

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

'Google' Settlement Rejected; Fair Use and Appropriation Art

A New York federal district court rejected a proposed class action settlement that would have created an unprecedented mechanism allowing Google to provide digital access to tens of millions of copyrighted books and other writings. In *The Authors Guild v. Google Inc.*, 2011 WL 986049 (SDNY March 22, 2011), Second Circuit Judge Denny Chin, sitting by designation in a case assigned to him during his district court service, held that the proposed settlement agreement, the result of years of negotiation, would improperly allow a private agreement to govern an area that has long been reserved for congressional regulation.

While recognizing the large potential benefits of the proposal—including vastly increased access for libraries, schools and disadvantaged populations—the court agreed with amicus curiae, the United States, that the settlement “is an attempt to use the class action mechanism to implement forward-looking business arrangements that go far beyond” the dispute pending before the court.

In 2004, Google announced an ambitious plan to partner with major research libraries to digitize millions of books and create a searchable “digital library” on the Internet. Much of this material is still under copyright, and Google failed to obtain permission. Its plan was to make only “snippets” of the books available to Internet users, and argue that, by limiting access, it was able to maintain a fair use defense to copyright infringement. Not surprisingly, authors and publishers filed a class action alleging copyright infringement. In 2008, after two years of settlement talks, the parties filed a proposed settlement agreement, which was substantially modified in 2009 in light of hundreds of objections filed by copyright holders.

Both the original and amended agreements went far beyond the claims initially presented in the case. Instead of focusing on a digital library offering only short excerpts of works, the parties presented an agreement that would allow Google to continue the digitization process and sell online

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access to complete works. Works that are in print could be displayed only with permission of the copyright holder. Out-of-print works, however, could be displayed unless the rights holder objects. Therefore, Google would have the right to display “orphan” works—works for which no owner can be located—on an “opt out” basis, so that display is allowed unless and until a rights holder is found and registers an objection.

Google's rights are nonexclusive, so that copyright owners can license their works to other online services, and withdraw their works from Google at any time. In return for these rights, Google agreed to pay rights holders approximately 63 percent of revenues received from the sale of

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access to the works and advertising associated with the database. It also agreed to pay \$45 million as compensation for its copying of works digitized before May 5, 2009.

The court noted that the agreement would produce substantial benefits—“new audiences will be generated” for authors and publishers, older books, “particularly out-of-print books, many of which are falling apart buried in library stacks—will be preserved and given new life,” and conversion of books to Braille and audio formats would be facilitated.

But the court found that the “opt out” provisions of the agreement designed to ensure digitization of out-of-print works raised fundamental problems under the Copyright Act. The agreement would allow Google to “expropriate” the rights of individuals, although copyright law allows a rights holder to “sit back, do nothing and enjoy

his property rights untrammelled by others exploiting his works without permission.” And Google would enjoy those rights although it had engaged in “wholesale, blatant copying, without first obtaining copyright permissions.” “The questions of who should be entrusted with guardianship over orphan books, under what terms, and with what safeguards are matters more appropriately decided by Congress than through an agreement among private, self-interested parties.”

Beyond copyright, the court was concerned about antitrust issues, as the agreement “would give Google a de facto monopoly over unclaimed works,” conferring a unique right “to digitize works with impunity, without any risk of statutory liability, for something like 150 years.”

Nevertheless, Judge Chin found that many concerns about the settlement would be “ameliorated” if the agreement were revised to operate on an “opt-in” basis, so that Google would obtain rights only with the consent of copyright owners. Urging the parties to consider such a revision, the court denied approval of the settlement without prejudice to consideration of a revised agreement.

Because of the obvious benefits of a universal digital library and the demands of a public that increasingly expects instant online access, creation of an Internet book registry including orphan works appears almost inevitable. Judge Chin's decision (which, of course, can ultimately be appealed if the parties choose to do so) makes it likely that this result cannot be achieved without the slow process of legislation.

Patents

After a finding of patent infringement, the court will often issue an order enjoining future infringement. In the face of such an injunction, a defendant who modifies its products and returns to the market risks contempt sanctions. In a closely watched case that generated 21 amicus briefs, the en banc U.S. Court of Appeals for the Federal Circuit “clarified” the standards to be used in determining whether a contempt finding is appropriate and narrowed the grounds on which a defendant may challenge an injunction based on vagueness and overbreadth. *TiVo Inc. v. EchoStar Corp.*, 2011 WL 1486162 (Fed. Cir. April 20, 2011). Vacating a contempt finding against EchoStar,

a provider of satellite television services, the en banc court rejected the test for a contempt finding established in *KSM Fastening Systems v. H.A. Jones Co.*, 776 F.2d 1522 (Fed. Cir. 1985), which focused on whether there existed “substantial open issues with respect to infringement to be tried” concerning the modified product.

That test, the court found, “misled” some courts “to focus solely on infringement by the newly accused devices in deciding contempt.” Instead, “the contempt analysis must focus initially on the differences between the features relied upon to establish infringement and the modified features of the newly accused products.” Where the differences between the “old and new elements are significant,” contempt is inappropriate, and the patentee must litigate a new infringement case.

While that holding will likely make it more difficult to prove contempt, the Federal Circuit also reaffirmed that good faith is not a defense to civil contempt. A majority of seven circuit judges also held that, given that EchoStar had “bypassed” opportunities to challenge the terms of the injunction on appeal or through a motion to clarify or modify the injunction, it could not assert in a contempt proceeding that the order is vague or overbroad. Five dissenting judges disagreed, concluding that it was TiVo’s burden to show that the injunction “clearly prohibited” the marketing of EchoStar’s modified product, making vagueness a proper issue in contempt proceedings.

Copyright

The attention of art lawyers and their clients has been focused on *Cariou v. Prince*, 2011 WL 1044915 (SDNY March 18, 2011), where the court unequivocally rejected a fair use defense asserted regarding “appropriation art”—works that incorporate images or objects created by others. Plaintiff, a photographer, had published portraits of Rastafarians and various landscapes in a book of photographs titled “Yes, Rasta.” Defendant Richard Prince, a prominent appropriation artist, created a series of paintings featuring portions and entire copies of photographs torn from “Yes, Rasta,” adding paint to some of the images.

Granting plaintiff summary judgment of copyright infringement, the court concluded that all four factors under 17 U.S.C. §107 weighed against a finding of fair use. Declining defendants’ “invitation to find that appropriation art is per se fair use, regardless of whether or not the artwork in any way comments on the original works appropriated,” the court found that Mr. Prince’s works may be considered “transformative only to the extent that they comment on” plaintiff’s work. Mr. Prince’s intent to “pay homage” to other painters was insufficient, in the court’s view, to support fair use.

The court also found that defendants acted in bad faith by failing to seek plaintiff’s permission, but did not consider whether defendants could have believed in good faith that permission was not necessary under fair use principles. The court also relied heavily on the fact that Mr. Prince’s works had been sold or exchanged for cash and art worth more than \$16 million in finding that defendants’ use was “commercial.” Arguably, however, the value of the works does not indicate whether they serve a “commercial” purpose.

The court also found that evidence that an art gallery cancelled an exhibition of plaintiff’s work after hearing about an exhibition of Mr. Prince’s work showed that defendants’ infringement damaged the market for plaintiff’s photographs. Notably, the court found that Mr. Prince’s gallery was vicariously and contributorily liable for copyright infringement, finding that it had the “right and ability” to supervise Mr. Prince’s work or “at the very least the right and ability” to ensure that Mr. Prince obtained licenses from plaintiff.

In *Amaretto Ranch Breedables, LLC v. Ozimals Inc.*, No. 10-5696, slip op. (N.D. Cal. April 22, 2011), the court ruled that the misrepresentation provision of the Digital Millennium Copyright Act (DMCA) does not provide for a cause of action when a service provider has not removed any content as a result of the service of a DMCA takedown notice. The parties in *Amaretto* are competitors who “sell virtual animals in the virtual world known as Second Life.” Defendant claimed that plaintiff’s virtual horses were “virtual clone[s]” of its virtual rabbits, and served a takedown notice under the DMCA, demanding removal of plaintiff’s works from Second Life. Plaintiff filed suit to challenge the takedown notice, seeking to prevent removal of the works. Plaintiff also brought a claim under section 512(f) of the DMCA, alleging that defendant made knowing misrepresentations in the takedown notice.

Resolving an ‘especially close question’ of first impression in *Arista Records LLC v. Lime Group LLC*, the court held that a plaintiff is entitled to only one statutory damage award per work against a secondarily liable defendant, ‘regardless of how many individual users directly infringed that particular work.’

The court dismissed the misrepresentation claims, finding that plaintiff could not have been damaged because “no takedown occurred.” The court rejected plaintiff’s argument that the legislative purpose of §512(f) was to deter knowingly false allegations in takedown notices. To the contrary, the statute was “unambiguous” in restricting damages to injury caused by “removing or disabling access to the material.” Although it rejected the misrepresentation claim, the court did allow plaintiff to file an affirmative claim of copyright misuse.

Section 504(c) of the Copyright Act provides for an award of statutory damages (of up to \$150,000 for willful infringement) for each work infringed, regardless of the number of infringing copies of the work that are made. It is settled that each individually liable infringer is separately liable for this per-work award. What is the result, however, when a single defendant is responsible for the infringement of one copyright by hundreds or thousands of individuals? That was the case in *Arista Records LLC v. Lime Group LLC*, 2011 WL 832172 (SDNY March 10, 2011), where the LimeWire file sharing system was found to have

induced its individual users to infringe copyrights in sound recordings.

Resolving an “especially close question” of first impression, the court held that a plaintiff is entitled to only one statutory damage award per work against a secondarily liable defendant, “regardless of how many individual users directly infringed that particular work.” Permitting multiple statutory damage awards per work would, the court noted, lead to the “absurd” conclusion that a file-sharing service is responsible for billions of dollars in statutory damages. The court emphasized, however, that a fact-finder may take into account the number of direct infringers in determining the appropriate size of a statutory damage award.

Trademark

In a case involving the purchase of Internet search keywords, the U.S. Court of Appeals for the Ninth Circuit rejected a lower court’s rigid application of the “Internet trilogy” of *Sleekcraft* factors typically used in the Ninth Circuit to determine likelihood of confusion in trademark cases involving the Internet. *Network Automation Inc. v. Advanced Systems Concepts Inc.*, 2011 WL 815806 (9th Cir. March 8, 2011). The eight factors identified in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979), the court explained, “are intended as an adaptable proxy for consumer confusion, not as a rote checklist.”

In *Network*, both parties were in the business of selling job scheduling and management software, and both advertised on the Internet. Network purchased certain keyword search terms from Google AdWords and Microsoft Bing, including Systems’ registered mark “ActiveBatch.” When consumers searched for “ActiveBatch,” the top objective results linked to Systems’ own website, and the link to Network’s website appeared in a separate “Sponsored Links” section. The district court granted Systems’ motion for a preliminary injunction, finding a strong likelihood of success on the merits.

On appeal, the Ninth Circuit criticized the lower court’s rigid reliance on the “Internet trilogy” in determining likelihood of confusion. The trilogy factors are: (1) the similarity of the marks; (2) the relatedness of the goods and services offered; and (3) the simultaneous use of the Internet as a marketing channel. Although these factors are “highly illuminating in the context of domain names,” the court explained, they are not well suited to a keywords case.

The Ninth Circuit identified four central *Sleekcraft* factors tailored to the case at hand: “(1) the strength of the mark; (2) the evidence of actual confusion; (3) the type of goods and degree of care likely to be exercised by the purchaser; and (4) the labeling and appearance of the advertisements and the surrounding context on the screen displaying the results page.” The court also noted that, in performing a confusion analysis, a court should presume that Internet shoppers are “quite sophisticated.”