

ADDITIONAL DEVELOPMENTS—COPYRIGHT

RANDOM HOUSE, INC. v. ROSETTA BOOKS LLC

283 F.3d 490 (2d Cir. 2002)

In a case for copyright infringement, the Second Circuit held that the district court did not abuse its discretion in denying a preliminary injunction to a publishing company, who held exclusive licenses in the book form of certain novels, to prevent the sale of the “ebook” form of those novels.

Random House, Inc. sought a preliminary injunction to enjoin Rosetta Books LLC from selling “ebooks” of novels whose authors had granted Random House the exclusive right to publish, print, and sell their copyrighted works “in book form.” The United States District Court for the Southern District of New York denied the motion for a preliminary injunction.

In the Second Circuit, to satisfy the requirements of a preliminary injunction, a party must show: (1) irreparable harm in the absence of the injunction and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the movant’s favor. The court first held that the requirement of irreparable harm can be met by proof of a likelihood of success on the merits, since copyright infringement gives rise to a presumption of irreparable harm. However, the court noted that a determination of the contractual scope of the term “book” was necessary for resolving whether the licenses extend to ebooks. The court thus concluded that Random House did not meet the likelihood of success condition. On the alternative balancing of hardship, the court found that a denial of injunction would only harm Random House’s good will, but the grant of an injunction could put Rosetta Books out of business or at least eliminate its business with all authors who had executed similar contracts. The court held that this alternative condition was balanced in Rosetta Books’ favor. Therefore, the court affirmed the district court’s ruling.

MORRIS V. BUSINESS CONCEPTS, INC.*283 F.3d 502 (2d Cir. 2002)*

In a case for copyright infringement, the Court of Appeals for the Second Circuit ruled that copyright registration of a collective work does not satisfy the Copyright Act's registration requirements of a particular constituent work, at 17 U.S.C. § 411.

Morris, a journalist, sued Business Concepts, Inc. for unauthorized use of Morris' articles in a newsletter. Morris' articles were published in a magazine, *Allure*, and the contract between Morris and Conde Nast, *Allure*'s owner, specified that Conde Nast has exclusive worldwide first publication rights of the Morris articles for 90 days after their publication in *Allure*, and that Morris retains a copyright in her articles. Conde Nast had registered *Allure* in the Copyright Office as collective work. Morris, however, had not separately registered her articles. In an earlier opinion, *Morris v. Business Concepts, Inc.*, 259 F.3d 65 (2d Cir. 2001), the Second Circuit stated in Part I of the opinion that there could be only one copyright owner, and that an exclusive licensee of certain copyrights was not regarded as an owner of the underlying copyright. The court further stated in Part II and III of the opinion that registration of a collective work did not satisfy the registration requirement of the individual component pursuant to § 411(a) of the Copyright Act, and rejected Morris' hardship argument. Therefore, the court there affirmed the district court's summary judgment for the defendant based on lack of subject matter jurisdiction, since a § 411(a) registration is a prerequisite for copyright infringement suit.

Morris petitioned for rehearing. In the current opinion, in response to the petition, the court modified its previous opinion by removing Part I of that opinion. The court recognized that its previous opinion on the ownership issue was primarily based on *Nimmer on Copyright*, and acknowledged that the language of § 101 of the Copyright Act, several other treaties, and a recent Supreme Court case, *New York Times Co. v. Tasini*, 533 U.S. 483 (2001), all suggest that a work may have more than one copyright owner. Nevertheless, the court held that irrespective of the answer to that question, it still needed to decide whether registration of an exclusive licensee could satisfy the § 411(a) registration requirement of the author. The court then held that a claimant registering a serial publication may claim copyright not only in the collective work, but also in the individual component in which all rights have been transferred to the claimant. However, for components in which all rights have not been transferred to the claimant, the registration of the serial will not extend to them. Therefore, the court held that since Morris retained a copyright in her articles, the registration of a copyright in the magazine *Allure* did not satisfy the 411(a) requirement with respect to Morris' articles. Morris' petition for rehearing was denied.

ARISTA RECORDS, INC. v. MP3BOARD, INC.

2002 WL 1997918 (S.D.N.Y. 2002)

The United States District Court for the Southern District of New York ruled on cross motions for summary judgment regarding an Internet search company's contributory and vicarious liability for copyright infringement of music committed by its members which using the company's services.

Several major record companies brought suit against MP3Board for operating a website which provides Internet users with a search engine and other resources enabling them to locate sound recording files from publicly available web sites. Many of these files located with the assistance of MP3Board's website are illegal copies. The Recording Industry Association of America (RIAA) wrote to MP3Board with list of links that lead to illegal copies of music, including names of artists and music, and demanded removal of all infringing links from its website. However, MP3Board did not remove the links. Various record companies then filed suit against MP3Board alleging contributory and vicarious copyright infringement.

The court denied summary judgment motions from both sides regarding contributory and vicarious liability. As for the record companies' motion, the court ruled that the record companies failed to prove that any direct infringement resulted from MP3Board's operations. As for MP3Board's motion, the court found that sufficient evidence existed that a factfinder could determine that MP3Board engaged in an overall course of conduct which could materially contribute to copyright infringement. The contributing acts included a search engine, solicitation of third parties to post links, tutorials for searching and downloading copyrighted music, and a message board to facilitate search activity. The court also found that evidence existed indicating that MP3Board knew or should have known of the infringing activities it facilitated, including the letter from the RIAA and the use of certain language on the MP3Board's website acknowledging the infringement possibility by its users. Therefore, the court held that a jury could find MP3Board liable for contributory infringement. With regard to vicarious liability, the court found that MP3Board could have deleted the infringing links upon receiving the letter from the RIAA and that MP3Board possessed a direct financial interest in the infringing activity. Therefore, the court held that a jury could find MP3Board vicariously liable for copyright infringement.

IN RE AIMSTER COPYRIGHT LITIGATION

2002 WL 31006142 (N.D. Ill. Sept. 4, 2002)

The United States District Court for the Northern District of Illinois granted plaintiff record companies' motion for a preliminary injunction that enjoined Internet file sharing company Aimster from operating its service on the ground of contributory and vicarious copyright infringement.

Aimster's service allows its members to search files, such as music files, on the hard disc of a large number of other Aimster users and facilitates the transfer of files among its members upon the identification of the files. The files are transferred in an encrypted form directly among Aimster's users without going through Aimster's server. However, Aimster requires registration and log in of each of its users. Aimster also provides a club service with a monthly fee where users can download copyrighted popular music from a member's hard drive without doing a search. The plaintiffs are music copyright owners whose copyrights are allegedly being infringed by users of Aimster's service. Different groups of plaintiffs filed numerous actions in different district courts against Aimster. The actions were consolidated in the Northern District of Illinois, and the consolidated plaintiffs filed a motion for a preliminary injunction.

The court granted plaintiffs' motion. The court concluded that plaintiffs are likely to succeed in their contributory copyright infringement action against Aimster. First, the court found that plaintiffs had unequivocally established that Aimster's users are engaged in direct copyright infringement. Second, the court found that Aimster knows or should have known of the infringing activity, because of the letters sent to Aimster by the Record Industry Association of America regarding the activity, the tutorial provided by Aimster, and the chat rooms, bulletin boards and club service provided by Aimster. In rejecting Aimster's encryption argument, the court stated that Aimster should at least have constructive knowledge, which alone satisfies the knowledge requirement. Third, the court found that Aimster's service materially contributes to its users' infringing activities. In so holding, the court rejected Aimster's "substantial non-infringing use" defense. The court failed to find that Aimster's claimed non-infringing use actually exists, and concluded that Aimster's service demonstrated a much closer tie to the infringement activities than the video cassette recorder decided in *Sony Corp. of Am. v. Universal Studios*, 464 U.S. 417 (1984).

The court also concluded that plaintiffs are likely to succeed in their vicarious liability claim. The court found that Aimster has the right and ability to supervise its users despite encryption, because Aimster's users must provide log in information to Aimster. The court also found that Aimster had direct financial interest in the infringing activities as represented by the fee on its club service. In addition, the court rejected Aimster's DMCA defense, because Aimster is not an "innocent" service provider.

Lastly, on balancing hardships and public interest, the court specifically rejected Aimster's going-out-of-business argument, because doing so would encourage copyright infringement. Therefore, the court found that the balance tips in favor of plaintiff.

***VIDEO PIPELINE INC V. BUENA VISTA HOME
ENTERTAINMENT, INC.***

192 F. Supp. 2d 321 (D.N.J. 2002)

The District Court of New Jersey granted a preliminary injunction against Video Pipeline, barring them from distributing promotional previews made from copyrighted motion pictures.

This case involved the intersection of the motion picture industry, video retailing, and the Internet. Buena Vista Entertainment (BVHE) is an exclusive licensee of Walt Disney Pictures and Television and exclusive distributor for Miramax. Video Pipeline compiles and organizes promotional previews (trailers) from entertainment companies into promotional videos for display by retailers in their stores. BVHE originally granted license to Video Pipeline for its use of some BVHE trailers in video stores, but Video Pipeline broadcasted the trailers over the Internet without permission, allowing customers to view them remotely before deciding to purchase or rent a title from a retailer. Video Pipeline received income from its retail customers for this service. BVHE complained and Video Pipeline sought a declaratory judgment that its use of the BVHE provided trailers over the Internet did not constitute copyright infringement. In response, BVHE terminated the license. Video Pipeline then began to create its own previews by taking clips from copies of BVHE's copyrighted videos owned by Video Pipeline's retail clients and making these clips available over the Internet. BVHE thus moved for a preliminary injunction.

The court first determined that Video Pipeline's clip previews were "derivative works" under § 106(2) of the Copyright Act. It further found that Video Pipeline's distribution of the previews over the Internet was a public performance under §106(4) and a public display under § 106(5). Therefore the court held that Video Pipeline had infringed BVHE's copyright. In response to Video Pipeline's First Sale defense, the court held that Video Pipeline was not a retailer who had lawfully purchased copies of BVHE's product. The court found that the relationship between Video Pipeline and its retailer customers was one of licensor and licensee, not one of agency, thus the first sale defense was not available to Video Pipeline. Additionally, the court noted that the first sale defense only protects on site displays of a visual image of a copyrighted work, not images transmitted from one place to members of the public located elsewhere. In response to Video Pipeline's fair use defense, the court analyzed the four fair use factors given in § 107: (1) purpose and character of the use; (2) nature of the copyrighted work; (3) the amount of use in relation to the original work as a whole and (4) the effect of the use on the potential market for the original work. On the first factor, the court determined that Video Pipeline did not add anything new to the original work, and that its service was conducted for profit. The court thus weighed this factor significantly against Video Pipeline. On the second factor, since movies are fictional rather than factual in nature, the court found it also weighed against Video Pipeline. On the third factor, although the portion of a movie used in the preview was small, the court found that qualitatively, the expression used by Video Pipeline was significant. The court thus ruled against Video Pipeline on the third factor. On the fourth factor, the court found that Video Pipeline's service can either increase or decrease BVHE's video sales or rentals, thus this factor is neutral with regard to Video Pipeline. On balance, the court held that a fair use defense was not available to Video Pipeline.

Having determined that BVHE was likely to succeed in a copyright infringement suit on the merits, the court reviewed whether irreparable harm would befall either party with

or without the preliminary injunction. The court held that a showing of a prima facie case of copyright infringement raises a presumption of irreparable harm to BVHE. However, the court failed to find that Video Pipeline would face irreparable harm if the preliminary injunction were granted, since Video Pipeline has other sources of income and its customers have other means to access movie previews. Lastly, the court analyzed whether public interest would be harmed by an injunction. The court held that BVHE's motion for preliminary injunction did not constitute copyright misuse, since BVHE did not use it to suppress competition. The court also found that the preliminary injunction did not restrict the retailer's right of free expression, because copyright only protects the form of expression and not the ideas expressed. Therefore, the court concluded that public interest would not be harmed by granting a preliminary injunction.