X. Copyright's Relationship to Contract and Other State Laws

In this chapter, you will learn about copyright's relationship to contract law and other state laws. First, we will study the particular rules and concerns surrounding the formation and interpretation of contracts governing copyright rights. Then, we will investigate what happens when people agree, via contract, to not engage in behavior that copyright law permits them to do (such as fair uses). We will also study whether certain contracting or other behavior by a copyright holder known as **copyright misuse** can lead to the unenforceability of the copyright against others. Finally, we will examine the circumstances in which copyright law preempts the enforcement of contracts. This introduction to copyright **preemption** provides a window to assess the viability of other state laws that abut copyright law.

A. Forming and Interpreting Contracts in Copyright

In this section, you'll learn about the basic rules that govern contracts and licenses involving copyrights. Then, you'll explore tools for interpreting contractual language in these agreements.

Copyright law allows authors to transfer their copyrights in whole or in part. Section 201(d) of the Copyright Act specifies:

> ***(d) Transfer of Ownership.—***
>
> *(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.*
>
> *(2) Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.*

Recognize that § 201(d)(2) provides that each right in the bundle of copyright rights conferred by § 106 may be transferred and owned separately. A "transfer of copyright ownership" is broadly defined in § 101:

> *A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.*

Note that a transfer of copyright ownership does not include a nonexclusive license. Why do you think that is? More broadly, as a matter of copyright policy, is it a good idea to allow authors to transfer their copyright interests, or would it be better to require authors to retain control of their copyright interests? Does the free alienability of copyright rights tell you anything about copyright law's purposes?

Section 204(a) specifies how to execute a valid transfer of copyright:

> *A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.*

Note the three requirements for the transfer, other than by operation of law, to be valid: (1) a writing, (2) signed, (3) by the owner or the owner's duly authorized agent. The writing need not be signed by the transferee. Nor need it contain any magic words; it is necessary only that the writing give evidence of the transferor's intent to transfer the copyright interest. As the Ninth Circuit has explained, "[s]ection 204's writing requirement not only protects authors from fraudulent claims" much like a statute of frauds, but it "also enhances predictability and certainty of ownership." Konigsberg Int'l Inc. v. Rice, 16 F.3d 355, 357 (9th Cir. 1994).

While courts have been consistent with respect to the required content of the writing, they have divided over the question of the writing's timing—in particular, whether the writing must be contemporaneous with the transfer or can instead later memorialize an earlier transfer. *Compare, e.g.*, *id.* (requiring a contemporaneous writing for a copyright transfer to be valid), *with, e.g.*, Barefoot Architect, Inc. v. Bunge, 632 F.3d 822 (3d Cir. 2011) ("Under the statute's plain terms it is clear that an oral transfer can be given legal effect by a subsequent signed writing.").

Recall from Chapter IV that transfers of copyright ownership can be recorded with the Copyright Office. *See* 17 U.S.C. § 205. So long as the document specifically identifies the work and the work has been registered, the recordation serves as "constructive notice of the facts stated in the recorded document." *Id.* § 205(c). An unrecorded transfer is void against a subsequent bona fide purchaser for value who records first. *Id.* § 205(d). What do you think are the policy interests underlying the recordation provisions of the Copyright Act? Why might it be helpful to have the Copyright Office record transfers?

Given that nonexclusive licenses are deemed not to be transfers of copyright ownership, such licenses can be effective even without a writing—that is, they can be created orally or implied through conduct. As you read the following case, consider when the law ought to infer an implied nonexclusive license from the parties' behavior. In such situations, how should a court infer the license's specific terms?

Asset Marketing Systems, Inc. v. Kevin Gagnon

542 F.3d 748 (9th Cir. 2008)

M. SMITH, J.: …

[1] AMS [(Asset Marketing Systems, Inc.)] is a field marketing organization offering sales and marketing support to insurance marketing entities. From May 1999 to September 2003, [Kevin] Gagnon [doing business as Mister Computer] was an at-will, independent contractor for AMS, hired to assist with its information technology needs. Subsequently, Gagnon was asked to develop custom software for AMS. AMS was Gagnon's largest client, accounting for 98% of his business. Jay Akerstein, a partner at AMS who later became the Chief Operating Officer, was Gagnon's primary contact. Over the course of their four-year relationship, AMS paid Gagnon over $2 million, $250,000 of which was for custom software development and computer classes. Gagnon developed six computer programs for AMS.

[2] In May 2000, AMS and Gagnon entered a Technical Services Agreement (TSA), which was scheduled to expire on April 30, 2001. The TSA, printed on Mister Computer letterhead, set forth Gagnon's fees and the services to be provided. The services included "Custom Application Programming—Consultant will provide Contractor with specific add-on products to enhance Contractor's current in-house database application," and mentioned nothing about a license. The TSA was not renewed, though the relationship continued.

[3] AMS claims that on June 12, 2002, Gagnon signed a Vendor Nondisclosure Agreement (NDA). The NDA would have given AMS ownership of all intellectual property developed for AMS by Gagnon. Gagnon claims that the document is a forgery and that his signature cannot be authenticated.

[4] In June 2003, Gagnon proposed that AMS execute an Outside Vendor Agreement (OVA). The OVA included a Proprietary Rights clause providing:

> *Client agrees that all designs, plans, specifications, drawings, inventions, processes, and other information or items produced by Contractor while performing services under this agreement will be the property of Contractor and will be licensed to Client on a non-exclusive basis as will any copyrights, patents, or trademarks obtained by Contractor while performing services under this agreement. On request and at Contractor's expense, Client agrees to help Contractor obtain patents and copyrights for any new developments. This includes providing data, plans, specifications, descriptions, documentation, and other information, as well as assisting Contractor in completing any required application or registration. Any source code or intellectual property will remain the property of Contractor. Trademarks, service marks, or any items identifying said Company shall remain the Company's said property. Contractor will allow Company non exclusive, unlimited licensing of software developed for Company.*

[5] Akerstein declined to execute the OVA, but countered with a redlined version of the OVA, which substantially rewrote the Proprietary Rights clause to read:

> *Contractor agrees that all designs, plans, specifications, drawings, inventions, processes, and other information or items produced by Contractor while performing services under this agreement will be the sole property of Client. Any source code or intellectual property agreed to and documented as Contractor's will remain the property of Contractor.*

[6] By the end of June 2003, AMS had decided to terminate Gagnon's services. AMS extended an employment offer to Gagnon, but he declined to accept the offer. AMS and Gagnon then discussed an exit strategy, and by late July, the parties had set a target exit date of September 15, 2003.

[7] In August 2003, Gagnon responded to Akerstein's redlined OVA draft with a letter asserting that his "position has always been that Asset Marketing Systems shall be entitled to unlimited software licensing as long as my company had a business relationship with Asset Marketing Systems." The parties never executed the OVA.

[8] In a letter to AMS dated September 18, 2003, Gagnon demanded $1.75 million for AMS to have the right to continue to use the programs and $2 million for Gagnon's agreement not to sell or disclose the programs to AMS's competitors.

[9] In a letter dated September 23, 2003, AMS terminated its relationship with Gagnon. According to AMS, a consultant identified numerous problems with Gagnon's work. It also stated:

> *Recently, we had discussed employee and intellectual property issues which have yet to be resolved. Despite the foregoing, I learned that we did not have copies of the source code for the software we developed and that copies of our SalesLogix software and our entire database may be maintained by you and your agents offsite.*

[10] The letter then demanded:

> *In connection with that separation, you must immediately provide any and all copies of the source code for all software developed by and on behalf of Asset Marketing Systems immediately. You are not authorized to utilize that software which we believe is owned and all copyrights belong to Asset Marketing Systems….*

[11] Specifically at issue are the six programs that Gagnon created for AMS. He included a copyright notice, "copyright Mister Computer," in the splash screens for each program.

[12] According to a declaration by one of Gagnon's former employees, the programs were designed to work with AMS's databases and included "detailed information concerning AMS' network of sales persons, including information related to AMS' agent lists, their territories, and the criteria used by AMS to qualify an agent or create a territory." The source code for these programs was installed on several of AMS's development computers, which were located at AMS's facilities.[2] The employee was not instructed by Gagnon to maintain the source code at any location other than AMS, and Gagnon made no attempt to hide the source code from AMS employees.

[13] In his deposition, Gagnon admitted that after he hired employees, the source code was stored on AMS computers in the development room. The room could not be accessed without a pass that Gagnon's software developers and a few key AMS personnel, including Akerstein, possessed….

[14] A week prior to his termination, Gagnon registered the copyright for these six programs with the United States Copyright Office….

[15] …. [In an ensuing suit for copyright infringement, t]he court found that Gagnon had granted AMS an implied, nonexclusive license to use, modify, and retain the source code of the programs….

[16] Gagnon alleges that AMS's continued use of the six programs constitutes copyright infringement because the programs were used by AMS without its obtaining a license or Gagnon's permission. AMS asserts three defenses to Gagnon's copyright infringement claim: an implied license, a transfer of copyright ownership via the NDA, and 17 U.S.C. § 117. We hold that AMS has an implied unlimited license for the programs, and we do not reach the other defenses asserted by AMS.

[17] Though exclusive licenses must be in writing, grants of nonexclusive licenses need not be in writing, and may be granted orally or by implication….

[18] … [W]e have held that an implied license is granted when (1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee-requestor copy and distribute his work…. The last prong of the … test, however, is not limited to copying and distribution; instead we look at the protected right at issue—here, whether Gagnon intended that AMS use, retain, and modify the programs.

1. AMS Requested the Creation of the Programs

[19] Gagnon argues that AMS never specifically requested that he create the programs, but rather relayed its needs to Mr. Gagnon and he satisfied them by providing either computer hardware or computer software at his discretion. We find this interpretation of "request" to be strained. Gagnon did not create the programs on his own initiative and market them to AMS; rather, he created them in response to AMS's requests. Moreover, after prototype software was developed, he made changes to the programs in response to Akerstein and

[2] Gagnon disputes that the source code was ever stored on the AMS server.

other AMS employees' requests. No genuine issue of material fact remains as to whether AMS requested the programs.

2. Gagnon Created the Software for AMS and Delivered It

[20] Though Gagnon argues that the programs could be converted for use by another company, Gagnon admitted that the programs were created specifically for AMS and that AMS paid for the work related to drafting of the programs as well as some related costs. It is, therefore, undisputed that Gagnon created these programs for AMS.

[21] The remaining question is whether Gagnon delivered the programs to AMS. We agree with the district court that Gagnon delivered them when he installed them onto the AMS computers and stored the source code on-site at AMS. Gagnon argues that even if he had installed the programs onto the AMS computers, he never delivered the source code so that AMS could modify the code. If AMS did not have the right to modify the code, it may have infringed Gagnon's copyright by exceeding the scope of its license. Gagnon primarily points to AMS's inability to locate the code on its own computer systems after his services were terminated to show that AMS did not possess the code. But, as we explain below, Gagnon's conduct manifested an objective intent to give AMS an unlimited license at the time of creation; thus, when he stored the source code at AMS, the code was delivered.

3. Gagnon's Intent as Manifested by His Conduct

[22] Gagnon argues that he never intended that AMS would retain and modify the programs he delivered. Gagnon misunderstands the inquiry into intent, and we conclude that his conduct did manifest an intent to grant a license. The relevant intent is the licensor's objective intent at the time of the creation and delivery of the software as manifested by the parties' conduct....

[23] Gagnon and AMS had an ongoing service relationship in which Gagnon provided technical support for all computer-related problems at AMS; he also created certain custom software applications at AMS's request. The relationship of the parties indicates neither an intent to grant nor deny a license without Gagnon's future involvement.

[24] Several documents exist, however, that reflect the parties' objective intent: the TSA, signed by both parties, the OVA submitted by Gagnon, and Gagnon's letter objecting to Akerstein's proposed changes to the OVA.[6] Courts have looked to contracts, even if unexecuted, as evidence of the intent of the party submitting the contract.

[25] The TSA, signed by both parties in 2000 and printed on Mister Computer letterhead, stated only that Gagnon "will provide" AMS "specific add-on products." Nothing in the TSA indicates Gagnon's understanding or intent that continued use of the custom application programming undertaken by Gagnon would be prohibited after the TSA terminated. The TSA also provided that AMS would be billed for Gagnon's services at an hourly rate.... Gagnon was well paid for his services. Under the circumstances, it defies logic that AMS would have paid Gagnon for his programming services if AMS could not have used the programs without further payment pursuant to a separate licensing arrangement that was never mentioned in the TSA, and never otherwise requested at the time. This is especially so because custom software is far less valuable without the ability to modify it and because the TSA was set to expire in one year; one would expect some indication of the need for future licensing if the custom programs were to become unusable after the TSA expired.

[6] We do not consider the NDA, allegedly signed by Gagnon, because Gagnon contests its validity and argues that his signature was forged, creating a factual dispute inappropriate for resolution on summary judgment.

[26] The OVA submitted by Gagnon, but never executed, did not evidence any intent by Gagnon to limit AMS's use of the programs. Gagnon argues that the clause, "Client agrees that [intellectual property] produced by Contractor while performing services under this agreement will be the property of Contractor and will be licensed to Client on a non-exclusive basis as will any copyrights, patents, or trademarks obtained by Contractor while performing services under this agreement …," means that his license was conditioned on a continuing relationship with AMS. We disagree. The clause "while performing services under this agreement" modifies the production of the intellectual property and the obtainment of copyrights. Furthermore, the contract then expressly stated, "Contractor will allow Company non-exclusive, unlimited licensing of software developed for Company," eliminating any ambiguity.

[27] Moreover, Gagnon and AMS did not discuss a licensing agreement until their relationship was ending. Gagnon delivered the software without any caveats or limitations on AMS's use of the programs. Even if Gagnon and his employees maintained the software and had primary control over the code, they programmed on-site at AMS on AMS computers to which key AMS personnel had access-conduct that does not demonstrate an intent to retain sole control. The first time Gagnon expressed a contrary intent was in his letter to Akers[tein] *after* AMS had decided to terminate Gagnon's services.

[28] Finally, the splash screens containing the copyright notice do not negate AMS's license to use the product. The splash screens speak to Gagnon's intent to retain copyright ownership over the programs, not to his intent to grant or not grant a license as would be his right as the copyright owner.

[29] Gagnon had to express an intent to retain control over the programs and limit AMS's license if he intended to do so. A belated statement that the programs could not be used after Gagnon's departure, made after the termination decision and well after the creation and delivery of the programs for which substantial sums were paid, was not sufficient to negate all other objective manifestations of intent to grant AMS an unlimited license.

4. Scope and Irrevocability of Implied License

[30] For the reasons outlined, we hold that Gagnon granted AMS an unlimited, nonexclusive license to retain, use, and modify the software. Furthermore, because AMS paid consideration, this license is irrevocable. A nonexclusive license supported by consideration is a contract. If an implied license accompanied by consideration were revocable at will, the contract would be illusory.

[31] We affirm the district court's grant of summary judgment on the copyright infringement claim….

NOTES

1. Some courts emphasize that the three factors set out in *Asset Marketing Systems* are not necessarily the only relevant ones to consider whether there is an implied license. For example, the Fifth Circuit has stated that an implied license might "arise in other circumstances where the totality of the parties' conduct supported such an outcome." Baisden v. I'm Ready Prods., Inc., 693 F.3d 491, 501 (5th Cir. 2012). Are there other factors you think might be relevant to inferring a nonexclusive license?

2. Christopher Newman has explained that "a license is not a contractual obligation assumed by a licensor, but rather a form of limited property interest granted by one, as an exercise of one of the powers of title." Christopher M. Newman, *"What Exactly Are You Implying?": The Elusive Nature of the Implied Copyright License*, 32 CARDOZO ARTS & ENT. L.J. 501, 502 (2014). In light of this understanding, Newman argues that notions from property law are more suitable to making sense of implied licenses to copyrighted material than are principles from contract law:

> *The law of implied copyright licenses presents something of an explanatory challenge for this approach. If licenses are an exercise of the owner's power, how can they arise in circumstances where the owner made no effort to exercise it? In addition, there are clearly circumstances in which we think implied licenses should be irrevocable, and yet property formalities generally require a written grant to achieve this result. Does this mean that implied licenses, which by definition are not reduced to writing, must be contracts after all? Or perhaps that some of them are, while others are something else? … [C]onsistent application of a property framework does a better job of rationalizing this area of law than the courts' various halfhearted invocations of contract law.*

Newman goes on to situate implied copyright licenses "not in contract doctrine, but in the implied consent that is recognized as providing a defense to property and other torts." *See also* Christopher M. Newman, *A License Is Not a "Contract Not to Sue": Disentangling Property and Contract in the Law of Copyright Licenses*, 98 IOWA L. REV. 1101 (2013).

3. When a nonexclusive license is implied, can it be terminated under copyright law as per the termination provisions you studied in Chapter IV? The Eleventh Circuit has said that such a license can be terminated. Korman v. HBC Florida, Inc., 182 F.3d 1291 (11th Cir. 1999). The court reasoned that "[t]he plain language of section 203 covers all nonexclusive grants of a license that are executed after the specified date, and nothing in the statute excludes those that are implied."

4. The licensee of five tattoo designs inked on three different NBA players—Eric Bledsoe, LeBron James, and Kenyon Martin—sued the developer and publisher of the NBA 2K series of basketball simulation videogames for depicting animated versions of these players that included the licensed tattoos, as shown in Figure 139. The district court granted the defendants' motion for summary judgment on the ground that they had an implied license to feature the tattoos in representing the players' likenesses. Solid Oak Sketches, LLC v. 2K Games, Inc., 449 F. Supp. 3d 333 (S.D.N.Y. 2020). The court reasoned that "(i) the Players each requested the creation of the Tattoos, (ii) the tattooists created the Tattoos and delivered them to the Players by inking the designs onto their skin, and (iii) the tattooists intended the Players to copy and distribute the Tattoos as elements of their likenesses, each knowing that the Players were likely to appear in public, on television, in commercials, or in other forms of media." Are you convinced by each of the three parts of the court's reasoning?

Figure 139: LeBron James's likeness in NBA 2K videogame

Given that the duration of contracts or licenses over copyrights can be lengthy due to copyright's long duration, these agreements often must be interpreted well after they were first drafted and executed. In the period between the drafting and later interpretation of an agreement, technologies of distribution and the forms that works take might have changed in important ways.

As you read the following case, consider the tools courts deploy to interpret the parties' agreements. Which party gets the benefit of the new use at issue? Is that a sensible result as a matter of copyright policy? As a matter of contract interpretation?

Margret Rey v. Richard G.D. Lafferty

990 F.2d 1379 (1st Cir. 1993)

CYR, J.: …

I – BACKGROUND

[1] "Curious George" is an imaginary monkey whose antics are chronicled in seven books, written by Margret and H.A. Rey, which have entertained readers since the 1940s. A mischievous personality consistently lands Curious George in amusing scrapes and predicaments. The more recent "monkey business"—leading to the present litigation—began in 1977 when Margret Rey granted Milktrain Productions an option to produce and televise 104 animated "Curious George" film episodes. The option agreement was contingent on Milktrain's obtaining financing for the film project ….

A. The Original Film Agreements.

[2] Milktrain approached [Lafferty Harwood & Partners (LHP)], a Canadian investment firm, to obtain financing for the project. LHP agreed to fund the venture by selling shares in the project to investors (hereinafter: the "Milktrain Agreement"); LHP and its investors were to divide a 50% share of Milktrain's profits on the films and on any future ancillary products.

[3] With the financing commitment in place, Rey granted Milktrain and LHP a limited license "to produce (within a two-year period from the date of exercise) one hundred and four (104) four minute film episodes based on the [Curious George] character solely for broadcast on television" (hereinafter: the "Rey License"). Rey was to receive a fee for assisting with the editing and production of the episodes, and an additional royalty amounting to 10% of the revenues from any film telecasts….

B. The Revised Agreements.

[4] The film project soon encountered delays and financial setbacks. By early 1979, though only 32 of the 104 episodes had been completed, the original investment funds had been virtually exhausted. In order to rescue the project and complete the films to Rey's satisfaction, LHP offered to arrange additional financing. In consideration, LHP insisted that the Milktrain Agreement be revised to permit LHP to assume control of the film production process and to receive higher royalties on the completed episodes. Milktrain assented to these revisions, and the revised Milktrain Agreement (hereinafter: the "RMA") was signed on November 5, 1979.

[5] As prelude to its description of the new obligations between Milktrain and LHP, the RMA recited that Milktrain and LHP owned "the rights to Curious George which have been obtained from … Rey" under the Rey License. The RMA further stated that:

> *Investors acquiring the episodes shall acquire all right, title and interest therein, without limitation or reserve, including the original negative….*
>
> *LHP shall have the right to participate on an equal basis with [Milktrain] in their right of first refusal after the present agency rights expire to undertake the exploitation of other rights to Curious George, including manufacturing, food, licensing and the publication of the 104 episodes in book form … in accordance with the rights granted to [Milktrain] and LHP [by Rey] in [the Revised Rey License].*[1]

[6] Simultaneously with the negotiation of the RMA, LHP proposed several changes in the Rey License, including language which would have granted LHP the immediate right to "undertake the exploitation of other rights to 'Curious George,' including manufacturing, food, licensing and the publication of the 104 episodes in book form." Rey rejected the LHP proposal in a letter to Richard G.D. Lafferty (president and C.E.O. of LHP): "I have repeatedly stated to Milktrain and to you that I will not consider negotiating such rights before the films are done." Rey did consent, however, to certain changes to the royalty arrangements, whereby Rey would receive a 10% share of film revenues only "after the investors have recouped [their investment] and certain soft dollar commitments … have been paid."

[7] On November 5, 1979, concurrently with the execution of the Revised Milktrain Agreement, a revised version of the Rey License (hereinafter: the "RRL") was executed, incorporating these changes, and superseding the original Rey License. The RRL recited that the original Rey License had granted Milktrain and LHP the right to produce and distribute animated "Curious George" films "for television viewing," but made no mention of the "ancillary product" rights unsuccessfully sought by LHP.

[8] As agreed, LHP undertook to arrange further financing to complete the film project. On November 23, 1979, LHP released another prospectus (hereinafter: the "1979 Private Placement Memorandum") to which it attached the Revised Milktrain Agreement. The 1979 Private Placement Memorandum again stressed the prospect of eventual revenues from ancillary products but noted that these rights "have yet to be negotiated" with Rey.

C. The Ancillary Products Agreement.

[9] Production of the 104 TV episodes was completed in 1982. On January 3, 1983, an Ancillary Products Agreement (or "APA") was signed by Rey and LHP, granting LHP a general right to license "Curious George" in spin-off ("ancillary") products for a renewable term of five years. The APA defined "ancillary products" as:

> *All tangible goods … excluding books, films, tapes, records, or video productions…. However, for stories already owned by [LHP] and which have been produced as 104 episodes under the license granted in the January, 1978 agreement and the November 5, 1979 revision of that agreement, [LHP] shall have the right to produce books, films, tapes, records and video productions of these episodes under this Agreement, subject to [Rey's] prior approval … which prior approval shall not be unreasonably withheld.*

[1] Shortly thereafter, Milktrain apparently assigned its share of ancillary product licensing rights to LHP, leaving LHP the sole owner of these rights.

[10] In return for these rights, Rey was to receive one-third of the royalties on the licensed products, with certain minimum annual payments guaranteed. Rey retained the right to disapprove *any product*, and to propose changes which would make a disapproved product acceptable to her. The APA provided, *inter alia*, that Rey's approval would not be withheld "unreasonably." …

[11] Following the execution of the Ancillary Products Agreement, LHP assigned its licensing rights to a new subsidiary, Curgeo Enterprises, which turned its attention to licensing the "Curious George" character in various product forms.…

E. Other Product Licenses.

[12] …. Beginning in 1983, the "Curious George" TV episodes were licensed to Sony Corporation, which transferred the images from the television film negatives to videotape. LHP takes the position that the Sony video license was entered pursuant to the RRL; Rey claims it is subject to the APA.…

F. The Ancillary Products Agreement Renewal.

[13] … LHP earned less money than it anticipated from ancillary products. When the APA came up for renewal in January 1988, LHP declined to exercise its option for an additional five-year term. Instead, the parties agreed to renew on a month-to-month basis, terminable by either party on one month's notice. Rey's royalty rate was increased to 50% (effective January 3, 1988), but with no guaranteed minimum payment. On April 10, 1989, Rey terminated the APA. LHP responded by advising that Curgeo would "continue to administer those licenses which [remained] outstanding and report to you from time to time accordingly." LHP thereupon continued to market the Sony videos ….

G. "Curious George" Goes to Court.

[14] On February 8, 1991, Rey filed suit against [Richard G.D.] Lafferty [(president and C.E.O. of LHP)], Curgeo and LHP, in connection with LHP's continuing, allegedly unauthorized production of … Sony videos. Rey's complaint alleged violations of federal copyright … [and] breach of contract …; it sought to enjoin further violations and to recover unpaid royalties on the … videos.…

[15] After a four-day bench trial, the district court found for Rey on her claims for breach of contract, ruling that the … video licenses were governed by the APA and that Rey was entitled to recover $256,327 in royalties.…

II – DISCUSSION …

[16] The Rey complaint alleged that LHP's only right to publish the "Curious George" TV episodes in … video form derived from the Ancillary Products Agreement, was subject to the APA's royalty provisions, and expired when Rey terminated the APA in 1989. LHP responds that the … video rights to the TV episodes were governed by the parties' other agreements, specifically the Revised Rey License, which (according to LHP) incorporated the Revised Milktrain Agreement. According to LHP, these other agreements continued in effect notwithstanding termination of the APA; moreover, these agreements provided that no royalties were due Rey before LHP's investors recovered their investment in the 104 TV films. The district court accepted the interpretation urged by Rey, based on the language of the various contracts and the circumstances surrounding their execution. We agree.…

[17] The Ancillary Products Agreement provided, *inter alia*, that

> for stories already owned by [LHP] … which have been produced as 104 episodes under the license granted in the January, 1978 agreement and the November 5, 1979 revision of that agreement, [LHP] shall have the right to produce books, films, tapes, records and *video productions* of these episodes *under this Agreement*, subject to [Rey's] prior approval …

(emphases added). Throughout the document the term "this Agreement," utilizing the capital letter "A", refers to the APA. Thus, the plain language of the operative provision clearly contemplates that the APA was to govern the licensing of any books and "video productions" arising from the 104 films.

[18] LHP argues, nonetheless, that a narrow meaning must be ascribed to the quoted APA language, insofar as the RMA purported to grant investors "all right, title and interest [to the 104 film episodes], without limitation or reserve, including the original negative." The problem with LHP's argument is that Rey never signed the RMA. LHP concedes this, but argues that the RMA and RRL were negotiated and executed simultaneously by LHP, and must be interpreted *in pari materia*. The Massachusetts courts sometimes have held that the party to be bound need not have signed each component part of an integrated agreement where it is the "sense" of the transaction, as supported by reliable indicia in the writings which were signed by the party to be bound, that a unitary transaction was contemplated by the parties. On this theory, LHP contends, Rey's signature on the RRL bound her to the language of the RMA, and authorized LHP to transfer the television episodes to [video] form ….

[19] However, where contract language contains no unambiguous indicia of the parties' mutual intent to enter into a unitary transaction, we review for "clear error" the fact-dominant determination whether their separate documents were intended by the parties as an integrated agreement.

[20] In the present case, we find no "clear error" in the district court's determination that the parties contemplated separate (though related) transactions for film rights and financing. The evidence cut both ways. On the one hand, the RMA and the RRL were executed at approximately the same time, with some overlap in their internal references and subject matter. On the other hand, their respective provisions are less in unison than parallel. Most importantly, the written and circumstantial indicia sharply contradict any suggestion of a meeting of the minds relating to the licensing of ancillary products. Rey did not participate in negotiating the RMA, did not sign it, was never made a party to its terms, and expressly refused, during the RRL negotiations, to license "Curious George" for the "ancillary" purposes now urged by LHP. Moreover, the 1979 Private Placement Memorandum prepared by LHP acknowledges Rey's nonacceptance by attaching the RRL as an exhibit and noting that ancillary product rights "have yet to be negotiated" with Rey. Finally, the … record shows that LHP paid Rey royalties on the … videos on several occasions at the 33% rate required under the APA, rather than the 10% rate prescribed by the RRL …:

[21] LHP's claim to the Sony video royalties is … complicated: assuming the videos were not covered by the contractual clause in the RMA, might they nonetheless have been covered by the grant of rights in the RRL, which licensed LHP to produce the 104 episodes "for television viewing"? The district court thought not: the parties' "reference to television viewing … in a licensing agreement … does not include [video technology] … which probably was not in existence at the time that the rights were given." …

[22] For purposes of the present appeal, we accept the uncontested district court finding that the relevant video technology "was not in existence at the time that the rights" were granted under the RRL in January 1979. Consequently, it must be inferred that the parties did not specifically contemplate television "viewing" of the "Curious George" films in videocassette form at the time the RRL was signed. Such absence of specific intent typifies cases which address "new uses" of licensed materials, i.e., novel technological developments which generate unforeseen applications for a previously licensed work.

[23] Normally, in such situations, the courts have sought at the outset to identify any indicia of a mutual general intent to apportion rights to "new uses," insofar as such general intent can be discerned from the language of the license, the surrounding circumstances, and trade usage. *See, e.g.*, Murphy v. Warner Bros. Pictures, Inc., 112 F.2d 746, 748 (9th Cir. 1940) (grant of "complete and entire" motion picture rights to licensed work held to encompass later-developed sound motion picture technology); Filmvideo Releasing Corp. v. Hastings, 446 F. Supp. 725 (S.D.N.Y. 1978) (author's explicit retention of "all" television rights to licensed work, in grant of motion picture rights predating technological advances permitting movies to be shown on television, included retention of right to show motion picture on television). Where no reliable indicia of general intent are discernible, however, courts have resorted to one of several interpretive methods to resolve the issue on policy grounds.

[24] Under the preferred method, … the court will conclude, absent contrary indicia of the parties' intent, that the licensee may properly pursue any uses which may reasonably be said to fall within the medium as described in the license. Under this interpretive method, the courts will presume that at least the possibility of nonspecific "new uses" was foreseeable by the contracting parties at the time the licensing agreement was drafted; accordingly, the burden and risk of drafting licenses whose language anticipates the possibility of any particular "new use" are apportioned equally between licensor and licensee.

[25] An alternative interpretive method is to assume that a license of rights in a given medium (e.g., "motion picture rights") includes only such uses as fall within the unambiguous core meaning of the term … and excludes any uses which lie within the ambiguous penumbra (e.g., exhibition of motion picture film on television). Thus any rights not expressly (in this case meaning unambiguously) granted are reserved.

[26] This method is intended to prevent licensees from reaping the entire windfall associated with the new medium, and is particularly appropriate in situations which involve overreaching or exploitation of unequal bargaining power by a licensee in negotiating the contract. It may also be appropriate where a particular "new use" was completely unforeseeable and therefore could not possibly have formed part of the bargain between the parties at the time of the original grant. Obviously, this method may be less appropriate in arm's-length transactions between sophisticated parties involving foreseeable technological developments; in such situations, narrow construction of license grants may afford an unjustifiable windfall to the licensor, who would retain blanket rights to analogous "new uses" of copyright material notwithstanding the breadth of the bargained-for grant.[7] …

[27] These fine-tuned interpretive methods have led to divergent results in cases considering the extension of television rights to new video forms. Thus, for example, in *Rooney v. Columbia Pictures Industries, Inc.*, 538 F. Supp. 211 (S.D.N.Y.), *aff'd*, 714 F.2d 117 (2d Cir. 1982), the court determined that a series of contracts granting motion picture distributors a general license to exhibit plaintiffs' films "by any present or future methods or means" and "by any means now known or unknown" fairly encompassed the right to distribute the films by means of later-developed video technology. The contracts in question gave defendants extremely broad rights in the distribution and exhibition of pre-1960 films, plainly intending that such rights would be without limitation unless otherwise specified and further indicating that future technological advances in methods of reproduction, transmission and exhibition would inure to the benefit of defendants….

[7] The problem becomes particularly acute when the analogous technology develops so rapidly as to supplant the originally contemplated application of the licensed work, rendering the parties' original bargain obsolete. Thus, for example, broad grants of "motion picture rights," made before technological advances permitted the combination of moving images with sound, later were held, typically, to encompass the rights to sound motion picture technology; a narrower holding would have left the original license virtually worthless, despite its broad language, and would have provided the licensor with an undeserved windfall.

[28] By contrast, in *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988), the Ninth Circuit concluded that a 1969 contract granting rights to "[t]he exhibition of [a] motion picture [containing a licensed work] … by means of television," but containing a broad restriction reserving to the licensor "all rights and uses in and to said musical composition, except those herein granted," did not encompass the right to revenues derived from sales of the film in videocassette form. After deciding that the general tenor of the contract section in which the granting clause was found contemplated some sort of broadcasting or centralized distribution, not distribution by sale or rental of individual copies to the general public, the court stressed that the playing of videocassettes, with their greater viewer control and decentralized access on an individual basis, did not constitute "exhibition" in the sense contemplated by the contract.

> *…. Television and videocassette display … have very little in common besides the fact that a conventional monitor of a television set may be used both to receive television signals and to exhibit a videocassette. It is in light of this fact that Paramount argues that VCRs are equivalent to "exhibition by means of television." Yet, even that assertion is flawed. Playing a videocassette on a VCR does not require a standard television set capable of receiving television signals by cable or by broadcast; it is only necessary to have a monitor capable of displaying the material on the magnetized tape.…*

[29] Although the question is extremely close, under the interpretive methodology outlined above we conclude that the RRL's grant of rights to the 104 film episodes "for television viewing" did not encompass the right to distribute the "Curious George" films in videocassette form.

[30] First, unlike the contract[] in *Rooney* …, the RRL contained no general grant of rights in technologies yet to be developed, and no explicit reference to "future methods" of exhibition. Rather, the RRL appears to contemplate a comparatively limited and particular grant of rights, encompassing only the 104 film episodes and leaving future uses of "Curious George" to later negotiation in the ancillary products agreement. Although the RRL conversely contains no specific limiting language, we believe such limitation is reasonably inferable from the situation of the parties and the general tenor of the section in which the "television viewing" rights were granted.

[31] Second, "television viewing" and "videocassette viewing" are not coextensive terms. Even though videocassettes may be, and often are, viewed by means of VCRs on home television screens, still, … a standard television set capable of receiving television signals is not strictly required for videocassette viewing. It is only necessary to have a monitor capable of displaying the material on the magnetized tape. Indeed, a number of non-television monitors recently marketed in the United States permit videocassette viewing on computer screens, flat-panel displays, and the like. Thus, we find insufficient reliable indicia of a contrary mutual intent on the part of Rey and LHP to warrant disturbing the district court's implicit determination that the language of the RRL is not broad enough to cover the new use.

[32] Finally, any lingering concerns about the correctness of the district court's interpretation are dispelled by the evidence that the RRL (including its "television viewing" clause) was drafted and proposed by LHP, a professional investment firm accustomed to licensing agreements. Rey, an elderly woman, does not appear to have participated in its drafting, and, indeed, does not appear to have been represented by counsel during the larger part of the transaction. Under these circumstances, … ambiguities in the drafting instrument are traditionally construed against the licensor and the drafter.

[33] Accordingly, as the Sony videocassette sales were not encompassed by the RRL, but governed exclusively by the APA, we find no conflict between the terms of the documents, and we affirm the award of royalties to Rey under the APA.

NOTE

1. Is it possible to ascertain the parties' intent in an agreement as to new use of a work? If not, does copyright policy dictate an outcome that is preferable? If that result is at odds with general rules of contract interpretation, is there something to be said in favor of a federal common law of contract interpretation for copyright agreements? For a discussion about the federal underpinnings of copyright licenses and contracts, see Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111 (1999).

B. Modifying Copyright Law by Contract

In this section, we address what happens when people agree, via contract or license, to not engage in behavior that copyright law permits them to do, such as take advantage of the first-sale doctrine (or engage in fair use of a copyrighted work, as discussed below in section D). Should the law enforce those agreements?

There are two quite different situations in which this issue typically arises, both regarding mass user licenses to a copyrighted work. The first is with regard to mass-marketed copyrighted material—typically, software products, but more recently other types of digital content as well. Many of these products contain end-user license agreements—typically in the form of shrink-wrap, click-wrap, or browse-wrap—that forbid users from engaging in a variety of practices, some of which would be permissible under the Copyright Act.

In the past two decades, a second form of mass user license agreement has emerged by which authors seek to ensure the public availability of their works on terms that they set. Creative Commons licenses are the most well-known form of this so-called "copyleft" agreement for copyrighted works that are not software. The open-source licenses that you read about in Chapter II—such as the GNU General Public License and the Apache License—are common forms of this sort of agreement for software works.

Creative Commons is a project formed by a group of activists, academics, and content creators to give rightsholders choices about how their works may be used that are meant to supplement the "all rights reserved" default of the formal copyright law. Creative Commons provides a variety of "some rights reserved" licenses, including licenses allowing free use with attribution, noncommercial use, use without the right to make derivative works, and use with the requirement that the user make freely usable any derivative work created using the original source material (referred to as the "share-alike" license, which is similar in purpose to the GNU General Public License). Creative Commons also provides a "no rights reserved" public domain dedication license, which provides a perpetual and unconditional license "for the benefit of each member of the public at large and to the detriment of Affirmer's heirs and successors."

Why would an author want to use any of these Creative Commons licenses rather than merely announcing that their work is in the public domain? Can you see how the Creative Commons and open-source licenses grant freedoms to users by embracing copyright law—which is typically conceptualized as restricting rather than actuating user freedoms?

As you read the following case involving a shrink-wrap license to software, consider how each party would like to characterize the transfers of software copies that have occurred and what the implications of each position are for copyright law. What test does the court use to evaluate how to characterize the transfers of software copies?

Timothy S. Vernor v. Autodesk, Inc.

621 F.3d 1102 (9th Cir. 2010)

CALLAHAN, J.: …

[1] …. Autodesk makes computer-aided design software used by architects, engineers, and manufacturers…. It holds registered copyrights in all versions of the software including the discontinued Release 14 version, which is at issue in this case. It provided Release 14 to customers on CD-ROMs.

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

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

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

[4] Fifth, the SLA provides for license termination if the user copies the software without authorization or does not comply with the SLA's restrictions. Finally, the SLA provides that if the software is an upgrade of a previous version:

> *[Y]ou must destroy the software previously licensed to you, including any copies resident on your hard disk drive … within sixty (60) days of the purchase of the license to use the upgrade or update…. Autodesk reserves the right to require you to show satisfactory proof that previous copies of the software have been destroyed.*

[5] Autodesk takes measures to enforce these license requirements. It assigns a serial number to each copy of AutoCAD and tracks registered licensees. It requires customers to input "activation codes" within one month after installation to continue using the software. The customer obtains the code by providing the product's serial number to Autodesk. Autodesk issues the activation code after confirming that the serial number is

authentic, the copy is not registered to a different customer, and the product has not been upgraded. Once a customer has an activation code, he or she may use it to activate the software on additional computers without notifying Autodesk….

[6] In March 1999, Autodesk reached a settlement agreement with its customer Cardwell/Thomas & Associates, Inc. ("CTA"), which Autodesk had accused of unauthorized use of its software. As part of the settlement, Autodesk licensed ten copies of Release 14 to CTA. CTA agreed to the SLA, which appeared (1) on each Release 14 package that Autodesk provided to CTA; (2) in the settlement agreement; and (3) on-screen, while the software is being installed.

[7] CTA later upgraded to the newer, fifteenth version of the AutoCAD program, AutoCAD 2000. It paid $495 per upgrade license, compared to $3,750 for each new license. The SLA for AutoCAD 2000, like the SLA for Release 14, required destruction of copies of previous versions of the software, with proof to be furnished to Autodesk on request. However, rather than destroying its Release 14 copies, CTA sold them to [Timothy] Vernor at an office sale with the handwritten activation codes necessary to use the software….

[8] …. In May 2005, [Vernor] purchased an authentic used copy of Release 14 at a garage sale from an unspecified seller. He never agreed to the SLA's terms, opened a sealed software packet, or installed the Release 14 software. Though he was aware of the SLA's existence, he believed that he was not bound by its terms. He posted the software copy for sale on eBay.

[9] Autodesk filed a Digital Millennium Copyright Act take-down notice with eBay claiming that Vernor's sale infringed its copyright, and eBay terminated Vernor's auction. Autodesk advised Vernor that it conveyed its software copies pursuant to non-transferable licenses, and resale of its software was copyright infringement. Vernor filed a DMCA counter-notice with eBay contesting the validity of Autodesk's copyright claim. Autodesk did not respond to the counter-notice. eBay reinstated the auction, and Vernor sold the software to another eBay user.

[10] In April 2007, Vernor purchased four authentic used copies of Release 14 at CTA's office sale. The authorization codes were handwritten on the outside of the box. He listed the four copies on eBay sequentially, representing, "This software is not currently installed on any computer." On each of the first three occasions, the same DMCA process ensued. Autodesk filed a DMCA take-down notice with eBay, and eBay removed Vernor's auction. Vernor submitted a counter-notice to which Autodesk did not respond, and eBay reinstated the auction.

[11] When Vernor listed his fourth, final copy of Release 14, Autodesk again filed a DMCA take-down notice with eBay. This time, eBay suspended Vernor's account because of Autodesk's repeated charges of infringement. Vernor also wrote to Autodesk, claiming that he was entitled to sell his Release 14 copies pursuant to the first sale doctrine, because he never installed the software or agreed to the SLA. In response, Autodesk's counsel directed Vernor to stop selling the software. Vernor filed a final counter-notice with eBay. When Autodesk again did not respond to Vernor's counter-notice, eBay reinstated Vernor's account. At that point, Vernor's eBay account had been suspended for one month, during which he was unable to earn income on eBay.

[12] Vernor currently has two additional copies of Release 14 that he wishes to sell on eBay. Although the record is not clear, it appears that Vernor sold two of the software packages that he purchased from CTA, for roughly $600 each, but did not sell the final two to avoid risking further suspension of his eBay account….

[13] In August 2007, Vernor brought a declaratory action against Autodesk to establish that his resales of used Release 14 software are protected by the first sale doctrine and do not infringe Autodesk's copyright….

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

[15] …. In its current form, [the first-sale doctrine] allows the "owner of a particular copy" of a copyrighted work to sell or dispose of his copy without the copyright owner's authorization. 17 U.S.C. § 109(a). The first sale doctrine does not apply to a person who possesses a copy of the copyrighted work without owning it, such as a licensee. *See id.* § 109(d)….

[16] In *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), a criminal copyright infringement case, we considered whether copyright owners who transferred copies of their motion pictures pursuant to written distribution agreements had executed first sales. The defendant was found guilty of copyright infringement based on his for-profit sales of motion picture prints. The copyright owners distributed their films to third parties pursuant to written agreements that restricted their use and transfer. On appeal, the defendant argued that the government failed to prove the absence of a first sale for each film. If the copyright owners' initial transfers of the films were first sales, then the defendant's resales were protected by the first sale doctrine and thus were not copyright infringement.

[17] To determine whether a first sale occurred, we considered multiple factors pertaining to each film distribution agreement. Specifically, we considered whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration. Our use of these several considerations, none dispositive, may be seen in our treatment of each film print.

[18] For example, we reversed the defendant's conviction with respect to *Camelot*. It was unclear whether the *Camelot* print sold by the defendant had been subject to a first sale. Copyright owner Warner Brothers distributed *Camelot* prints pursuant to multiple agreements, and the government did not prove the absence of a first sale with respect to each agreement. We noted that, in one agreement, Warner Brothers had retained title to the prints, required possessor National Broadcasting Company ("NBC") to return the prints if the parties could select a mutual agreeable price, and if not, required NBC's certification that the prints were destroyed. We held that these factors created a license rather than a first sale.

[19] We further noted, however, that Warner Brothers had also furnished another *Camelot* print to actress Vanessa Redgrave. The print was provided to Redgrave at cost, and her use of the print was subject to several restrictions. She had to retain possession of the print and was not allowed to sell, license, reproduce, or publicly exhibit the print. She had no obligation to return the print to Warner Brothers. We concluded, "While the provision for payment for the cost of the film, standing alone, does not establish a sale, when taken with the rest of the language of the agreement, it reveals a transaction strongly resembling a sale with restrictions on the use of the print." There was no evidence of the print's whereabouts, and we held that "[i]n the absence of such proof," the government failed to prove the absence of a first sale with respect to this Redgrave print. Since it was unclear which copy the defendant had obtained and resold, his conviction for sale of *Camelot* had to be reversed.

[6] If Autodesk's transfer of Release 14 copies to CTA was a first sale, then CTA's resale of the software in violation of the SLA's terms would be a breach of contract, but would not result in copyright liability. *See* United States v. Wise, 550 F.2d 1180, 1187 (9th Cir.1977) ("[T]he exclusive right to vend the transferred copy rests with the vendee, who is not restricted by statute from further transfers of that copy, even though in breach of an agreement restricting its sale.").

[20] Thus, under *Wise*, where a transferee receives a particular copy of a copyrighted work pursuant to a written agreement, we consider all of the provisions of the agreement to determine whether the transferee became an owner of the copy or received a license. We may consider (1) whether the agreement was labeled a license and (2) whether the copyright owner retained title to the copy, required its return or destruction, forbade its duplication, or required the transferee to maintain possession of the copy for the agreement's duration. We did not find any one factor dispositive in *Wise*: we did not hold that the copyright owner's retention of title itself established the absence of a first sale or that a transferee's right to indefinite possession itself established a first sale….

[21] We hold today that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions. Applying our holding to Autodesk's SLA, we conclude that CTA was a licensee rather than an owner of copies of Release 14 and thus was not entitled to invoke the first sale doctrine or the essential step defense.

[22] Autodesk retained title to the software and imposed significant transfer restrictions: it stated that the license is nontransferable, the software could not be transferred or leased without Autodesk's written consent, and the software could not be transferred outside the Western Hemisphere. The SLA also imposed use restrictions against the use of the software outside the Western Hemisphere and against modifying, translating, or reverse-engineering the software, removing any proprietary marks from the software or documentation, or defeating any copy protection device. Furthermore, the SLA provided for termination of the license upon the licensee's unauthorized copying or failure to comply with other license restrictions. Thus, because Autodesk reserved title to Release 14 copies and imposed significant transfer and use restrictions, we conclude that its customers are licensees of their copies of Release 14 rather than owners.

[23] CTA was a licensee rather than an "owner of a particular copy" of Release 14, and it was not entitled to resell its Release 14 copies to Vernor under the first sale doctrine. Therefore, Vernor did not receive title to the copies from CTA and accordingly could not pass ownership on to others. Both CTA's and Vernor's sales infringed Autodesk's exclusive right to distribute copies of its work.

[24] Because Vernor was not an owner, his customers are also not owners of Release 14 copies. Therefore, when they install Release 14 on their computers, the copies of the software that they make during installation infringe Autodesk's exclusive reproduction right because they too are not entitled to the benefit of the essential step defense.[13] 17 U.S.C. §§ 106(1), 117(a)(1) ….

[25] … Vernor contends that "economic realities" demonstrate that Autodesk makes "first sales" to its customers, because Autodesk allows its customers to possess their copies of the software indefinitely and does not require recurring license payments. We held *supra* that neither of these factors is dispositive. Vernor cites no first sale doctrine case in support of this proposition….

[26] Although our holding today is controlled by our precedent, we recognize the significant policy considerations raised by the parties and amici on both sides of this appeal.

[27] Autodesk, the Software & Information Industry Association ("SIIA"), and the Motion Picture Association of America ("MPAA") have presented policy arguments that favor our result. For instance, Autodesk argues in

[13] It may seem intuitive that every lawful user of a copyrighted software program, whether they own their copies or are merely licensed to use them, should be entitled to an "essential step defense" that provides that they do not infringe simply by using a computer program that they lawfully acquired. However, the Copyright Act confers this defense only on owners of software copies. *See* 17 U.S.C. § 117. In contrast, a licensee's right to use the software, including the right to copy the software into RAM, is conferred by the terms of its license agreement.

favor of judicial enforcement of software license agreements that restrict transfers of copies of the work. Autodesk contends that this (1) allows for tiered pricing for different software markets, such as reduced pricing for students or educational institutions; (2) increases software companies' sales; (3) lowers prices for all consumers by spreading costs among a large number of purchasers; and (4) reduces the incidence of piracy by allowing copyright owners to bring infringement actions against unauthorized resellers. SIIA argues that a license can exist even where a customer (1) receives his copy of the work after making a single payment and (2) can indefinitely possess a software copy, because it is the software code and associated rights that are valuable rather than the inexpensive discs on which the code may be stored. Also, the MPAA argues that a customer's ability to possess a copyrighted work indefinitely should not compel a finding of a first sale, because there is often no practically feasible way for a consumer to return a copy to the copyright owner.

[28] Vernor, eBay, and the American Library Association ("ALA") have presented policy arguments against our decision. Vernor contends that our decision (1) does not vindicate the law's aversion to restraints on alienation of personal property; (2) may force everyone purchasing copyrighted property to trace the chain of title to ensure that a first sale occurred; and (3) ignores the economic realities of the relevant transactions, in which the copyright owner permanently released software copies into the stream of commerce without expectation of return in exchange for upfront payment of the full software price. eBay contends that a broad view of the first sale doctrine is necessary to facilitate the creation of secondary markets for copyrighted works, which contributes to the public good by (1) giving consumers additional opportunities to purchase and sell copyrighted works, often at below-retail prices; (2) allowing consumers to obtain copies of works after a copyright owner has ceased distribution; and (3) allowing the proliferation of businesses.

[29] The ALA contends that the first sale doctrine facilitates the availability of copyrighted works after their commercial lifespan, by *inter alia* enabling the existence of libraries, used bookstores, and hand-to-hand exchanges of copyrighted materials. The ALA further contends that judicial enforcement of software license agreements, which are often contracts of adhesion, could eliminate the software resale market, require used computer sellers to delete legitimate software prior to sale, and increase prices for consumers by reducing price competition for software vendors. It contends that Autodesk's position (1) undermines 17 U.S.C. § 109(b)(2), which permits non-profit libraries to lend software for non-commercial purposes, and (2) would hamper efforts by non-profits to collect and preserve out-of-print software. The ALA fears that the software industry's licensing practices could be adopted by other copyright owners, including book publishers, record labels, and movie studios.

[30] These are serious contentions on both sides, but they do not alter our conclusion that our precedent … requires the result we reach. Congress is free, of course, to modify the first sale doctrine and the essential step defense if it deems these or other policy considerations to require a different approach….

NOTES

1. Reflect on the policy considerations in favor of labeling the transfers here as a license and those in favor of labeling them as a sale. Does copyright policy clearly favor one of these positions over the other? For thoughts on this question, see Aaron Perzanowski & Jason Schultz, *Reconciling Intellectual and Personal Property*, 90 NOTRE DAME L. REV. 1211 (2015). How do you weigh the importance of maintaining a broadly applicable first-sale doctrine against the importance of respecting contractual agreements that might seek to limit it? For an argument in favor of retaining property rights in products "bought" in the digital marketplace, including traditional copyright subject matter like books and music, see AARON PERZANOWSKI & JASON SCHULTZ, THE END OF OWNERSHIP: PERSONAL PROPERTY IN THE DIGITAL ECONOMY (2016), https://mitpress.mit.edu/books/end-ownership.

2. Shortly after *Vernor*, the Ninth Circuit issued another ruling on whether to understand a transfer of copies as a license or a sale of those copies, but this time concluded that the transfer was a sale. UMG Recordings, Inc. v. Augusto, 628 F.3d 1175 (9th Cir. 2011). In this case, UMG Recordings, one of the world's largest music companies, would

> *ship[] specially-produced promotional CDs to a large group of individuals, such as music critics and radio programmers, that it has selected. There is no prior agreement or request by the recipients to receive the CDs. UMG does not seek or receive payment for the CDs, the content and design of which often differs from that of their commercial counterparts.... Relatively few of the recipients refuse delivery of the CDs or return them to UMG, and UMG destroys those that are returned.*

Most of these CDs bore a statement like the following:

> *This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.*

Defendant Troy Augusto was not a direct recipient of promotional CDs from UMG, but he was able to acquire some of these CDs, which he sold on eBay. UMG sued Augusto for copyright infringement, particularly for violating its exclusive right to distribute the CDs, which UMG argued it retained because the CDs had only been licensed, not sold, to their recipients.

The Ninth Circuit disagreed, ruling that UMG had effected a sale by distributing the CDs to the original recipients. The court reasoned:

> *Our conclusion that the recipients acquired ownership of the CDs is based largely on the nature of UMG's distribution. First, the promotional CDs are dispatched to the recipients without any prior arrangement as to those particular copies. The CDs are not numbered, and no attempt is made to keep track of where particular copies are or what use is made of them.... [A]lthough UMG places written restrictions in the labels of the CDs, it has not established that the restrictions on the CDs create a license agreement....*
>
> *Because the record here is devoid of any indication that the recipients agreed to a license, there is no evidence to support a conclusion that licenses were established under the terms of the promotional statement. Accordingly, we conclude that UMG's transfer of possession to the recipients, without meaningful control or even knowledge of the status of the CDs after shipment, accomplished a transfer of title.*

Given that there was a first sale, the recipients and later Augusto were entitled—pursuant to the first-sale doctrine—to dispose of the CDs as they saw fit.

As you read the following case, consider which goals the court is trying to serve in its interpretation of the open-source license at issue. How does the court interpret the license in light of these particular goals?

Robert Jacobsen v. Matthew Katzer

535 F.3d 1373 (Fed. Cir. 2008)

HOCHBERG, J.:

[1] We consider here the ability of a copyright holder to dedicate certain work to free public use and yet enforce an "open source" copyright license to control the future distribution and modification of that work. Appellant Robert Jacobsen appeals from an order denying a motion for preliminary injunction. Jacobsen holds a copyright to computer programming code. He makes that code available for public download from a website without a financial fee pursuant to the Artistic License, an "open source" or public license. Appellees Matthew Katzer and Kamind Associates, Inc. develop commercial software products for the model train industry and hobbyists. Jacobsen accused Katzer/Kamind of copying certain materials from Jacobsen's website and incorporating them into one of Katzer/Kamind's software packages without following the terms of the Artistic License. Jacobsen brought an action for copyright infringement and moved for a preliminary injunction.

[2] The District Court held that the open source Artistic License created an "intentionally broad" nonexclusive license which was unlimited in scope and thus did not create liability for copyright infringement.

[3] On this basis, the District Court denied the motion for a preliminary injunction. We vacate and remand.

[4] Jacobsen manages an open source software group called Java Model Railroad Interface ("JMRI"). Through the collective work of many participants, JMRI created a computer programming application called DecoderPro, which allows model railroad enthusiasts to use their computers to program the decoder chips that control model trains. DecoderPro files are available for download and use by the public free of charge from an open source incubator website called SourceForge; Jacobsen maintains the JMRI site on SourceForge. The downloadable files contain copyright notices and refer the user to a "COPYING" file, which clearly sets forth the terms of the Artistic License.

[5] Katzer/Kamind offers a competing software product, Decoder Commander, which is also used to program decoder chips. During development of Decoder Commander, one of Katzer/Kamind's predecessors or employees is alleged to have downloaded the decoder definition files from DecoderPro and used portions of these files as part of the Decoder Commander software. The Decoder Commander software files that used DecoderPro definition files did not comply with the terms of the Artistic License. Specifically, the Decoder Commander software did not include (1) the author[] names, (2) JMRI copyright notices, (3) references to the COPYING file, (4) an identification of SourceForge or JMRI as the original source of the definition files, and (5) a description of how the files or computer code had been changed from the original source code. The Decoder Commander software also changed various computer file names of DecoderPro files without providing a reference to the original JMRI files or information on where to get the Standard Version.

[6] Jacobsen moved for a preliminary injunction, arguing that the violation of the terms of the Artistic License constituted copyright infringement and that, under Ninth Circuit law, irreparable harm could be presumed in a copyright infringement case. The District Court .... denied the motion for a preliminary injunction....

[7] Public licenses, often referred to as "open source" licenses, are used by artists, authors, educators, software developers, and scientists who wish to create collaborative projects and to dedicate certain works to the public. Several types of public licenses have been designed to provide creators of copyrighted materials a means to protect and control their copyrights. Creative Commons, one of the amici curiae, provides free copyright licenses to allow parties to dedicate their works to the public or to license certain uses of their works while keeping some rights reserved.

[8] Open source licensing has become a widely used method of creative collaboration that serves to advance the arts and sciences in a manner and at a pace that few could have imagined just a few decades ago. For example, the Massachusetts Institute of Technology uses a Creative Commons public license for an OpenCourseWare project that licenses all 1800 MIT courses. Other public licenses support the GNU/Linux operating system, the Perl programming language, the Apache web server programs, the Firefox web browser, and a collaborative web-based encyclopedia called Wikipedia. Creative Commons notes that, by some estimates, there are close to 100,000,000 works licensed under various Creative Commons licenses. The Wikimedia Foundation, another of the amici curiae, estimates that the Wikipedia website has more than 75,000 active contributors working on some 9,000,000 articles in more than 250 languages.

[9] Open Source software projects invite computer programmers from around the world to view software code and make changes and improvements to it. Through such collaboration, software programs can often be written and debugged faster and at lower cost than if the copyright holder were required to do all of the work independently. In exchange and in consideration for this collaborative work, the copyright holder permits users to copy, modify and distribute the software code subject to conditions that serve to protect downstream users and to keep the code accessible.[2] By requiring that users copy and restate the license and attribution information, a copyright holder can ensure that recipients of the redistributed computer code know the identity of the owner as well as the scope of the license granted by the original owner. The Artistic License in this case also requires that changes to the computer code be tracked so that downstream users know what part of the computer code is the original code created by the copyright holder and what part has been newly added or altered by another collaborator.

[10] Traditionally, copyright owners sold their copyrighted material in exchange for money. The lack of money changing hands in open source licensing should not be presumed to mean that there is no economic consideration, however. There are substantial benefits, including economic benefits, to the creation and distribution of copyrighted works under public licenses that range far beyond traditional license royalties. For example, program creators may generate market share for their programs by providing certain components free of charge. Similarly, a programmer or company may increase its national or international reputation by incubating open source projects. Improvement to a product can come rapidly and free of charge from an expert not even known to the copyright holder....

[11] The parties do not dispute that Jacobsen is the holder of a copyright for certain materials distributed through his website. Katzer/Kamind also admits that portions of the DecoderPro software were copied, modified, and distributed as part of the Decoder Commander software. Accordingly, Jacobsen has made out a prima facie case of copyright infringement. Katzer/Kamind argues that they cannot be liable for copyright infringement because they had a license to use the material. Thus, the Court must evaluate whether the use by Katzer/Kamind was outside the scope of the license. The copyrighted materials in this case are downloadable by any user and are labeled to include a copyright notification and a COPYING file that includes the text of the Artistic License. The Artistic License grants users the right to copy, modify, and distribute the software:

[2] For example, the GNU General Public License, which is used for the Linux operating system, prohibits downstream users from charging for a license to the software.

> *provided that [the user] insert a prominent notice in each changed file stating how and when [the user] changed that file, and provided that [the user] do at least ONE of the following:*
>
> > *a) place [the user's] modifications in the Public Domain or otherwise make them Freely Available, such as by posting said modifications to Usenet or an equivalent medium, or placing the modifications on a major archive site such as ftp.uu.net, or by allowing the Copyright Holder to include [the user's] modifications in the Standard Version of the Package.*
> >
> > *b) use the modified Package only within [the user's] corporation or organization.*
> >
> > *c) rename any non-standard executables so the names do not conflict with the standard executables, which must also be provided, and provide a separate manual page for each nonstandard executable that clearly documents how it differs from the Standard Version, or*
> >
> > *d) make other distribution arrangements with the Copyright Holder.*

[12] The heart of the argument on appeal concerns whether the terms of the Artistic License are conditions of, or merely covenants to, the copyright license. Generally, a copyright owner who grants a nonexclusive license to use his copyrighted material waives his right to sue the licensee for copyright infringement and can sue only for breach of contract. If, however, a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement.

[13] Thus, if the terms of the Artistic License allegedly violated are both covenants and conditions, they may serve to limit the scope of the license and are governed by copyright law. If they are merely covenants, by contrast, they are governed by contract law. The District Court did not expressly state whether the limitations in the Artistic License are independent covenants or, rather, conditions to the scope; its analysis, however, clearly treated the license limitations as contractual covenants rather than conditions of the copyright license.[3]

[14] Jacobsen argues that the terms of the Artistic License define the scope of the license and that any use outside of these restrictions is copyright infringement. Katzer/Kamind argues that these terms do not limit the scope of the license and are merely covenants providing contractual terms for the use of the materials, and that his violation of them is neither compensable in damages nor subject to injunctive relief. Katzer/Kamind's argument is premised upon the assumption that Jacobsen's copyright gave him no economic rights because he made his computer code available to the public at no charge. From this assumption, Katzer/Kamind argues that copyright law does not recognize a cause of action for non-economic rights, relying on *Gilliam v. ABC*, 538 F.2d 14, 20–21 (2d Cir.1976) ("American copyright law, as presently written, does not recognize moral rights or provide a cause of action for their violation, since the law seeks to vindicate the economic, rather than the personal rights of authors."). The District Court based its opinion on the breadth of the Artistic License terms, to which we now turn….

[15] The Artistic License states on its face that the document creates conditions: "The intent of this document is to state the *conditions* under which a Package may be copied." (emphasis added) The Artistic License also uses the traditional language of conditions by noting that the rights to copy, modify, and distribute are

---

[3] The District Court held that "Defendants' alleged violation of the conditions of the license may have constituted a breach of the nonexclusive license … [and] the Court finds that Plaintiff's claim properly sounds in contract." Thus, despite the use of the word "conditions," the District Court treated the terms of the Artistic License as contractual covenants which did not limit the scope of the license.

granted "*provided that*" the conditions are met. Under California contract law, "provided that" typically denotes a condition.

[16] The conditions set forth in the Artistic License are vital to enable the copyright holder to retain the ability to benefit from the work of downstream users. By requiring that users who modify or distribute the copyrighted material retain the reference to the original source files, downstream users are directed to Jacobsen's website. Thus, downstream users know about the collaborative effort to improve and expand the SourceForge project once they learn of the "upstream" project from a "downstream" distribution, and they may join in that effort.

[17] The District Court interpreted the Artistic License to permit a user to "modify the material in any way" and did not find that any of the "provided that" limitations in the Artistic License served to limit this grant. The District Court's interpretation of the conditions of the Artistic License does not credit the explicit restrictions in the license that govern a downloader's right to modify and distribute the copyrighted work. The copyright holder here expressly stated the terms upon which the right to modify and distribute the material depended and invited direct contact if a downloader wished to negotiate other terms. These restrictions were both clear and necessary to accomplish the objectives of the open source licensing collaboration, including economic benefit. Moreover, the District Court did not address the other restrictions of the license, such as the requirement that all modification from the original be clearly shown with a new name and a separate page for any such modification that shows how it differs from the original.

[18] Copyright holders who engage in open source licensing have the right to control the modification and distribution of copyrighted material. As the Second Circuit explained in *Gilliam v. ABC*, 538 F.2d 14, 21 (2d Cir.1976), the "unauthorized editing of the underlying work, if proven, would constitute an infringement of the copyright in that work similar to any other use of a work that exceeded the license granted by the proprietor of the copyright." Copyright licenses are designed to support the right to exclude; money damages alone do not support or enforce that right. The choice to exact consideration in the form of compliance with the open source requirements of disclosure and explanation of changes, rather than as a dollar-denominated fee, is entitled to no less legal recognition. Indeed, because a calculation of damages is inherently speculative, these types of license restrictions might well be rendered meaningless absent the ability to enforce through injunctive relief.

[19] In this case, a user who downloads the JMRI copyrighted materials is authorized to make modifications and to distribute the materials "provided that" the user follows the restrictive terms of the Artistic License. A copyright holder can grant the right to make certain modifications, yet retain his right to prevent other modifications. Indeed, such a goal is exactly the purpose of adding conditions to a license grant. The Artistic License, like many other common copyright licenses, requires that any copies that are distributed contain the copyright notices and the COPYING file.

[20] It is outside the scope of the Artistic License to modify and distribute the copyrighted materials without copyright notices and a tracking of modifications from the original computer files. If a [downloader] does not assent to these conditions stated in the COPYING file, he is instructed to "make other arrangements with the Copyright Holder." Katzer/Kamind did not make any such "other arrangements." The clear language of the Artistic License creates conditions to protect the economic rights at issue in the granting of a public license. These conditions govern the rights to modify and distribute the computer programs and files included in the downloadable software package. The attribution and modification transparency requirements directly serve to drive traffic to the open source incubation page and to inform downstream users of the project, which is a significant economic goal of the copyright holder that the law will enforce. Through this controlled spread of information, the copyright holder gains creative collaborators to the open source project; by requiring that changes made by downstream users be visible to the copyright holder and others, the copyright holder learns

about the uses for his software and gains others' knowledge that can be used to advance future software releases....

[21] .... Having determined that the terms of the Artistic License are enforceable copyright conditions, we remand to ... the District Court ....

C. Copyright Misuse

The cases you just read seem to suggest that copyright holders can limit all sorts of sub-uses of their copyrighted works, but can they upset the balance of copyright law using contracts or other mechanisms? In this section, we'll discuss that question through the lens of the doctrine of copyright misuse and, in the next section, we'll do the same with regard to preemption doctrine.

Copyright misuse is loosely analogous to the doctrine of patent misuse in patent law, where it is a "defense to infringement claims when a patentee uses its patent as the effective means of restraining competition[, such as] with its sale of an unpatented article." Ill. Tool Works Inc. v. Independent Ink, Inc., 547 U.S. 28, 38 (2006). Construed generally, copyright misuse tends to be asserted as a defense to infringement when "copyright ... holders assert their rights, not to protect from market harm to their protected works, but to protect other aspects of their market by using the protected work." Jeanne C. Fromer, *Should the Law Care Why Intellectual Property Rights Have Been Asserted?*, 53 HOUS. L. REV. 549, 565 (2015).

As you read this case, consider the theory of copyright misuse the defendant here is asserting. Is the defendant claiming to be a direct victim of this purported misuse? Does that matter? Consider carefully also the effect of a court's finding of copyright misuse on the infringement case and on the copyright's validity.

Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.

342 F.3d 191 (3d Cir. 2003)

AMBRO, J.: ...

[1] Video Pipeline compiles movie trailers onto videotape for home video retailers to display in their stores. To obtain the right to distribute the trailers used in the compilations, Video Pipeline enters into agreements with various entertainment companies. It entered into such an agreement, the Master Clip License Agreement, with Disney in 1988, and Disney thereafter provided Video Pipeline with over 500 trailers for its movies.

[2] In 1997, Video Pipeline took its business to the web .... The company maintains a database accessible from VideoPipeline.net, which contains movie trailers Video Pipeline has received throughout the years. Video Pipeline's internet clients—retail web sites selling home videos—use VideoPipeline.net to display trailers to site visitors.... The operators of the web sites from which the trailers are accessed—Video Pipeline's internet clients—pay a fee to have the trailers streamed [to site visitors] based on the number of megabytes shown to site visitors. Video Pipeline has agreements to stream trailers with approximately 25 online retailers, including Yahoo!, Amazon, and Best Buy....

[3] Video Pipeline included in its online database trailers it received under the License Agreement from Disney. Because the License Agreement did not permit this use, Disney requested that Video Pipeline remove the trailers from the database. It complied with that request.

[4] On October 24, 2000, however, Video Pipeline filed a complaint in the District Court for the District of New Jersey seeking a declaratory judgment that its online use of the trailers did not violate federal copyright law. Disney shortly thereafter terminated the License Agreement.

[5] Video Pipeline decided to replace some of the trailers it had removed at Disney's request from its database. In order to do so, it copied approximately two minutes from each of at least 62 Disney movies to create its own clip previews of the movies. (Again, to distinguish between the previews created under the copyright holder's authority and those created by Video Pipeline, we call the former "trailers" and the latter "clip previews" or "clips." We use the term "previews" generically.) …

[6] Disney also makes its trailers available online. It displays them on its own web sites in order to attract and to keep users there (a concept called "stickiness") and then takes advantage of the users' presence to advertise and sell other products. Disney has also entered into agreements to link its trailers with other businesses, and, for example, has such a link with the Apple Computer home page.

[7] Video Pipeline amended its complaint to seek a declaratory judgment allowing it to use the clip previews. Disney filed a counterclaim alleging copyright infringement. The District Court entered a preliminary injunction, later revised, prohibiting Video Pipeline from displaying clip previews of Disney films on the internet.…

[8] Video Pipeline … contends that Disney has misused its copyright and, as a result, should not receive the protection of copyright law. Video Pipeline points to certain licensing agreements that Disney has entered into with three companies and sought to enter into with a number of other companies operating web sites. Each of these licensing agreements provides that Disney, the licensor, will deliver trailers by way of hyperlinks for display on the licensee's web site. The Agreements further state:

> *The Website in which the Trailers are used may not be derogatory to or critical of the entertainment industry or of [Disney] (and its officers, directors, agents, employees, affiliates, divisions and subsidiaries) or of any motion picture produced or distributed by [Disney] … [or] of the materials from which the Trailers were taken or of any person involved with the production of the Underlying Works. Any breach of this paragraph will render this license null and void and Licensee will be liable to all parties concerned for defamation and copyright infringement, as well as breach of contract.…*

[9] As Video Pipeline sees it, such licensing agreements seek to use copyright law to suppress criticism and, in so doing, misuse those laws, triggering the copyright misuse doctrine.

[10] Neither the Supreme Court nor this Court has affirmatively recognized the copyright misuse doctrine. There is, however, a well-established patent misuse doctrine, and, as noted below, other courts of appeals have extended the doctrine to the copyright context.

[11] The misuse doctrine extends from the equitable principle that courts may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest. Misuse is not cause to invalidate the copyright or patent, but instead precludes its enforcement during the period of misuse. To defend on misuse grounds, the alleged infringer need not be subject to the purported misuse.

[12] Misuse often exists where the patent or copyright holder has engaged in some form of anti-competitive behavior. *See, e.g.*, Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942) (explaining that public policy "forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office"); Practice Management Info. Corp. v. Am. Med. Ass'n, 121 F.3d 516 (9th Cir. 1997) (finding copyright misuse where license to use copyrighted good prohibited licensee from using competing goods); Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990) (holding the copyright holder misused its copyright by including in licensing agreements a provision that neither the licensee company nor its officers, employees, *et al.*, could develop competing goods for the term of the agreement, ninety-nine years). More on point, however, is the underlying policy rationale for the misuse doctrine set out in the Constitution's Copyright and Patent Clause: "to promote the Progress of Science and useful Arts." The ultimate aim of copyright law is to stimulate artistic creativity for the general public good. Put simply, our Constitution emphasizes the purpose and value of copyrights and patents. Harm caused by their misuse undermines their usefulness.

[13] Anti-competitive licensing agreements may conflict with the purpose behind a copyright's protection by depriving the public of the would-be competitor's creativity. The fair use doctrine and the refusal to copyright facts and ideas also address applications of copyright protection that would otherwise conflict with a copyright's constitutional goal. But it is possible that a copyright holder could leverage its copyright to restrain the creative expression of another without engaging in anti-competitive behavior or implicating the fair use and idea/expression doctrines.

[14] For instance, the concurring opinion, written for a majority of the judges, in *Rosemont Enters., Inc. v. Random House, Inc.*, 366 F.2d 303 (2d Cir. 1966), concluded that pursuant to the unclean hands doctrine the District Court should not have entered a preliminary injunction against an alleged copyright infringer where the copyright holder sought to use his copyright "to restrict the dissemination of information." In *Rosemont Enters.*, a corporation acting for the publicity-shy Howard Hughes purchased the copyright to an article about Hughes solely to bring an infringement suit to enjoin the publication of a forthcoming biography on Hughes. The concurring opinion reasoned:

> *The spirit of the First Amendment applies to the copyright laws at least to the extent that the courts should not tolerate any attempted interference with the public's right to be informed regarding matters of general interest when anyone seeks to use the copyright statute which was designed to protect interests of quite a different nature.*

[15] Although *Rosemont Enters.* did not concern an anti-competitive licensing agreement as in the typical misuse case, it focused—as do the misuse cases—on the copyright holder's attempt to disrupt a copyright's goal to increase the store of creative expression for the public good. A copyright holder's attempt to restrict expression that is critical of it (or of its copyrighted good, or the industry in which it operates, etc.) may, in context, subvert—as do anti-competitive restrictions—a copyright's policy goal to encourage the creation and dissemination to the public of creative activity.

[16] The licensing agreements in this case do seek to restrict expression by licensing the Disney trailers for use on the internet only so long as the web sites on which the trailers will appear do not derogate Disney, the entertainment industry, etc. But we nonetheless cannot conclude on this record that the agreements are likely to interfere with creative expression to such a degree that they affect in any significant way the policy interest in increasing the public store of creative activity. The licensing agreements do not, for instance, interfere with the licensee's opportunity to express such criticism on other web sites or elsewhere. There is no evidence that the public will find it any more difficult to obtain criticism of Disney and its interests, or even that the public is considerably less likely to come across this criticism, if it is not displayed on the same site as the trailers.... Finally, copyright law, and the misuse doctrine in particular, should not be interpreted to require Disney, if it licenses its trailers for display on any web sites but its own, to do so willy-nilly regardless of the

content displayed with its copyrighted works. Indeed such an application of the misuse doctrine would likely decrease the public's access to Disney's works because it might as a result refuse to license at all online display of its works.

[17] Thus, while we extend the patent misuse doctrine to copyright, and recognize that it might operate beyond its traditional anti-competition context, we hold it inapplicable here. On this record Disney's licensing agreements do not interfere significantly with copyright policy (while holding to the contrary might, in fact, do so). The District Court therefore correctly held that Video Pipeline will not likely succeed on its copyright misuse defense….

NOTES

1. Kathryn Judge criticizes existing copyright misuse doctrine, and:

> *calls for a clarification of the policy goals protected by misuse and for the adoption, where possible, of rules (or standards) to protect the identified policy goals. Copyright misuse already has been most accepted in an area where we have a clear policy goal and a defined line to protect it—competition and antitrust law. Yet many of the cases invoking copyright misuse, while rationalized as necessary to protect copyright policy, fail to specify the public policy at stake and how the copyright holder's misuse undermines that policy. This clarification should not only assist courts in adjudicating copyright misuse claims, but should also enhance the doctrine's efficacy by putting copyright holders on notice of what constitutes misuse.*
>
> *Examination of the cases applying and commentary discussing copyright misuse suggests that recognizing one additional policy aim and a couple of guidelines to protect it should be sufficient to encompass the great majority of violations the doctrine has thus far been asked to address. That policy is the protection of the values embodied in the First Amendment and the protective guidelines are the idea/expression distinction and fair use. Specifically, … any attempt by a copyright holder to expand the scope of his copyright to gain control over an idea or to deter fair use should constitute misuse.*

Note, Kathryn Judge, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901, 904-05 (2004). Do you agree with Judge's assessment? How would applying her recommendations affect the outcome in *Video Pipeline*? For an argument that "copyright misuse should be decoupled from its basis in antitrust principles and instead should be based primarily in First Amendment speech principles," see David S. Olson, *First Amendment Based Copyright Misuse*, 52 WM. & MARY L. REV. 537 (2010).

2. Is the copyright misuse defense necessary if the copyright holder is acting anticompetitively in violation of the antitrust laws? When?

As you read the following case, consider a theory of how Omega might be misusing its copyright and how that theory relates to those considered in *Video Pipeline*.

Omega S.A. v. Costco Wholesale Corp.

776 F.3d 692 (9th Cir. 2015)

{Before the *Kirtsaeng* case you studied in Chapter V on the importation right, the U.S. Supreme Court had granted certiorari in this case to address the same issue about the first-sale doctrine's applicability with regard to the importation right. In this case, Costco had bought Omega watches abroad for less than their sale price in the United States, whereupon Costco sold them more cheaply in the United States than that sale price. The Supreme Court, sitting without Justice Kagan, deadlocked 4-4 on whether the first-sale doctrine applied to imports, which left the earlier Ninth Circuit decision in place that had held that it did not (which the Supreme Court later overturned in *Kirtsaeng*). On remand, the district court granted summary judgment to Costco on the ground that Omega misused its copyright.}

NELSON, J.: …

[1] Omega manufactures luxury watches in Switzerland, which it distributes around the world. One of Omega's high-end watches, the Seamaster, sometimes bears an engraving of the Omega Globe Design. Omega obtained a copyright for the Omega Globe in March 2003. Omega began selling some Seamaster watches with engraved reproductions of the Omega Globe in September 2003.

[2] Omega distributes its watches, including the Seamaster, through authorized distributors and dealers throughout the world, including the United States. In 2003, Costco and Omega discussed the possibility of Costco carrying Omega watches. The parties did not come to an agreement and Costco never became an authorized Omega retailer.

[3] In 2004, Costco purchased 117 Seamaster watches bearing the Omega Globe on the so-called "gray market." First, Omega sold the watches to authorized foreign distributors. Next, unidentified third parties purchased the watches and sold them to ENE Limited, a New York company. Costco purchased the watches from ENE Limited. Costco then sold 43 of those watches to its members in California. Omega undoubtedly authorized the initial sale of the watches but did not approve the importation of the watches into the United States or Costco's later sale of the watches.

[4] Omega sued Costco for copyright infringement, specifically the importation of copyrighted work without the copyright holder's permission.…

[5] On remand [from the Supreme Court], the district court again granted summary judgment to Costco, finding that Omega misused its copyright of the Omega Globe to expand its limited monopoly impermissibly.…

[6] While briefing in this matter was pending, the Supreme Court revisited the first sale doctrine in *Kirtsaeng*, 133 S. Ct. at 1355.…

[7] It is clear [from the *Kirtsaeng* ruling] that Omega has no infringement cause of action against Costco. Omega's only allegation is that Costco violated Omega's copyright-based importation and distribution rights by selling gray market watches without a prior authorized first sale in the United States. Omega concedes

that it authorized a first sale of the watches in a foreign jurisdiction. Omega's right to control importation and distribution of its copyrighted Omega Globe expired after that authorized first sale, and Costco's subsequent sale of the watches did not constitute copyright infringement….

WARDLAW, J., concurring in the judgment:

[8] The district court granted summary judgment … to Costco based on the defense of copyright misuse. The majority affirms the district court relying upon the *Kirtsaeng*-resurrected first sale doctrine …. I concur in the judgment affirming the district court, but do so based on the district court's rationale for granting summary judgment—copyright misuse—and the arguments actually presented to us….

[9] The majority opinion fails to do justice to the facts presented by this unique lawsuit. Costco is one of America's largest retailers. It is well known that Costco's discount warehouses sell everything from pallets of toilet paper to slices of pizza. But only card-carrying members know that Costco also sells a wide range of luxury goods, including Dom Pérignon Champagne, Waterford crystal, Dolce & Gabbana handbags, and, until this lawsuit was filed, Omega watches.

Omega sued Costco for copyright infringement because Costco sold, without Omega's permission, forty-three genuine Omega watches in the United States. Each watch Costco sold was engraved with a copyrighted Omega design, which Costco did not have permission to use. The district court concluded, however, that because Omega placed the Globe Design on its watches at least in part to control the importation and sale of Omega watches in the United States, Omega had misused its copyright. In District Court Judge Terry Hatter's words, Omega impermissibly "used the defensive shield of copyright as an offensive sword." …

[10] Omega is a Swiss luxury watchmaker which distributes and sells its watches around the world through authorized distributors and retailers. It is also a wholly-owned subsidiary of the Swiss corporation the Swatch Group, Ltd. The Swatch Group (U.S.), Inc. is Omega's authorized and exclusive distributor in the United States. Costco, a U.S. corporation, operates membership warehouse clubs which sell merchandise, including brand-name watches, to their members at lower prices than are available through many other retailers.

[11] Sometime before March 2003, Swatch U.S.A. learned that Costco was selling genuine Omega watches in the United States without Omega's authorization. Costco had circumvented Omega's distribution model and procured the Omega watches through the "gray market." Gray market goods, or parallel imports, are genuine brand-name products typically manufactured abroad, purchased, and imported into the United States by third parties. Retailers are able to sell these products at a discount through arbitrage, e.g., if Omega's watches retail for less in Morocco than in the United States, and Costco procures the watches at the Moroccan price and then imports them into the United States, Costco can undercut the authorized U.S. retailers. Costco was only the latest in a series of unauthorized retailers selling Omega watches in the United States. Because Costco and the other "unauthorized" retailers were selling Omega watches at far lower prices than Omega's suggested retail price, Swatch U.S.A. began to receive complaints from authorized Omega retailers.[3] Swatch U.S.A.'s then-president was faced with a mounting distribution problem. To increase Swatch U.S.A.'s control over Omega watches in the United States, Swatch U.S.A.'s president took action "to stem the tide of the gray market."

[12] Swatch U.S.A.'s legal department devised a strategy to use copyright protection to strengthen Omega's control over the importation of Omega watches into the United States. On March 12, 2003, Omega registered its "Globe Design" for U.S. copyright protection, and then began engraving a miniscule Globe Design on the

[3] When this lawsuit was filed in 2004, Omega's suggested retail price for the Omega "Seamaster," one of the brand's best-selling watches and the watch that is at the center of this copyright dispute, was $1,995. Costco sold the watch for the price of $1,299.

underside of the best-selling Seamaster watch. Although the Omega Seamaster was the first product line engraved with the Globe Design, Omega's plan was to eventually place copyrighted engravings on many of Swatch U.S.A.'s product lines and use the design's copyright protection to prevent unauthorized retailers from selling Omega's watches.[4]

[13] On remand [from the U.S. Supreme Court in the ensuing lawsuit], the parties … cross-moved for summary judgment…. [T]he district court granted Costco's motion for summary judgment, based on the equitable defense of copyright misuse. The district court found that the purpose of Omega's lawsuit was to "stem the tide of the grey market" and the "unauthorized importation of Omega watches into the U.S." Omega had conceded that it had affixed the copyrighted Globe Design to the underside of its watches to take advantage of section 602 of the Copyright Act, which makes the importation of copyrighted goods into the United States without the copyright owner's authorization a violation of the owner's exclusive right to distribute. The district court concluded that Omega misused its copyright in the Globe Design by leveraging its limited monopoly over the design to control the importation and sale of Seamaster watches….

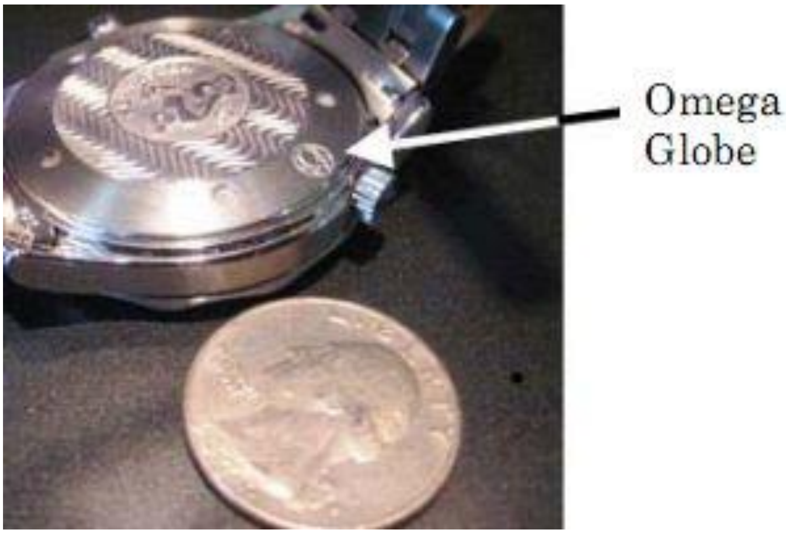

Figure 140: Omega watch globe, as compared with U.S. Quarter

[14] Because Omega's watches are useful articles, they are not copyrightable, with some possible exceptions not before us. Because the watches are not the proper subject of copyright protection, Omega does not argue that Costco infringed copyrights protecting its watches, the argument upon which the majority rests its opinion. Instead, it argues that Costco infringed its limited monopoly over the copyrighted Globe Design, which was engraved on the watches that Costco sold.

[15] Inherent in granting a copyright owner the exclusive right to reproduce his works is the risk that he will abuse the limited monopoly his copyright provides by restricting competition in a market that is beyond the scope of his copyright. An owner's attempt to impermissibly expand his lawful protection from competition contravenes not only the policy of the copyright laws, but also the central purpose of the antitrust laws. Copyright misuse is a judicially crafted affirmative defense to copyright infringement designed to combat the impermissible extension of a copyright's limited monopoly. Its purpose is to prevent holders of copyrights from leveraging their limited monopoly to allow them control of areas outside the monopoly.

[4] Although Omega had been engraving artistic designs, such as its "Seahorse," on the underside of its watches for decades as "a mark of prestige and luxury and identification," the Globe Design was markedly different. By contrast to the "Seahorse," which was prominently displayed on the watch's underside, the Globe Design measured only one-eighth of an inch in diameter—roughly the size of the hole in a Cheerio. Also, unlike it had with the "Seahorse," Omega neither advertised nor promoted the Globe Design.

[16] The defense of copyright misuse, however, is not limited to discouraging anti-competitive behavior. Indeed, the question is not whether the copyright is being used in a manner violative of antitrust law, but whether the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright.... [C]opyright misuse does not invalidate a copyright, but precludes its enforcement during the period of misuse.

[17] The copyright misuse doctrine forbids the use of the copyright to secure an exclusive right or limited monopoly not granted by the Copyright Office. The defense is often applied when a defendant can prove either: (1) a violation of the antitrust laws; (2) that the copyright owner otherwise illegally extended its monopoly; or (3) that the copyright owner violated the public policies underlying the copyright laws. We have discussed copyright misuse in only a handful of published opinions. But while we have applied the doctrine sparingly, copyright misuse is a valid defense, the contours of which are still being defined....

[18] .... This appeal presents the novel issue whether Omega's attempted use of its Globe Design copyright to control imports and restrict competition from unauthorized retailers of its watches, which are neither copyrightable nor copyrighted, constitutes copyright misuse....

[19] The district court correctly held that Omega misused its copyright "by leveraging its limited monopoly in being able to control the importation of [the Globe Design] to control the importation of its Seamaster watches." The district court did not clearly err in finding that: (1) Omega copyrighted the Globe Design, at the advice of its legal department, to control the importation and distribution of Omega watches into the United States; and (2) Omega told its authorized distributors that the purpose of suing Costco was to "stem the tide of the grey market" and the "unauthorized importation of Omega watches into the U.S." In other words, Omega attempted to use the copyrighted Globe Design to decrease competition in the U.S. importation and distribution of its watches by it and its authorized dealers—an obvious leveraging of a copyright to control an area outside its limited monopoly on the design.

[20] Omega argues that its anti-competitive motives are irrelevant to the issue of copyright misuse. According to Omega, our inquiry should instead focus on the copyright holder's objective conduct or use. But Omega's semantic hairsplitting is unpersuasive. By definition, "use" includes an inquiry into purpose. *See* BLACK'S LAW DICTIONARY 1681 (9th ed. 2009) (defining "use" as "The application or employment of something; esp., a long-continued possession and employment of a thing *for a purpose* for which it is adapted") (emphasis added). However, we need not decide whether Omega's motives are sufficient to establish copyright misuse. The undisputed record shows that before this lawsuit consumers were able to a buy a genuine Omega Seamaster watch from Costco for 35% less than Omega's suggested retail price. This is no longer the case. Thus, at least one consequence of Omega's lawsuit has been a reduction of intrabrand price competition for uncopyrightable Omega watches in the United States.

[21] Lastly, because copyright misuse is an equitable defense to an infringement action, the core of our inquiry is whether equity may rightly withhold its assistance from such a use of the copyright by declining to entertain a suit for infringement until the improper practice has been abandoned and the consequences of the misuse of the copyright have been dissipated. If Omega was using its copyright in a manner contrary to public policy, we, as a court of equity, may refuse to aid such misuse.

[22] Equity supports the district court's refusal to enforce Omega's copyright in its Globe Design against Costco during the period of Omega's misuse. Omega wielded its copyrighted Globe Design to restrict unauthorized retailers from selling genuine Omega watches procured from the gray market. Indeed, in his deposition, Swatch U.S.A.'s president agreed that the "whole purpose" of creating the Globe Design in the first place was to prevent unauthorized retailers from selling Omega watches. Because unauthorized retailers, such as Costco, were selling gray market Omega watches in the United States below Omega's suggested

retail price, Omega attempted to maintain the price of its watches sold in the United States by inconspicuously engraving the copyrighted Globe Design on the underside of its Seamaster watches. Even drawing all reasonable inferences in Omega's favor, there is no genuine dispute as to whether Omega sued Costco for copyright infringement at least in part to control the unauthorized importation and sale of Omega watches. Thus, the district court did not err in granting Costco's motion for summary judgment on the copyright misuse defense....

[23] Omega's right to control distribution of its copyrighted work is not limitless. The Supreme Court has made clear that the property right granted by copyright law cannot be used with impunity to extend power in the marketplace beyond what Congress intended. Copyright misuse bars a culpable plaintiff from prevailing on an action for the infringement of the misused copyright. The Copyright Office granted Omega the exclusive right to control the importation and distribution of the Globe Design into the United States. It did not empower Omega to restrict competition from unauthorized retailers selling genuine, gray market Seamaster watches in the United States. Although the Globe Design engraved on the underside of the Seamaster watches was copyrighted, Omega misused its copyright when it used its intellectual property protection to obtain a copyright-like monopoly over uncopyrightable Seamaster watches. Omega's expansion of its copyright-like monopoly eliminated competition from unauthorized watch retailers like Costco, thereby allowing Omega to control—through its exclusive distributor, Swatch U.S.A.—the retail pricing of Seamaster watches sold in the United States. If the copyright law allowed Omega to use its copyright to combat the importation and sale of all gray market watches that are stamped with the Globe Design, it would effectively grant Omega a copyright-like monopoly over the distribution and sale of Omega watches in the United States. Because such an outcome directly controverts the aims of copyright law, it is impermissible....

[24] .... Even when drawing all reasonable inferences in Omega's favor, there is no genuine dispute concerning whether restricting retail competition was one of the reasons Omega sued Costco for copyright infringement.

[25] Omega had other available remedies. It could have terminated its distribution agreements with the distributors that sold Omega watches outside of their designated territories. Or, if Omega believed that Costco, or intermediaries like ENE Limited, were inducing distributors to breach their contracts, Omega may have been able to sue them for tortious interference. Instead, Omega improvidently decided to sue Costco for copyright infringement. By doing so, Omega misused the Congressionally limited power of copyright protection to address a problem better left for other avenues of relief.

[26] .... Because the district court correctly held that Omega misused its copyright in the Globe Design by attempting to leverage its limited monopoly over the design to control the importation and sale of Seamaster watches, I would affirm the district court on the issue of copyright misuse.

NOTES

1. For purposes of assessing copyright misuse (or any other copyright doctrine, for that matter), does it and should it matter why a copyright holder is asserting its rights? Jeanne Fromer observes that not all those who assert infringement of their copyright are doing so because they think they've experienced copyright harm: "a not insignificant number of assertions of copyright ... rights against third parties seek not to protect these interests, but others, such as privacy, protection of ancillary markets, or mere extraction of rents without making a sufficient contribution to society." Jeanne C. Fromer, *Should the Law Care Why Intellectual Property Rights Have Been Asserted?*, 53 HOUS. L. REV. 549, 551 (2015). Fromer reasons that "assertions of rights with ill-fitting motivations are sufficiently worrisome that courts ought to strongly consider weighing these motivations before granting relief." Why? She elaborates:

> *The biggest worry is that these assertions will distort the intellectual property system, causing harm to society. There are two related worries of distortion and harm. First, … copyright … law[is] calibrated to offer up incentive to create and disseminate valuable works to benefit society, but limited in time and scope to ameliorate the costs that the incentive of exclusive rights imposes on society. On this view, copyright … law[was] designed with particular scenarios in mind, and [its] costs and benefits are attuned to those scenarios. Assertions of intellectual property outside of these scenarios can impose greater cost on society than the intellectual property laws had anticipated without concomitant benefit.… Allowing copyright … claims to succeed[, for example,] when the rightsholder has not contributed much to societal progress in ways that matter to the law's foundations are troubling, because they impose the cost of protection on society without a corresponding gain. Similarly, assertions of protection for markets beyond the protected market—be they in relation to privacy and reputational interests or more generally—raise the specter of great cost to society. If rights are protected in those cases, they are likely to impose an additional cost on society because they will be imposing restrictions on market interests outside of the copyright … system in addition to those within. On this reasoning, it makes sense for courts to screen out assertions of copyright … rights by plaintiffs with motivations unrelated to the intellectual property system.*
>
> *More subtly, there is another distortion and harm that can be imposed by assertions of intellectual property with motives mismatched to copyright … laws.… [C]ourts' interpretations of … copyright laws can be influenced by the plaintiff's mismatched motivation. These interpretations, if not carefully and explicitly tailored to the particular circumstances of the plaintiff's motivation for asserting rights, can affect others with more typical motivations for asserting their rights.*

Do you agree that a plaintiff's motivations for asserting copyright sometimes ought to affect a court's decision? If so, how should courts respond to assertions of copyright infringement with ill-fitting motivations?

2. A party who has engaged in copyright misuse is restrained from enforcing the copyright or copyrights that have been misused, and such restraint is imposed until the misuse has been "cured." A recent case is instructive on how a plaintiff can cure copyright misuse. In this case, Disney had been distributing some of its movies in Combo Packs, which included a Blu-Ray disc, a DVD, and an alphanumeric code that could be redeemed online to stream or download a digital copy. Small print on the outside of the Combo Pack boxes stated that "Codes are not for sale or transfer." Even finer print on the boxes' bottom stated that "Terms and Conditions apply" with regard to the digital codes. The download code includes instructions for download and also states that "Codes are not for sale or transfer." The download website states—along with other terms—that by redeeming a code, the user "represents that [he] is the owner of the physical product that accompanied the digital code at the time of purchase. The redemption of a digital code sold or transferred separate from the original physical product is prohibited."

Disney sued Redbox for contributory copyright infringement for purchasing Disney's Combo Packs, disaggregating the three items in the packs, and then offering each for separate distribution (including the download codes for sale). Disney maintained that Redbox's resale of Combo Pack digital download codes encouraged end users to make unauthorized reproductions of Disney's copyrighted works.

The district court denied Disney a preliminary injunction on the ground that it was unlikely to succeed on the merits due to its commission of copyright misuse. Disney Enters., Inc. v. Redbox Automated Retail, LLC, No. CV 17–08655 DDP (AGRx), 2018 WL 1942139 (C.D. Cal. Feb. 20, 2018). The court elaborated:

> *Disney's copyrights do not give it the power to prevent consumers from selling or otherwise transferring the Blu-ray discs and DVDs contained within Combo Packs.... Nevertheless, the terms of [the] digital download services' license agreements purport to give Disney a power specifically denied to copyright holders by § 109(a). [They] require[] redeemers to represent that they are currently the owner of the physical product that accompanied the digital code at the time of purchase .... Thus, Combo Pack purchasers cannot access digital movie content, for which they have already paid, without exceeding the scope of the license agreement unless they forego their statutorily-guaranteed right to distribute their physical copies of that same movie as they see fit. This improper leveraging of Disney's copyright in the digital content to restrict secondary transfers of physical copies directly implicates and conflicts with public policy enshrined in the Copyright Act, and constitutes copyright misuse.*

(Note that the court finds copyright misuse even though all of the content that Disney seeks to control is protected by copyright law, by contrast with *Omega*.) Disney responded by expeditiously revising its terms in an attempt to cure the misuse (and bolster its copyright infringement claim). Among other things, the new terms no longer required physical possession of the physical products contained in the Combo Packs to download but instead required that the digital code "may be redeemed only by an individual who obtains the code in the original combination disc + code package" and that "[d]igital codes are not authorized for redemption if sold separately." The district court thought that, in light of this and other changed language, Disney had now shown a likelihood of success on its claim for copyright infringement and granted a preliminary injunction against Redbox. Disney Enters., Inc. v. Redbox Automated Retail, LLC, 336 F. Supp. 3d 1146 (C.D. Cal. 2018). In so doing, the court ruled that Disney could move forward to enforce its copyrights because it was no longer misusing its copyrights. The court explained that Disney's "revised terms do not encroach upon disc owners' alienation rights or improperly expand Disney's power beyond the sphere of copyright. Under the revised terms, Combo Pack purchasers and recipients continue to enjoy digital access regardless whether they keep or dispose of the physical discs."

3. Do you think copyright misuse is better left as an affirmative defense to copyright infringement? Or would it be preferable to create an affirmative cause of action that can be brought for copyright misuse?

4. Can copyright non-use ever constitute copyright misuse? If not, should the defense be expanded to include it under appropriate circumstances?

D. Preemption

In addition to copyright misuse, courts might also restrict the operation of contract law by invoking preemption when the state law of contracts conflicts in certain ways with the operation of the federal copyright law. Contract law is not the only state law that can conflict with copyright law, and we will also touch on the ways that copyright law can preempt the operation of other state laws. Usually, these state laws expand copyright protection, but the relevant state laws might theoretically also contract copyright protection. Both categories of state law raise preemption issues.

Think for a moment about many of the categories of material you've already learned about that copyright law has been held not to protect: these include (just to name a few) databases lacking originality, soundalike sound recordings, ideas, historical facts, and many useful articles. Can state law protect these categories in spite of their lack of protection under federal copyright law, either by providing outright protection to these categories or by enforcing contracts between private parties that provide a form of this protection between the contracting parties?

Recall that the Constitution grants Congress authority "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Pursuant to this grant of power, Congress has enacted copyright law. Take a step back for a moment to consider why the Framers might have been motivated to federalize copyright law in the first instance. The primary rationale was to provide a uniform national copyright law. Previously, a number of states had had copyright laws, but the differences inhibited the development of national markets: the substantive rules could vary from state to state—meaning, for example, that the authors of a work might be different depending on the state—and the administrative burdens were greater, with a need to register copyright in each state or bring suit in each state. The 1790 Act aimed to displace state copyright laws and bring published authors into the federal copyright protection scheme. Uniformity was also a strong motivator for bringing unpublished works into federal copyright law in the 1976 Act.

Does this desire for uniformity in copyright law indicate that states can play no role in supplementing or changing copyright law at all? This question is analyzed under the rubric of preemption. The Supremacy Clause of the Constitution provides a basis for preemption of state law by federal law. The Clause provides that "[t]h[e] Constitution, and the Laws of the United States which shall be made in pursuance thereof; and all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land." U.S. CONST. art. IV, cl. 2.

Generally, the Supreme Court has classified three different types of preemption of state law: **express preemption**, **field preemption**, and **conflict preemption**. Pac. Gas & Elec. Co. v. State Energy Res. Conservation & Dev. Comm'n, 461 U.S. 190 (1983). Express preemption occurs when Congress legislates, in a lawful exercise of authority, to state explicitly how its laws preempt state laws. The other two forms of preemption are implicit. Field preemption dictates that federal law supersedes state law when there is a "scheme of federal regulation so pervasive as to make reasonable the inference that Congress left no room to supplement it," either "because the federal interest [in the field] is so dominant or because the object sought to be obtained by the federal law and the character of obligations imposed by it may reveal the same purpose." *Id.* at 204. Conflict preemption "arises when compliance with both federal and state regulations is a physical impossibility or where state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Id.* A state law is preempted by federal law if any one or more of these three categories of preemption is found.

Consider first field preemption in the context of copyright law. The Supreme Court's rulings seem to reject the possibility of field preemption for copyright law. In particular, in *Goldstein v. California*, 412 U.S. 546 (1973), the Court rejected a preemption challenge to a California law criminalizing unauthorized copying of sound recordings with intent to sell them, at a time when federal copyright law did not yet confer protection on sound recordings. The Court reasoned that "[a]lthough the Copyright Clause … recognizes the potential benefits of a national system, it does not indicate that all writings are of national interest or that state legislation is, in all cases, unnecessary or precluded." This statement seems to reject field preemption for copyright law.

Now consider conflict preemption in the context of federal intellectual property laws. Conflict preemption can be complex and hard to model, but to give you a feel for it, let's look at two Supreme Court decisions on conflict preemption, one that concludes that there isn't conflict preemption and one that concludes that there is.

In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), the Supreme Court held that the federal patent laws did not preempt state contract law "to preclude enforcement of a contract to pay royalties to a patent applicant, on sales of articles embodying the putative invention, for so long as the contracting party sells them, if a patent is not granted." In that case, the parties had contracted for a specific royalty rate, which would be de-escalated by half were no patent to issue within five years. The Court thought that the contract at issue complemented, rather than interfered with, the balance effectuated by the federal patent scheme. It thought that the royalty contract provided an extra incentive to innovate, did not discourage patenting, promoted disclosure by encouraging the invention's commercialization, and did not remove any unpatented invention from the public domain (as the invention had not truly been in the public domain at the time of contracting and remained available to anyone else to use freely once the patent was not granted).

The Supreme Court considered patent law's preemptive effect again in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), in ruling on the constitutionality of a Florida law prohibiting the use of direct molding to duplicate for sale any manufactured vessel hull or component thereof without permission. The Court held that federal patent law preempted the state law. It reasoned that the U.S. Constitution's Intellectual Property Clause "reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'" As such, the Court continued, progress of science and useful arts is promoted—and authorized—only when rights of limited duration are granted and when the public domain is guarded against removals of material therein. To the Court, the patent laws effectuate this balance with its requirements of novelty and nonobviousness, which ensure that the public domain is the norm rather than the exception, and patent law's disclosure rules, which induce a public sharing of information for the benefit of the public domain. Through this analytical lens, the Court reasoned that the Florida law was preempted, as it upset this balance. For one thing, the state law's purpose was the same as that set out in the Intellectual Property Clause: to promote technological progress. Additionally, it sought to accomplish that goal by upsetting patent law's balance between promoting innovation through rights and competition, by providing producers with protection over unpatentable designs, which by the federal scheme, ought to be in the public domain.

In explaining the different result in *Aronson*, the *Bonito Boats* Court observed:

> *We have … reaffirmed the pragmatic approach which [we] take[] to the pre-emption of state laws dealing with the protection of intellectual property.* See Aronson*, 440 U.S. at 262 ("State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law."). At the same time, we have consistently reiterated the teaching of [other cases] that ideas once placed before the public without the protection of a valid patent are subject to appropriation without significant restraint.*

Do you think that *Aronson* and *Bonito Boats* are reconcilable in their approaches? For an argument that they are, see Paul Heald, *Federal Intellectual Property Law and the Economics of Preemption*, 76 IOWA L. REV. 959 (1991).

If nothing else, the different results in *Aronson* and *Bonito Boats*—not to mention many other decisions on conflict preemption by federal intellectual property laws—might underscore that even if the general framework for evaluating conflict preemption is clear, its application is not always evident. For an argument that courts' analyses of conflict preemption would be clarified and sharpened were courts to take account of the Intellectual Property Clause in their analyses, see Jeanne C. Fromer, *The Intellectual Property Clause's Preemptive Effect*, *in* INTELLECTUAL PROPERTY AND THE COMMON LAW 265 (Shyamkrishna Balganesh ed., 2013). In particular, Fromer argues that "state laws are preempted when they both fall within the IP Clause's preemptive scope and upset the IP Clause's balance, as instantiated by federal law."

Express preemption is also relevant to copyright law. In its 1976 revision of copyright law, Congress included a preemption provision in § 301. Section 301(a) provides that state laws are preempted when two conditions are met: (1) they confer "legal or equitable rights that are equivalent to any of the exclusive rights" provided by federal copyright law; and (2) they protect "works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103" of the copyright laws. Section 301 was intended to clarify copyright's preemptive reach. (For a thorough history of this provision, see Howard B. Abrams, *Copyright, Misappropriation, and Preemption: Constitutional and Statutory Limits of State Law Protection*, 1983 SUP. CT. REV. 509.)

Despite the seeming determinacy of the Copyright Act's express preemption provision, the often-conflicting judicial decisions construing and applying § 301 underscore that, however express the preemption, analysis of the preemption provision's scope is anything but clear. In particular, when is a state right equivalent to copyright's exclusive rights, as the first factor requires? Most courts find that a state right is not preempted under § 301 when it contains an "extra element" not found under federal copyright protection. For example, the Sixth Circuit holds:

> *Equivalency exists if the right defined by state law may be abridged by an act which in and of itself would infringe one of the exclusive rights. Conversely, if an extra element is required instead of or in addition to the acts of reproduction, performance, distribution or display in order to constitute a state-created cause of action, there is no preemption, provided that the extra element changes the nature of the action so that it is qualitatively different from a copyright infringement claim.*

Wrench LLC v. Taco Bell Corp., 256 F.3d 446 (6th Cir. 2001). Under this framework, most state rights, including laws of contract, trade secrecy, and rights of publicity, are not likely to be preempted by § 301, as they have additional elements that copyright law does not. By contrast, a minority of courts hold that a state law is "equivalent to any of the exclusive rights" in § 106 if a copyright holder violates the state law merely by exercising any of his or her exclusive rights. *See, e.g.*, Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n, 805 F.2d 663 (7th Cir. 1986). From this second framework, state laws can more easily be preempted under § 301.

In light of copyright law's express-preemption provision in § 301, many courts begin and end their analysis of copyright preemption with that section. However, to the extent that a state law causes an actual conflict or creates a sufficient obstacle to the goals of federal law, the Supremacy Clause, as understood by the Supreme Court, should nonetheless nullify that state law pursuant to principles of conflict preemption. This is true even if the express preemption provision in § 301 does not nullify that state law: the Supreme Court has rejected the "argument that the presence of [an] express pre-emption provision entirely foreclose[s] the possibility of conflict pre-emption," Geier v. Am. Honda Motor Co., 529 U.S. 861, 872 (2000), thereby suggesting that courts should always proceed with an analysis of conflict preemption by federal copyright law even if § 301 does not preempt the state law at hand.

With this background on preemption doctrine, let's consider whether contracts modifying copyright law's rules are ever preempted by copyright law. You may already be familiar with *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). In that case, ProCD had created a searchable database from 3,000 telephone directories. Probably fearing that the database would not be original (and therefore not copyrightable) post-*Feist*, it included a mass-market shrink-wrap license with the CD-ROM discs it sold to consumers. Although the license for consumers forbade it, the court stated that purchaser Matthew Zeidenberg sought to resell the data contained in the database for a profit. (A higher-priced version of the electronic database—intended for businesses—contained no such contractual restriction.) ProCD sued Zeidenberg for breach of contract, and the Seventh Circuit held that the contract was enforceable and not preempted by copyright law. *ProCD* became an influential case, and indeed, you'll see that the next case discusses it.

As you read the following case, think about the best argument you can make under express- and conflict-preemption principles for preemption of the contract at issue here, and against preemption of it. How does your framing of the case differ depending on your stance? Also, is there a material difference for preemption between a state law modifying copyright law and a contractual agreement doing the same?

Bowers v. Baystate Technologies, Inc.

320 F.3d 1317 (Fed. Cir. 2003) (en banc)

RADER, J.: …

[1] Harold L. Bowers created a template to improve computer aided design (CAD) software….

[2] …. Mr. Bowers bundled [software] together as the Designer's Toolkit. Mr. Bowers sold the Designer's Toolkit with a shrink-wrap license that, *inter alia*, prohibited any reverse engineering.

[3] In 1989, Baystate also developed and marketed other [CAD] tools …. In 1988 and 1989, Mr. Bowers offered to establish a formal relationship with Baystate …. Baystate rejected that offer, however, telling Mr. Bowers that it believed it had "the in-house capability to develop the type of products you have proposed."

[4] In 1990, Mr. Bowers released Designer's Toolkit. By January 1991, Baystate had obtained copies of that product. Three months later, Baystate introduced the substantially revised Draft–Pak version 3, incorporating many of the features of Designer's Toolkit….

[5] Baystate sued Mr. Bowers for declaratory judgment that 1) Baystate's products do not infringe [Bowers' patent], 2) the patent is invalid, and 3) the patent is unenforceable. Mr. Bowers filed counterclaims for copyright infringement, patent infringement, and breach of contract.

[6] Following trial, the jury found for Mr. Bowers and awarded $1,948,869 for copyright infringement, $3,831,025 for breach of contract, and $232,977 for patent infringement. The district court, however, set aside the copyright damages as duplicative of the contract damages and entered judgment for $5,270,142 ….

[7] Baystate contends that the Copyright Act preempts the prohibition of reverse engineering embodied in Mr. Bowers' shrink-wrap license agreements. Swayed by this argument, the district court considered Mr. Bowers' contract and copyright claims coextensive. The district court instructed the jury that "reverse engineering violates the license agreement only if Baystate's product that resulted from reverse engineering infringes Bowers' copyright because it copies protectable expression." Mr. Bowers lodged a timely objection to this instruction. This court holds that the Copyright Act does not preempt or narrow the scope of Mr. Bowers' contract claim.

[8] …. The Copyright Act provides that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright … are governed exclusively by this title." 17 U.S.C. § 301(a). [We] do[] not interpret this language to require preemption as long as a state cause of action requires an extra element, beyond mere copying, preparation of derivative works, performance, distribution or display. Nevertheless, not every extra element of a state law claim will establish a qualitative variance between the rights protected by federal copyright law and those protected by state law….

[9] …. [T]he Copyright Act does not preempt the state contract action in this case. Indeed, most courts to examine this issue have found that the Copyright Act does not preempt contractual constraints on copyrighted articles. *See, e.g.*, ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (holding that a shrink-wrap license was not preempted by federal copyright law).

[10] In *ProCD,* for example, the court found that the mutual assent and consideration required by a contract claim render that claim qualitatively different from copyright infringement…. [T]he court in *ProCD* reasoned: "A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create 'exclusive rights.'" … [W]e follow the reasoning of *ProCD* and the majority of other courts to consider this issue. This court, therefore, holds that the Copyright Act does not preempt Mr. Bowers' contract claims.

[11] In making this determination, this court has left untouched the conclusions reached in [other cases] regarding reverse engineering as a statutory fair use exception to copyright infringement…. Likewise, this claim distinction does not conflict with the expressly defined circumstances in which reverse engineering is not copyright infringement under 17 U.S.C. § 1201(f) (section of the Digital Millennium Copyright Act) ….

[12] Moreover, while the Fifth Circuit has held a state law prohibiting all copying of a computer program is preempted by the federal Copyright Act, *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255 (5th Cir. 1988), no evidence suggests the First Circuit {whose case law governs on this issue} would extend this concept to include private contractual agreements supported by mutual assent and consideration. The First Circuit recognizes contractual waiver of affirmative defenses and statutory rights…. [P]rivate parties are free to contractually forego the limited ability to reverse engineer a software product under the exemptions of the Copyright Act. Of course, a party bound by such a contract may elect to efficiently breach the agreement in order to ascertain ideas in a computer program unprotected by copyright law. Under such circumstances, the breaching party must weigh the benefits of breach against the arguably de minimus damages arising from merely discerning non-protected code….

DYK, J., concurring in part and dissenting in part:

[13] I join the majority opinion except insofar as it holds that the contract claim is not preempted by federal law…. By holding that shrinkwrap licenses that override the fair use defense are not preempted by the Copyright Act, the majority has rendered a decision in conflict with the only other federal court of appeals decision that has addressed the issue—the Fifth Circuit decision in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988). The majority's approach permits state law to eviscerate an important federal copyright policy reflected in the fair use defense, and the majority's logic threatens other federal copyright policies as well. I respectfully dissent….

[14] Congress has made the Copyright Act the exclusive means for protecting copyright. The Act provides that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright … are governed exclusively by this title." 17 U.S.C. § 301(a). All other laws, including the common law, are preempted….

[15] The test for preemption by copyright law … should be whether the state law "substantially impedes the public use of the otherwise unprotected" material. Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 157, 167 (1989). That test seeks to determine whether the state cause of action contains an additional element not present in the copyright right, such as scienter. If the state cause of action contains such an extra element, it is not preempted by the Copyright Act. However, such an action is equivalent in substance to a copyright infringement claim and thus preempted by the Copyright Act where the additional element merely concerns the extent to which authors and their licensees can prohibit unauthorized copying by third parties….

[16] The fair use defense is an important limitation on copyright….

[17] …. [T]he fair use defense for reverse engineering is necessary so that copyright protection does not "extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work," as proscribed by the Copyright Act….

[18] A state is not free to eliminate the fair use defense. Enforcement of a total ban on reverse engineering would conflict with the Copyright Act itself by protecting otherwise unprotectable material. If state law provided that a copyright holder could bar fair use of the copyrighted material by placing a black dot on each copy of the work offered for sale, there would be no question but that the state law would be preempted. A state law that allowed a copyright holder to simply label its products so as to eliminate a fair use defense would "substantially impede" the public's right to fair use and allow the copyright holder, through state law, to protect material that the Congress has determined must be free to all under the Copyright Act. *See Bonito Boats*, 489 U.S. at 157.

[19] I nonetheless agree with the majority opinion that a state can permit parties to contract away a fair use defense or to agree not to engage in uses of copyrighted material that are permitted by the copyright law, if the contract is freely negotiated. A freely negotiated agreement represents the "extra element" that prevents preemption of a state law claim that would otherwise be identical to the infringement claim barred by the fair use defense of reverse engineering.

[20] However, state law giving effect to shrinkwrap licenses is no different in substance from a hypothetical black dot law. Like any other contract of adhesion, the only choice offered to the purchaser is to avoid making the purchase in the first place. State law thus gives the copyright holder the ability to eliminate the fair use defense in each and every instance at its option. In doing so, as the majority concedes, it authorizes "shrinkwrap agreements … [that] are far broader than the protection afforded by copyright law." …

[21] There is, moreover, no logical stopping point to the majority's reasoning. The amici rightly question whether under our original opinion the first sale doctrine and a host of other limitations on copyright protection might be eliminated by shrinkwrap licenses in just this fashion. If by printing a few words on the outside of its product a party can eliminate the fair use defense, then it can also, by the same means, restrict a purchaser from asserting the "first sale" defense, embodied in 17 U.S.C. § 109(a), or any other of the protections Congress has afforded the public in the Copyright Act. That means that, under the majority's reasoning, state law could extensively undermine the protections of the Copyright Act….

[22] The Fifth Circuit's decision in *Vault* directly supports preemption of the shrinkwrap limitation. The majority states that *Vault* held that "a state law prohibiting all copying of a computer program is preempted by the federal Copyright Act" and then states that "no evidence suggests the First Circuit would extend this concept to include private contractual agreements supported by mutual assent and consideration." But, in fact, the Fifth Circuit held that the specific provision of state law that authorized contracts prohibiting reverse engineering, decompilation, or disassembly of computer programs was preempted by federal law because it conflicted with a portion of the Copyright Act and because it "touched upon an area of federal copyright law." From a preemption standpoint, there is no distinction between a state law that explicitly validates a contract that restricts reverse engineering (*Vault*) and general common law that permits such a restriction (as here). On the contrary, the preemption clause of the Copyright Act makes clear that it covers "any such right or equivalent right in any such work *under the common law or statutes of any State.*" 17 U.S.C. § 301(a) (emphasis added).

[23] I do not read *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), the only other court of appeals shrinkwrap case, as being to the contrary, even though it contains broad language stating that "a simple two-party contract is not 'equivalent to any of the exclusive rights within the general scope of copyright.'" In *ProCD*, the Seventh Circuit validated a shrinkwrap license that restricted the use of a CD-ROM to non-commercial purposes, which the defendant had violated by charging users a fee to access the CD-ROM over the Internet. The court held that the restriction to non-commercial use of the program was not equivalent to any rights protected by the Copyright Act. Rather, the "contract reflect[ed] private ordering, essential to efficient functioning of markets." The court saw the licensor as legitimately seeking to distinguish between personal and commercial use. "ProCD offers software and data for two prices: one for personal use, a higher prices for commercial use," the court said. The defendant "wants to use the data without paying the seller's price." The court also emphasized that the license "would not withdraw any information from the public domain" because all of the information on the CD-ROM was publicly available.

[24] The case before us is different from *ProCD.* The Copyright Act does not confer a right to pay the same amount for commercial and personal use. It does, however, confer a right to fair use, 17 U.S.C. § 107, which we have held encompasses reverse engineering….

[25] I conclude that *Vault* states the correct rule; that state law authorizing shrinkwrap licenses that prohibit reverse engineering is preempted; and that the First Circuit would so hold because the extra element here merely concerns *the extent to which* authors and their licensees can prohibit unauthorized copying by third parties. I respectfully dissent.

NOTES

1. Whether one thinks principles of conflict preemption have a hefty role to play in invalidating state contract laws in favor of federal copyright law is influenced heavily by one's view on whether copyright law provides default rules that parties are free to contract around, or instead whether copyright law crafts an intricate balance between providing and restricting rights to promote the progress of arts and culture, a balance which would be upset by parties varying copyright's rules in contracts. *See* Jeanne C. Fromer, *The Intellectual Property Clause's Preemptive Effect*, *in* INTELLECTUAL PROPERTY AND THE COMMON LAW 265 (Shyamkrishna Balganesh ed., 2013); Dennis S. Karjala, *Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. DAYTON L. REV. 511 (1997); Maureen O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479 (1995). For thoughts on the tensions between freedom of contract and the public benefits of freer uses of information, see J.H. Reichman & Jonathan A. Franklin, *Privately Legislated Intellectual Property Rights: Reconciling Freedom of Contract with Public Good Uses of Information*, 147 U. PA. L. REV. 875 (1999).

2. Should the fact that the copyright restrictions in the contract in *Bowers* were not negotiated matter to the analysis? For an argument that it should, see Viva R. Moffat, *Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking*, 41 U.C. DAVIS L. REV. 45 (2007).

3. Christina Bohannon argues that "preemption law seems ill-suited to contract claims." Christina Bohannon, *Copyright Preemption of Contracts*, 67 MD. L. REV. 616, 619 (2008). She suggests that

> *preemption cases are concerned with whether a state regulatory scheme is likely to supplant a federal scheme. In cases dealing with preemption of contracts, however, that is not ordinarily the issue. State law is necessary to enforce contracts, but the obligations are voluntarily assumed. Thus, the issue is really whether individuals should be able to contract away rights granted by the federal Copyright Act.*

As a consequence, she maintains that "in analyzing the Copyright Act's preemption of contracts, courts should draw more from the law related to contractual waiver of statutory rights." *Id.* Does this analysis help you make better sense of *Bowers*?

4. An empirical study of contracting terms finds substantial increases in reverse-engineering restrictions in contracts post-*Bowers*. Florencia Marotta-Wurgler & Robert Taylor, *Set in Stone? Change and Innovation in Consumer Standard-Form Contracts*, 88 N.Y.U. L. REV. 240 (2013). Does this finding have any bearing on how to evaluate preemption of contracts by copyright law?

Either way, Guy Rub argues that any such contracting changes following decisions like *Bowers* are irrelevant in practice: he maintains that litigation following *ProCD* has principally involved not non-negotiated mass consumer contracts modifying contract terms, but sophisticated parties and their individually negotiated contracts. For that reason, he concludes that "[c]ontracts do not seem to pose a significant risk to copyright policy." Guy A. Rub, *Copyright Survives: Rethinking the Copyright-Contract Conflict*, 103 VA. L. REV. 1141 (2017). Are you convinced by this argument?

5. Could you resolve the preemption claim in *Bowers* instead using principles of copyright misuse?

Most states extend to individuals, either by statute or as a matter of common law, a right of publicity, which is a property-like interest in the use of their name, image, voice, signature, or other personal characteristics in commerce or advertising. These laws are quite different than the contract laws on which this chapter is focused. Are these claims ever preempted by copyright law? To give a flavor of claims of preemption of state laws beyond contract claims, consider the following case.

Patrick Maloney v. T3Media, Inc.

853 F.3d 1004 (9th Cir. 2017)

M. SMITH, J.:

[1] Former student-athletes Patrick Maloney and Tim Judge allege that defendant T3Media, Inc. exploited their likenesses commercially by selling non-exclusive licenses permitting consumers to download photographs from the National Collegiate Athletic Association's (NCAA) Photo Library for non-commercial art use. Maloney and Judge assert statutory and common law publicity-right claims … under California law. The district court held that the federal Copyright Act preempts plaintiffs' claims …. We affirm….

[2] Plaintiffs Patrick Maloney and Tim Judge are former NCAA student-athletes who played for the Catholic University (CU) men's basketball team between 1997 and 2001. In their final year at CU, they made it all the way to the Division III national championship game, and helped lead the underdog Cardinals to an upset 76–62 victory over the William Paterson University Pioneers. The game's drama was captured in a series of photographs depicting the plaintiffs in play, and later posing as members of the team with CU's first-ever national championship trophy. The NCAA owns or controls the copyright to these photographs. It accordingly placed them into its collection, the NCAA Photo Library.

[3] T3Media provides storage, hosting, and licensing services for a wide variety of digital content. In 2012, it contracted with the NCAA to store, host, and license the images in the NCAA Photo Library. The NCAA Photo Library itself contains thousands of photographs chronicling seventy years of NCAA sports history. Until 2014, T3Media made the photographs available to the public through its website, Paya.com.

[4] Consumers could view digital thumbnails of the images contained in the NCAA Photo Library on Paya.com, and obtain for $20 to $30 a non-exclusive license permitting them to download a copy of a chosen photograph. Brief descriptions of the events depicted in the images accompanied the digital thumbnails. Users were also required to assent to a "Content License Agreement" in order to download one of the photographs. Pursuant to that agreement, consumers could "use a single copy of the image for non-commercial art use." Consumers did not obtain "any right or license to use the name or likeness of any individual (including any athlete, announcer, or coach) appearing in the Content in connection with or as an express or implied endorsement of any product or service." …

[5] Plaintiffs commenced this action in the Central District of California in June 2014. They allege that T3Media exploited their names and likenesses commercially by selling photographs on Paya.com depicting their 2001 triumph. They purport to represent a putative class "of all current and former NCAA student-athletes whose names, images, and likenesses have been used without their consent by [T3Media] for the purpose of advertising, selling, or soliciting purchases of the photographs themselves." The complaint asserts claims for violation of California's statutory right of publicity, Cal. Civ. Code § 3344, common law right of publicity, and [other claims].[2]

[6] …. T3Media argued that the federal Copyright Act preempts plaintiffs' claims ….. The district court … [held] that the Copyright Act preempts plaintiffs' claims ….

[7] According to the district court, the plaintiffs asserted rights that fell within the subject matter of copyright because their claims derived from the licensing of copyrighted photographs, which were original works of authorship fixed in a tangible medium of expression under the circumstances. The court rejected plaintiffs' argument that a publicity-right claim involving a photograph is not subject to preemption. It distinguished between claims derived from "selling a copyrighted photograph containing an athlete's likeness," which it said require preemption, and claims based on "using the athlete's likeness contained in the photograph for some other purpose," which it said do not. The district court also concluded that plaintiffs were asserting rights equivalent to the exclusive rights contained in the Copyright Act because they did not identify a use of their names or likenesses "independent of the display, reproduction, and distribution of the copyrighted images in which they are depicted." …

[8] Section 301 of the Act seeks "to preempt and abolish any rights under the common law or statutes of a State that are equivalent to copyright and that extend to works," so long as the rights fall "within the scope of the Federal copyright law." H.R. REP. No. 94–1476, at 130 (1976). We have adopted a two-part test, in accordance with section 301, to determine whether a state law claim is preempted by the Act. First, we decide whether the subject matter of the state law claim falls within the subject matter of copyright as described in 17 U.S.C. §§ 102 and 103. Second, assuming it does, we determine whether the rights asserted under state law are equivalent to the rights contained in 17 U.S.C. § 106, which articulates the exclusive rights of copyright holders.

---

[2] A common law cause of action for appropriation of name or likeness may be pleaded by alleging (1) the defendant's use of the plaintiff's identity; (2) the appropriation of plaintiff's name or likeness to defendant's advantage, commercially or otherwise; (3) lack of consent; and (4) resulting injury. In addition, to plead the statutory remedy provided in Civil Code section 3344, there must also be an allegation of a knowing use of the plaintiff's name, photograph or likeness for purposes of advertising or solicitation or purchases. Further, judicial construction of section 3344 has imposed an additional requirement. A "direct" connection must be alleged between the use and the commercial purpose….

[9] Here, the parties joust solely with respect to step one and assert competing rules that seek to define the boundary between copyright preemption and state law rights of publicity. Plaintiffs maintain that photograph-based publicity-right claims categorically fall outside the subject matter of copyright because such claims protect an individual's persona, which itself cannot be fixed in a tangible medium of expression. T3Media, by contrast, insists that the publicity right protects against the non-consensual use of one's name or likeness on merchandise or in advertising. T3Media would permit publicity-right claims to proceed in those contexts, but find preemption where, as here, a likeness has been captured in an artistic work and the work itself is being distributed for personal use.

[10] The right of publicity seeks to prevent commercial exploitation of an individual's identity without that person's consent. Mindful of that premise, we conclude that a publicity-right claim is not preempted when it targets non-consensual use of one's name or likeness on merchandise or in advertising. But when a likeness has been captured in a copyrighted artistic visual work and the work itself is being distributed for personal use, a publicity-right claim interferes with the exclusive rights of the copyright holder, and is preempted by section 301 of the Copyright Act.

[11] Here, Maloney and Judge do not contend that their likenesses were ever used on merchandise or in advertising. They challenge instead the copyright holder's decision to distribute the copyrighted images themselves by selling consumers a non-exclusive license to download a chosen photograph from the NCAA Photo Library for noncommercial art use. Under these circumstances, the publicity-right claims … challenge control of the artistic work itself. Because plaintiffs seek to hold T3Media liable for exercising rights governed exclusively by copyright law, the claims are preempted by section 301 of the Copyright Act.…

[12] The "subject matter of copyright" embodies "original works of authorship fixed in any tangible medium of expression … from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 102(a). "Works of authorship include," among other things, "pictorial" works. Id. §§ 102(a), (a)(5). Additionally, "[a] work is 'fixed' in a tangible medium of expression when its embodiment in a copy … is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of time of more than transitory duration." Id. § 101.

[13] Here, the publicity-right claims arise from the licensing of photographs, which plaintiffs concede are expressive "pictorial" works to which "[a] photographer contributes some original elements."4 There is also no doubt that a photograph is "sufficiently permanent" to permit it to be perceived "for more than transitory duration." 17 U.S.C. § 101. The subject matter of the state law claims—the photographs—therefore appears to fall within the subject matter of copyright.

[14] Plaintiffs resist this conclusion by drilling down on the content of a publicity-right claim. Plaintiffs maintain that the right of publicity—as it pertains to photographs—protects against exploitation of an individual's "likeness" or "persona." Since those attributes exist independent of any single photograph, plaintiffs argue that photograph-based publicity-right claims categorically fall outside the "subject matter of copyright." In other words, plaintiffs insist they do not assert any right in the particular photographic "works of authorship" at issue here. Instead, they claim that the personal attributes protected by the right of publicity cannot be fixed in copyrightable form in the same way as an actor's performance or an author's writings.

[15] Plaintiffs draw support for their position primarily from *Downing v. Abercrombie & Fitch*, 265 F.3d 994 (9th Cir. 2001). There, clothing retailer Abercrombie & Fitch developed a surfing theme for its catalog, which was the company's largest advertising vehicle. As part of the campaign, Abercrombie purchased photographs depicting the plaintiffs taking part in the 1965 Makaha International Surf Championship in Hawaii. Abercrombie used the photographs in a section of the catalog entitled "Surf Nekkid." It also decided to create t-shirts, exactly like those worn by the plaintiffs in the photograph, for sale in the upcoming issue. These

"Final Heat Tees" appeared in the catalog for sale two pages after the pictures of the plaintiffs. Abercrombie did not obtain at any time the plaintiffs' permission to use the photographs in the catalog.

[16] We held that section 301 of the Copyright Act did not preempt plaintiffs' publicity-right claims. We reasoned that "it is not the publication of the photograph itself, as a creative work of authorship, that is the basis for [plaintiffs'] claims, but rather, it is the use of the [plaintiffs'] likenesses and their names pictured in the published photograph." We observed that "[a] person's name or likeness is not a work of authorship within the meaning of 17 U.S.C. § 102." "This is true," we said, "notwithstanding the fact that [plaintiffs'] names and likenesses are embodied in a copyrightable photograph."

[17] Contrary to plaintiffs' argument, *Downing* did not mint a categorical rule that publicity-right claims relating to a likeness in a photograph are not subject to preemption. Instead, we said that when the use of a likeness forms the basis of a publicity-right claim, the claim is not preempted. We did not state that a likeness is the basis of a publicity-right claim any time it is fixed in a photograph. The crux of the issue is thus deciding when a publicity-right claim seeks to vindicate misuse of an individual's likeness, as opposed to merely interfering with the distribution, display, or performance of a copyrighted work.

[18] On that point, plaintiffs rely almost entirely on the idea that a theoretical line should separate publicity-right claims based on photographs from other works protected by the Copyright Act. They insist that "[a] different preemption rule applies to right-of-publicity claims arising from performances in film and sound recordings as opposed to those arising from a mere likeness in a photograph," and that the latter type of claim is not subject to preemption because "[u]nlike a performance, a person's mere likeness is not a copyrightable contribution to a photograph."

[19] The text of the Copyright Act does not support plaintiffs' construction. Section 301 draws no distinction among different types of copyrighted works when it comes to federal preemption. It directs attention to sections 102 and 103, which list the categories of works in which copyright protection subsists, suggesting that the same preemption rule applies to all works that are contained within the "subject matter of copyright." Given that "pictorial" works appear on that list alongside "motion pictures" and "sound recordings," there is no textual basis to carve out a preemption rule that applies solely to photographs.

[20] Moreover, our precedents clarify that the distinction pertinent to the preemption of a publicity-right claim is not the type of copyrightable work at issue, but rather the way in which one's name or likeness is affected by the use of the copyrighted work.

[21] For example, in *Downing*, the publicity-right claim was not permitted to proceed simply because an individual's likeness was fixed in a photograph. Indeed, it was not the publication of the photograph itself, as a creative work of authorship, that formed the basis of the publicity-right claim. Instead, it was the unauthorized use of the plaintiffs' likenesses to advertise Abercrombie products, and the creation of t-shirts, exactly like those worn by the plaintiffs in the photograph, for sale in Abercrombie's catalog. The plaintiffs sustained injury to their individual personas because their likenesses were exploited commercially without their consent. The plaintiffs were not seeking to use the right of publicity simply to prevent publication of an artistic, visual work.

[22] *Laws* [*v. Sony Music Entm't*, 448 F.3d 1134 (9th Cir. 2006),] bolsters the interpretation that preemption turns on how a copyrighted photograph is used. In particular, *Laws* distinguished *Downing* as a case "involv[ing] photographs *used in advertising*." (emphasis added). We observed that "Abercrombie went well beyond the mere republication of the photograph.... Rather, it published the photo in connection with a broad surf-themed advertising campaign, identified the plaintiffs-surfers by name, and offered for sale the same t-shirts worn by the plaintiffs in the photo." Importantly, we said that "[Abercrombie] had suggested that the

surfers had *endorsed* Abercrombie's t-shirts. Accordingly, [*Downing*] concluded that 'it is not the publication of the photograph itself … that is the basis for [plaintiffs'] claims, but rather, it is the use of the [plaintiffs'] likenesses and their names pictured in the published photographs.'" (emphasis added). *Laws* strongly implies that misuse of an individual's likeness is the basis of a publicity-right claim when the name or image is exploited in advertising or on merchandise. It correspondingly implies that one's likeness does not form the basis of a publicity-right claim when the tort action challenges control of the artistic work itself or involves the mere republication of the photograph.

[23] In further support of this interpretation, *Laws* appears to reject plaintiffs' reading of *Fleet v. CBS Inc.*, 50 Cal. App. 4th 1911, 58 Cal. Rptr.2d 645 (1996). In *Fleet*, the plaintiffs were actors in a film, *White Dragon*, to which the defendant, CBS, Inc., owned the copyright. Having been denied certain compensation, plaintiffs sued CBS alleging that CBS did not have permission to utilize their names, pictures, or likenesses in conjunction with any exploitation of the film. CBS released the film anyway and included a picture of one of the plaintiffs on the packaging and in advertising materials. The court held that section 301 of the Copyright Act preempted the plaintiffs' publicity-right claims. It agreed that as a general proposition Civil Code section 3344 is intended to protect rights which cannot be copyrighted. But it found that the "[plaintiffs'] analysis crumbles in the face of one obvious fact: their individual performances in the film *White Dragon* were copyrightable." Once the "performances were put on film, they became 'dramatic work[s]' 'fixed in [a] tangible medium of expression.'" (quoting 17 U.S.C. § 102(a)). "At that point," the court said, "the performances came within the scope or subject matter of copyright law protection." Given that the publicity-right claims sought "only to prevent CBS from reproducing and distributing [plaintiffs'] performances in the film," the court concluded that "the[] claims must be preempted by federal copyright law."

[24] Maloney and Judge read *Fleet*'s holding to be limited to preemption of dramatic performances, and not to include photographs, because it observes that "[t]he celebrity who has merely had his picture taken has not engaged in a 'dramatic work' or other 'work of authorship,' and, as Professor Nimmer said, would be afforded no protection under federal copyright law." They believe *Fleet* supports their line between photographs and dramatic performances because *Fleet* adds "*if not for state law*, [the celebrity who had his picture taken] would have no remedy against those who would misappropriate his image for their own gain." (emphasis added). The "state law," of course, is the right of publicity, so plaintiffs read *Fleet* to support a dichotomy between likenesses in photographs and likenesses in other copyrightable works.

[25] *Laws* explains that in *Fleet*, however, "[s]ince CBS's *use* of plaintiffs' likenesses did not extend beyond the use of the copyrighted material it held, there was no right of publicity at issue, aside from the actors' performances." (emphasis added). *Laws* does not read *Fleet*, as plaintiffs contend, to draw a line between photographs and performances. Instead, it endorses the practice of looking at how one's likeness is affected by the use of the copyrighted material—whether that material is a photograph or something else….

[26] In sum, our cases clarify that a publicity-right claim may proceed when a likeness is used non-consensually on merchandise or in advertising. But where a likeness has been captured in a copyrighted artistic visual work and the work itself is being distributed for personal use, a publicity-right claim is little more than a thinly disguised copyright claim because it seeks to hold a copyright holder liable for exercising his exclusive rights under the Copyright Act.[9] …

[27] As noted, Maloney and Judge do not allege that their names and likenesses were ever used in connection with the sale of any merchandise. Nor do they contend that their likenesses were ever used in any advertising.

[9] The fact that the non-exclusive licenses were sold for a profit and their price does not alter our analysis…. More to the point, T3Media's decision to license expressive works for a fee does not change the fact that the publicity-right claims target the display and distribution of copyrighted photographs for personal use. Moreover, copyright holders are allowed to commercially exploit their copyrights by exercising their exclusive rights under the Copyright Act.

Instead, the copyrighted images themselves were licensed to individuals for "non-commercial art use." Moreover, the licensees of the Maloney and Judge photos did not obtain "any right or license to use the name or likeness of any individual … in connection with or as an express or implied endorsement of any product or service."

[28] Plaintiffs' publicity-right claims … challenge control of the artistic work itself. Pursuant to *Laws*, the subject matter of the state law claims therefore falls within the subject matter of copyright.

[29] We believe that our holding strikes the right balance by permitting athletes to control the use of their names or likenesses on merchandise or in advertising, while permitting photographers, the visual content licensing industry, art print services, the media, and the public, to use these culturally important images for expressive purposes. Plaintiffs' position, by contrast, would give the subject of every photograph a de facto veto over the artist's rights under the Copyright Act, and destroy the exclusivity of rights that Congress sought to protect by enacting the Copyright Act….

[30] At the second step, we determine whether the rights plaintiffs assert under state law are equivalent to rights within the general scope of copyright as specified by section 106 of the Copyright Act. Section 106 affords copyright owners the "exclusive rights" to display, perform, reproduce, or distribute copies of a copyrighted work, to authorize others to do those things, and to prepare derivative works based upon the copyrighted work. 17 U.S.C. § 106. To survive preemption, the state cause of action must protect rights which are qualitatively different from the copyright rights. The state claim must have an extra element which changes the nature of the action.

[31] As a threshold matter, plaintiffs waived any argument that the rights they assert are not equivalent to rights within the general scope of copyright. They did not argue the issue in their briefs, and we do not review issues raised only by amicus curiae. Even had they made the argument, the district court nonetheless was correct to conclude that the rights plaintiffs assert are no different than the rights contained within the general scope of the Copyright Act.

[32] The complaint asserts statutory and common law publicity-right claims …. Plaintiffs, however, do not identify any use of their likenesses independent of the display, reproduction, and distribution of the copyrighted material in which they are depicted. We have held that under those circumstances, none of plaintiffs' claims is qualitatively different from a copyright claim.[16] …

[33] Under the circumstances presented here, the subject matter of the state law claims falls within the subject matter of copyright and the rights asserted under state law are equivalent to the rights contained in 17 U.S.C. § 106. The federal Copyright Act therefore preempts the plaintiffs' publicity-right claims …. In light of that holding, plaintiffs' cannot demonstrate a reasonable probability of prevailing on their challenged claims. The district court did not err in [its ruling]….

NOTES

1. In *Wendt v. Host Int'l, Inc.*, 125 F.3d 806 (9th Cir. 1997), George Wendt and John Ratzenberger, actors from the television series *Cheers* who played the characters Norm and Cliff, respectively, sued for a violation of their right of publicity based on animatronic robotic figures named Bob and Hank but based (loosely) on their likenesses and placed in airport bars modeled on the bar in the television series. Both are shown in Figure 141.

[16] The elements of a common law right-of-publicity claim are subsumed within those of a statutory claim. Thus, *Laws* necessarily concluded that the singer's common law publicity-right claim asserted rights equivalent to copyright rights.

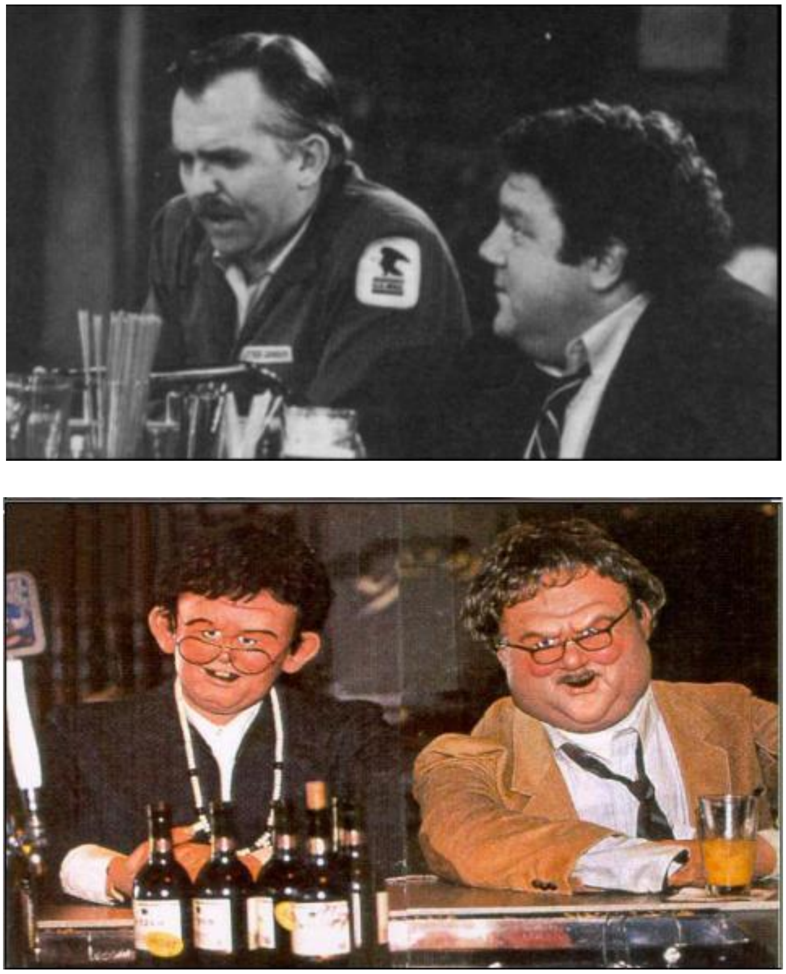

Figure 141: Norm and Cliff characters in *Cheers* television series (top), and robot figures in Cheers Airport Bar (bottom)

The Ninth Circuit rejected the defendants' argument that the claim was preempted on the basis that "the figures appropriate only the identities of the characters Norm and Cliff, to which Paramount owns the copyrights, and not the identities of Wendt and Ratzenberger, who merely portrayed those characters on television and retain no licensing rights to them. They argue that appellants may not claim an appropriation of identity by relying upon indicia, such as the Cheers Bar set, that are the property of, or licensee of, a copyright owner." In response, Wendt and Ratzenberger "concede[d] that they retain no rights to the characters Norm and Cliff; they argue .... that it is the physical likeness to Wendt and Ratzenberger, not Paramount's characters, that has commercial value to [the defendant]." The court accepted this characterization and ruled that this claim was not preempted by federal copyright law because it contained elements different in kind from copyright infringement.

Is this ruling in conflict with *Maloney*? Are you more convinced by one or the other decision?

As the right of publicity has expanded to protect persona, some scholars worry about its interference with federal copyright law. For example, Jennifer Rothman argues that "persona should be thought of as the idea of a person rather than the expression of that person," yet "[c]opyright law explicitly precludes copyright holders from protecting ideas." Jennifer E. Rothman, *Copyright Preemption and the Right of Publicity*, 36 U.C. DAVIS L. REV. 199, 205-06 (2002). She would therefore "set forth three situations in which the right must yield to copyright law: first, when a publicity holder's action is based solely on the use of his or her persona rather than on the publicity holder's name or likeness; second, when the use at issue was licensed or authorized by a copyright holder who received consent from the publicity holder for the original work; and finally, when the use at issue is explicitly authorized by the Copyright Act." For more on preemption and the right of publicity, see Rebecca Tushnet, *Raising Walls Against Overlapping Rights: Preemption and the Right of Publicity*, 92 NOTRE DAME L. REV. 1539 (2017).

2. In addition to considering express preemption of a right of publicity law by federal copyright law, a recent Second Circuit decision also considered whether there was conflict preemption of the right of publicity law. In a lawsuit by hip hop recording artist 50 Cent against hip hop recording artist Rick Ross alleging a right of publicity violation under Connecticut law for Ross's release of a mixtape using 50 Cent's voice performing his song "In Da Club," as well as 50 Cent's stage name in the identification of the song, the Second Circuit found the state claim to be preempted by copyright law, both due to conflict preemption and express preemption. In re Jackson, 972 F.3d 25 (2d Cir. 2020). With regard to conflict preemption, the court first observed that "[f]ederal copyright law does not entirely divest the states of authority to limit the exploitation of a work within copyright's subject matter in furtherance of sufficiently substantial state interests, such as protecting a person's privacy, compensating for fraud or defamation, or regulating unauthorized use of its citizens' personas." The court emphasized that the important question underpinning conflict preemption is "whether the state law claim furthers substantial state law interests that are distinct from the interests served by the federal law which may preempt the claim." The court concluded that even though some right of publicity claims will survive this analysis, as they, say, "target false endorsements, and as such vindicate a state's interest in preventing consumer confusion" or "vindicate privacy or reputational interests," 50 Cent's claim "constitutes little more than a thinly disguised effort to exert control over an unauthorized production of a sample of his work," such that "[a]llowing [his] right of publicity suit to proceed would interfere with the functioning of the copyright system."

3. In *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997), the National Basketball Association (NBA) sued Motorola over its handheld Sportstrax pagers that provided real-time information regarding professional basketball games in progress. One of its claims was commercial misappropriation under New York law. The Second Circuit ruled that while misappropriation claims are generally preempted by copyright law, "a narrow 'hot-news' misappropriation claim survives preemption for actions concerning material within the realm of copyright." It reasoned that there were extra elements beyond a copyright infringement claim that allowed it to survive preemption: "(i) the time-sensitive value of factual information, (ii) the free-riding by a defendant, and (iii) the threat to the very existence of the product or service provided by the plaintiff." The court then concluded that Motorola had not engaged in unlawful "hot-news" misappropriation because some of the elements of the claim were not shown, including free-riding because Motorola collects these scores on its own from the NBA's games, not by taking from the NBA's similar service.

In a subsequent case, the Second Circuit held that copyright law preempted financial services companies' "hot news" misappropriation claim against an online subscription news service that was copying and sharing these firms' equity research recommendations. The court reasoned that § 301 preempts the plaintiffs' claim because it is about copyrightable subject matter and implicates the exclusive rights set out in § 106, plus the defendant was not free-riding on the plaintiffs because "[i]t is collecting, collating and disseminating factual information—the facts that [plaintiffs] and others in the securities business have made recommendations with respect to the value of and the wisdom of purchasing or selling securities—and attributing the information to its source. The [plaintiffs] are making the news; [the defendant], despite the [plaintiffs'] understandable desire to protect their business model, is breaking it." Barclays Capital Inc. v. Theflyonthewall.com, Inc., 650 F.3d 876, 902 (2d Cir. 2011). What does it mean to "free-ride" on someone else here? Is anything left to state law claims of misappropriation after these rulings?

For an argument that courts have misunderstood the basis of the misappropriation doctrine with regard to news, see Shyamkrishna Balganesh, *"Hot News": The Enduring Myth of Property in News*, 111 COLUM. L. REV. 419 (2011). In particular, Balganesh argues that "the misappropriation doctrine (including its hot news variant) is incapable of creating a property interest, even in traditional intellectual property form, in news. While the doctrine is directed at deterring free riding, it does so in the context of solving a collective action problem that was and is unique to the newspaper industry, related to the practice of cooperative newsgathering." He then concludes that "[m]isappropriation is … a framework for recovery that draws on unfair competition and unjust enrichment law." If Balganesh is right, what does that mean for preemption of "hot news" misappropriation claims by copyright law?

4. Is state law protection of ideas preempted by federal copyright law? Recall that ideas are specifically deemed to be unprotected under § 102(b) of copyright law. How would you analyze preemption under § 301? As a matter of conflict preemption? For an argument that idea protection laws are not preempted, see Arthur R. Miller, *Common Law Protection for Products of the Mind: An "Idea" Whose Time Has Come*, 119 HARV. L. REV. 703 (2006). Miller reasons that:

> *[P]reemption analysis … establishes the upper permissible limit on state idea protection, embodying a fundamental balance struck between creators' incentives and the public benefit. The Constitution and the Copyright Act articulate this balance. Beneath this federally imposed ceiling, states are free to choose not to give legal status to ideas at all or to regulate as they choose.… [A] regime [c]ould protect mental creativity, taking into account today's economy, notions of fairness and proper allocation of benefit, and the extent to which major segments of society profit from viable ideas.*

Do you agree?

5. Recall resale royalties from our discussion in Chapter IV of terminations of transfer. Artist resale royalty rights grant artists a percentage of the proceeds on the resale of their works. Like termination, resale royalty schemes allow artists to benefit down the line should their works become more valuable. Unlike termination, resale royalties provide this benefit by allowing artists to share in the appreciated value of their work but without any renegotiation. A California law passed in 1976 guarantees artists five percent of the profits in a later sale of their artwork. Cal. Civ. Code § 986(a). The Ninth Circuit has held that the California law is almost entirely preempted by the 1976 Act pursuant to § 301. Close v. Sotheby's, Inc., 894 F.3d 1061 (9th Cir. 2018). The court first reasoned that the "plaintiffs' claims under [California law] for resale royalties on works of 'fine art'—defined as original paintings, sculptures, drawings, or works in glass—fall within the subject matter of copyright." Next, the court determined that the "plaintiffs' [resale royalty] claims assert rights equivalent to the federal distribution right codified in § 106(3), as limited by the first sale doctrine codified in § 109(a)." The court thought that the state and federal rights were not "coextensive," yet were equivalent: "The two rights differ in that one grants artists the right to receive a percentage payment on all sales of artwork after the first, while the other grants artists the right to receive full payment on the first (and only the first) sale. But, at root, both concern the distribution of copies of artwork and define artists' right (or lack thereof) to payment on downstream sales of those copies." Yet the court thought the state law was not preempted by the 1909 Act, which did not contain an express-preemption provision and which it analyzed under principles of conflict preemption. Do you agree with the court's reasoning?

6. In this chapter, you have learned how parties might—and might not—modify copyright rules by contract. You have also gotten a taste of how states might—and might not—vary or supplement federal copyright law with its own laws. Should the ways individuals and states seek to vary or supplement copyright law affect federal copyright policy? Or should federal copyright policy be determined independently of these others' actions?