

CLIENT ALERT

Crowell & Moring's Top Ten Copyright Cases of the Last Year

January 17, 2012

What are the trends that will impact copyright owners in 2012? To answer that question, we start by taking a look at what we believe are the top 10 most significant cases from 2011. Understanding the drivers behind these cases will be crucial to devising your IP strategy for the coming year. Here's what you need to know.

1) *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011).

In a case likely to be taken up by the Supreme Court, the Second Circuit held that the First Sale Doctrine does not apply to foreign-produced works. The "first sale doctrine" permits the owner of a lawfully purchased copy of a copyrighted work to resell the work without limitation. Although the first sale doctrine was originally "created" by the Supreme Court in *Bobbs-Merrill Co. v. Strause*, 210 U.S. 339 (1908), it is now codified in the Copyright Act at 17 U.S.C. § 109(a). In this case, defendant financed his education in the U.S. by importing textbooks manufactured outside the U.S. (and purchased for less than the U.S. retail price) and then reselling them to classmates in the U.S. at a profit. When sued for copyright infringement by the publisher of the textbooks, defendant asserted the first sale doctrine as a defense. This raised the question as to whether the first sale doctrine applies to works produced outside the U.S. The Second Circuit held that it did not apply. The Court relied heavily upon *dicta* in the Supreme Court's decision in *Quality King v. L'anza Research Int'l*, 523 U.S. 135 (1998), in which Justice Ginsburg suggested that the first sale doctrine would not apply to foreign-produced works. This case may present the Supreme Court with the opportunity to decide this issue which it had been unable to reach in *Omega, S.A. v. Costco Wholesale Corp.*, ___ U.S. ___, 131 S. Ct. 565 (2010) (*affirmed by an equally divided court*).

2) *Sony BMG Music Entertainment v. Tenenbaum*, 660 F.3d 487 (1st Cir. 2011).

The plaintiffs are recording companies that owned copyrights in the 30 sound recordings at issue. Defendant, a college student, illegally downloaded and distributed the recordings via the online peer-to-peer file-sharing Napster network. When Napster was shut down in 2001, defendant used other peer-to-peer networks. Over approximately a decade, defendant downloaded tens of thousands of songs. Defendant received multiple warnings that his actions were unlawful – from his father, his college and the recording companies – yet continued to download and distribute music. After trial, the jury returned a verdict awarding plaintiffs statutory damages of \$22,500 per infringement, for a total award of \$675,000. The district court, however, found the award to be unconstitutionally excessive and reduced it to \$2,250 per infringement – three times the statutory minimum – for a total of \$67,500. The First Circuit reversed the district court's reduction of the damages and remanded for the district court to consider common law remittitur. The Court held that the doctrine of constitutional avoidance requires consideration of remittitur before any constitutional challenge. Despite reaching that decision, however, the First Circuit strongly suggested that statutory damages need not bear a reasonable relationship to actual damages. In *dicta* the Court stated that application of the Supreme Court's decision in *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559 (1996), and its progeny, would be in error in the context of a statutory damages scheme. The Court expressed the view that the *Williams* standard (*St. Louis, J.M. & S. Ry. Co. v. Williams*, 251 U.S. 63 (1919)) should apply.

3) *The Authors Guild v. Google, Inc.*, 770 F. Supp.2d 666 (S.D.N.Y. 2011).

On March 22, 2011, Judge Chin rejected the settlement reached by the parties in this long-running dispute related to Google's "Book Project." In 2004, Google entered into an agreement with several research libraries to copy digitally books in their collections. Since that time, Google has scanned more than 12 million books. It has also created an electronic database of these books with online text searching capability. Millions of these scanned books were still under copyright at the time Google copied them. Google did not obtain the copyright owners' authorization to do so. In 2005, certain authors and publishers brought this class action charging Google with copyright infringement. In late-2009, after extended negotiations, the parties reached a settlement agreement. The settlement granted Google non-exclusive rights to the copyrights owned by the plaintiff class. Pursuant to the settlement, Google would have paid these rightholders 63% of all revenue derived from use of these rights to be administered by a "registry." Any copyright owner could opt out of participation in the registry. Google would also pay \$45 million into a settlement fund to settle allegations of past infringement. On March 22, 2011, Judge Chin rejected the settlement. He found that the settlement would encroach upon Congress' responsibility for setting copyright policy. Specifically, the district court was concerned with the entrustment of guardianship of "orphan works" to the registry. Moreover, the settlement would release claims beyond those contemplated in the pleadings. The district court also found that the opt-out procedure would turn Section 201(e) of the Copyright Act on its head by placing the onus on copyright owners to object to the use of their copyrights. In addition to these copyright concerns, the district court also noted antitrust, privacy and international law concerns.

4) *Barclays Capital Inc. v. Theflyonethewall.com Inc.*, 650 F.3d 876 (2d Cir. 2011).

As anticipated, the Second Circuit used this case to restate the test to be used in determining when a "hot news" misappropriation claim is preempted by the Copyright Act. The Plaintiffs-Appellees are major financial institutions, that among other things, provide research reports, including specific recommendations for investors to take. The Defendant-Appellant, Theflyonethewall.com, Inc. (the "Fly") is proprietor of a news service distributed electronically to subscribers. The Fly, through various means, obtains copies of Plaintiffs-Appellees' research reports in advance of public release and advises its subscribers of the recommendations set out in the reports. Plaintiffs-Appellees brought suit for copyright infringement and the tort of "hot news" misappropriation recognized by the Supreme Court in *International News Service v. Associated Press*, 248 U.S. 215 (1918). The Fly asserted that, at least in this case, "hot news" misappropriation was preempted by the Copyright Act, and could not be brought as a separate claim instead of or in addition to an infringement claim. The Second Circuit agreed that under the circumstances presented by this case, such a claim was preempted. At the outset, the Court refused to reconsider its decision in *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997), in which it held that a tort for "hot news" misappropriation remained a viable cause of action under New York law. In that case, the Second Circuit identified certain criteria which determine when a "hot news" misappropriation claim is *not* preempted. After reciting that decision at great length, the Court concluded that there are three elements to be considered in deciding preemption – (1) the time-sensitive value of the information; (2) free riding by the defendant; and (3) the threat to the very existence of plaintiff's product. The Court concluded that this "hot news" misappropriation claim was preempted because the Fly was not "free riding" and there was no threat to the existence of Plaintiffs-Appellees' product.

5) *Perfect 10 Inc. v. Google, Inc.*, 653 F.3d 976 (9th Cir. 2011).

The Ninth Circuit used this appeal from the denial of a preliminary injunction to announce that it would join the First, Second, and Fourth Circuits in holding that the Supreme Court's decision in *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006), applied to copyright cases. Plaintiff, Perfect 10, Inc. ("10"), provides a subscription website featuring "adult entertainment." Google's search engine displays images copyrighted by 10. When 10 complains to Google, the images are removed but forwarded to chillingeffects.org. 10 sought a preliminary injunction against Google's practice of forwarding the images to chillingeffects.org.

The district court denied 10's request on the ground that it had failed to establish irreparable harm. The Ninth Circuit affirmed. The Ninth Circuit held that the Supreme Court's decision in *eBay Inc. v. MercExchange, LLC* governed this case. Although *eBay* was a patent case, the Ninth Circuit joined its sister circuits in holding that it applies equally in copyright cases, and a plaintiff in a copyright case enjoys no presumption of irreparable harm when seeking preliminary injunctive relief.

6) *Nat'l Ass'n of Bds. of Pharmacy v. University of Georgia*, 633 F.3d 1297 (11th Cir. 2011).

In this case, the Eleventh Circuit holds that the Copyright Remedies Clarification Act of 1976 is unconstitutional under the Eleventh Amendment, which guarantees that nonconsenting States may not be sued by private individuals in federal court. *Bd. of Trustees of the Univ. of Ala. v. Garrett*, 531 U.S. 356, 363 (2001). The Supreme Court qualified this Eleventh Amendment immunity in *ex parte Young*, 209 U.S. 123, 155-56 (1908). In that case, the Court held that an individual could sue a State for injunctive relief against a continuing injury. Moreover, there is a narrow Congressional power to abrogate State immunity pursuant to a "valid grant of constitutional authority." See *Kimel v. Fla. Bd. of Regents*, 528 U.S. 62, 92 (2000). For some time, there had been debate as to whether the Copyright Act of 1976 constituted such an abrogation of State immunity. To resolve this debate, in 1990, Congress amended the Copyright Act of 1976 with an express provision, the Copyright Remedies Clarification Act ("CRCA"), abrogating State sovereign immunity for suit from damages for copyright infringement. This amendment was codified at Section 511(a) of the Copyright Act. In 1995, however, the Supreme Court in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1995), held that Congress lacks the power under the Indian Commerce Clause of the Constitution to subject states to suit for damages in federal court for violation of federally created rights. Specifically, the Court held that Article 1 of the Constitution did not grant Congress the power to abrogate State sovereign immunity. Because the Copyright Clause is in Article 1, this decision raised questions as to the constitutionality of Section 511(a). In 1999, the Supreme Court extended its reasoning in *Seminole Tribe* to patent and trademark law. In *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999), the Court held that Congress lacked the power to abrogate state sovereign immunity for patent and trademark infringement suits seeking money damages for infringement. A year later, the Fifth Circuit in *Chaves v. Arte Publico Press*, 204 F.3d 601, 608 (5th Cir. 2000), held that the CRCA was unconstitutional. Since that decision, commentators uniformly agree that a copyright owner's only remedy against a state is for injunctive relief pursuant to *ex parte Young*, 209 U.S. at 155-56. This remedy, however, is only available for an ongoing violation. In this case, the Eleventh Circuit joins the Fifth Circuit in holding the CRCA to be unconstitutional.

7) *Spooner v. EEN, Inc.*, 644 F.3d 62 (1st. Cir. 2011).

It is not uncommon for a copyright owner to spend more on attorneys' fees defending its copyright than it can collect in damages. Here, the First Circuit holds that a copyright holder may receive an award of attorneys' fees under Section 505 of the Copyright Act, even if its fees exceeded its damages award. Plaintiff brought suit for copyright infringement alleging that a ski resort had infringed his musical composition. The plaintiff prevailed at trial and was awarded statutory damages of \$40,000, and an injunction. The Court thereafter awarded plaintiff attorneys' fees of \$98,745.80. The defendants appealed asserting that plaintiff's fee request was so excessive that no fees at all should have been awarded. Defendants pointed to the fact that the fee award was more than twice the damages award. Although the First Circuit did not reject outright the possibility that an excessive fee award might justify a denial of fees, it noted that it would be a "drastic step" used "sparingly." In this case, the fact that plaintiff had also obtained an injunction undercut any comparison between the damages award and fee award.

8) *The Righthaven Cases*.

2011 saw an end to efforts by Righthaven LLC to recreate the success of patent "trolls" in the copyright field. Righthaven was organized to be a copyright "troll." It obtained from various media companies the "right to sue" infringers of their copyright

works. Unfortunately for Righthaven, ownership of "a right to sue" does not convey standing under the Copyright Act. Righthaven needed to obtain assignment of one of the six exclusive rights of copyright owners under Section 106 of the Copyright Act to have standing to sue for infringement. Accordingly, each of its many lawsuits was dismissed, and by the end of 2011, Righthaven was in bankruptcy.

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

The Seventh Circuit dealt a potentially fatal blow to efforts to copyright living organisms. Plaintiff Chapman Kelley is a nationally recognized artist known for representational paintings of landscapes and flowers. In 1984, he received a permit from Chicago to install a wildflower display in Grant Park. In 2004, the City dramatically modified the garden. It reduced the size from approximately 60,000 sf. to 30,000 sf. due to maintenance problems with the larger-sized garden. It also reconfigured the oval flower beds used in Kelley's design into rectangles. Kelley sued under the Visual Artists Rights Act of 1990 ("VARA") alleging a violation of his right of integrity. The Seventh Circuit rejected his claim. Congress enacted the VARA to comply with U.S. obligations under the Berne Convention for the Protection of Literary and Artistic Works. It imported into U.S. copyright law a limited version of the French doctrine of the "moral rights of the artist." See 17 U.S.C. § 106(a). The Seventh Circuit noted the VARA conveyed certain rights upon a subcategory of copyrightable works, but emphasized that any work seeking protection under VARA must first be copyrightable. The Seventh Circuit held that gardens are not copyrightable (although landscape designs may be) because they are not "authored" and not "fixed." They "grow" and are constantly changing. In short, living organisms cannot be copyrighted.

10) *UMG Recordings Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011).

In a very unusual case, the Ninth Circuit dealt yet another blow to the recording industry. Plaintiff UMG Recordings, Inc. ("UMG") is one of the world's largest music companies. Like many music companies, UMG ships specially produced promotional CDs to a large group of individuals, such as music critics and radio programmers, as a means of promoting its recordings. There is no prior agreement by the recipients to receive the CDs. The CDs typically bear a label stating:

"This CD is the property of a 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 this license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws."

Defendant Troy Augusto was not a recipient of these promotional CDs, but acquired many, which he then sold through eBay. UMG sued for copyright infringement. Augusto asserted that the "first sale doctrine" permitted the sales. The Ninth Circuit agreed. The Court held that the doctrine applied even when a work is, as here, given away. The Court also held that the mere labeling of the CD as transferred pursuant to a license was not dispositive as to whether it did create a license. Based on the nature of UMG's distribution – no prior agreement, no attempt to track the CDs, and the large scale of distribution – no license was created. Moreover, even if the first sale doctrine did not apply, the CDs constituted "unordered merchandise" under federal law and the recipients were free to dispose of them as they saw fit. 39 U.S.C. § 3009.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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