 385 (4th Cir.2003) (justifying as fair use purpose the copying of author's original unpublished autobiographical manuscript for the purpose of showing that he murdered his father and was an unfit custodian of his children); *Nuñez v. Caribbean Int'l News Corp.*, 235 F.3d 18, 21–23 (1st Cir.2000) (justifying as transformative fair use purpose a newspaper's copying of a photo of winner of beauty pageant in a revealing pose for the purpose of informing the public of the reason the winner's title was withdrawn).

- 18 The Seventh Circuit takes the position that the kind of secondary use that favors satisfaction of the fair use test is better described as a “complementary” use, referring to how a hammer and nail complement one another in that together they achieve results that neither can accomplish on its own. *Ty, Inc. v. Publ'ns Int'l Ltd.*, 292 F.3d 512, 517–518 (7th Cir.2002); see also *Kienitz v. Sconnie Nation LLC*, 766 F.3d 756, 758 (7th Cir.2014), cert. denied, ___ U.S. ___, 135 S.Ct. 1555, 191 L.Ed.2d 638 (2015); WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 153–154 (2003). We do not find the term “complementary” particularly helpful in explaining fair use. The term would encompass changes of form that are generally understood to produce derivative works, rather than fair uses, and, at the same time, would fail to encompass copying for purposes that are generally and properly viewed as creating fair uses. When a novel is converted into film, for example, the original novel and the film ideally complement one another in that each contributes to achieving results that neither can accomplish on its own. The invention of the original author combines with the cinematographic interpretive skills of the filmmaker to produce something that neither could have produced independently. Nonetheless, at least when the intention of the film is to make a “motion picture version” of the novel, 17 U.S.C. § 101, without undertaking to parody it or to comment on it, the film is generally understood to be a derivative work, which under § 106, falls within the exclusive rights of the copyright owner. Although they complement one another, the film is not a fair use. At the same time, when a secondary work quotes an original for the purpose of parodying it, or discrediting it by exposing its inaccuracies, illogic, or dishonesty, such an undertaking is not within the exclusive prerogatives of the rights holder; it produces a fair use. Yet, when the purpose of the second is essentially to destroy the first, the two are not comfortably described as complementaries that combine to produce together something that neither could have produced independently of the other. We recognize, as just noted above, that the word “transformative,” if interpreted too broadly, can also seem to authorize copying that should fall within the scope of an author's derivative rights. Attempts to find a circumspect shorthand for a complex concept are best understood as suggestive of a general direction, rather than as definitive descriptions.
- 19 *Campbell*, 510 U.S. at 583–84, 114 S.Ct. 1164; *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); *Castle Rock Entmt, Inc. v. Carol Pub. Grp., Inc.*, 150 F.3d 132, 141–42 (2d Cir.1998); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir.2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 819 (9th Cir.2003); see also *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164, 1172 (9th Cir.2012) (noting that *Campbell* “debunked the notion that *Sony* called for a ‘hard evidentiary presumption’ that commercial use is presumptively unfair.”)
- 20 Just as there is no reason for presuming that a commercial use is not a fair use, which would defeat the most widely accepted and logically justified areas of fair use, there is likewise no reason to presume categorically that a nonprofit educational purpose should qualify as a fair use. Authors who write for educational purposes, and publishers who invest substantial funds to publish educational materials, would lose the ability to earn revenues if users were permitted to copy the materials freely merely because such copying was in the service of a nonprofit educational mission. The publication of educational materials would be substantially curtailed if such publications could be freely copied for nonprofit educational purposes.
- 21 We think it unlikely that the Supreme Court meant in its concise dictum that secondary authors are at liberty to copy extensively from the protected expression of the original author merely because the material is factual. What the *Harper & Row* dictum may well have meant is that, because in the case of factual writings, there is often occasion to test the accuracy of, to rely on, or to repeat their factual propositions, and such testing and reliance may reasonably require quotation (lest a change of expression unwittingly alter the facts), factual works often present well justified fair uses, even if the mere fact that the work is factual does not necessarily justify copying of its protected expression.
- 22 See *Harper & Row*, 471 U.S. at 564–565, 105 S.Ct. 2218 (rejecting fair use defense for copying of only about 300 words, where the portion copied was deemed “the heart of the book”).

- 23 Some copyright scholars have argued this position. See, e.g., Paul Goldstein, *Copyright's Commons*, 29 COLUM. J.L. & ARTS 1, 5–6 (2005).
- 24 See cases cited *supra* note 17; see also *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 613 (2d Cir.2006) (“[C]opying the entirety of a work is sometimes necessary to make a fair use of the [work].”).
- 25 The complete text is set forth at footnote 15, *supra*.
- 26 The filing includes the following disclosure:
Our products and services involve the storage and transmission of users' and customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation, and potential liability. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data or our users' or customers' data. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.
JA 562.
- 27 We have considered Plaintiffs' other contentions not directly addressed in this opinion and find them without merit.

TCA TELEVISION CORP, HI NEIGHBOR, DIANA ABBOTT COLTON, Plaintiffs-Appellants,
v.
KEVIN MCCOLLUM, ROBERT ASKINS, DOES, ABC COMPANIES, 1-10, HAND TO GOD LLC, THE
ENSEMBLE STUDIO THEATER, INC., MANHATTAN CLASS COMPANY, INC., Defendants-Appellees,
BROADWAY GLOBAL VENTURES, CMC, MORRIS BERCHARD, MARIANO V. TOLENTINO, JR.,
STEPHANIE KRAMER, LAMS PRODUCTIONS, INC., DESIMONE WINKLER, JOAN RAFFE, JHETT
TOLENTINO, TIMOTHY LACZYNSKI, LILY FAN, AYAL MIODOVNIK, JAM THEATRICALS LTD., KEY
BRAND ENTERTAINMENT INC., Defendants.

Docket No. 16-134-cv.

United States Court of Appeals, Second Circuit.

Argued: June 23, 2016.

Decided: October 11, 2016.

On appeal from a judgment entered in the Southern District of New York (Daniels, J.) dismissing an action for copyright infringement by the heirs of William "Bud" Abbott and Lou Costello, plaintiffs challenge the district court's determination, made as a matter of law on a Rule 12(b)(6) motion, that defendants' verbatim use of a portion of Abbott and Costello's iconic comedy routine, *Who's on First?*, in the recent Broadway play *Hand to God*, qualified as a non-infringing fair use. Defendants defend the district court's fair use ruling, and further argue that dismissal is supported, in any event, by plaintiffs' failure to plead a valid copyright interest. We here conclude that defendants' appropriation of *Who's on First?* was not a fair use, but, nevertheless, affirm the challenged judgment on defendants' alternative invalidity ground.

AFFIRMED.

JONATHAN D. REICHMAN (Jonathan W. Thomas, on *the brief*), Kenyon & Kenyon LLP, New York, New York, for *Plaintiffs-Appellants*.

MARK J. LAWLESS, Law Office of Mark J. Lawless, New York, New York, for *Defendants-Appellees*.

Before: JACOBS, CALABRESI, RAGGI, *Circuit Judges*.

REENA RAGGI, *Circuit Judge*.

In this action for copyright infringement, plaintiffs, successors-in-interest to the estates of William "Bud" Abbott and Lou Costello, appeal from a judgment of dismissal entered in the United States District Court for the Southern District of New York (George B. Daniels, Jr., *Judge*) in favor of defendants, who include the producers of *Hand to God* and the play's author, Robert Askins. See [TCA Television Corp. v. McCollum, 151 F. Supp. 3d 419 \(S.D.N.Y.2015\)](#). Plaintiffs assert that the district court erred in concluding from the amended complaint that defendants' use of a portion of the iconic Abbott and Costello comedy routine, *Who's on First?*, in Act I of *Hand to God* was so transformative as to establish defendants' fair use defense as a matter of law. See Fed. R. Civ. P. 12(b)(6). Defendants here not only defend the district court's fair use determination but also argue that affirmance is warranted, in any event, by plaintiffs' failure to plead a valid copyright interest. The district court rejected that argument. See [TCA Television Corp. v. McCollum, 151 F. Supp. 3d at 430-31](#) ^[1]

For the reasons explained herein, we conclude that defendants' verbatim incorporation of more than a minute of the *Who's on First?* routine in their commercial production was not a fair use of the material. Nevertheless, we affirm dismissal because plaintiffs fail plausibly to allege a valid copyright interest.

I. Background

The following facts derive from plaintiffs' amended complaint, incorporated exhibits, and documents susceptible to judicial notice. See [Goel v. Bunge, Ltd., 820 F.3d 554, 559 \(2d Cir. 2016\)](#) (acknowledging that, on motion to dismiss, courts may consider

documents appended to or incorporated in complaint and matters of which judicial notice may be taken); Island Software & Comput. Serv., Inc. v. Microsoft Corp., 413 F.3d 257, 261 (2d Cir. 2005) (stating that court may take judicial notice of copyright registrations). For purposes of this appeal, we presume these facts to be true. See Anschutz Corp. v. Merrill Lynch & Co., 690 F.3d 98, 102 (2d Cir. 2012).

A. Abbott and Costello's *Who's on First?* Routine

Abbott and Costello were a popular mid-Twentieth Century comedy duo. One of their routines, commonly referred to as *Who's on First?* (also, the "Routine"), has become a treasured piece of American entertainment history.^[2] The Routine's humor derives from misunderstandings that arise when Abbott announces the roster of a baseball team filled with such oddly named players as "Who," "What," and "I Don't Know." A rapid-fire exchange reveals that "who's on first" need not be a question. It can be a statement of fact, i.e., a player named "Who" is the first baseman. Later parts of the routine reveal, after similar comic misunderstandings, that a player named "What" is the second baseman, and one named "I Don't Know" is the third baseman.

B. Agreements Pertaining to Rights in the Routine

The parties cite various contracts and copyright filings spanning more than 40 years as relevant to claimed rights in the Routine.

1. Abbott and Costello's Agreements with UPC

a. The July 1940 Agreement

Abbott and Costello first performed *Who's on First?* in the late 1930s, notably on a 1938 live radio broadcast of *The Kate Smith Hour*. The Routine was published for purposes of federal copyright law when Abbott and Costello performed a version of it in their first motion picture, *One Night in the Tropics* ("Tropics").^[3]

The team appeared in *Tropics* pursuant to a July 24, 1940 contract (the "July Agreement") with Universal Pictures Company, Inc. ("UPC"). The July Agreement guaranteed Abbott and Costello a minimum of five weeks' work at a pay rate of \$3,500 per week. In turn, Abbott and Costello (the "Artists") agreed to grant UPC (the "Producer") certain rights and to furnish it with certain items. We reproduce the relevant text here, adding bracketed signals and highlighting to distinguish various provisions:

The Artists expressly give and grant to the Producer the sole and exclusive right to photograph and/or otherwise reproduce any and all of their acts, poses, plays and appearances of any and all kinds during the term hereof, and further agree [a] to furnish to the Producer, without charge to it, the material and routines heretofore used and now owned by the Artists for use by the Producer in the photoplay in which they appear hereunder and for which the Producer shall have the exclusive motion picture rights, and [b] to record their voices and all instrumental, musical and other sound effects produced by them, and [c] to reproduce and/or transmit the same, either separately or in conjunction with such acts, poses, plays and appearances as the Producer may desire, and further [3] give and grant to the Producer solely and exclusively all rights of every kind and character whatsoever in and to the same, or any of them, perpetually, including as well the perpetual right to use the names of the Artists and pictures or other reproductions of the Artists' physical likenesses, and recordings and reproductions of the Artists' voices, in connection with the advertising and exploitation thereof.

J.A. 168-69.

b. The November 1940 Agreement

On November 6, 1940, only days before *Tropics*'s public release, Abbott and Costello entered into a new multi-year/multi-picture agreement with UPC (the "November Agreement").^[4] That contract terminated the July Agreement without prejudice to, among other things, UPC's "ownership . . . of all rights heretofore acquired," including those "in or to any . . . material furnished or supplied by the Artists." *Id.* at 162. In the November Agreement, Abbott and Costello agreed "to furnish and make available to the Producer all literary and dramatic material and routines heretofore used by the Artists either on the radio or otherwise and now owned by the Artists," and acknowledged that "the Producer shall have the right to use said material and routines to such extent

as the Producer may desire in connection with any photoplay in which the Artists render their services hereunder and in connection with the advertising and exploitation of such photoplay." Id. at 129. Abbott and Costello agreed that they would "not use or license, authorize or permit the use of any of the material and/or routines" so referenced "in connection with motion pictures" by others than UPC for specified times. Id. Nevertheless, they reserved the right to use materials and routines created by them (without the assistance of UPC writers) "on the radio and in personal appearances." Id. at 129-30.

2. UPC Registers a Copyright for *Tropics*

In November 1940, UPC registered a copyright for *Tropics* with the United States Copyright Office, which it renewed in December 1967. See id. at 36, 39-40.

3. UPC Uses an Expanded Version of the Routine in *The Naughty Nineties* and Registers a Copyright for that Movie

In 1945, Abbott and Costello performed an expanded version of Who's on First? in another movie for UPC, *The Naughty Nineties*. That version maintains the core of the Routine—with "Who" on first base, "What" on second, and "I Don't Know" on third—but several new players take the field: left fielder "Why," center fielder "Because," pitcher "Tomorrow," catcher "Today," and shortstop "I Don't Care."

In June 1945, UPC registered a copyright for *The Naughty Nineties* with the United States Copyright Office, which it renewed in 1972. See id. at 37, 41-42; Am. Compl. ¶ 45.^[5]

4. The 1944 Copyright Registration for "Abbott and Costello Baseball Routine"

In April 1944, a work entitled "Abbott and Costello Baseball Routine" was registered with the Copyright Office "in the name of Bud Abbott and Lou Costello, c/o Writers War Board." J.A. 114. The certificate indicates that this "Baseball Routine" was published on "March 13, 1944" in "Soldier Shows," No. 19. Id.^[6] The record suggests that this registration was not renewed, prompting the Copyright Office to conclude that the work had entered the public domain in 1972, and, on that ground, to reject a 1984 application for a derivative work registration filed by the children of Abbott and Costello based on the 1944 registration.

5. The 1984 Quitclaim Agreement

Plaintiffs do not rely on the 1944 registration to support their copyright claim here. Rather, they claim to have succeeded to UPC's copyright interests in the Routine as performed in *Tropics* and *The Naughty Nineties* based on a quitclaim agreement dated March 12, 1984 (the "Quitclaim").

In the Quitclaim, which was subsequently recorded with the Copyright Office, UPC's successor-in-interest, Universal Pictures ("Universal"), granted Abbott & Costello Enterprises ("A & C"), a partnership formed by the heirs of Abbott and Costello,^[7] "any and all" of Universal's rights, title, and interest in the Routine. Id. at 45. Universal stated that it did so relying upon A & C's representation that it was "a partnership composed of the successors in interest to the late Bud Abbott and Lou Costello" and, therefore, "the owner of copyright in and to the Routine." Id. at 46.

A & C dissolved in 1992, with 50% of its assets transferred to TCA Television Corporation, a California entity owned by Lou Costello's heirs, and the other 50% divided evenly between Bud Abbott's heirs, Vickie Abbott Wheeler and Bud Abbott, Jr. Wheeler would later transfer her 25% interest to a California partnership, Hi Neighbor, and Abbott, Jr. would transfer his 25% interest to Diana Abbott Colton. It is by operation of the Quitclaim and the referenced dissolution and transfer agreements that plaintiffs TCA Television, Hi Neighbor, and Colton now claim a copyright interest in Who's on First?.

C. *Hand to God*

As described in the amended complaint, *Hand to God* (the "Play") is "a dark comedy about an introverted student in religious, small-town Texas who finds a creative outlet and a means of communication through a hand puppet, wh[ic]h turns into his evil or devilish persona." Am. Compl. ¶ 58. After two successful off-Broadway runs, *Hand to God* opened to critical acclaim on Broadway in the spring of 2015. Through press coverage, plaintiffs learned that *Hand to God* incorporated part of the Routine in one of its "key scene[s]," without license or permission. Id. at ¶ 63. While the Play was still in previews for its Broadway opening, plaintiffs sent defendants a cease and desist letter. Defendants' failure to comply with that request prompted this lawsuit.

1. The Relevant Scene

Plaintiffs allege that the Play infringes their copyright in the Routine by using its first part—that is, the part pertaining to first baseman "Who"—in Act I, Scene 2. In that scene, which occurs approximately 15 minutes into the Play, the lead character, "Jason," and the girl with whom he is smitten, "Jessica," have just emerged from the basement of their church, where they had been participating in a Christian puppet workshop. Jason tries to impress Jessica by using his sock puppet, "Tyrono," to perform, almost verbatim, a little over a minute of Who's on First?. Jason plays the Bud Abbott role, while Tyrono assumes Lou Costello's character.¹⁸¹

When Jason somewhat bashfully concludes the "Who" part of the Routine, Jessica compliments him by saying, "That's really good," and asks, "Did you come up with that all by yourself[?]?" Suppl. App'x 21. When Jason answers, "Yes," the audience laughs at what it recognizes as a lie. Id.; see Am. Compl. ¶ 64. The answer, however, triggers a different response from the puppet, which, seemingly of its own volition, calls Jason a "Liar," and states that the comic exchange they just performed is "a famous routine from the [F]ifties." Suppl. App'x 21. Jason corrects Tyrono, stating that the sketch is from the "Forties." Id. Tyrono then insults Jessica, telling her that she would know the Routine's origin if she "weren't so stupid." Id. Jason and Jessica each order Tyrono to "shut up" to no effect. Id. at 22. Instead, as the scene continues, Tyrono vulgarly divulges Jason's physical desire for Jessica. Only after a seeming physical struggle with Tyrono is Jason able to remove the puppet from his hand and thereby end Tyrono's outburst. Jason tries to apologize to Jessica, but she quickly exits, leaving Jason—in the words of the stage direction—" [d]efeated by what he ca[n]n't defeat." Id. at 24.

The scene foreshadows darker and more disturbing exchanges between Jason and the puppet that will occur as the Play proceeds.

2. Promotional Materials

Plaintiffs allege that, in online promotional materials for the Play, defendants used a "video clip" of Jason and his puppet performing Who's on First? to "stoke interest" in and sell tickets for the Play. Am. Compl. ¶¶ 69, 89. These promotional materials are not part of the court record.

D. District Court Proceedings

On June 4, 2015, plaintiffs filed this action in the Southern District of New York, claiming both federal and common law copyright infringement. Defendants promptly moved to dismiss, arguing, inter alia, that (1) plaintiffs did not hold a valid copyright; (2) the Routine was in the public domain; and (3) *Hand to God*'s incorporation of the Routine was sufficiently transformative to qualify as a permissible fair use, not prohibited infringement.

On December 17, 2015, the district court granted defendants' motion to dismiss. It declined to do so on either of the first two grounds argued by defendants, concluding that, at the 12(b)(6) stage, plaintiffs had "sufficiently alleged a continuous chain of title" to the Routine to survive dismissal. *TCA Television Corp. v. McCollum*, 151 F. Supp. 3d at 431. Instead, the court concluded that dismissal was warranted because defendants' use of Who's on First? in *Hand to God* was "highly transformative" and a non-infringing fair use. Id. at 434, 437.

This appeal followed.

II. Discussion

A. Dismissal Was Not Properly Based on Fair Use

1. Standard of Review

We review de novo a judgment of dismissal under Fed. R. Civ. P. 12(b)(6), accepting all factual allegations in the amended complaint and its incorporated exhibits as true and drawing all reasonable inferences in plaintiffs' favor. See Concord Assocs., L.P. v. Entm't Props. Tr., 817 F.3d 46, 52 (2d Cir. 2016). The challenged dismissal here is based on the district court's determination that plaintiffs could not succeed on their copyright infringement claim because the Rule 12(b)(6) record established defendants' fair use defense as a matter of law.

Our review of that decision is necessarily informed by certain basic copyright principles. First, the law affords copyright protection to promote not simply individual interests, but—in the words of the Constitution—"the progress of science and useful arts" for the benefit of society as a whole. U.S. Const. art I, § 8, cl. 8. As the Supreme Court has explained, copyright protection is based on the "economic philosophy . . . that encouragement of individual effort by personal gain is the best way to advance public welfare." Mazer v. Stein, 347 U.S. 201, 219 (1954). In short, the "monopoly created by copyright . . . rewards the individual author," but only "in order to benefit the public." Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 546 (1985) (internal quotation marks omitted); see Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932) ("The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.").

Second, and consistent with this public purpose, the law has long recognized that "some opportunity for fair use of copyrighted materials" is necessary to promote progress in science and art. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 575 (1994); Iowa State Univ. Research Found., Inc. v. Am. Broad. Cos., 621 F.2d 57, 60 (2d Cir. 1980) (stating that fair use doctrine "permits courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster"). The doctrine of fair use, derived from common law, is now codified in the Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541. See 17 U.S.C. § 107. That codification does not so much define "fair use" as provide a non-exhaustive list of factors to guide courts' fair use determinations. This affords the doctrine a certain "malleability" that can challenge judicial application. 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (hereinafter "Nimmer") § 13.05, at 13-156 (Matthew Bender, rev. ed., 2016).

Courts most frequently address a proffered fair use defense at summary judgment. See, e.g., Blanch v. Koons, 467 F.3d 244, 250 (2d Cir. 2006) (explaining that court may resolve fair use question at summary judgment if there are no genuine issues of fact); see also Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. at 560 (stating that appeals court may decide fair use where "district court has found facts sufficient to evaluate each of the statutory factors"). Nevertheless, this court has acknowledged the possibility of fair use being so clearly established by a complaint as to support dismissal of a copyright infringement claim. See Cariou v. Prince, 714 F.3d 694, 707 (2d Cir. 2013) (granting defendant partial summary judgment on fair use and citing approvingly to Brownmark Films, LLC v. Comedy Partners, 682 F.3d 687 (7th Cir. 2012) (rejecting argument that fair use could not be decided on motion to dismiss)).

On de novo review here, we conclude that defendants' entitlement to a fair use defense was not so clearly established on the face of the amended complaint and its incorporated exhibits as to support dismissal.

2. The Statutory Framework for Analyzing Fair Use

In the preamble to 17 U.S.C. § 107, Congress states that "the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research is not an infringement of copyright." As the words "such as" indicate, the listing is "illustrative and not limitative." 17 U.S.C. § 101; see Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. at 561. Four nonexclusive factors—incorporating common law traditions—are properly considered in "determining whether the use made of a work in any particular case is a fair use." 17 U.S.C. § 107. These statutory factors are as follows:

- (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.

Id.; see generally Folsom v. Marsh, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841) (Story, J.) (explaining that common law courts "deciding questions of this sort" should "look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work").

In reviewing the challenged determination of fair use in this case, we necessarily discuss these factors individually, at the same time that we heed the Supreme Court's instruction that the factors must be viewed collectively, with their results "weighed together, in light of the purposes of copyright." Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 578.

a. Purpose and Character of the Use

(1) Transformative Use

The first statutory fair use factor considers the purpose and character of the secondary use. In this regard, the uses identified by Congress in the preamble to § 107—criticism, comment, news reporting, teaching, scholarship, and research—might be deemed "most appropriate" for a purpose or character finding indicative of fair use. Nimmer § 13.05[A][a], at 13-162; see Authors Guild v. Google, Inc., 804 F.3d 202, 215 (2d Cir. 2015) (noting that providing commentary or criticism on another's work is "[a]mong the best recognized justifications for copying").

The challenged use here does not appear to fit within any of these statutory categories. Nevertheless, the district court concluded that defendants' use was "transformative," indeed, so "highly transformative" as to be "determinative" of fair use. TCA Television Corp. v. McCollum, 151 F. Supp. 3d at 434-35. The district court explained that by having a single character perform the Routine, the Play's authors were able to contrast "Jason's seemingly soft-spoken personality and the actual outrageousness of his inner nature, which he expresses through the sock puppet." Id. at 436. This contrast was "a darkly comedic critique of the social norms governing a small town in the Bible Belt." Id. This reasoning is flawed in that what it identifies are the general artistic and critical purpose and character of the Play. The district court did not explain how defendants' extensive copying of a famous comedy routine was necessary to this purpose, much less how the character of the Routine was transformed by defendants' use.

The Supreme Court has stated that "the goal of copyright . . . is generally furthered by the creation of transformative works." Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 579.¹⁹¹ But how does a court decide "whether and to what extent the new work is 'transformative'?" Id. Campbell instructs that a court properly considers "whether the new work merely supersedes the objects of the original creation, or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message." Id. (emphases added) (alterations, citations, and internal quotation marks omitted).

As the highlighted language indicates, the focus of inquiry is not simply on the new work, i.e., on whether that work serves a purpose or conveys an overall expression, meaning, or message different from the copyrighted material it appropriates. Rather, the critical inquiry is whether the new work uses the copyrighted material itself for a purpose, or imbues it with a character, different from that for which it was created. See Id. Otherwise, any play that needed a character to sing a song, tell a joke, or recite a poem could use unaltered copyrighted material with impunity, so long as the purpose or message of the play was different from that of the appropriated material.

In sum, even if, as the district court concluded, Hand to God is a "darkly comedic critique of the social norms governing a small town in the Bible Belt," TCA Television Corp. v. McCollum, 151 F. Supp. 3d at 436, and even if the Play's purpose and character are completely different from the vaudevillian humor originally animating Who's on First?, that, by itself, does not demonstrate that defendants' use of the Routine in the Play was transformative of the original work.

We made this point in Cariou v. Prince, 714 F.3d 694. There, the defendant, a self-styled "appropriation artist," id. at 699, had taken plaintiffs' copyrighted photographs—"serene and deliberately composed" portraits of Rastafarian men—and altered them to create "crude and jarring" collages, id. at 706. Defendant acknowledged that he had not used the photographs to "comment on" the original works. Id. at 707. Instead, both works had an underlying artistic purpose, but defendant stated that he had sought to change the original material "into something that's completely different." Id. (internal quotation marks omitted). Reversing a district court award of summary judgment in favor of plaintiff, this court ruled that, although commentary frequently constitutes fair use, it is not essential that a new creative work comment on an incorporated copyrighted work to be transformative. See Id. at

706.^[10] Rather, "to qualify as a fair use" in the absence of such a different purpose, the new work "generally must alter the original with 'new expression, meaning, or message.'" *id.* (quoting Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 579).^[11]

Carou concluded that the challenged artworks there satisfied this standard because they not only strove for "new aesthetics with creative and communicative results distinct from" that of the copyrighted material, but also gave the incorporated photographs "new expression," thereby admitting a transformative purpose. *id.* at 708. Indeed, where the defendant's use so "heavily obscured and altered" the original photographs as to make them "barely recognizable" within the new work, the court ruled that transformative purpose (and ultimately fair use) was established as a matter of law. *id.* at 710. But where lesser changes retained certain of the original work's aesthetics, the court could not say "for sure" that their incorporation into the defendant's works had "transformed [the original] work enough to render it transformative." *id.* at 711. As to those works, Carou remanded for further proceedings. *id.*

Insofar as Carou might be thought to represent the high-water mark of our court's recognition of transformative works, it has drawn some criticism. See Kienitz v. Sconnie Nation LLC, 766 F.3d 756, 758 (7th Cir. 2014) (expressing skepticism as to Carou's approach and criticizing reliance on transformativeness as substitute for the statutory factors, which threatens to override the copyright owner's exclusive right to prepare derivative works); see also Nimmer § 13.05[B][6], at 13.224.20 (stating with respect to Carou: "it would seem that the pendulum has swung too far in the direction of recognizing any alteration as transformative, such that this doctrine now threatens to swallow fair use. It is respectfully submitted that a correction is needed in the law."). We need not defend Carou here, however, because our point is that even scrupulous adherence to that decision does not permit defendants' use of Who's on First? In Hand to God to be held transformative.

Far from altering Who's on First? to the point where it is "barely recognizable" within the Play, Carou v. Prince, 714 F.3d at 710, defendants' use appears not to have altered the Routine at all. The Play may convey a dark critique of society, but it does not transform Abbot and Costello's Routine so that it conveys that message. To the contrary, it appears that the Play specifically has its characters perform Who's on First? without alteration so that the audience will readily recognize both the famous Routine and the boy's false claim to having created it. Indeed, it is only after Who's on First? is performed—at some length, almost verbatim, and with the Play's characters mimicking the original timing, tone, and delivery of Abbot and Costello—that the boy's lie about creating the classic Routine—no part of the Routine—becomes the triggering event for the puppet to assume an independent persona.

Defendants nevertheless maintain that using the Routine for such a "dramatic," rather than comedic, purpose was transformative. Appellees' Br. 18 (stating that Play's use of Routine was "far cry" from original "comedy schtick"). The argument will not bear close scrutiny. The "dramatic" purpose served by the Routine in the Play appears to be as a "McGuffin," that is, as a theatrical device that sets up the plot, but is of little or no significance in itself.^[12] To advance the plot of the Play, specifically, to have the puppet Tyrone take on a persona distinct from that of Jason, defendants needed Jason to lie about something and for Tyrone to call him on it. But the particular subject of the lie—the Routine—appears irrelevant to that purpose. Such unaltered use of an allegedly copyrighted work, having no bearing on the original work, requires justification to qualify for a fair use defense. See Authors Guild v. Google, Inc., 804 F.3d at 215 (stating that "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").

More than the Routine's ability to capture audience attention is necessary to provide such justification. As the Supreme Court has cautioned, where a secondary use "has no critical bearing on the substance or style of the original composition, which the alleged infringer merely uses to get attention . . . , the claim to fairness in borrowing from another's work diminishes accordingly (if it does not vanish)." Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 580. Nor is a different conclusion warranted because defendants here place the unaltered Routine in a sharply different context from its original authors. See *id.* at 598 (Kennedy, J., concurring) (observing that courts should not afford fair use protection to persons who merely place characters from familiar copyrighted works into novel or eccentric settings).

The fact that, even as a McGuffin, the Routine is quite funny, also cannot justify its use in the Play. That humor is an achievement of the Routine's creators, not of the playwright who takes advantage of it without transforming the Routine's aesthetic. Moreover, the Play appropriates the Routine's humor not incidentally, but extensively by having the characters perform some dozen of the original exchanges on the comic ambiguity of the words "who's on first." No new dramatic purpose was served by so much copying. Cf. Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 589 (concluding that copying of song for parodic purpose was fair where it was not "excessive" in relation to that purpose as secondary user took only what was necessary to evoke original). The only purpose served by the extent of defendants' taking is identically comedic to that of the original authors, that is, to have two

performers expand on a singular joke in order to generate increasing audience laughter. As this court has recognized, there is "nothing transformative" about using an original work "in the manner it was made to be" used. On Davis v. Gap, Inc., 246 F.3d 152, 174 (2d Cir. 2001); see Ringgold v. Black Entm't Television, Inc., 126 F.3d 70, 79 (2d Cir. 1997) (concluding that purpose factor favored copyright owner where defendant used "work for precisely a central purpose for which it was created"). Defendants' use of the Routine, not briefly as the basis for a dramatic lie, but extensively for its original comedic effect, cannot be deemed transformative.

In sum, nothing in the 12(b)(6) record shows that the Play imbued the Routine with any new expression, meaning, or message. Nor does any new dramatic purpose justify defendants' extensive copying of the Routine. Accordingly, the district court erred both in finding defendants' use of the Routine transformative and in concluding, on that basis, that a fair use defense was established as a matter of law.^[13]

(2) Commercial Purpose

The first statutory factor specifically instructs courts to consider whether copyrighted materials are used for a commercial purpose or for a nonprofit educational purpose, the former tending "to weigh against a finding of fair use." Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 585 (internal quotation marks omitted). There is no question here that defendants' use of Who's on First? in Hand to God was for a commercial purpose. Nevertheless, the district court discounted that fact upon finding the use "highly transformative." TCA Television Corp. v. McCollum, 151 F. Supp. 3d at 434-35; see Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 579 (recognizing that "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"). Because we here conclude that defendants' use was not transformative, let alone "highly transformative," we conclude that the district court erred in discounting Hand to God's commercial character. See Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 579-81.^[14]

This conclusion applies with particular force here where plaintiffs allege that defendants not only used an unaltered and appreciable excerpt of the Routine in a commercial play but also featured the Routine in the Play's advertising, conduct which reasonably qualifies as commercial exploitation weighing strongly against fair use. See *id.* at 585 (observing that use of copyrighted work "to advertise a product, even in a parody, will be entitled to less indulgence under the first factor of the fair use enquiry than the sale of a parody for its own sake"); American Geophysical Union v. Texaco Inc., 60 F.3d 913, 922 (2d Cir. 1994) (stating that fair use claim will not be sustained when secondary use can fairly be characterized as "commercial exploitation" (internal quotation marks omitted)); Consumers Union of U.S., Inc. v. Gen. Signal Corp., 724 F.2d 1044, 1049 (2d Cir. 1983) (observing that some infringement actions involve copying of creative expression for "purpose of having that precise form of expression advance someone else's commercial interests—for example, using well-known copyrighted lines to attract attention to an advertisement"). Indeed, to the extent defendants excessively copied from the Routine even within the Play, their advertising focus on the Routine's comic exchanges raises particular commercial exploitation concerns.

Thus, defendants' commercial use of the Routine was not transformative. Rather, it duplicated to a significant degree the comedic purpose of the original work. As such, the first statutory factor, far from weighing in defendants' favor, weighs in favor of plaintiffs.

b. Nature of Copyrighted Work

The second statutory factor, "the nature of the copyrighted work," also weighs in plaintiffs' favor. As the Supreme Court has observed, certain "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 v. Acuff-Rose Music, Inc., 510 U.S. at 586. Like the district court, we conclude that Who's on First?, an original comedy sketch created for public entertainment, lies at the heart of copyright's intended protection. See *id.* (recognizing that creative expression created for public dissemination is at core of "copyrights protective purposes"); On Davis v. Gap, Inc., 246 F.3d at 175 (concluding that second factor favored plaintiff because copyrighted work was "in the nature of an artistic creation"). Thus, while the secondary user of noncreative information can more readily claim fair use based on the law's recognition of "a greater need to disseminate factual works than works of fiction or fantasy," Hamer & Row Publishers, Inc. v. Nation Enters., 471 U.S. at 583; see Authors Guild v. Google, Inc., 804 F.3d at 220 & n.21 (explaining that factual works "often present well justified fair uses" because "there is often occasion to test the accuracy of, to rely on, or to repeat their factual propositions," which "may reasonably require quotation"), the secondary user of a creative work must justify his use, usually by explaining the functional or creative rationale behind its quotation, see Pierre N. Leval, *Toward a Fair Use Standard*,

103 Harv. L. Rev. 1105, 1113 (1990) (explaining that, in considering whether quotation is fair, courts must consider utility of each challenged passage).

Defendants argue that their use was justified by the dramatic need to use an instantly recognizable "cultural" touchstone in the relevant scene. Appellees' Br. 15. Defendants do not explain, however, why Jason's lie had to pertain to a cultural touchstone, as opposed to any obvious tall tale—e.g., inventing the Internet, traveling to Mars, out-swimming Michael Phelps. See generally Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. at 1111 (observing that court considering fair use must determine not only if justification for copying exists, but also "how powerful, or persuasive, is the justification"). But even assuming defendants' professed dramatic need, they do not explain why the cultural touchstone had to be the Routine—or even a comedy sketch—as opposed to some other readily recognizable exchange, including those already in the public domain. Most troubling, even if defendants could justify their dramatic need to use a small, identifiable segment of the Routine, that does not justify having their characters perform, verbatim, some dozen variations on the Routine's singular joke. As already noted, the purpose of such extensive use was to provoke audience laughter in exactly the same way as the Routine's creators had done.

In sum, because defendants' use of the Routine cannot be deemed transformative, and because the record is devoid of any persuasive justification for the extent of defendants' use, the creative nature of the Routine weighs strongly against a fair use defense.

c. Amount and Substantiality of Use

The third statutory factor asks whether "the amount and substantiality of the portion used in relation to the copyrighted work as a whole" . . . are reasonable in relation to the purpose of the copying." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. at 586 (quoting 17 U.S.C. § 107(3)). In assessing this factor, we consider not only "the quantity of the materials used" but also "their quality and importance." *Id.* at 587; see *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. at 565 (stating that "fact that a substantial portion of the infringing work was copied verbatim is evidence of the qualitative value of the copied material, both to the originator and to the plagiarist who seeks to profit from marketing someone else's copyrighted expression").

While acknowledging that the portion of the Routine used by defendants was "instantly recognizable" and "more than merely the 'introductory premise,'" the district court decided—without explanation—that this factor tipped only "slightly" in plaintiffs' favor in light of defendants' transformative use. *TCA Television Corp. v. McCollum*, 151 F. Supp. 3d at 434. We reject the district court's transformative use determination for reasons already explained. On de novo review, we further conclude that the third statutory factor weighs strongly in favor of plaintiffs.

While the portion of the Routine copied by defendants takes less than two minutes to perform, it plainly reveals the singular joke underlying the entire Routine: that words understood by one person as a question can be understood by another as an answer. Moreover, defendants repeatedly exploit that joke through a dozen variations. This manifests substantial copying. See *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. at 548, 565-66 (concluding that third factor favored plaintiffs where defendants copied approximately 300 words verbatim in light of "expressive value of the excerpts"); *Castle Rock Entm't v. Carol Publ'g Grp., Inc.*, 955 F. Supp. 260, 269 (S.D.N.Y. 1997) (citing *Harper & Row* as support for proposition that copying even few words of challenged work can constitute substantial taking if it amounts to taking heart of original work), *aff'd*, 150 F.3d 132 (2d Cir. 1998).

Even a substantial taking, however, can constitute fair use if justified. See *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 98 (2d Cir. 2014) (acknowledging that some purposes require copying entirety of copyrighted work); see also Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. at 1123 (explaining that, under third factor, "an important inquiry is whether the selection and quantity of the material taken are reasonable in relation to the purported justification"). But, as already explained, defendants offer no persuasive justification for their extensive use of the Routine. Cf. *Authors Guild, Inc. v. HathiTrust*, 755 F.3d at 98 (stating that "crux" of third factor inquiry is whether "no more was taken than necessary" (internal quotation marks omitted)).

d. Effect on Potential Market for Copyrighted Work

The final statutory factor considers "the effect of the use upon the potential market for or value of the copyrighted work," 17 U.S.C. § 107(4), focusing on whether the secondary use usurps demand for the protected work by serving as a market substitute, see *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. at 592 (stating that role of courts is to distinguish between "biting criticism that merely suppresses demand and copyright infringement, which usurps it" (alterations and internal quotation marks omitted)). In weighing this factor, a court properly looks to "not only the extent of market harm caused by the particular actions of the alleged

infringer, but also whether unrestricted and widespread conduct of the sort engaged in by the defendant would result in a substantially adverse impact on the potential market for the original." Id. at 590 (alteration and internal quotation marks omitted).

The district court weighed this factor in defendants' favor, concluding that the Play's use of the Routine could not reasonably be expected to usurp the market for Abbott and Costello's original performance. See TCA Television Corp. v. McCollum, 151 F. Supp. 3d at 434-35. In so doing, however, the district court disregarded the possibility of defendants' use adversely affecting the licensing market for the Routine. See Id. at 434 (citing Carlou v. Prince, 714 F.3d at 708 (stating that fourth factor "does not focus principally on the question of damage to [a] derivative market").

While derivative markets are not the principal focus of the fourth inquiry, that does not mean that they are irrelevant. See Campbell v. Acuff-Rose Music, Inc., 510 U.S. at 593 (recognizing that evidence of substantial harm to derivative market would weigh against fair use). A court considering fair use properly identifies and weighs relevant harm to the derivative market for a copyrighted work, which market includes uses that creators of original works might "license others to develop." Id. at 592; see American Geophysical Union v. Texaco Inc., 60 F.3d at 929 ("[T]he impact on potential licensing revenues is a proper subject for consideration in assessing the fourth factor.").

To be clear, in assessing harm posed to a licensing market, a court's focus is not on possible lost licensing fees from defendants' challenged use. See American Geophysical Union v. Texaco Inc., 60 F.3d at 929 n.17 (explaining that fourth factor would always favor copyright owner if courts focused on loss of potential licensing fees from alleged infringer); see also Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. at 1124 ("By definition every fair use involves some loss of royalty revenue because the secondary user has not paid royalties."). Rather, a court properly considers the challenged use's "impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets." American Geophysical Union v. Texaco Inc., 60 F.3d at 930; accord Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P., 756 F.3d 73, 91 (2d Cir. 2014).

Plaintiffs here alleged the existence of a traditional—and active—derivative market for licensing the Routine. See Am. Compl. ¶¶ 40, 81-83 (alleging that plaintiffs receive "regular" requests to license Who's on First?, which they frequently grant). Further, they alleged market harm. See Id. at ¶ 83 (alleging that defendants' unlicensed use of Who's on First? negatively affected commercial market for future licensing). Accepting these allegations as true at this stage of the litigation, we conclude that this factor weighs in favor of plaintiffs. See On Davis v. Gap, Inc., 246 F.3d at 175-76 (concluding that fourth factor favored copyright owner where defendants' taking caused both loss of royalty revenue and "diminution of [owner's] opportunity to license to others who might regard [owner's] design as preempted by [defendant's] ad").

In sum, on the 12(b)(6) record, all four statutory factors weigh in favor of plaintiffs and against a defense of fair use. Because, at this stage of the proceeding, defendants have identified no other equitable factors as here relevant to the fair use analysis, we conclude that the dismissal of plaintiffs' amended complaint on the ground of fair use was error. Nevertheless, for reasons explained in the next section of the opinion, we conclude that dismissal was warranted because plaintiffs did not plausibly allege a valid copyright interest in the Routine.

B. Dismissal for Failure To Plead a Valid Copyright

Defendants argue that, even if we reject dismissal on the basis of a fair use defense, we should affirm because plaintiffs fail plausibly to plead ownership of a valid copyright in the Routine. See Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991) (identifying two elements of infringement: (1) ownership of valid copyright and (2) copying original elements of work). Defendants assert that Abbott and Costello's Who's on First? Routine fell into the public domain in 1968, when the initial copyright term for Tropics expired. Defendants concede that UPC's registration for that movie protected the Routine—first published therein—from entering the public domain through the term of that copyright, see Shoptalk Ltd. v. Concorde-New Horizons Corp., 168 F.3d 586, 592 (2d Cir. 1999), but they assert that only Abbott and Costello, as the Routine's authors, could renew the copyright in that work—as distinct from Tropics—which the team failed to do.¹⁵¹

In disputing this challenge, plaintiffs argue that UPC had the right to renew the copyright in the Routine because (1) Abbott and Costello assigned ownership of their common law copyright in the Routine to UPC in either the July or November Agreement, (2) the Routine as published in Tropics was a "work for hire" owned by UPC, and (3) the Routine merged into Tropics so as to support a single copyright. Plaintiffs maintain that, under any of these theories, UPC's renewal of the Tropics copyright also maintained copyright protection for the Routine, so that they now hold a valid copyright in that work by virtue of UPC's transfer of its rights in the Routine in the Quitclaim.

We identify no merit in any of the theories relied on by plaintiffs to support their copyright claim and, accordingly, we affirm dismissal of the amended complaint for failure to plead a valid copyright.

1. Copyright Assignment

In rejecting defendant's copyright invalidity challenge, the district court thought that "[t]he contract language, together with UPC's subsequent registration of the copyrights" for *Tropics* and *The Naughty Nineties*, might admit a finding of "implied assignment of the initial copyright from Abbott and Costello." *TCA Television Corp. v. McCollum*, 151 F. Supp. 3d at 429; see *Nimmer* § 10.03[B], at 10-56.2(6) (explaining that pre-1978 assignment of common law copyright could be effectuated orally or implied from conduct). The conclusion is flawed in two respects. First, as detailed in this section, the July and November Agreements clearly express the parties' intent for Abbott and Costello to license the use of, not to assign copyrights in, their existing comedy routines for use in UPC movies in which the team appeared. Second, and requiring no further discussion in the face of clear contract language, UPC's registration (and renewal) of copyrights in its movies says nothing about what Abbott and Costello intended to convey in the two agreements because UPC would have taken such action to protect its independent movie rights in any event. See generally *Faulkner v. Nat'l Geographic Soc'y*, 220 F. Supp. 2d 237, 239 (S.D.N.Y.2002) (noting that under 1909 Copyright Act, proprietor of collective work had right to renew copyright in collective work itself).

Turning then to the agreements, we note at the outset that neither contract has a choice of law provision. Thus, the controlling law would be the contracts' "center of gravity," which typically is the place of contracting or performance. *Lazard Freres & Co. v. Protective Life Ins. Co.*, 108 F.3d 1531, 1539 (2d Cir. 1997) (internal quotation marks omitted). The July Agreement was executed in New York with expected performance in California. The November Agreement was also to be performed in California and may have been executed there, where UPC was located and Abbott and Costello were then completing *Tropics*. Any uncertainty on the latter point is irrelevant, however, because New York and California law both instruct that contracts must be interpreted according to the mutual intent of the parties at the time the contract was formed. See *Welsbach Elec. Corp. v. MasTec N. Am., Inc.*, 7 N.Y.3d 624, 629, 825 N.Y.S.2d 692, 695 (2006); *AIU Ins. Co. v. Superior Court*, 51 Cal. 3d 807, 821, 799 P.2d 1253, 1264 (1990). Both states recognize that the best evidence of the parties' intent is the language used in their contract. See *Brad H. v. City of New York*, 17 N.Y.3d 180, 185, 928 N.Y.S.2d 221, 224 (2011); *AIU Ins. Co. v. Superior Court*, 51 Cal. 3d at 822, 799 P.2d at 1264. Thus, where contract language is clear and unambiguous, courts will enforce an agreement according to its terms, without looking outside the four corners of the document. See *Brad H. v. City of New York*, 17 N.Y.3d at 185, 928 N.Y.S.2d at 224; *AIU Ins. Co. v. Superior Court*, 51 Cal. 3d at 822, 799 P.2d at 1264.

The July Agreement employing Abbott and Costello for "one feature photoplay," J.A. 165, states that the team would furnish UPC with "routines heretofore used and now owned by Artists for use by the Producer in the photoplay in which they appear hereunder and for which the Producer shall have the exclusive motion picture rights," *id.* at 169 (emphases added). The longer-term November Agreement similarly states that the team would furnish UPC with all "routines heretofore used by the Artists either on the radio or otherwise and now owned by the Artists," and that UPC would "have the right to use said material and routines to such extent as the Producer may desire in connection with any photoplay in which the Artists render their services hereunder." *id.* at 129 (emphases added). As the highlighted language in each agreement makes plain, Abbott and Costello furnished UPC with their routines for a limited purpose: use in any movies in which the team appeared under the respective agreements.^[16] This is unmistakably the language of an exclusive, limited-use license, not the assignment of copyright. See *Compendium of Copyright Office Practices* § 12.2.1 (1973) (stating that license is "exclusive or non-exclusive grant of permission to use a copyrighted work for certain purposes").

A clause in the July Agreement granting UPC "all rights of every kind and character whatsoever in and to the same . . . perpetually" warrants no different conclusion. J.A. 169. This language appears in the same sentence as that quoted in the preceding paragraph and, thus, "all rights . . . in and to the same" can only be understood to reference UPC's motion picture rights, not the team's common law copyright in its routines.^[17] Indeed, in the November Agreement, wherein the team grants UPC the right to photograph and reproduce their "acts," the "perpetual" right "to use the same" is expressly granted "only in connection with the photoplays in which the Artists appear hereunder and in connection with the advertising and exploitation thereof." *id.* at 127. The November Agreement states that "the Producer shall not have the right to use the Artists' names or likenesses or reproductions of their voices in radio broadcasts (except as hereinafter expressly permitted) independent of . . . motion picture productions or in commercial tie-ups." *id.* at 128.

Other language in the November Agreement further confirms that Abbott and Costello granted UPC only a license to use their routines. The team therein agreed "that they w[ould] not use or license, authorize or permit the use of any of the material and/or routines" furnished to UPC under the agreement "in connection with motion pictures for any person, firm or corporation other than the Producer, at any time prior to the termination of the employment of the Artists under this agreement or one year after the general release of the photoplay in which used, whichever is later." *Id.* at 129. The fact that the Agreement limits Abbott and Costello's ability to use or license specified material (i.e., material created before the agreements) only "in connection with motion pictures," and only for a limited time, plainly indicates the parties' understanding that the team retained ownership of the copyright in their pre-agreement material and granted UPC only a license. See *P.C. Films Corp. v. MGM/UA Home Video Inc.*, 138 F.3d 453, 456 (2d Cir. 1998) (explaining that under 1909 Copyright Act, "transfer of anything less than the totality of rights commanded by copyright was automatically a license rather than an assignment [of] the copyright").

Thus, the language of the July and November Agreements, by itself, clearly belies plaintiffs' claim that Abbott and Costello therein conveyed their common law copyright in the Routine to UPC. That conclusion is reinforced by the very Quitclaim on which plaintiffs' claimed ownership of the Who's on First? copyright depends. To secure the Quitclaim of UPC's interests in the Routine (then held by its successor, Universal), plaintiffs' predecessors-in-interest therein represented that they owned the copyright in the Routine. In short, the parties to the Quitclaim understood Abbott and Costello not to have transferred, but to have retained, ownership of the Routine's copyright.

Accordingly, plaintiffs cannot state a plausible infringement claim based on a 1940 transfer of copyright ownership from Abbott and Costello to UPC in either the July or November Agreement. The record does not support such assignment.^[18]

2. Work Made for Hire

Plaintiffs maintain that, even if the July and November Agreements cannot be construed to have assigned copyrights, they are work-for-hire agreements. They argue that UPC, "[a]s the author under a work-for-hire agreement of the films . . . , properly registered its copyright in these two films with the Copyright Office, and thereafter timely renewed their copyright registrations." Appellants' Br. 9; see *Estate of Bume Hoqarh v. Edgar Rice Burroughs, Inc.*, 342 F.3d 149, 156-57 (2d Cir. 2003) (explaining that, under 1909 Copyright Act, employer was legal author and, therefore, had renewal rights).

The argument is defeated by plaintiffs' own allegation—which we must accept as true—that the Routine was first performed in March 1938, more than two years before Abbott and Costello entered into the July and November Agreements with UPC. See Am. Compl. ¶ 32. Insofar as Abbott and Costello had already performed Who's on First? in 1938, they plainly did not create the Routine at UPC's "instance and expense" in 1940, as would be required for it to be a work-for-hire. *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 554 (2d Cir. 1995) (stating that work is considered "for hire" when made at hiring party's instance and expense, i.e., "when the motivating factor in producing the work was the employer who induced the creation" (internal quotation marks omitted)); see also *Urantia Found. v. Maaherra*, 114 F.3d 955, 961 (9th Cir. 1997) ("An employment (or commissioning) relationship at the time the work is created is a condition for claiming renewal as the proprietor of a work made for hire." (internal quotation marks omitted)).

Plaintiffs seek to avoid this conclusion by noting defendants' (1) concession—at least for purposes of their motion to dismiss—that new material was added to the Routine for Tropics, see *TCA Television Corp. v. McCollum*, 151 F. Supp. 3d at 431; and (2) failure to establish "the contents, language or scope of protectable expression of the 1938 radio broadcast," Appellants' Reply Br. 22. We are not persuaded.

On review of a motion to dismiss, courts must draw all reasonable inferences in plaintiffs' favor. Even applying that principle here, it is not plausible to infer that the Routine, as performed in 1938, did not already contain the initial series of exchanges about a person named "Who" playing first base for the simple reason that there is no Routine without at least that part. Further, because that is the part of the Routine appropriated in *Hand to God*, plaintiffs must plausibly allege a valid copyright in that material, regardless of later additions. Thus, to the extent plaintiffs' copyright claim rests on a theory of work-for-hire, it was their burden to plead facts showing that the appropriated parts of the Routine had not existed in the 1938 iteration of Who's on First?, but were first created for Tropics so as to be covered by the copyright and copyright renewal of that movie. See *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. at 361 (stating that to establish infringement claim, plaintiff must demonstrate, among other things, ownership of valid copyright).

3. Merger of Routine in Motion Pictures

Finally, plaintiffs argue that even if their copyright ownership claim cannot rest on either an assignment or work-for-hire theory, it is plausible because "so much of the Routine as was used in the Movies 'merged' with the Movies to become a 'unitary whole.'" See Appellants' Reply Br. 28. Thus, the Routine was not separately registrable; rather it was protected by UPC's statutory registration and its renewal of the copyrights for movies using the Routine.

This argument also fails because, as this court recently observed, "authors of freestanding works that are incorporated into a film . . . may copyright these 'separate and independent works.'" 16 Casa Duse, LLC v. Merkin, 791 F.3d 247, 259 (2d Cir. 2015) (emphasis added) (quoting 17 U.S.C. § 101); see id. at 257 (noting that separate copyrights may be necessary where motion picture incorporates "separate, freestanding pieces that independently constitute 'works of authorship'"). Who's on First? was such a freestanding work within Tropics. As already noted, plaintiffs acknowledged in the amended complaint that the Routine (1) was prepared and existed on its own for some years before it was performed in Tropics, see Am. Compl. ¶ 32; and (2) was performed independently from the films "thousands of times" on the radio and elsewhere, see id. at ¶¶ 34-35; see also J.A. 129 (stating in November Agreement that "Artists reserve the right to use on the radio and in personal appearances" all preexisting routines). The Quitclaim representation that plaintiffs' predecessors-in-interest still owned the Routine's copyright in 1984 is also at odds with the argument that the Routine had so merged with Tropics as to admit a single copyright owned by UPC.

Neither Garcia v. Google, Inc., 786 F.3d 733 (9th Cir. 2015) (en banc), nor Richlin v. Metro-Goldwyn-Mayer Pictures, Inc., 531 F.3d 982 (9th Cir. 2008), relied on by plaintiffs, is to the contrary. In Garcia, the Ninth Circuit reversed a panel decision holding that an actor's five-second contribution to a movie was sufficiently creative to entitle her to register a copyright in her performance. The en banc court explained that "[t]reating every acting performance as an independent work" would be a "logistical and financial nightmare." Garcia v. Google, Inc., 786 F.3d at 743. This case is not analogous. While the screen actor's performance there was so "integrated into" the filmed work as to be "inseparable from" it, see 16 Casa Duse, LLC v. Merkin, 791 F.3d at 254, Who's on First? is a freestanding comedy routine performed by Abbott and Costello not only years before the first frame of Tropics was ever filmed but also for many years thereafter. Thus, the concerns at issue in Garcia are not present here.

As for Richlin, the Ninth Circuit did not there hold, as plaintiffs contend, that an author is "not entitled to an independent copyright by reason of inclusion of his [story] treatment's material in [a] motion picture." Appellants' Reply Br. 27-28 (emphasis in original). Rather, the court there assumed that plaintiffs' story treatment was independently copyrightable when it held that plaintiffs had "failed to secure a federal copyright for it." Richlin v. Metro-Goldwyn-Mayer Pictures, Inc., 531 F.3d at 976. Thus, the court acknowledged that "publication of a motion picture with notice secures federal statutory copyright protection for all of its component parts," but observed "that does not mean that the component parts necessarily each secure an independent federal statutory copyright." id. at 975-76. The movie's publication protected so much of the treatment as was disclosed therein, but it "did not constitute publication of the Treatment 'as such'—i.e., as a work standing alone." id. at 973.

This reasoning undermines rather than supports plaintiffs' merger theory. The plaintiffs in Richlin "clearly intended" that the treatment "be merged into inseparable or interdependent parts of a unitary whole." id. at 967. That is not this case. As already explained, the Routine was created and performed by Abbott and Costello well before Tropics was filmed, and the team continued to perform it for years after. Indeed, the Agreements' licensing of the Routine's performance in Tropics and The Naughty Nineties contemplated such independent performances. In these circumstances, we conclude that the Routine did not merge into UPC's films so as to avoid the need for its creators to renew the copyright. See 16 Casa Duse, LLC v. Merkin, 791 F.3d at 259.

In sum, because plaintiffs fail plausibly to allege that (1) Abbott and Costello assigned their common law copyright in Who's on First? to UPC; (2) the Routine, as appropriated by defendants in Hand to God, was first created for UPC as a work-for-hire; or (3) the Routine so merged with the UPC movies in which it was performed as to become a unitary whole, we conclude that plaintiffs did not plead their possession of a valid copyright in the Routine, as required to pursue their infringement claim.

Accordingly, even though the district court erred in dismissing plaintiffs' amended complaint based on defendants' fair use of the appropriated material, we affirm dismissal based on plaintiffs' failure plausibly to allege a valid copyright.

III. Conclusion

To summarize, we conclude as follows:

1. Dismissal was not supported by fair use because all four relevant factors weigh in plaintiffs' favor:

- a. Defendants' verbatim use of over a minute of Who's on First? in their commercial production, Hand to God, was not transformative because defendants neither used so much of the Routine for a different purpose nor imbued the original with a different message, meaning, or expression;
- b. Defendants failed persuasively to justify their use of the Routine, as a secondary user who appropriates a creative work without alteration must do;
- c. Defendants' use of some dozen of the Routine's variations of "who's on first" was excessive in relation to any dramatic purpose; and
- d. Plaintiffs allege an active secondary market for the work, which was not considered by the district court.

2. Dismissal is warranted by plaintiffs' failure plausibly to plead ownership of a valid copyright. Their efforts to do so on theories of assignment, work-for-hire, and merger all fail as a matter of law.

Accordingly, the judgment of dismissal is AFFIRMED.

[1] Defendants do not cross-appeal the district court's denial of dismissal on the ground of copyright invalidity; rather, they argue it as an alternative ground for affirmance, even if plaintiffs' fair use challenge prevails. In this opinion, we first address plaintiffs' challenge to the fair use determination supporting dismissal because if we were to identify no error in that ruling there would be no need to consider defendants' proposed alternative ground for affirmance.

[2] In 1999, Time magazine named the Routine the best comedy sketch of the Twentieth Century. See Am. Compl. ¶ 37; Best of the Century, Time, December 31, 1999, at 73.

[3] Viewing the facts in the light most favorable to plaintiffs, the district court discussed in some detail why (1) before Tropics's release, the Routine was protected by common law copyright; and (2) the movie's release could constitute "publication" of the Routine, extinguishing any common law right and requiring registration and deposit with the federal Copyright Office to claim any statutory copyright protection. See TCA Television Corp. v. McCollum, 151 F. Supp. 3d at 427-30.

[4] Plaintiffs' amended complaint cites only the November Agreement with UPC as the relevant contract. See Am. Compl. ¶ 43. By the time that agreement was signed, however, Abbott and Costello presumably had already finished their work on Tropics—including any additions to the Routine reflected in that movie. Thus, it would appear that the team's work on Tropics was pursuant to the July Agreement, discussed supra at I.B.1.a. The discrepancy does not affect our analysis here because, in the district court, defendants conceded that, at least for purposes of their motion to dismiss, the July Agreement had "in effect, been pleaded" by plaintiffs in support of their claim. Sept. 9, 2015 Hr'g Tr. 2-3.

[5] By operation of the Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998), the renewal term for Tropics will not expire until 2035 and that for The Naughty Nineties will not expire until 2040. See 17 U.S.C. § 304(b).

[6] The George Mason University Libraries, in their "Guide to the John C. Becher Soldier Show Collection, 1940-1953," indicates that "Soldier Shows" refers to entertainments "made by soldiers for soldiers," with the object of "mass participation" to raise morale. J.A. 208-09. Because the record here is devoid of any information about either Soldier Shows generally or Soldier Shows, No. 19 in particular, we make no assumptions about the content of the material that is the subject of the 1944 copyright registration.

[7] Bud Abbott died in 1974; Lou Costello died in 1959. See Bud Abbott, Straight Man to Lou Costello, is Dead, N.Y. Times, April 25, 1974, at 42; Lou Costello, 52, Dies on Coast; Comic Had Teamed with Abbott, N.Y. Times, Mar. 4, 1959, at 31.

[8] The Routine is used in the Play as follows:

JASON . . . You wanna see something[?]

JESSICA Ummm.

JASON You'll like it.

JESSICA Yeah?

JASON I think you'll like it.

JESSICA Okay.

JASON Okay.

Jason slicks back his hair. Takes a deep breath and then says. . .

JASON Well Costello, I'm goin' to New York with you. You know Buck Harris the Yankee[s] manager gave me a job as coach as long as you're on the team.

TYRONE Look Abbott, if you're the coach, you must know all the players.

JASON I certainly do.

TYRONE Well I've never met the guys. So you'll have to tell me their names and then I'll know who's playing on the team.

JASON Oh I'll tell you their names, but you know it seems to me they give these ball players now-a-days very particular names.

As he starts he's a little aspergersy. As he goes on he gets more and more comfortable.

TYRONE You mean funny names?

JASON Well let's see we have on the bags, Who's on first, What's on second, I don't know is on third...

TYRONE That's what I want to find out.

JASON I say Who's on first, What's on second, I don't know's on third.

TYRONE Are you the manager?

JASON Yes.

TYRONE You gonna be the coach too?

JASON Yes.

TYRONE And you don't know the fellows' names.

JASON Well I should.

TYRONE Then who's on first?

JASON Yes?

TYRONE I mean the fellow's name.

JASON Who.

TYRONE The guy on first.

JASON Who.

TYRONE The first baseman.

JASON Who.

TYRONE The guy playing . . .

Jason is really into it. Jessica is giggling a bit. But you can imagine him going into it all alone on a Saturday night.

JASON Who is on first.

TYRONE I'm askin[] you who's on first.

JASON That's the man's name.

TYRONE That's whose name.

JASON Yes.

TYRONE Well go ahead and tell me.

JASON That's it.

TYRONE That's who?

JASON Yes.

Jason reaches a pause in the routine and looks out at her. He becomes aware of what he's doing.

JESSICA What are you doing[?] Don't stop.

JASON I . . .

He gets red.

JESSICA What?

JASON I can't remember anymore.

Suppl. App'x 17-21 (emphases added).

[9] The idea that "transformative" purpose could support fair use was put forth by our colleague, Judge Leval, in a seminal article, "Toward a Fair Use Standard." See 103 Harv. L. Rev. 1105, 1111 (1990) ("[T]he question of justification turns primarily on whether, and to what extent, the challenged use is transformative. The use must be productive and must employ the quoted matter in a different manner or for a different purpose from the original. A quotation of copyrighted material that merely repackages or republishes the original is unlikely to pass the test If, on the other hand, the secondary use adds value to the original—if the quoted matter is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings—this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society").

Fair use is not limited to transformative works. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. at 579. But because the only purpose found by the district court and relied on by defendants is the creation of a transformative work, in analyzing this factor, we necessarily focus on whether a finding of transformative purpose could be made as a matter of law on a Rule 12(b)(6) motion.

[10] Even if such commentary is not essential to fair use, it remains the case, even after *Cariou*, that commentary or criticism on another's work is "[a]mong the best recognized justifications for copying" because such commentary or criticism is in the public interest and frequently requires quoting the copyrighted work to be effective. *Authors Guild v. Google, Inc.*, 804 F.3d at 215; see *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. at 580-81 (explaining that if new work "has no critical bearing on the substance or style of the original composition . . . the claim to fairness in borrowing from another's work diminishes accordingly (if it does not vanish), and other factors, like the extent of its commerciality, loom larger"). Hand to God may be a "critique of the social norms governing a small town in the Bible Belt," *TCA Television Corp. v. McCollum*, 161 F. Supp. 3d at 436, but defendants have not argued that it is a commentary or criticism of Who's on First?. Thus, such transformative purposes do not justify defendants' challenged use here.

[11] In *Swatch Group Management Services Ltd. v. Bloomberg L.P.*, 756 F.3d 73 (2d Cir. 2014), we stated in dictum that "a secondary work can be transformative in function or purpose without altering or actually adding to the original work." *Id.* at 84 (internal quotation marks omitted). But that statement must be read in context. We were there discussing the fair use of data, not the creation of new artistic work as in *Cariou*. In the former context, we recognized that "the need to convey information to the public accurately may in some instances make it desirable and consonant with copyright law for a defendant to faithfully reproduce an original work without alteration." *Id.* That is not this case. Defendants used a verbatim portion of Who's on First? in *Hand to God*. The unaltered use of such creative material within another creative work has a weaker claim to fair use protection. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. at 579; *Cariou v. Prince*, 714 F.3d at 706; see also *Nimmer* § 13.05[A][a], at 13-187 (recognizing that "scope of fair use is greater when informational type works, as opposed to more creative products[,] are involved" because there is "greater license to use portions" of "work more of diligence than of originality or inventiveness" (internal quotation marks omitted)). For such an appropriation to be deemed "fair use," the new creative work must either use the copyrighted work for a different purpose or imbue it with a different character, so as to alter the expression, meaning, or message of the original.

[12] See 3 Oxford English Dictionary Additions Series 285 (1997) (defining "McGuffin" as "particular event, object, factor, etc., which . . . acts as the impetus for the sequence of events depicted, although often proving tangential to the plot it develops"); see also Merriam-Webster's Collegiate Dictionary 744 (11th ed. 2003) (defining "McGuffin" as "object, event, or character in film or story that serves to set and keep the plot in motion despite usu[ally] lacking intrinsic importance").

[13] We note that even a correct finding of transformative use is not necessarily determinative of the first statutory factor, much less of fair use. See *Authors Guild v. Google, Inc.*, 804 F.3d at 218; Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. at 1111 (recognizing that "existence of . . . transformative objective does not . . . guarantee success in claiming fair use" because "transformative justification must overcome factors favoring the copyright owner").

[14] This court has sometimes assigned little weight to the commercial nature of a secondary use even absent a transformative purpose. See, e.g., *Castle Rock Entmt., Inc. v. Carol Pub'n Grp., Inc.*, 150 F.3d 132, 142 (2d Cir. 1998). But where, as here, defendants justify their use solely by reference to a transformative purpose, commercialism cannot automatically be discounted absent a finding of such purpose. See *Blanch v. Koons*, 467 F.3d at 254 (discounting commercial nature of secondary use only because new work was substantially transformative).

[15] Because both parties seemingly concede that the Routine was protected from entering the public domain through at least *Tropics*'s initial copyright term, we need not determine whether *Tropics*'s publication automatically divested Abbott and Costello of their common law copyright and injected it into the public domain. See *Roy Export Co. Establishment of Veduz, Liechtenstein v. Columbia Broad. Sys., Inc.*, 672 F.2d 1095, 1101-02 (2d Cir. 1982).

[16] Plaintiffs acknowledged as much in the district court when they argued that the agreements' language "represented a clear grant of rights to UPC in all previous acts and routines created by Abbott and Costello . . . if used in any motion pictures produced by UPC in which Abbott & Costello provided their services." *Pls.' Mem. Opp. Mot. Dismiss at 7*, *TCA Television Corp. v. McCollum*, No. 15-cv-4325 (GBD), ECF No. 61 (emphasis added).

[17] See *supra* p. 7 (quoting relevant sentence in July Agreement in full).

[18] Because the agreements cannot be construed to effect an assignment of the Routine's copyright to UPC, we need not decide whether they further conveyed the Routine's renewal rights. See *Corcovado Music Corp. v. Hollis Music, Inc.*, 981 F.2d 679, 684 (2d Cir. 1993) (recognizing strong presumption against conveyance of renewal rights).

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Only the Westlaw citation is currently available.

United States Court of Appeals,
 Seventh Circuit.
 Leslie S. KLINGER, Plaintiff–Appellee,
 v.
 CONAN DOYLE ESTATE, LTD., Defend-
 ant–Appellant.

No. 14–1128.
 Argued May 22, 2014.
 Decided June 16, 2014.

Background: Editor of anthology of stories written by modern authors inspired by Sherlock Holmes character brought action against author's estate seeking declaratory judgment that he was free to use material in Sherlock Holmes stories and novels that were no longer under copyright. After estate defaulted, the United States District Court for the Northern District of Illinois, Rubén Castillo, Chief Judge, 2013 WL 6824923, entered summary judgment in editor's favor, and estate appealed.

Holdings: The Court of Appeals, Posner, Circuit Judge, held that:

- (1) actual controversy existed, and
- (2) editor was free to use material in Sherlock Holmes stories and novels that were no longer under copyright.

Affirmed.

West Headnotes

[1] Declaratory Judgment 118A 236

118A Declaratory Judgment

118AII Subjects of Declaratory Relief

118AII(M) Copyrights

118Ak236 k. In General. Most Cited Cases

Actual controversy existed in action by editor of anthology of stories written by modern authors inspired by Sherlock Holmes character against author's estate seeking declaratory judgment that he was free to use material in Sherlock Holmes stories and novels that were no longer under copyright, and thus federal courts had jurisdiction over action, even though anthology had not yet been completed or published, where estate had threatened to block anthology's distribution by major retailers and to sue for copyright infringement if editor did not pay licensing fee, publisher was unwilling to publish anthology without license, and case presented only question of law. U.S.C.A. Const.Art. 3, § 2, cl. 1; 28 U.S.C.A. § 2201(a).

[2] Copyrights and Intellectual Property 99 33

99 Copyrights and Intellectual Property

99I Copyrights

99I(A) Nature and Subject Matter

99k33 k. Duration. Most Cited Cases

Copyrights and Intellectual Property 99 38

99 Copyrights and Intellectual Property

99I Copyrights

99I(B) Scope

99k35 Scope of Exclusive Rights; Limitations

99k38 k. Distinct Portions of Work; Compilations and Derivative Works. Most Cited Cases

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Editor of anthology of stories written by modern authors inspired by Sherlock Holmes character was free to use material in Sherlock Holmes stories and novels that were no longer under copyright, even though author's ten last Sherlock Holmes stories remained under copyright protection, where stories under copyright were derivative from earlier stories, and only incrementally added to character's development.

[3] Copyrights and Intellectual Property 99 ↪33

99 Copyrights and Intellectual Property

99I Copyrights

99I(A) Nature and Subject Matter

99k33 k. Duration. Most Cited Cases

When story falls into public domain, story elements, including characters covered by expired copyright, become fair game for follow-on authors.

[4] Copyrights and Intellectual Property 99 ↪38

99 Copyrights and Intellectual Property

99I Copyrights

99I(B) Scope

99k35 Scope of Exclusive Rights; Limitations

99k38 k. Distinct Portions of Work; Compilations and Derivative Works. Most Cited Cases

Freedom to make new works based on public domain materials ends where resulting derivative work comes into conflict with valid copyright.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division. No. 13 C 1226—Rubén Castillo, Chief Judge. Jonathan L. Kirsch, Law Offices of Jonathan Kirsch, PC, Los Angeles, CA. John A. Leja, Scott M. Gilbert, Polsi-

nelli PC, Chicago, IL, for Plaintiff–Appellee.

Benjamin Allison, Sutin Thayer & Brown, Santa Fe, NM, William Frederick Zieske, Zieske Law–Fine Arts Legal, Woodstock, IL, for Defendant–Appellant.

Before POSNER, FLAUM, and MANION, Circuit Judges.

POSNER, Circuit Judge.

*1 Arthur Conan Doyle published his first Sherlock Holmes story in 1887 and his last in 1927. There were 56 stories in all, plus 4 novels. The final 10 stories were published between 1923 and 1927. As a result of statutory extensions of copyright protection culminating in the 1998 Copyright Term Extension Act, the American copyrights on those final stories (copyrights owned by Doyle's estate, the appellant) will not expire until 95 years after the date of original publication—between 2018 to 2022, depending on the original publication date of each story. The copyrights on the other 46 stories and the 4 novels, all being works published before 1923, have expired as a result of a series of copyright statutes well described in *Societe Civile Succession Gumo v. Renov*, 549 F.3d 1182, 1189–90 (9th Cir.2008).

Once the copyright on a work expires, the work becomes a part of the public domain and can be copied and sold without need to obtain a license from the holder of the expired copyright. Leslie Klinger, the appellee in this case, co-edited an anthology called *A Study in Sherlock: Stories Inspired by the Sherlock Holmes Canon* (2011)—“canon” referring to the 60 stories and novels written by Arthur Conan Doyle, as opposed to later works, by other writers, featuring characters who had appeared in the canonical works. Klinger's anthology consisted of stories written by modern authors but inspired by, and in most instances depicting, the genius detective Sherlock Holmes and his awed sidekick Dr. Watson. Klinger didn't think he needed a license from the Doyle estate to publish these

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stories, since the copyrights on most of the works in the “canon” had expired. But the estate told Random House, which had agreed to publish Klinger’s book, that it would have to pay the estate \$5000 for a copyright license. Random House bowed to the demand, obtained the license, and published the book.

Klinger and his co-editor decided to create a sequel to *A Study in Sherlock*, to be called *In the Company of Sherlock Holmes*. They entered into negotiations with Pegasus Books for the publication of the book and W.W. Norton & Company for distribution of it to booksellers. Although the editors hadn’t finished the book, the companies could estimate its likely commercial success from the success of its predecessor, and thus decide in advance whether to publish and distribute it. But the Doyle estate learned of the project and told Pegasus, as it had told Random House, that Pegasus would have to obtain a license from the estate in order to be legally authorized to publish the new book. The estate didn’t threaten to sue Pegasus for copyright infringement if the publisher didn’t obtain a license, but did threaten to prevent distribution of the book. It did not mince words. It told Pegasus: “If you proceed instead to bring out *Study in Sherlock II* [the original title of *In the Company of Sherlock Holmes*] unlicensed, do not expect to see it offered for sale by Amazon, Barnes & Noble, and similar retailers. We work with those compan[ies] routinely to weed out unlicensed uses of Sherlock Holmes from their offerings, and will not hesitate to do so with your book as well.” There was also a latent threat to sue Pegasus for copyright infringement if it published Klinger’s book without a license, and to sue Internet service providers who distributed it. See Digital Millennium Copyright Act, 17 U.S.C. § 512(i)(1)(A). Pegasus yielded to the threat, as Random House had done, and refused to publish *In the Company of Sherlock Holmes* unless and until Klinger obtained a license from the Doyle estate.

*2 Instead of obtaining a license, Klinger sued the estate, seeking a declaratory judgment that he is free to

use material in the 50 Sherlock Holmes stories and novels that are no longer under copyright, though he may use nothing in the 10 stories still under copyright that has sufficient originality to be copyrightable—which means: at least a tiny bit of originality, *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 345, 111 S.Ct. 1282, 113 L.Ed.2d 358 (1991) (“at least some minimal degree of creativity ... the requisite level of creativity is extremely low”); *CDN Inc. v. Rapex*, 197 F.3d 1256, 1257, 1259–60 (9th Cir.1999).

The estate defaulted by failing to appear or to respond to Klinger’s complaint, but that didn’t end the case. Klinger wanted his declaratory judgment. The district judge gave him leave to file a motion for summary judgment, and he did so, and the Doyle estate responded in a brief that made the same arguments for enlarged copyright protection that it makes in this appeal. The judge granted Klinger’s motion for summary judgment and issued the declaratory judgment Klinger had asked for, thus precipitating the estate’s appeal.

The appeal challenges the judgment on two alternative grounds. The first is that the district court had no subject-matter jurisdiction because there is no actual case or controversy between the parties. The second ground is that if there is jurisdiction, the estate is entitled to judgment on the merits, because, it argues, copyright on a “complex” character in a story, such as Sherlock Holmes or Dr. Watson, whose full complexity is not revealed until a later story, remains under copyright until the later story falls into the public domain. The estate argues that the fact that early stories in which Holmes or Watson appeared are already in the public domain does not permit their less than fully “complexified” characters in the early stories to be copied even though the stories themselves are in the public domain.

But jurisdiction first. Article III of the Constitution limits the jurisdiction of federal courts to cases or

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controversies (terms that appear to be synonyms), which is to say to actual legal disputes. It would be very nice to be able to ask federal judges for legal advice—if I do thus and so, will I be subject to being sued and if I am sued am I likely to lose and have to pay money or even clapped in jail? But that would be advisory jurisdiction, which, though it exists in some states and foreign countries, see, e.g., Nicolas Marie Kublicki, “An Overview of the French Legal System From an American Perspective,” 12 *Boston University Int'l L.J.* 57, 66, 78–79 (1994), is both inconsistent with Article III’s limitation of federal jurisdiction to actual disputes, thus excluding jurisdiction over merely potential ones, and would swamp the federal courts given these courts’ current caseload, either leaving the judges little if any time for adjudicating disputes or requiring that judges’ staffs be greatly enlarged.

*3 [1] So no advisory opinions in federal courts. Declaratory judgments are permitted but are limited—also to avoid transgressing Article III—to “case[s] of actual controversy,” 28 U.S.C. § 2201(a), that is, actual legal disputes. Had Klinger had no idea how the Doyle estate would react to the publication of *In the Company of Sherlock Holmes*, he could not have sought a declaratory judgment, because he would not have been able to demonstrate that there was an actual dispute. He could seek advice, but not from a federal judge. But the Doyle estate had made clear that if Klinger succeeded in getting his book published the estate would try to prevent it from being sold by asking Amazon and the other big book retailers not to carry it, implicitly threatening to sue the publisher, as well as Klinger and his co-editor, for copyright infringement if they defied its threat. The twin threats—to block the distribution of the book by major retailers and to sue for copyright infringement—created an actual rather than merely a potential controversy. This is further shown by the fact that Klinger could have sued the estate for having committed tortious interference with advantageous business relations by intimidating his publisher.

So he’s been injured and seeks a judicial declaration that the conduct by the Doyle estate that caused the injury violated his legal rights because the threat was based on a groundless copyright claim. Only if Klinger obtains the declaration will he be able to publish his book without having to yield to what he considers extortion.

Compare the more common example of a suit by an insurance company seeking a judicial declaration that it has no obligation to defend or indemnify its insured. The company prefers to seek declaratory relief rather than waiting to be sued by the insured and defending against the suit because if it lost that suit it might be ordered to pay punitive damages. This case is similar. Klinger doesn’t want to publish his book before his controversy with the Doyle estate is resolved, for if he does he’ll be facing the prospect not only of being enjoined from selling the book but also of having to pay damages if the estate sues him for copyright infringement and wins. Even if the book’s sales turn out to be modest, and actual damages (as measured by losses of sales by competing editions licensed by the estate) therefore small, the estate would be entitled, for each copyrighted work infringed, to up to \$30,000 in statutory damages and up to \$150,000 if the court determined that Klinger had infringed the estate’s copyrights willfully. 17 U.S.C. §§ 504(c)(1), (2). Anyway he *can’t* publish his book; his publisher is unwilling to take a chance on publishing it, given the estate’s threat to impede distribution. And to be effective and thus harm the person seeking declaratory relief, a threat need not be a threat to sue. See, e.g., *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 132, 127 S.Ct. 764, 166 L.Ed.2d 604 (2007).

*4 The estate argues that Klinger’s suit is premature (“unripe” in legal jargon), and therefore not yet an actual controversy and so not within the jurisdiction of the federal courts, for until the book is completed (and thus can be read), how is one to decide whether it infringes? That would be a good argument in many

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cases but not in the present one, because the only issue presented by Klinger's quest for a declaratory judgment is one of law: whether he is free to copy the characters of Holmes and Watson as they are depicted in the stories and novels of Arthur Conan Doyle that are in the public domain. To answer that question requires no knowledge of the contents of the book. A different question is whether the book will infringe the estate's unexpired copyrights, and to answer *that* question would require knowledge of the contents. But that question is not presented by this suit. Klinger avers that his book will contain no original and therefore copyrightable material that appears only in the last ten stories, which are still under copyright, but only material that appears in the public-domain works. If he's lying, the estate will have a remedy when the book is published. To require him to defer suit until he finishes the book would gratuitously discourage declaratory-judgment suits by authors and publishers threatened with suits for copyright infringement or with boycotts by distributors—and so would discourage authors from ever writing such works in the first place.

There is still another jurisdictional wrinkle. Apparently because of a mislabeling of certain exhibits, the district judge was under the impression that Klinger's suit was challenging the copyrights on the ten stories published after 1922, and so he denied summary judgment insofar as those stories were concerned. That makes it seem as if there were no final judgment in the district court, in which event we would not have jurisdiction of the appeal, as there is no suggestion that there is any basis for an interlocutory appeal. The plaintiff claims, however, not to be challenging the copyrights on the last ten stories. And the claim is correct, for he acknowledges that those copyrights are valid and that the only copying he wants to include in his book is copying of the Holmes and Watson characters as they appear in the earlier stories and in the novels. The summary judgment ruling on the last ten stories was a mistake, and can be ignored. Nothing remains in the district court. The

declaratory judgment issued by the district judge, limited entirely to the earlier works, ended the litigation in that court.

So the judge was right to assert (and retain) jurisdiction over the case, and we come to the merits, where the issue as we said is whether copyright protection of a fictional character can be extended beyond the expiration of the copyright on it because the author altered the character in a subsequent work. In such a case, the Doyle estate contends, the original character cannot lawfully be copied without a license from the writer until the copyright on the later work, in which that character appears in a different form, expires.

*5 [2][3] We cannot find any basis in statute or case law for extending a copyright beyond its expiration. When a story falls into the public domain, story elements-including characters covered by the expired copyright-become fair game for follow-on authors, as held in *Silverman v. CBS Inc.*, 870 F.2d 40, 49–51 (2d Cir.1989), a case much like this one. At issue was the right to copy fictional characters (Amos and Andy) who had appeared in copyrighted radio scripts. The copyrights covered the characters because they were original. As in this case the characters also appeared in subsequent radio scripts that remained under copyright, though the copyrights on the original scripts in which the characters had appeared had expired. The court ruled that “a copyright affords protection only for original works of authorship and, consequently, copyrights in derivative works secure protection only for the incremental additions of originality contributed by the authors of the derivative works.” *Id.* at 49; see Leslie A. Kurtz, “The Methuselah Factor: When Characters Outlive Their Copyrights,” 11 *U. Miami Entertainment & Sports L.Rev.* 437, 447–48 (1994). The copyrights on the derivative works, corresponding to the copyrights on the ten last Sherlock Holmes stories, were not extended by virtue of the incremental additions of originality in the derivative works.

[4] And so it is in our case. The ten

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Holmes–Watson stories in which copyright persists are derivative from the earlier stories, so only original elements added in the later stories remain protected. *Id.* at 49–50. The “freedom to make new works based on public domain materials ends where the resulting derivative work comes into conflict with a valid copyright.” *Warner Bros. Entertainment, Inc. v. X One X Productions*, 644 F.3d 584, 596 (8th Cir.2011)—as Klinger acknowledges. But there is no such conflict in this case.

Lacking any ground known to American law for asserting post-expiration copyright protection of Holmes and Watson in pre–1923 stories and novels going back to 1887, the estate argues that creativity will be discouraged if we don’t allow such an extension. It may take a long time for an author to perfect a character or other expressive element that first appeared in his early work. If he loses copyright on the original character, his incentive to improve the character in future work may be diminished because he’ll be competing with copiers, such as the authors whom Klinger wishes to anthologize. Of course this point has no application to the present case, Arthur Conan Doyle having died 84 years ago. More important, extending copyright protection is a two-edged sword from the standpoint of inducing creativity, as it would reduce the incentive of subsequent authors to create derivative works (such as new versions of popular fictional characters like Holmes and Watson) by shrinking the public domain. For the longer the copyright term is, the less public-domain material there will be and so the greater will be the cost of authorship, because authors will have to obtain licenses from copyright holders for more material—as illustrated by the estate’s demand in this case for a license fee from Pegasus.

*6 Most copyrighted works include some, and often a great deal of, public domain material—words, phrases, data, entire sentences, quoted material, and so forth. The smaller the public domain, the more work is involved in the creation of a new work. The defend-

ant’s proposed rule would also encourage authors to continue to write stories involving old characters in an effort to prolong copyright protection, rather than encouraging them to create stories with entirely new characters. The effect would be to discourage creativity.

The estate offers the hypothetical example of a mural that is first sketched and only later completed by being carefully painted. If the sketch is allowed to enter the public domain, there to be improved by creative copiers, the mural artist will have a diminished incentive to perfect his mural. True; but other artists will have a greater incentive to improve it, or to create other works inspired by it, because they won’t have to pay a license fee to do so provided that the copyright on the original work has expired.

The estate asks us to distinguish between “flat” and “round” fictional characters, potentially a sharper distinction than the other one it urges (as we noted at the beginning of this opinion), which is between simple and complex. Repeatedly at the oral argument the estate’s lawyer dramatized the concept of a “round” character by describing large circles with his arms. And the additional details about Holmes and Watson in the ten late stories do indeed make for a more “rounded,” in the sense of a fuller, portrayal of these characters. In much the same way we learn things about Sir John Falstaff in *Henry IV, Part 2*, in *Henry V* (though he doesn’t actually appear in that play but is merely discussed in it), and in *The Merry Wives of Windsor*, that were not remarked in his first appearance, in *Henry IV, Part 1*. Notice also that *Henry V*, in which Falstaff is reported as dying, precedes *The Merry Wives*, in which he is very much alive. Likewise the ten last Sherlock Holmes stories all are set before 1914, which was the last year in which the other stories were set. One of the ten, *The Adventure of the Veiled Lodger* (published in 1927), is set in 1896. See 2 William S. Baring–Gould, *The Annotated Sherlock Holmes* 453 (1967). Thus a more rounded Holmes or Watson (or Falstaff) is found in a later

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work depicting a younger person. We don't see how that can justify extending the expired copyright on the flatter character. A contemporary example is the six *Star Wars* movies: Episodes IV, V, and VI were produced before I, II, and III. The Doyle estate would presumably argue that the copyrights on the characters as portrayed in IV, V, and VI will not expire until the copyrights on I, II, and III expire.

The estate defines “flat” characters oddly, as ones completely and finally described in the first works in which they appear. Flat characters thus don't evolve. Round characters do; Holmes and Watson, the estate argues, were not fully rounded off until the last story written by Doyle. What this has to do with copyright law eludes us. There are the early Holmes and Watson stories, and the late ones, and features of Holmes and Watson are depicted in the late stories that are not found in the early ones (though as we noted in the preceding paragraph some of those features are retrofitted to the earlier depictions). Only in the late stories for example do we learn that Holmes's attitude toward dogs has changed—he has grown to like them—and that Watson has been married twice. These additional features, being (we may assume) “original” in the generous sense that the word bears in copyright law, are protected by the unexpired copyrights on the late stories. But Klinger wants just to copy the Holmes and the Watson of the early stories, the stories no longer under copyright. The Doyle estate tells us that “no workable standard exists to protect the Ten Stories' incremental character development apart from protecting the completed characters.” But that would be true only if the early and the late Holmes, and the early and the late Watson, were indistinguishable—and in that case there would be no incremental originality to justify copyright protection of the “rounded” characters (more precisely the features that makes them “rounder,” as distinct from the features they share with their earlier embodiments) in the later works.

*7 It's not unusual for an author to use the same character in successive works, yet with differences

resulting, in the simplest case, just from aging. In Shakespeare's two *Henry IV* plays, the Henry who later becomes Henry V is the Prince of Wales, hence Crown Prince of England; in *Henry V* he is the King of England. Were *Henry IV* in the public domain and *Henry V* under copyright, Henry Prince of Wales could be copied without Shakespeare's permission but not Henry V. Could the Doyle estate doubt this? Could it think Holmes a more complex and altered character than Henry?

The more vague, the less “complete,” a character, the less likely it is to qualify for copyright protection. An author “could not copyright a character described merely as an unexpectedly knowledgeable old wino,” but could copyright “a character that has a specific name and a specific appearance. Cogliostro's age, obviously phony title (‘Count’), what he knows and says, his name, and his faintly Mosaic facial features combine to create a distinctive character. No more is required for a character copyright.” *Gaman v. McFarlane*, 360 F.3d 644, 660 (7th Cir.2004); see also *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir.1930) (L.Hand, J.). From the outset of the series of Arthur Conan Doyle stories and novels that began in 1887 Holmes and Watson were distinctive characters and therefore copyrightable. They were “incomplete” only in the sense that Doyle might want to (and later did) add additional features to their portrayals. The resulting somewhat altered characters were derivative works, the additional features of which that were added in the ten late stories being protected by the copyrights on those stories. The alterations do not revive the expired copyrights on the original characters.

We can imagine the Doyle estate being concerned that a modern author might write a story in which Sherlock Holmes was disparaged (perhaps by being depicted as a drug dealer—he was of course a cocaine user—or as an idiot detective like Inspector Clouseau of the *Pink Panther* movies), and that someone who read the story might be deterred from reading Doyle's

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Sherlock Holmes stories because he would realize that he couldn't read them without puzzling confusedly over the "true" character of Sherlock Holmes. The analogy would be to trademark dilution, see, e.g., *Hyatt Corp. v. Hyatt Legal Services*, 736 F.2d 1153, 1157–59 (7th Cir.1984), as if a hot-dog stand advertised itself as "The Rolls–Royce Hot–Dog Stand." No one would be confused as to origin—Rolls-Royce obviously would not be the owner. Its concern would be that its brand would be diminished by being linked in people's involuntary imagination to a hot-dog stand, when they thought "Rolls–Royce," they would see the car and the hot-dog stand—an anomalous juxtaposition of high and low. There is no comparable doctrine of copyright law; parodies or burlesques of copyrighted works may or may not be deemed infringing, depending on circumstances, see *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 580–81 and n. 14, 588, 591, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994), but there is no copyright infringement of a story or character that is not under copyright. Anyway it appears that the Doyle estate is concerned not with specific alterations in the depiction of Holmes or Watson in Holmes–Watson stories written by authors other than Arthur Conan Doyle, but with *any* such story that is published without payment to the estate of a licensing fee.

*8 With the net effect on creativity of extending the copyright protection of literary characters to the extraordinary lengths urged by the estate so uncertain, and no legal grounds suggested for extending copyright protection beyond the limits fixed by Congress, the estate's appeal borders on the quixotic. The spectre of perpetual, or at least nearly perpetual, copyright (perpetual copyright would violate the copyright clause of the Constitution, Art. I, § 8, cl. 8, which authorizes copyright protection only for "limited Times") looms, once one realizes that the Doyle estate is seeking 135 years (1887–2022) of copyright protection for the character of Sherlock Holmes as depicted in the first Sherlock Holmes story.

AFFIRMED.

C.A.7 (Ill.),2014.

Klinger v. Conan Doyle Estate, Ltd.

--- F.3d ---, 2014 WL 2726187 (C.A.7 (Ill.))

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