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# Innovation and Competition Policy, Ch. 5 (2d ed): Competition and Innovation in Copyright and the DMCA

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This book of CASES AND MATERIALS ON INNOVATION AND COMPETITION POLICY is intended for educational use. The book is free for all to use subject to an open source license agreement. It differs from IP/antitrust casebooks in that it considers numerous sources of competition policy in addition to antitrust, including those that emanate from the intellectual property laws themselves, and also related issues such as the relationship between market structure and innovation, the competitive consequences of regulatory rules governing technology competition such as net neutrality and interconnection, misuse, the first sale doctrine, and the Digital Millennium Copyright Act (DMCA). Chapters will be updated frequently. The author uses this casebook for a three-unit class in *Innovation and Competition Policy* taught at the University of Iowa College of Law and available to first year law students as an elective. The table of contents is as follows (click on chapter title to retrieve it):

# INNOVATION AND COMPETITION POLICY: CASES AND MATERIALS

**HERBERT HOVENKAMP**

## CHAPTER 5 (2d ed)
## COMPETITION AND INNOVATION IN COPYRIGHT AND THE DMCA

## I. EXCLUSION BY COPYRIGHT OR THE DMCA

### ASSESSMENT TECH. OF WI., LLC V. WIREDATA, INC.
### 350 F.3d 640 (7th Cir. 2003)

Posner, Circuit Judge:

This case is about the attempt of a copyright owner to use copyright law to block access to data that not only are neither copyrightable nor copyrighted, but were not created or obtained by the copyright owner. The owner is trying to secrete the data in its copyrighted program-a program the existence of which reduced the likelihood that the data would be retained in a form in which they would have been readily accessible. It would be appalling if such an attempt could succeed.

Assessment Technologies (AT, we'll call it) brought suit for copyright infringement and theft of trade secrets against WIREdata, and the district court after an evidentiary hearing issued a permanent injunction on the basis of AT's copyright claim alone, without reaching the trade secret claim. A sample database in the demo version of AT's product-a version freely distributed for promotional purposes-reveals the entire structure of the database, thus making the trade secret claim incomprehensible to us. But we shall not make a formal ruling on the claim. It was not addressed either by the district court or by the parties in their submissions in this court, and conceivably if improbably it has more merit than we can find in it.

The copyright case seeks to block WIREdata from obtaining noncopyrighted data. AT claims that the data can't be extracted without infringement of its copyright. The copyright is of a compilation format, and the general issue that the appeal presents is the right of the owner of such a copyright to prevent his customers (that is, the copyright licensees) from disclosing the compiled data even if the data are in the public domain.

WIREdata, owned by Multiple Listing Services, Inc., wants to obtain, for use by real estate brokers, data regarding specific properties-address, owner's name, the age of the property, its assessed valuation, the number and type of rooms, and so forth-from the southeastern Wisconsin municipalities in which the properties are located. The municipalities collect such data in order to assess the value of the properties for property-tax purposes. Ordinarily they're happy to provide the data to anyone who will pay the modest cost of copying the data onto a disk. Indeed, Wisconsin's "open records" law, requires them to furnish such data to any person who will pay the copying cost. However, three municipalities refused WIREdata's request. They (or the contractors who do the actual tax assessment for them) are licensees of AT. The open-records law contains an exception for copyrighted materials, and these municipalities are afraid that furnishing WIREdata the requested data would violate the copyright. WIREdata has sued them in the state courts of Wisconsin in an attempt to force them to divulge the data, and those suits are pending. Alarmed by WIREdata's suits, AT brought the present suit to stop WIREdata from making such demands of the municipalities and seeking to enforce them by litigation.

The data that WIREdata wants are collected not by AT but by tax assessors hired by the municipalities. The assessors visit the property and by talking to the owner and poking around the property itself obtain the information that we mentioned in the preceding paragraph-the age of the property, the number of rooms, and so forth. AT has developed and copyrighted a computer program, called "Market Drive," for compiling these data. The assessor types into a computer the data that he has obtained from his visit to the property or from other sources of information and then the Market Drive program, in conjunction with a Microsoft database program (Microsoft Access), automatically allocates the data to 456 fields (that is, categories of information) grouped into 34 master categories known as tables. Several types of data relating to a property, each allocated to a different field, are grouped together in a table called "Income Valuations," others in a table called "Residential Buildings," and so on. The data collected by the various assessors and inputted in the manner just described are stored in an electronic file, the database. The municipality's tax officials can use various queries in Market Drive or Market Access to view the data in the file.

WIREdata's appeal gets off on the wrong foot, with the contention that Market Drive lacks sufficient originality to be copyrightable. Copyright law unlike patent law does not require substantial originality. In fact, it requires only enough originality to enable a work to be distinguished from similar works that are in the public domain, Bucklew v. Hawkins, Ash, Baptie & Co., 329 F.3d 923, 929 (7th Cir.2003), since without some discernible distinction it would be impossible to determine whether a subsequent work was copying a copyrighted work or a public-domain work. This modest requirement is satisfied by Market Drive because no other real estate assessment program arranges the data collected by the assessor in these 456 fields grouped into these 34 categories, and because this structure is not so obvious or inevitable as to lack the minimal originality required, as it would if the compilation program simply listed data in alphabetical or numerical order. Feist Publications, Inc. v. Rural Telephone Service Co., supra, 499 U.S. at 362-64. The obvious orderings, the lexical and the numeric, have long been in the public domain, and what is in the public domain cannot be appropriated by claiming copyright. Alternatively, if there is only one way in which to express an idea-for example, alphabetical order for the names in a phone book-then form and idea merge, and in that case since an idea cannot be copyrighted the copying of the form is not an infringement. That is not the situation here.

So AT has a valid copyright; and if WIREdata said to itself, “Market Drive is a nifty way of sorting real estate data and we want the municipalities to give us their data in the form in which it is organized in the database, that is, sorted into AT's 456 fields grouped into its 34 tables,” and the municipalities obliged, they would be infringing AT's copyright because they are not licensed to make copies of Market Drive for distribution to others; and WIREdata would be a contributory infringer (subject to a qualification concerning the fair-use defense to copyright infringement, including contributory infringement, that we discuss later). But WIREdata doesn't want the compilation as structured by Market Drive. It isn't in the business of making tax assessments, which is the business for which Market Drive is designed. It only wants the raw data, the data the assessors inputted into Market Drive. Once it gets those data it will sort them in accordance with its own needs, which have to do with providing the information about properties that is useful to real estate brokers as opposed to taxing authorities….

From the standpoint of copyright law all that matters is that the process of extracting the raw data from the database does not involve copying Market Drive, or creating, as AT mysteriously asserts, a derivative work; all that is sought is raw data, data created not by AT but by the assessors, data that are in the public domain. A derivative work is a translation or other transformation of an original work and must itself contain minimum originality for the same evidentiary reason that we noted in discussing the requirement that a copyrighted work be original. A work that merely copies uncopyrighted material is wholly unoriginal and the making of such a work is therefore not an infringement of copyright. The municipalities would not be infringing Market Drive by extracting the raw data from the databases by either method that we discussed and handing those data over to WIREdata; and since there would thus be no direct infringement, neither would there be contributory infringement by WIREdata. It would be like a Westlaw licensee's copying the text of a federal judicial opinion that he found in the Westlaw opinion database and giving it to someone else. Westlaw's compilation of federal judicial opinions is copyrighted and copyrightable because it involves discretionary judgments regarding selection and arrangement. But the opinions themselves are in the public domain (federal law forbids assertion of copyright in federal documents, 17 U.S.C. § 105), and so Westlaw cannot prevent its licensees from copying the opinions themselves as distinct from the aspects of the database that are copyrighted. See Matthew Bender & Co. v. West Publishing Co., 158 F.3d 693 (2d Cir.1998).

AT would lose this copyright case even if the raw data were so entangled with Market Drive that they could not be extracted without making a copy of the program. The case would then be governed by Sega Enterprises Ltd. v. Accolade, Inc., 977 F.2d 1510, 1520-28 (9th Cir.1992). Sega manufactured a game console, which is a specialized computer, and copyrighted the console's operating system, including the source code. Accolade wanted to make computer games that would be compatible with Sega's console, and to that end it bought a Sega console and through reverse engineering reconstructed the source code, from which it would learn how to design its games so that they would activate the operating system. For technical reasons, Accolade had to make a copy of the source code in order to be able to obtain this information. It didn't want to sell the source code, produce a game-console operating system, or make any other use of the copyrighted code except to be able to sell a noninfringing product, namely a computer game. The court held that this “intermediate copying” of the operating system was a fair use, since the only effect of enjoining it would be to give Sega control over noninfringing products, namely Accolade's games. See also Sony Computer Entertainment, Inc. v. Connectix Corp., 203 F.3d 596, 602-08 (9th Cir.2000). Similarly, if the only way WIREdata could obtain public-domain data about properties in southeastern Wisconsin would be by copying the data in the municipalities' databases as embedded in Market Drive, so that it would be copying the compilation and not just the compiled data only because the data and the format in which they were organized could not be disentangled, it would be privileged to make such a copy, and likewise the municipalities. For the only purpose of the copying would be to extract noncopyrighted material, and not to go into competition with AT by selling copies of Market Drive. We emphasize this point lest AT try to circumvent our decision by reconfiguring Market Drive in such a way that the municipalities would find it difficult or impossible to furnish the raw data to requesters such as WIREdata in any format other than that prescribed by Market Drive. If AT did that with that purpose it might be guilty of copyright misuse, of which more shortly.

AT argues that WIREdata doesn't need to obtain the data in digital form because they exist in analog form, namely in the handwritten notes of the assessors, notes that all agree are not covered by the Market Drive copyright. But we were told at argument without contradiction that some assessors no longer make handwritten notes to copy into a computer at a later time. Instead they take their laptop to the site and type the information in directly. So WIREdata could not possibly obtain all the data it wants (all of which data are in the public domain, we emphasize) from the handwritten notes. But what is more fundamental is that since AT has no ownership or other legal interest in the data collected by the assessor, it has no legal ground for making the acquisition of that data more costly for WIREdata. AT is trying to use its copyright to sequester uncopyrightable data, presumably in the hope of extracting a license fee from WIREdata.

We are mindful of pressures, reflected in bills that have been pending in Congress for years, Jonathan Band & Makoto Kono, “The Database Protection Debate in the 106th Congress,” 62 Ohio St. L.J. 869 (2001), to provide legal protection to the creators of databases, as Europe has already done. Jane C. Ginsburg, “Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad,” 66 U. Cinc. L.Rev. 151 (1997). (Ironically, considering who owns WIREdata, the multiple-listing services are pressing for such protection. Ron Eckstein, “The Database Debate,” Legal Times, Jan. 24, 2000, p. 16.) The creation of massive electronic databases can be extremely costly, yet if the database is readily searchable and the data themselves are not copyrightable (and we know from Feist that mere data are indeed not copyrightable) the creator may find it difficult or even impossible to recoup the expense of creating the database. Legal protection of databases as such (as distinct from programs for arranging the data, like Market Drive) cannot take the form of copyright, as the Supreme Court made clear in Feist when it held that the copyright clause of the Constitution does not authorize Congress to create copyright in mere data. But that is neither here nor there; what needs to be emphasized in this case is that the concerns (whether or not valid, as questioned in Ginsburg, supra, and also J.H. Reichman & Pamela Samuelson, "Intellectual Property Rights in Data?" 50 Vand. L.Rev. 51 (1997), and Stephen M. Maurer & Suzanne Scotchmer, "Database Protection: Is It Broken and Should We Fix It?" 284 Sci. 1129 (1999)) that actuate the legislative proposals for database protection have no relevance because AT is not the collector of the data that go into the database. All the data are collected and inputted by the assessors; it is they, not AT, that do the footwork, the heavy lifting….

[I]t is irrelevant that ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453-55 (7th Cir.1996), holds that a copyright owner can by contract limit copying beyond the right that a copyright confers. Like other property rights, a copyright is enforceable against persons with whom the owner has no contractual relations; so a property owner can eject a trespasser even though the trespasser had not contractually bound himself to refrain from entering the property. That is why AT is suing WIREdata for copyright infringement rather than for breach of contract. The scope of a copyright is given by federal law, but the scope of contractual protection is, at least prima facie, whatever the parties to the contract agreed to. The existence of contractual solutions to the problem of copying the contents of databases is one of the reasons that Professor Ginsburg and others are skeptical about the need for legislative protection of databases. But our plaintiff did not create the database that it is seeking to sequester from WIREdata; or to be more precise, it created only an empty database, a bin that the tax assessors filled with the data. It created the compartments in the bin and the instructions for sorting the data to those compartments, but those were its only innovations and their protection by copyright law is complete. To try by contract or otherwise to prevent the municipalities from revealing their own data, especially when, as we have seen, the complete data are unavailable anywhere else, might constitute copyright misuse.

The doctrine of misuse "prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly." A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1026-27

(9th Cir.2001). The data in the municipalities' tax-assessment databases are beyond the scope of AT's copyright. It is true that in Reed-Union Corp. v. Turtle Wax, Inc., 77 F.3d 909, 913 (7th Cir.1996), we left open the question whether copyright misuse, unless it rises to the level of an antitrust violation, is a defense to infringement; our earlier decision in Saturday Evening Post Co. v. Rumbleseat Press, Inc., 816 F.2d 1191, 1200 (7th Cir.1987), had intimated skepticism. No effort has been made by WIREdata to show that AT has market power merely by virtue of its having a copyright on one system for compiling valuation data for real estate tax assessment purposes. Cases such as Lasercomb, however, cut misuse free from antitrust, pointing out that the cognate doctrine of patent misuse is not so limited, 911 F.2d at 977-78, though a difference is that patents tend to confer greater market power on their owners than copyrights do, since patents protect ideas and copyrights, as we have noted, do not. The argument for applying copyright misuse beyond the bounds of antitrust, besides the fact that confined to antitrust the doctrine would be redundant, is that for a copyright owner to use an infringement suit to obtain property protection, here in data, that copyright law clearly does not confer, hoping to force a settlement or even achieve an outright victory over an opponent that may lack the resources or the legal sophistication to resist effectively, is an abuse of process.

We need not run this hare to the ground; nor decide whether the licenses interpreted as AT would have us interpret them-as barring municipalities from disclosing noncopyrighted data-would violate the state's open-records law. WIREdata is not a licensee of AT, and AT is not suing to enforce any contract it might have with WIREdata. It therefore had no cause to drag the licenses before us. But since it did, we shall not conceal our profound skepticism concerning AT's interpretation. If accepted, it would forbid municipalities licensed by AT to share the data in their tax-assessment databases with each other even for the purpose of comparing or coordinating their assessment methods, though all the data they would be exchanging would be data that their assessors had collected and inputted into the databases. That seems an absurd result.

To summarize, there are at least four possible methods by which WIREdata can obtain the data it is seeking without infringing AT's copyright; which one is selected is for the municipality to decide in light of applicable trade-secret, open-records, and contract laws. The methods are: (1) the municipalities use Market Drive to extract the data and place it in an electronic file; (2) they use Microsoft Access to create an electronic file of the data; (3) they allow programmers furnished by WIREdata to use their computers to extract the data from their database-this is really just an alternative to WIREdata's paying the municipalities' cost of extraction, which the open-records law requires; (4) they copy the database file and give it to WIREdata to extract the data from.

The judgment is reversed with instructions to vacate the injunction and dismiss the copyright claim.

Reversed And Remanded, With Instructions.

## NOTES AND QUESTIONS

1. Judge Posner states, **"**Copyright law unlike patent law does not require substantial originality. In fact, it requires only enough originality to enable a work to be distinguished from similar works that are in the public domain." Patent law requires novelty, meaning that there has been no identical prior invention (35 U.S.C. §102), and non-obviousness, which requires that the invention must be a significant technical advancement (35 U.S.C. §103) in order to obtain a patent. However, with copyright law, there is only a minimal creativity requirement.

Consider *Feist Publications v. Rural Telephone Service,* 499 U.S. 340 (1991). Rural Telephone Service, a telephone utility, brought a copyright infringement action against Feist Publications, a publisher of telephone directories. Following a state statute, Rural published a standard telephone directory, with white and yellow pages, for its subscribers. Feist, which published telephone directories for a much larger geographical range than Rural's area, requested a license to Rural's published listings. Rural denied the license. However, Feist went on and extracted the listings without Rural's consent. Rural sued for copyright infringement. Finding for *Feist*, Justice O'Connor in her majority opinion reiterated that, "To be sure, the requisite level of creativity is extremely low; even a slight amount will suffice. The vast majority of works make the grade quite easily, as they possess some creative spark, no matter how crude, humble or obvious it might be. Originality does not signify novelty." *Id.* at 345. However, the listing of facts is not and never has been copyrightable, and therefore the Court concluded that, "the names, towns, and telephone numbers copied by Feist were not original to Rural and therefore were not protected by the copyright in Rural's combined white and yellow pages directory. As a constitutional matter, copyright protects only those constituent elements of a work that possess more than a *de minimis* quantum of creativity. Rural's white pages, limited to basic subscriber information and arranged alphabetically, fall short of the mark.” *Id.* at 363.

2. In *Omega S.A. v. Costco Wholesale Corp*., 2011 WL 8492716 (C.D.Cal. Nov. 9, 2011), the court found copyright misuse when Omega, a Swiss watch manufacturer, placed a copyrighted emblem on each of its watches. Ordinarily the watches, once sold, could be freely imported into the United States. However, the Copyright Act, 17 U.S.C. §602, makes unauthorized importation of copyrighted goods a violation of the copyright owner's right to distribute. Omega conceded that it placed the copyrighted emblem on its watches in order to prevent them from being imported into the United States.

## CHAMBERLAIN GROUP, INC. V. SKYLINK TECH., INC.
## 381 F.3d 1178 (Fed. Cir. 2004)

### 1. GAJARSA, Circuit Judge.

… Chamberlain sued Skylink, alleging violations of the patent and copyright laws. Chamberlain's second amended complaint, dated March 26, 2003, enumerated eight causes of action against Skylink, including the infringement of three patents. The matter on appeal involves only Chamberlain's allegation that Skylink is violating the DMCA, specifically the anti-trafficking provision of § 1201(a)(2)…..

The technology at issue involves Garage Door Openers (GDOs). A GDO typically consists of a hand-held portable transmitter and a garage door opening device mounted in a homeowner's garage. The opening device, in turn, includes both a receiver with associated signal processing software and a motor to open or close the garage door. In order to open or close the garage door, a user must activate the transmitter, which sends a radio frequency (RF) signal to the receiver located on the opening device. Once the opener receives a recognized signal, the signal processing software directs the motor to open or close the garage door.

When a homeowner purchases a GDO system, the manufacturer provides both an opener and a transmitter. Homeowners who desire replacement or spare transmitters can purchase them in the aftermarket. Aftermarket consumers have long been able to purchase “universal transmitters" that they can program to interoperate with their GDO system regardless of make or model. Skylink and Chamberlain are the only significant distributors of universal GDO transmitters.[1] Chamberlain places no explicit restrictions on the types of transmitter that the homeowner may use with its system at the time of purchase. Chamberlain's customers therefore assume that they enjoy all of the rights associated with the use of their GDOs and any software embedded therein that the copyright laws and other laws of commerce provide.

This dispute involves Chamberlain's Security+ line of GDOs and Skylink's Model 39 universal transmitter. Chamberlain's Security+ GDOs incorporate a copyrighted "rolling code" computer program that constantly changes the transmitter signal needed to open the garage door. Skylink's Model 39 transmitter, which does not incorporate rolling code, nevertheless allows users to operate Security+ openers. Chamberlain alleges that Skylink's transmitter renders the Security+ insecure by allowing unauthorized users to circumvent the security inherent in rolling codes. Of greater legal significance, however, Chamberlain contends that because of this property of the Model 39, Skylink is in violation of the anti-trafficking clause of the DMCA's anticircumvention provisions, specifically § 1201(a)(2)….

The essence of the rolling code system is that the transmitted signals are broken into fixed and variable (or "rolling") components. The entire transmitted signal is a bit string. The fixed component serves to identify the transmitter. The rolling component cycles through a lengthy cycle of bit strings only some of which are capable of opening the door at any given time, ostensibly so that a burglar replaying a grabbed code is unlikely to send a valid signal-and therefore unlikely to open the garage door….

Skylink began marketing and selling universal transmitters in 1992. Skylink designed its Model 39, launched in August 2002, to interoperate with common GDOs, including both rolling code and non-rolling code GDOs. Although Chamberlain concedes that the Model 39 transmitter is capable of operating many different GDOs, it nevertheless asserts that Skylink markets the Model 39 transmitter for use in circumventing its copyrighted rolling code computer program. Chamberlain supports this allegation by pointing to the Model 39's setting that operates *only* Chamberlain's rolling code GDOs.

[1] Chamberlain's product, the "Clicker," interoperates with both Chamberlain and non-Chamberlain GDOs.

Skylink's Model 39 *does not* use rolling code technology. Like Chamberlain's products, however, the Model 39's binary signal contains two components. The first corresponds to the Chamberlain's fixed component identifying the transmitter, and the second simulates the effect of the Chamberlain's rolling code. Like the Chamberlain fixed component, the primary role of the Model 39's identifying component is in programming; a homeowner wishing to use a Model 39 in conjunction with a Chamberlain GDO must program the opener to recognize his newly purchased transmitter….

[I]t is nevertheless noteworthy that Chamberlain *has not* alleged either that Skylink infringed its copyright or that Skylink is liable for contributory copyright infringement. What Chamberlain *has* alleged is that because its opener and transmitter both incorporate computer programs "protected by copyright" and because rolling codes are a "technological measure" that "controls access" to those programs, Skylink is prima facie liable for violating § 1201(a)(2).

… According to Chamberlain, "Skylink did not seriously dispute that the operation of its transmitters bypasses Chamberlain's rolling code security measure to gain access to Chamberlain's copyrighted GDO receiver operating software, but instead focuses on an 'authorization' defense." Given that "plain language" interpretation of the statute, Chamberlain also argues that the District Court erred in assigning the plaintiff the burden of proving that access was unauthorized rather than placing the burden on the defendant to prove that the access was authorized. Finally, with the burden thus shifted, Chamberlain argues that Skylink has not met its burden, and that the District Court's grant of summary judgment was therefore in error.

Skylink primarily urges us to adopt both the District Court's construction and its application of its construction to the facts of this case. In particular, Skylink urges us *not* to place the burden of proving authorization on defendants, arguing that it would be tantamount to reading a new "authority" requirement into the DMCA To resolve this dispute, we must first construe the relevant portions of the DMCA, and then apply the statute, properly construed, to the specific facts at issue…..

The essence of the DMCA's anticircumvention provisions is that §§ 1201(a),(b) establish causes of action for liability. They do not establish a new property right. The DMCA's text indicates that circumvention is not infringement, 17 U.S.C. § 1201(c)(1)("Nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use, under this title."), and the statute's structure makes the point even clearer. This distinction between property and liability is critical. Whereas copyrights, like patents, are property, liability protection from unauthorized circumvention merely creates a new cause of action under which a defendant may be liable. The distinction between property and liability goes straight to the issue of authorization, the issue upon which the District Court both denied Chamberlain's and granted Skylink's motion for summary judgment.

A plaintiff alleging copyright infringement need prove *only* "(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." *Feist Pub., Inc. v. Rural Tel. Serv. Co.,* 499 U.S. 340, 361 (1991). "[T]he existence of a license, exclusive or nonexclusive, creates an affirmative defense to a claim of copyright infringement." *I.A.E., Inc. v. Shaver,* 74 F.3d 768, 775 (7th Cir.1996). In other words, under Seventh Circuit copyright law, a plaintiff only needs to show that the defendant has used her property; the burden of proving that the use was authorized falls squarely on the defendant. *Id.* The DMCA, however, *defines* circumvention as an activity undertaken "without the authority of the copyright owner." 17 U.S.C. § 1201(a)(3)(A). The plain language of the statute therefore requires a plaintiff alleging circumvention (or trafficking) to prove that the defendant's access was unauthorized-a significant burden where, as here, the copyright laws authorize consumers to use the copy of Chamberlain's software embedded in the GDOs that they purchased. The premise underlying this initial assignment of burden is that the copyright laws authorize members of the public to access a work, but not to copy it. The law therefore places the burden of proof on the party attempting to establish that the circumstances of its case deviate from these normal expectations; defendants must prove authorized copying and plaintiffs must prove unauthorized access.

The distinction between property and liability also addresses an important policy issue that Chamberlain puts into stark focus…. Chamberlain contends that Congress empowered manufacturers to prohibit consumers from using embedded software products in conjunction with competing products when it passed § 1201(a)(1). According to Chamberlain, *all* such uses of products containing copyrighted software to which a technological measure controlled access are now per se illegal under the DMCA unless the manufacturer provided consumers with *explicit* authorization. Chamberlain's interpretation of the DMCA would therefore grant manufacturers broad exemptions from both the antitrust laws and the doctrine of copyright misuse.

Such an exemption, however, is only plausible if the anticircumvention provisions established a new property right capable of conflicting with the copyright owner's other legal responsibilities-which as we have already explained, they do not. The anticircumvention provisions convey no additional property rights in and of themselves; they simply provide property owners with new ways to secure their property. Like all property owners taking legitimate steps to protect their property, however, copyright owners relying on the anticircumvention provisions remain bound by all other relevant bodies of law. Contrary to Chamberlain's assertion, the DMCA emphatically *did not* "fundamentally alter" the legal landscape governing the reasonable expectations of consumers or competitors; *did not* "fundamentally alter" the ways that courts analyze industry practices; and *did not* render the pre-DMCA history of the GDO industry irrelevant…..

The [DMCA] contains three provisions targeted at the circumvention of technological protections. The first is subsection 1201(a)(1)(A), the anticircumvention provision. This provision prohibits a person from circumvent [ing] a technological measure that effectively controls access to a work protected under [Title 17, governing copyright].... The second and third provisions are subsections 1201(a)(2) and 1201(b)(1), the anti-trafficking provisions.... Subsection 1201(a)(1) differs from both of these anti-trafficking subsections in that it targets the use of a circumvention technology, not the trafficking in such a technology….

Prior to the DMCA, a copyright owner would have had no cause of action against anyone who circumvented any sort of technological control, but did not infringe. The DMCA rebalanced these interests to favor the copyright owner; the DMCA created circumvention liability for "digital trespass" under § 1201(a)(1). It also created trafficking liability under § 1201(a)(2) for facilitating such circumvention and under § 1201(b) for facilitating infringement (both subject to the numerous limitations and exceptions outlined throughout the DMCA).

*[A lengthy discussion of the legislative history of the DMCA and earlier decisions is omitted]*

The proper construction of § 1201(a)(2) therefore makes it clear that Chamberlain cannot prevail. A plaintiff alleging a violation of § 1201(a)(2) must prove: (1) ownership of a valid *copyright* on a work, (2) effectively controlled by a *technological measure,* which has been circumvented, (3) that third parties can now *access* (4) *without authorization,* in a manner that (5) infringes or facilitates infringing a right *protected* by the Copyright Act, because of a product that (6) the defendant either (i) *designed or produced* primarily for circumvention; (ii) made available despite only *limited commercial significance* other than circumvention; or (iii) *marketed* for use in circumvention of the controlling technological measure. A plaintiff incapable of establishing any one of elements (1) through (5) will have failed to prove a prima facie case. A plaintiff capable of proving elements (1) through (5) need prove only one of (6)(i), (ii), or (iii) to shift the burden back to the defendant. At that point, the various affirmative defenses enumerated throughout § 1201 become relevant….

Chamberlain, however, has failed to show not only the requisite lack of authorization, but also the necessary fifth element of its claim, the critical nexus between access and protection. Chamberlain neither alleged copyright infringement *nor explained how the access provided by the Model 39 transmitter facilitates the infringement of any right that the Copyright Act protects.* There can therefore be no reasonable relationship between the access that homeowners gain to Chamberlain's copyrighted software when using Skylink's Model 39 transmitter and the protections that the Copyright Act grants to Chamberlain. The Copyright Act authorized Chamberlain's customers to use the copy of Chamberlain's copyrighted software embedded in the GDOs that they purchased. Chamberlain's customers are therefore immune from § 1201(a)(1) circumvention liability. In the absence of allegations of either copyright infringement or § 1201(a)(1) circumvention, Skylink cannot be liable for § 1201(a)(2) trafficking. The District Court's grant of summary judgment in Skylink's favor was correct. Chamberlain failed to allege a claim under 17 U.S.C. § 1201.

The DMCA does not create a new property right for copyright owners. Nor, for that matter, does it divest the public of the property rights that the Copyright Act has long granted to the public. The anticircumvention and anti-trafficking provisions of the DMCA create new grounds of liability. A copyright owner seeking to impose liability on an accused circumventor must demonstrate a reasonable relationship between the circumvention at issue and a use relating to a property right for which the Copyright Act permits the copyright owner to withhold authorization-as well as notice that authorization was withheld. A copyright owner seeking to impose liability on an accused trafficker must demonstrate that the trafficker's device enables either copyright infringement or a prohibited circumvention. Here, the District Court correctly ruled that Chamberlain pled no connection between unauthorized use of its copyrighted software and Skylink's accused transmitter. This connection is critical to sustaining a cause of action under the DMCA. We therefore affirm the District Court's summary judgment in favor of Skylink.

## NOTES AND QUESTIONS

1. The Digital Millennium Copyright Act (DMCA) became law in 1998 as a way to implement treaties signed at the World Intellectual Property Organization Geneva Conference in December 1996. Consider how much of copyright law today is governed by the DMCA. How many copyright issues involve technology that is only a few years old? What would copyright law have been without the DMCA? *See* Jennifer E. Markiewicz, *Seeking Shelter from the MP3 Storm: How far does the Digital Millennium Copyright Act Online Service Provider Liability Limitation Reach?*, 7 COMMLAW CONSPECTUS 423 (1999).

2. The court in *Chamberlain* held that 17 U.S.C. § 1201 only prohibits circumvention that infringes or facilitates infringement of an underlying exclusive right under the copyright Act. As the court stated, "Prior to the DMCA, a copyright owner would have had no cause of action against anyone who circumvented any sort of technological control, but did not infringe. The DMCA rebalanced these interests to favor the copyright owner; the DMCA created circumvention liability for 'digital trespass' under § 1201(a)(1)." See Alan Galloway, *Preserving Competition for Computer Maintenance in the DMCA Era: 17 U.S.C. § 1201(A)(1) After StorageTek*, 22 BERKELEY TECH. L.J. 293, n.157 (2007). What types of acts constitute such circumvention? How would circumvention not facilitate infringement?

*3. Moby Dick*, Herman Melville's great novel about the white whale, was first published in 1851 and has been in the public domain for over a century. Suppose that someone put the text of Moby Dick on a CD-ROM for playback purposes with a technological lock to prevent copying. Someone else then cracked the technological lock and made copies of the disc, taking only the public domain text of the novel itself. What outcome under *Chamberlain*? Would it matter that there are plenty of alternative sources for a public domain copy of Moby Dick without a technological lock? If digitization is costly wouldn't the copyist be taking a free ride on the CD-ROM producer's investment. Or does that not matter?

4. In *MDY Indus., LLC v. Blizzard Ent't, Inc*., 629 F3d 928 (9th Cir. 2010), the Ninth Circuit sharply disagreed with Chamberlain and found liability for a DMCA violation even if there was no copyright infringement. The copyright holder sold an on-line role-playing game (World of Warcraft, or "WoW") and the defendant made an automated "bot" that played the early levels of the game for a user so that the user could graduate to more advanced levels. WoW's licensing agreement forbad the use of such bots, and the court held that a violation of this agreement supported a breach of contract action for violation of the licensee but not an action for copyright infringement. The court then found a DMCA violation, however:

> While we appreciate the policy considerations expressed by the Federal Circuit in *Chamberlain,* we are unable to follow its approach because it is contrary to the plain language of the statute. In addition, the Federal Circuit failed to recognize the rationale for the statutory construction that we have proffered. Also, its approach is based on policy concerns that are best directed to Congress in the first instance, or for which there appear to be other reasons that do not require such a convoluted construction of the statute's language….
>
> There is significant textual evidence showing Congress's intent to create a new anticircumvention right in § 1201(a) distinct from infringement.
>
> Chamberlain relied heavily on policy considerations to support its reading of § 1201(a). As a threshold matter, we stress that such considerations cannot trump the statute's plain text and structure. Even were they permissible considerations in this case, however, they would not persuade us to adopt an infringement nexus Requirement. *Chamberlain* feared that § 1201(a) would allow companies to leverage their sales into aftermarket monopolies, in tension with antitrust law and the doctrine of copyright misuse. *See Assessment Techs.,* 350 F.3d at 647 (copyright misuse)). Concerning antitrust law, we note that there is no clear issue of anti-

> competitive behavior in this case because Blizzard does not seek to put a direct competitor who offers a competing role-playing game out of business and the parties have not argued this issue. If a § 1201(a)(2) defendant in a future case claims that a plaintiff is attempting to enforce its DMCA anti-circumvention right in a manner that violates antitrust law, we will then consider the interplay between this new anti-circumvention right and antitrust law….

5. *Takedown Notices.* The Digital Millennium Copyright Act deals with the problem of sponsoring websites that may post infringing materials. Such sites include *eBay*, *YouTube*, *Facebook*, and similar sites that are "passive" in the sense that they do not review the copyright status of everything their users post on them. 17 U.S.C. 512(c) addresses "information residing on systems or networks at the direction of users." The statute describes the procedures copyright owners and their agents must employ to provide effective notification to a service provider of allegations of infringement on the provider's system or network. These notices are often referred to as "Takedown" notices. These notices do not extend liability for monetary, injunctive, or other equitable relief to service providers who (1) do not have actual knowledge that the material is infringing, (2) is not aware of facts or circumstances from which infringing activity is apparent, or (3) once obtaining knowledge or awareness of infringement, act "expeditiously to remove or disable access to the material. *See* G. Gervaise Davis III, et. al., *Limits of the DMCA Section 512(c) Safe Harbor*, INTELL. PROP. LAW INST. 1063 PLI/Pat 425 (2011). See Viacom Intern., Inc. v. YouTube, Inc., 676 F.3d 19 (2d Cir. 2012)

Some courts have held that copyright holders must consider the fair use doctrine before submitting take down notices. Lenz v. Universal Music Corp., 572 F.Supp.2d 1150 (N.D. Cal. 2008). In this case, the plaintiff posted a video on YouTube of her children dancing to Prince's hit "Let's Go Crazy." Only about 20 seconds of the song are actually heard on the video. Universal Music, the copyright holder, sent YouTube a take down notice in compliance with the DMCA requirements of 17 U.S.C. 512. YouTube removed the post and notified the plaintiff of the alleged infringement, who in turn sent YouTube a counter-notification claiming fair use. YouTube reposted the video. The plaintiff then sued Universal for misrepresentation under the DMCA. The court found for the plaintiff, stating "in order for a copyright owner to proceed under the DMCA with a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law, the owner must evaluate whether the material makes fair use of the copyright. An allegation that a copyright owner acted in bad faith by issuing a takedown notice without proper consideration of the fair use doctrine thus is sufficient to state a misrepresentation claim pursuant to Section 512(f) of the DMCA."

6. In *Lexmark International v. Static Control Components,* 387 F.3d 522 (6th Cir.2004) the plaintiff sold laser printers that used a microchip to ensure that only the manufacturer's own ink cartridges could be used in the printer. The defendant reverse engineered the microchip and sold it to manufacturers of generic ink cartridges for use in Lexmark printers. The Sixth Circuit found no violation of DMCA § 1201(a)(2) claim failed because anyone who purchased a printer could "access" the copyrighted program and read the code from the printer memory. As a result reverse engineering the chip, which was required for the cartridge to access the authentication information, was not required for the reverse engineer seeking to emulate the chip. As a result there was not an effective technological lock:

> Just as one would not say that a lock on the back door of a house "controls access" to a house whose front door does not contain a lock and just as one would not say that a lock on any door of a house "controls access" to the house after its purchaser receives the key to the lock, it does not make sense to say that this provision of the DMCA applies to otherwise-readily-accessible copyrighted works. Add to this the fact that the DMCA not only requires the technological measure to "control access" but requires the measure to control that access "effectively," 17 U.S.C. § 1201(a)(2), and it seems clear that this provision does not naturally extend to a technological measure that restricts one form of access but leaves another route wide open.

Lexmark also involved exclusion of a competitor by means of a "technological tie" (see Chapter two). Would such a tie have been considered anticompetitive under the antitrust laws, thus creating a potential conflict between the DMCA and antitrust policy? Are these facts relevant: (1) Lexmark is a nondominant printer manufacturer in a moderately competitive market together with Hewlitt-Packard, Canon, Epson, and others; (2) the tie at issue is variable proportion? See Chapter 2; and HERBERT HOVENKAMP, FEDERAL ANTITRUST POLICY: THE LAW OF COMPETITION AND ITS PRACTICE, ch. 10 (4th ed. 2011).

## ProCD, INC. V. ZEIDENBERG
## 86 F.3d 1447 (7th Cir. 1996)

EASTERBROOK, Circuit Judge.

Must buyers of computer software obey the terms of shrinkwrap licenses? The district court held not, for two reasons: first, they are not contracts because the licenses are inside the box rather than printed on the outside; second, federal law forbids enforcement even if the licenses are contracts…. [W]e disagree with the district judge's conclusion on each. Shrinkwrap licenses are enforceable unless their terms are objectionable on grounds applicable to contracts in general (for example, if they violate a rule of positive law, or if they are unconscionable). Because no one argues that the terms of the license at issue here are troublesome, we remand with instructions to enter judgment for the plaintiff.

ProCD, the plaintiff, has compiled information from more than 3,000 telephone directories into a computer database. We may assume that this database cannot be copyrighted, although it is more complex, contains more information (nine-digit zip codes and census industrial codes), is organized differently, and therefore is more original than the single alphabetical directory at issue in *Feist Publications, Inc. v. Rural Telephone Service Co.,* 499 U.S. 340 (1991). See Paul J. Heald, The Vices of Originality, 1991 Sup.Ct. Rev. 143, 160-68. ProCD sells a version of the database, called SelectPhone (trademark), on CD-ROM discs. (CD-ROM means "compact disc-read only memory.) The "shrinkwrap license" gets its name from the fact that retail software packages are covered in plastic or cellophane "shrinkwrap," and some vendors, though not ProCD, have written licenses that become effective as soon as the customer tears the wrapping from the package. Vendors prefer "end user license," but we use the more common term.) A proprietary method of compressing the data serves as effective encryption too. Customers decrypt and use the data with the aid of an application program that ProCD has written. This program, which is copyrighted, searches the database in response to users' criteria (such as "find all people named Tatum in Tennessee, plus all firms with 'Door Systems' in the corporate name"). The resulting lists (or, as ProCD prefers, "listings") can be read and manipulated by other software, such as word processing programs.

The database in SelectPhone (trademark) cost more than $10 million to compile and is expensive to keep current. It is much more valuable to some users than to others. The combination of names, addresses, and SIC codes enables manufacturers to compile lists of potential customers. Manufacturers and retailers pay high prices to specialized information intermediaries for such mailing lists; ProCD offers a potentially cheaper alternative. People with nothing to sell could use the database as a substitute for calling long distance information, or as a way to look up old friends who have moved to unknown towns, or just as an electronic substitute for the local phone book. ProCD decided to engage in price discrimination, selling its database to the general public for personal use at a low price (approximately $150 for the set of five discs) while selling information to the trade for a higher price. It has adopted some intermediate strategies too: access to the SelectPhone (trademark) database is available via the America Online service for the price America Online charges to its clients (approximately $3 per hour), but this service has been tailored to be useful only to the general public.

If ProCD had to recover all of its costs and make a profit by charging a single price-that is, if it could not charge more to commercial users than to the general public-it would have to raise the price substantially over $150. The ensuing reduction in sales would harm consumers who value the information at, say, $200. They get consumer surplus of $50 under the current arrangement but would cease to buy if the price rose substantially. If because of high elasticity of demand in the consumer segment of the market the only way to make a profit turned out to be a price attractive to commercial users alone, then all consumers would lose out-and so would the commercial clients, who would have to pay more for the listings because ProCD could not obtain any contribution toward costs from the consumer market.

To make price discrimination work, however, the seller must be able to control arbitrage. An air carrier sells tickets for less to vacationers than to business travelers, using advance purchase and Saturday-night-stay requirements to distinguish the categories. A producer of movies segments the market by time, releasing first to theaters, then to pay-per-view services, next to the videotape and laserdisc market, and finally to cable and commercial tv. Vendors of computer software have a harder task. Anyone can walk into a retail store and buy a box. Customers do not wear tags saying “commercial user” or “consumer user.” Anyway, even a commercial-user-detector at the door would not work, because a consumer could buy the software and resell to a commercial user. That arbitrage would break down the price discrimination and drive up the minimum price at which ProCD would sell to anyone.

Instead of tinkering with the product and letting users sort themselves-for example, furnishing current data at a high price that would be attractive only to commercial customers, and two-year-old data at a low price-ProCD turned to the institution of contract. Every box containing its consumer product declares that the software comes with restrictions stated in an enclosed license. This license, which is encoded on the CD-ROM disks as well as printed in the manual, and which appears on a user's screen every time the software runs, limits use of the application program and listings to non-commercial purposes.

Matthew Zeidenberg bought a consumer package of SelectPhone (trademark) in 1994 from a retail outlet in Madison, Wisconsin, but decided to ignore the license. He formed Silken Mountain Web Services, Inc., to resell the information in the SelectPhone (trademark) database. The corporation makes the database available on the Internet to anyone willing to pay its price-which, needless to say, is less than ProCD charges its commercial customers. Zeidenberg has purchased two additional SelectPhone (trademark) packages, each with an updated version of the database, and made the latest information available over the World Wide Web, for a price, through his corporation. ProCD filed this suit seeking an injunction against further dissemination that exceeds the rights specified in the licenses (identical in each of the three packages Zeidenberg purchased). The district court held the licenses ineffectual because their terms do not appear on the outside of the packages. The court added that the second and third licenses stand no different from the first, even though they are identical, because they *might* have been different, and a purchaser does not agree to-and cannot be bound by-terms that were secret at the time of purchase. 908 F.Supp. at 654.

Following the district court, we treat the licenses as ordinary contracts accompanying the sale of products, and therefore as governed by the common law of contracts and the Uniform Commercial Code. Whether there are legal differences between "contracts" and "licenses" (which may matter under the copyright doctrine of first sale) is a subject for another day…. Zeidenberg does not argue that Silken Mountain Web Services is free of any restrictions that apply to Zeidenberg himself, because any effort to treat the two parties as distinct would put Silken Mountain behind the eight ball on ProCD's argument that copying the application program onto its hard disk violates the copyright laws. Zeidenberg does argue, and the district court held, that placing the package of software on the shelf is an "offer," which the customer "accepts" by paying the asking price and leaving the store with the goods. In Wisconsin, as elsewhere, a contract includes only the terms on which the parties have agreed. One cannot agree to hidden terms, the judge concluded. So far, so good-but one of the terms to which Zeidenberg agreed by purchasing the software is that the transaction was subject to a license. Zeidenberg's position therefore must be that the printed terms on the outside of a box are the parties' contract-except for printed terms that refer to or incorporate other terms. But why would Wisconsin fetter the parties' choice in this way? Vendors can put the entire terms of a contract on the outside of a box only by using microscopic type, removing other information that buyers might find more useful (such as what the software does, and on which computers it works), or both. The "Read Me" file included with most software, describing system requirements and potential incompatibilities, may be equivalent to ten pages of type; warranties and license restrictions take still more space. Notice on the outside, terms on the inside, and a right to return the software for a refund if the terms are unacceptable (a right that the license expressly extends), may be a means of doing business valuable to buyers and sellers alike. See E. Allan Farnsworth, 1 *Farnsworth on Contracts* § 4.26 (1990); *Restatement (2d) of Contracts* § 211 comment a (1981) ("Standardization of agreements serves many of the same functions as standardization of goods and services; both are essential to a system of mass production and distribution. Scarce and costly time and skill can be devoted to a class of transactions rather than the details of individual transactions."). Doubtless a state could forbid the use of standard contracts in the software business, but we do not think that Wisconsin has done so.

Transactions in which the exchange of money precedes the communication of detailed terms are common. Consider the purchase of insurance. The buyer goes to an agent, who explains the essentials (amount of coverage, number of years) and remits the premium to the home office, which sends back a policy. On the district judge's understanding, the terms of the policy are irrelevant because the insured paid before receiving them. Yet the device of payment, often with a "binder" (so that the insurance takes effect immediately even though the home office reserves the right to withdraw coverage later), in advance of the policy, serves buyers' interests by accelerating effectiveness and reducing transactions costs. Or consider the purchase of an airline ticket. The traveler calls the carrier or an agent, is quoted a price, reserves a seat, pays, and gets a ticket, in that order. The ticket contains elaborate terms, which the traveler can reject by canceling the reservation. To use the ticket is to accept the terms, even terms that in retrospect are disadvantageous. See *Carnival Cruise Lines, Inc. v. Shute,* 499 U.S. 585 (1991); see also *Vimar Seguros y Reaseguros, S.A. v. M/V Sky Reefer,* 515 U.S. 528 (1995) (bills of lading). Just so with a ticket to a concert. The back of the ticket states that the patron promises not to record the concert; to attend is to agree. A theater that detects a violation will confiscate the tape and escort the violator to the exit. One *could* arrange things so that every concertgoer signs this promise before forking over the money, but that cumbersome way of doing things not only would lengthen queues and raise prices but also would scotch the sale of tickets by phone or electronic data service.

Consumer goods work the same way. Someone who wants to buy a radio set visits a store, pays, and walks out with a box. Inside the box is a leaflet containing some terms, the most important of which usually is the warranty, read for the first time in the comfort of home. By Zeidenberg's lights, the warranty in the box is irrelevant; every consumer gets the standard warranty implied by the UCC in the event the contract is silent; yet so far as we are aware no state disregards warranties furnished with consumer products. Drugs come with a list of ingredients on the outside and an elaborate package insert on the inside. The package insert describes drug interactions, contraindications, and other vital information-but, if Zeidenberg is right, the purchaser need not read the package insert, because it is not part of the contract.

Next consider the software industry itself. Only a minority of sales take place over the counter, where there are boxes to peruse. A customer may place an order by phone in response to a line item in a catalog or a review in a magazine. Much software is ordered over the Internet by purchasers who have never seen a box. Increasingly software arrives by wire. There is no box; there is only a stream of electrons, a collection of information that includes data, an application program, instructions, many limitations ("MegaPixel 3.14159 cannot be used with BytePusher 2.718"), and the terms of sale. The user purchases a serial number, which activates the software's features. On Zeidenberg's arguments, these unboxed sales are unfettered by terms-so the seller has made a broad warranty and must pay consequential damages for any shortfalls in performance, two "promises" that if taken seriously would drive prices through the ceiling or return transactions to the horse-and-buggy age…..]

What then does the current version of the UCC have to say? We think that the place to start is § 2-204(1): "A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract." A vendor, as master of the offer, may invite acceptance by conduct, and may propose limitations on the kind of conduct that constitutes acceptance. A buyer may accept by performing the acts the vendor proposes to treat as acceptance. And that is what happened. ProCD proposed a contract that a buyer would accept by *using* the software after having an opportunity to read the license at leisure. This Zeidenberg did. He had no choice, because the software splashed the license on the screen and would not let him proceed without indicating acceptance. So although the district judge was right to say that a contract can be, and often is, formed simply by paying the price and walking out of the store, the UCC permits contracts to be formed in other ways. ProCD proposed such a different way, and without protest Zeidenberg agreed. Ours is not a case in which a consumer opens a package to find an insert saying "you owe us an extra $10,000" and the seller files suit to collect. Any buyer finding such a demand can prevent formation of the contract by returning the package, as can any consumer who concludes that the terms of the license make the software worth less than the purchase price. Nothing in the UCC requires a seller to maximize the buyer's net gains….

The district court held that, even if Wisconsin treats shrinkwrap licenses as contracts, § 301(a) of the Copyright Act, 17 U.S.C. § 301(a), prevents their enforcement. The relevant part of § 301(a) preempts any "legal or equitable rights [under state law] that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in 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". ProCD's software and data are "fixed in a tangible medium of expression", and the district judge held that they are "within the subject matter of copyright". The latter conclusion is plainly right for the copyrighted application program, and the judge thought that the data likewise are "within the subject matter of copyright" even if, after Feist, they are not sufficiently original to be copyrighted. *Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n,* 805 F.2d 663, 676 (7th Cir.1986), supports that conclusion, with which commentators agree….

But are rights created by contract "equivalent to any of the exclusive rights within the general scope of copyright"?... Rights "equivalent to any of the exclusive rights within the general scope of copyright" are rights established *by law*-rights that restrict the options of persons who are strangers to the author. Copyright law forbids duplication, public performance, and so on, unless the person wishing to copy or perform the work gets permission; silence means a ban on copying. 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." Someone who found a copy of SelectPhone (trademark) on the street would not be affected by the shrinkwrap license-though the federal copyright laws of their own force would limit the finder's ability to copy or transmit the application program.

… Suppose ProCD hires a firm to scour the nation for telephone directories, promising to pay $100 for each that ProCD does not already have. The firm locates 100 new directories, which it sends to ProCD with an invoice for $10,000. ProCD incorporates the directories into its database; does it have to pay the bill? Surely yes; *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), holds that promises to pay for intellectual property may be enforced even though federal law (in *Aronson*, the patent law) offers no protection against third-party uses of that property. ProCD offers software and data for two prices: one for personal use, a higher price for commercial use. Zeidenberg wants to use the data without paying the seller's price; if the law student and Quick Point Pencil Co. could not do that, neither can Zeidenberg.

*Aronson* emphasized that enforcement of the contract between Aronson and Quick Point Pencil Company would not withdraw any information from the public domain. That is equally true of the contract between ProCD and Zeidenberg. Everyone remains free to copy and disseminate all 3,000 telephone books that have been incorporated into ProCD's database. Anyone can add SIC codes and zip codes. ProCD's rivals have done so. Enforcement of the shrinkwrap license may even make information more readily available, by reducing the price ProCD charges to consumer buyers. To the extent licenses facilitate distribution of object code while concealing the source code (the point of a clause forbidding disassembly), they serve the same procompetitive functions as does the law of trade secrets. Licenses may have other benefits for consumers: many licenses permit users to make extra copies, to use the software on multiple computers, even to incorporate the software into the user's products. But whether a particular license is generous or restrictive, a simple two-party contract is not "equivalent to any of the exclusive rights within the general scope of copyright" and therefore may be enforced.

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## NOTES AND QUESTIONS

1. The 7th Circuit concluded that the contract does not necessarily have to be formed when the buyer pays for the software box, but can also be formed when the buyer reads the license after purchase. This decision is regarded to have reversed the general consensus among the U.S. courts in which shrink-wrap agreements were generally held as invalid. *See* Mo Zang, *Contractual Choice of Law in Contracts of Adhesion and Party Autonomy*, 41 Akron L. Rev. 123, 128 (2008). Under contract law what would make such terms objectionable? If such terms were objectionable, what rights would the purchaser have? Since copyright is applicable to the entire world, and contracts bind only those in privity, what effect would copyright law have on the rights of the purchaser? *See also* Mark Andrew Cerny, *A Shield Against Arbitration: U.C.C. Section 2-207's Role in the Enforceability of Arbitration Agreements Included with Delivery of Products*, 51 Ala. L. Rev. 821 (2000). Cf. Schnabel v. Trilegiant Corp., 697 F.3d 110 (2d Cir. 2012), which concluded that an email sent to customers who had previously purchased an online marketing program did not provide sufficient notice of a compulsory arbitration provision described in the email: " A person can assent to terms even if he or she does not actually read them, but the "offer [must nonetheless] make clear to [a reasonable] consumer" both that terms are being presented and that they can be adopted through the conduct that the offeror alleges constituted assent... We do not think that an unsolicited email from an online consumer business puts recipients on inquiry notice of the terms enclosed in that email and those terms' relationship to a service in which the recipients had already enrolled, *and* that a failure to act affirmatively to cancel the membership will, alone, constitute assent."

## II. ANTITRUST AND COPYRIGHT EXCLUSION

### PROF'L REAL EST. INVEST., INC. v. COLUMBIA PICTURES INDUS., INC.
### 508 U.S. 49 (1993)

JUSTICE THOMAS delivered the opinion of the Court.

This case requires us to define the ``sham'' exception to the doctrine of antitrust immunity first identified in *Eastern R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), as that doctrine applies in the litigation context. Under the sham exception, activity ``ostensibly directed toward influencing governmental action'' does not qualify for *Noerr* immunity if it ``is a mere sham to cover ... an attempt to interfere directly with the business relationships of a competitor.'' We hold that litigation cannot be deprived of immunity as a sham unless the litigation is objectively baseless....

Petitioners Professional Real Estate Investors, Inc., and Kenneth F. Irwin (collectively, PRE) operated La Mancha Private Club and Villas, a resort hotel in Palm Springs, California. Having installed videodisc players in the resort's hotel rooms and assembled a library of more than 200 motion picture titles, PRE rented videodiscs to guests for in-room viewing... . Respondents, Columbia Pictures Industries, Inc., and seven other major motion picture studios (collectively, Columbia), held copyrights to the motion pictures recorded on the videodiscs that PRE purchased. Columbia also licensed the transmission of copyrighted motion pictures to hotel rooms through a wired cable system called Spectradyne. PRE therefore competed with Columbia not only for the viewing market at La Mancha but also for the broader market for in-room entertainment services in hotels. In 1983, Columbia sued PRE for alleged copyright infringement through the rental of videodiscs for viewing in hotel rooms. PRE counterclaimed, charging Columbia with violations of §§ 1 and 2 of the Sherman Act.... In particular, PRE alleged that Columbia's copyright action was a mere sham that cloaked underlying acts of monopolization and conspiracy to restrain trade...

Columbia did not dispute that PRE could freely sell or lease lawfully purchased videodiscs under the Copyright Act's ``first sale'' doctrine…. [S]ummary judgment depended solely on whether rental of videodiscs for in-room viewing infringed Columbia's exclusive right to ``perform the copyrighted work[s] publicly.'' Ruling that such rental did not constitute public performance, the District Court entered summary judgment for PRE. The Court of Appeals affirmed on the grounds that a hotel room was not a ``public place'' and that PRE did not ``transmit or otherwise communicate'' Columbia's motion pictures.

On remand, Columbia sought summary judgment on PRE's antitrust claims, arguing that the original copyright infringement action was no sham and was therefore entitled to immunity under [*Noerr*]... . [T]he District Court granted the motion: ``It was clear from the manner in which the case was presented that [Columbia was] seeking and expecting a favorable judgment... .'' The Court of Appeals affirmed ..., [reasoning] that the existence of probable cause ``preclude[d] the application of the sham exception as a matter of law'' because ``a suit brought with probable cause does not fall within the sham exception to the *Noerr-Pennington* doctrine.'' Finally, the court observed that PRE's failure to show that ``the copyright infringement action was baseless'' rendered irrelevant any ``evidence of [Columbia's] subjective intent.'' It accordingly rejected PRE's request for further discovery on Columbia's intent... .

PRE contends that ``the Ninth Circuit erred in holding that an antitrust plaintiff must, as a threshold prerequisite ..., establish that a sham lawsuit is baseless as a matter of law.'' It invites us to adopt an approach under which either ``indifference to ... outcome,' or failure to prove that a petition for redress of grievances ``would ... have been brought but for [a] predatory motive,'' would expose a defendant to antitrust liability under the sham exception. We decline PRE's invitation. Those who petition government for redress are generally immune from antitrust liability. We first recognized in *Noerr* that ``the Sherman Act does not prohibit ... persons from associating together in an attempt to persuade the legislature or the executive to take particular action with respect to a law that would produce a restraint or a monopoly.''... In light of the government's ``power to act in [its] representative capacity'' and ``to take actions ... that operate to restrain trade,'' we reasoned that the Sherman Act does not punish ``political activity'' through which ``the people ... freely inform the government of their wishes.'' Nor did we ``impute to Congress an intent to invade'' the First Amendment right to petition. *Noerr*, however, withheld immunity from ``sham'' activities because ``application of the Sherman Act would be justified'' when petitioning activity, ``ostensibly directed toward influencing governmental action, is a mere sham to cover ... an attempt to interfere directly with the business relationships of a competitor.'' In *Noerr* itself, we found that a publicity campaign by railroads seeking legislation harmful to truckers was no sham in that the ``effort to influence legislation'' was ``not only genuine but also highly successful.''

Our original formulation of antitrust petitioning immunity required that unprotected activity lack objective reasonableness. *Noerr* rejected the contention that an attempt ``to influence the passage and enforcement of laws'' might lose immunity merely because the lobbyists' ``sole purpose ... was to destroy [their] competitors.''... ``*Noerr* shields from the Sherman Act a concerted effort to influence public officials regardless of intent or purpose.''

… [W]e have consistently assumed that the sham exception contains an indispensable objective component. We have described a sham as ``evidenced by repetitive lawsuits carrying the hallmark of *insubstantial* claims.'' *Otter Tail Power Co. v. United States*, 410 U.S. 366, 380 (1973) (emphasis added). We regard as sham ``private action that is not genuinely aimed at procuring favorable government action,'' as opposed to ``a valid effort to influence government action.'' *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500, n. 4 (1988). And we have explicitly observed that a successful ``effort to influence governmental action ... certainly cannot be characterized as a sham.''...

... In *Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365 (1991), we similarly held that challenges to allegedly sham petitioning activity must be resolved according to objective criteria. We dispelled the notion that an antitrust plaintiff could prove a sham merely by showing that its competitor's ``purposes were to delay [the plaintiff's] entry into the market and even to deny it a meaningful access to the appropriate ... administrative and legislative fora.''...

We now outline a two-part definition of ``sham'' litigation. First, the lawsuit must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits. If an objective litigant could conclude that the suit is reasonably calculated to elicit a favorable outcome, the suit is immunized under *Noerr*, and an antitrust claim premised on the sham exception must fail. Only if challenged litigation is objectively meritless may a court examine the litigant's subjective motivation. Under this second part of our definition of sham, the court should focus on whether the baseless lawsuit conceals ``an attempt to interfere directly with the business relationships of a competitor."…

Of course, even a plaintiff who defeats the defendant's claim to *Noerr* immunity by demonstrating both the objective and the subjective components of a sham must still prove a substantive antitrust violation. Proof of a sham merely deprives the defendant of immunity; it does not relieve the plaintiff of the obligation to establish all other elements of his claim... .

We conclude that the Court of Appeals properly affirmed summary judgment for Columbia on PRE's antitrust counterclaim. Under the objective prong of the sham exception, the Court of Appeals correctly held that sham litigation must constitute the pursuit of claims so baseless that no reasonable litigant could realistically expect to secure favorable relief. The existence of probable cause to institute legal proceedings precludes a finding that an antitrust defendant has engaged in sham litigation. The notion of probable cause, as understood and applied in the common law tort of wrongful civil proceedings, requires the plaintiff to prove that the defendant lacked probable cause to institute an unsuccessful civil lawsuit and that the defendant pressed the action for an improper, malicious purpose... . Probable cause to institute civil proceedings requires no more than a ``reasonabl[e] belie[f] that there is a chance that [a] claim may be held valid upon adjudication'' Because the absence of probable cause is an essential element of the tort, the existence of probable cause is an absolute defense... .

Just as evidence of anticompetitive intent cannot affect the objective prong of *Noerr*'s sham exception, a showing of malice alone will neither entitle the wrongful civil proceedings plaintiff to prevail nor permit the factfinder to infer the absence of probable cause. When a court has found that an antitrust defendant claiming *Noerr* immunity had probable cause to sue, that finding compels the conclusion that a reasonable litigant in the defendant's position could realistically expect success on the merits of the challenged lawsuit. Under our decision today, therefore, a proper probable cause determination irrefutably demonstrates that an antitrust plaintiff has not proved the objective prong of the sham exception and that the defendant is accordingly entitled to *Noerr* immunity... . Columbia enjoyed the ``exclusive righ[t] ... to perform [its] copyrighted'' motion pictures ``publicly.' Regardless of whether it intended any monopolistic or predatory use, Columbia acquired this statutory right... . Indeed, to condition a copyright upon a demonstrated lack of anticompetitive intent would upset the notion of copyright as a ``limited grant'' of ``monopoly privileges'' intended simultaneously ``to motivate the creative activity of authors'' and ``to give the public appropriate access to their work product.'

When the District Court entered summary judgment for PRE on Columbia's copyright claim in 1986, it was by no means clear whether PRE's videodisc rental activities intruded on Columbia's copyrights. At that time, the Third Circuit and a District Court within the Third Circuit had held that the rental of video cassettes for viewing in on-site, private screening rooms infringed on the copyright owner's right of public performance….The Seventh Circuit expressly ``decline[d] to follow'' the Ninth Circuit and adopted instead the Third Circuit's definition of a ``public place.'' *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1020, *cert.*

*denied*, 502 U.S. (1991). In light of the unsettled condition of the law, Columbia plainly had probable cause to sue. Any reasonable copyright owner in Columbia's position could have believed that it had some chance of winning an infringement suit against PRE. Even though it did not survive PRE's motion for summary judgment, Columbia's copyright action was arguably ``warranted by existing law'' or at the very least was based on an objectively ``good faith argument for the extension, modification, or reversal of existing law.'' Fed. Rule Civ. Proc. 11 ... . A court could reasonably conclude that Columbia's infringement action was an objectively plausible effort to enforce rights. Accordingly, we conclude that PRE failed to establish the objective prong of *Noerr*'s sham exception.

Finally, the Court of Appeals properly refused PRE's request for further discovery on the economic circumstances of the underlying copyright litigation. As we have held, PRE could not pierce Columbia's *Noerr* immunity without proof that Columbia's infringement action was objectively baseless or frivolous. Thus, the District Court had no occasion to inquire whether Columbia was indifferent to the outcome on the merits of the copyright suit, whether any damages for infringement would be too low to justify Columbia's investment in the suit, or whether Columbia had decided to sue primarily for the benefit of collateral injuries inflicted through the use of legal process. Such matters concern Columbia's economic motivations in bringing suit, which were rendered irrelevant by the objective legal reasonableness of the litigation. The existence of probable cause eliminated any ``genuine issue as to any material fact,'' Fed. Rule Civ. Proc. 56(c), and summary judgment properly issued. We affirm the judgment of the Court of Appeals.

So ordered.

JUSTICE STEVENS, with whom JUSTICE O'CONNOR joins, concurring in the judgment.

... I disagree with the Court's equation of ``objectively baseless'' with the answer to the question whether any ``reasonable litigant could realistically expect success on the merits.'' There might well be lawsuits that fit the latter definition but can be shown to be objectively unreasonable, and thus shams...

... The label ``sham'' [might] apply to a plaintiff who had some reason to expect success on the merits but because of its tremendous cost would not bother to achieve that result without the benefit of collateral injuries imposed on its competitor by the legal process alone. Litigation filed or pursued for such collateral purposes is fundamentally different from a case in which the relief sought in the litigation itself would give the plaintiff a competitive advantage or, perhaps, exclude a potential competitor from entering a market with a product that either infringes the plaintiff's patent or copyright or violates an exclusive franchise granted by a governmental body. The case before us today is in the latter, obviously legitimate, category. There was no unethical or other improper use of the judicial system; instead, respondents invoked the federal court's jurisdiction to determine whether they could lawfully restrain competition with petitioners. The relief they sought in their original action, if granted, would have had the anticompetitive consequences authorized by federal copyright law... .

Repetitive filings, some of which are successful and some unsuccessful, may support an inference that the process is being misused. *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). In such a case, a rule that a single meritorious action can never constitute a sham cannot be dispositive. Moreover, a simple rule may be hard to apply when there is evidence that the judicial process has been used as part of a larger program to control a market and to interfere with a potential competitor's financing without any interest in the outcome of the lawsuit itself, see *Otter Tail Power Co. v. United States*, 410 U.S. 366, 379, n. 9 (1973); *Westmac, Inc. v. Smith*, 797 F.2d 313, 322 (6th Cir. 1986) (Merritt, C. J., dissenting). It is in more complex cases that courts have required a more sophisticated analysis - one going beyond a mere evaluation of the merits of a single claim. In one such case Judge Posner made the following observations about the subtle distinction between suing a competitor to get damages and filing a lawsuit only in the hope that the expense and burden of defending it will make the defendant abandon its competitive behavior:"

But we are not prepared to rule that the difficulty of distinguishing lawful from unlawful purpose in litigation between competitors is so acute that such litigation can never be considered an actionable restraint of trade, provided it has some, though perhaps only threadbare, basis in law. Many claims not wholly groundless would never be sued on for their own sake; the stakes, discounted by the probability of winning, would be too low to repay the investment in litigation. Suppose a monopolist brought a tort action against its single, tiny competitor; the action had a colorable basis in law; but in fact the monopolist would never have brought the suit - its chances of winning, or the damages it could hope to get if it did win, were too small compared to what it would have to spend on the litigation - except that it wanted to use pretrial discovery to discover its competitor's trade secrets; or hoped that the competitor would be required to make public disclosure of its potential liability in the suit and that this disclosure would increase the interest rate that the competitor had to pay for bank financing; or just wanted to impose heavy legal costs on the competitor in the hope of deterring entry by other firms. In these examples the plaintiff wants to hurt a competitor not by getting a judgment against him, which would be a proper objective, but just by the maintenance of the suit, regardless of its outcome... . [W]e think it is premature to hold that litigation, unless malicious in the tort sense, can never be actionable under the antitrust laws. The existence of a tort of abuse of process shows that it has long been thought that litigation could be used for improper purposes even when there is probable cause for the litigation; and if the improper purpose is to use litigation as a tool for suppressing competition in its antitrust sense, ... it becomes a matter of antitrust concern."

## NOTES AND QUESTIONS

1. How does the "sham" lawsuit doctrine of PREI differ from the *Walker Process* doctrine for improper patent infringement claims discussed in Chapter 4. One important difference is that copyrights are rarely obtained in the first instance by fraude or inequitable conduct before the Patent Office. In this case no one was questioning the validity of Columbia's copyrights, but only its right to bring an infringement suit. Does that change the nature of the game? Perhaps in one relatively significant way. Fraud on the Patent Office may be known by the patent applicant but not readily discoverable by third parties. By contrast, when the issue is a disputed question of law, as in *PREI*, then both sides have access to the same information.

2. The idea of "sham lawsuits" as antitrust violations originated in *Eastern R.R. Presidents Conf. v. Noerr Motor Freight Inc.*, 365 U.S. 127 (1961). The idea was that "There may be situations in which a publicity campaign, ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor." *Id.* at 144. However, *PRE* limited the applicability of "sham lawsuits" by requiring that the suit must be proven to be "objectively baseless" under an objective standard. What is the effect of requiring such proof for "sham" lawsuits? How does this limitation affect the frequency of such lawsuits? Doesn't the tort of

malicious prosecution sanction such lawsuits sufficiently, without antitrust's treble damages? See 1 PHILLIP E. AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW ¶¶ 201-207 (4th ed. 2013).

## PADDOCK PUBLICATIONS, INC. v. CHICAGO TRIBUNE COMPANY
## 103 F.3d 42 (7th Cir. 1996)

EASTERBROOK, Circuit Judge:

Newspapers' content has many sources. To the work of their own staff, papers add dispatches from syndicated news services such as the Associated Press and Reuters that station reporters or stringers across the globe. Leading newspapers such as the *New York Times, the Los Angeles Times, the Washington Post, the Chicago Tribune*, and the *Wall Street Journal* have set up supplemental news services. The New York Times News Service carries that paper's stories; the Los Angeles Times/Washington Post News Service combines stories from those papers; the Knight-Ridder/Tribune Information Service pools stories from the *Tribune* and the Knight-Ridder chain's papers. Subscribers can reprint the originating paper's stories (and those of other papers that contribute to the supplemental service) in the subscribers' home markets. Cartoons, op-ed pieces, book reviews, chess columns, puzzles, and other features are available from syndicators such as United Press Syndicate, United Features Syndicate, King Features Syndicate, Creators Syndicate, and Tribune Media Services.

Supplemental news services and features syndicators offer exclusive contracts to subscribers in each metropolitan area. Because the *Chicago Tribune* subscribes to the New York Times News Service, stories from the Times are unavailable to the *Chicago Sun-Times* and smaller newspapers in the Chicago area; the *Sun-Times* subscribes to the Los Angeles Times/Washington Post News Service, which therefore is unavailable to the *Tribune* and smaller papers. News services and features syndicates charge by the circulation of the subscribing paper, and they therefore strive to sign up the largest paper in each market. Exclusivity is one valuable feature the service offers, for a paper with exclusive rights to a service or feature is both more attractive to readers and more distinctive from its rivals. When selling to smaller papers, however, the supplemental news services and features syndicates generally do not offer exclusivity-for they still hope to interest the larger, and therefore more lucrative, papers in the market (which can sign up later with exclusive rights against all but the original customer).

As a rule, the larger papers subscribe to the more popular services and features; or perhaps it is the very fact that a feature runs in a market's larger papers that makes it "more popular." Causation need not concern us. No matter which way it runs, smaller papers perceive that they get the crumbs. This suit, by the *Daily Herald*, the number three general-interest paper in the Chicago area (with 6.7 percent of average weekly readership), contends that the pattern of exclusive distribution rights violates § 1 of the Sherman Antitrust Act, 15 U.S.C. § 1, by making it harder for small papers to grow. Like the district court, we assume without deciding that "general-interest-newspaper readership in the Chicago SMSA" is a market. According to the complaint, the *Chicago Tribune* and the *Chicago Sun-Times* have locked up the "most popular" or "best" supplemental services and features, injuring consumers by frustrating competition. (We assume that "the best" services and features can constitute a market, although it sounds more like an aesthetic judgment; no one would say that "the best film of 1996" has a monopoly of any market just because there can be only one "best" film.) The *Daily Herald* views the Knight-Ridder/Tribune Information Service as a distant third to the supplemental news services the *Tribune* and *Sun-Times* use, and even it is unavailable because the *Tribune* will not license its stories to a competitor in its home market. The Herald concedes that the Associated Press, Reuters, and many quality comics and features are available to it (for example, it publishes *Dilbert*, one of today's most-followed comic strips) but insists that the best ones are committed to its larger rivals. After assuming that all of the *Herald's* allegations are true, the district court dismissed the complaint for failure to state a claim on which relief may be granted.

The *Herald* does not contend that the *Tribune* has conspired with the *Sun-Times* to bring about this state of affairs. Compare *Associated Press v. United States*, 326 U.S. 1 (1945) (holding that the Associated Press, a consortium of newspapers, must eliminate an exclusivity feature that could be traced to agreement among horizontal rivals). Nor does it contend that the supplemental news services and features syndicators (or their contributing papers and authors) have agreed among themselves. It concedes that each has adopted its method of doing business independently; they take the same approach to distribution because each has discovered that it is the most profitable way to do business. All of the contracts between services and newspapers are terminable at will or on short notice (usually 30 days, although some features require a year's notice). Instead of seeing whether money could persuade a supplemental news service to cut off one of the larger papers-the *Herald* has never tried to outbid the *Tribune* or *Sun-Times*, either on a total compensation basis or a per-subscriber basis-it asked the district court to declare that the antitrust laws entitle it to receive the leading supplemental news services and features without regard to the contractual exclusivity that the *Tribune* and *Sun-Times* currently enjoy. At times the *Herald* suggests that it would be happy with rights to articles from the *New York Times, Los Angeles Times*, and *Washington Post* that the *Tribune* and *Sun-Times* do not reprint; “there's plenty for all” is a theme of its brief. But this won't work well for news (must the *Tribune* give the *Herald* advance notice of its contents?) or at all for features, which are sold one at a time. For example, King Features Syndicate does not sell its entire portfolio to one paper per market; the *Tribune, Sun-Times*, and *Herald* each publish some of its comics and columns. So the *Herald* necessarily argues that it is entitled to run *Peanuts* and *Dick Tracy* even though these comic strips also appear in the *Tribune*.

This is fundamentally an “essential facilities” claim-but without any essential facility. There are three supplemental news services that the *Herald* is willing to acknowledge as major competitors (and others besides, though the *Herald* denigrates them). There are hundreds, if not thousands, of opinion and entertainment features; a newspaper deprived of access to the *New York Times* crosswords puzzles can find others, even if the *Times* has the best known one. Unlike *United States v. Terminal Railroad Ass'n*, 224 U.S. 383 (1912), the granddaddy of these cases, in which the Court held that a bottleneck facility that could not feasibly be duplicated must be shared among rivals, this case does not involve a single facility that monopolizes one level of production and creates a potential to extend the monopoly to others. We have, instead, competition at each level of production; no one can “take over” another level of production by withholding access from disfavored rivals. *Flip Side Productions, Inc. v. Jam Productions, Ltd.*, 843 F.2d 1024, 1032-34 (7th Cir.1988), holds that the existence of three competing facilities not only means that none is an “essential facility” but also means that each of the three is entitled to sign an exclusive contract with a favored user. Other firms that want to enter the market can do so by competing at intervals for these contracts.

Competition-for-the-contract is a form of competition that antitrust laws protect rather than proscribe, and it is common. Every year or two, General Motors, Ford, and Chrysler invite tire manufacturers to bid for exclusive rights to have their tires used in the manufacturers' cars. Exclusive contracts make the market hard to enter in mid-year but cannot stifle competition over the longer run, and competition of this kind drives down the price of tires, to the ultimate benefit of consumers. Just so in the news business-if smaller newspapers are willing to bid with cash rather than legal talent. In the meantime, exclusive stories and features help the newspapers differentiate themselves, the better to compete with one another. A market in which every newspaper carried the same stories, columns, and cartoons would be a less vigorous market than the existing one. And a market in which the creators of intellectual property (such as the *New York Times*) could not decide how best to market it for maximum profit would be a market with less (or less interesting) intellectual property created in the first place. No one can take the supply of well researched and written news as a given; legal rulings that diminish the incentive to find and explicate the news (by reducing the return from that business) have little to commend them.

In what way could the news services' practices harm consumers? Tacit collusion (economists' term for "shared monopoly") could be a source of monopoly profits and injury to consumers even if none of the stages of production is monopolized. Some distribution arrangements might be objectionable because they facilitate tacit collusion. But collusion, tacit or express, requires some horizontal cooperation, or at least forbearance from vigorous competition among rivals. See Herbert Hovenkamp, *Federal Antitrust Policy* § 4.4 (1994). Compare Richard A. Posner, *Antitrust Law: An Economic Perspective* 42-77 (1976), with Donald F. Turner, *The Definition of Agreement Under the Sherman Act: Conscious Parallelism and Refusals to Deal*, 75 Harv.L.Rev. 655 (1962). Although the newspaper market is concentrated on the readers' side, the inputs to newspaper production are unconcentrated and therefore do not facilitate tacit collusion in the more concentrated market. The New York Times News Service competes for column inches of ink not only with other supplemental news services but also with the Associated Press, Reuters, and the reporters of the subscribing papers. Markets here are less concentrated, and use fewer of the devices that facilitate oligopolistic interdependence, than the markets in *E.I. Du Pont de Nemours & Co. v. FTC,* 729 F.2d 128 (2d Cir.1984), where an antitrust claim was nonetheless rejected. The *Herald* does not argue that the practices at hand facilitate tacit collusion.

What the *Herald* does argue is that a mixture of fewness of firms, exclusive contracts, and relations between suppliers and users of news that endure despite short contract terms, hampers the growth of small rivals even though each market is competitive. Such an argument does not come within any of the economic approaches to tacit collusion-but it does, the *Herald* insists, come within the holding of *FTC v. Motion Picture Advertising Service Co.,* 344 U.S. 392 (1953). The *Herald* relies as well on *Standard Oil Co. v. United States,* 337 U.S. 293 (1949) (*Standard Stations*), and *United States v. Loew's, Inc.,* 371 U.S. 38 (1962), but rightly treats *Motion Picture Advertising Service* as its best case.

Four companies signed approximately 75 percent of the nation's motion picture theaters to exclusive-dealing contracts for advertisements to be displayed along with the films. Having signed with one supplier of ads, a theater could not display ads furnished by another. The Federal Trade Commission concluded that these arrangements, in the aggregate, stifled competition by firms that wanted to enter the business of furnishing advertising to theaters, and therefore violated § 5 of the Federal Trade Commission Act, 15 U.S.C. § 45: as the Supreme Court phrased the FTC's conclusion, “due to the exclusive contracts, respondent and the three other major companies have foreclosed to competitors 75 percent of all available outlets for this business throughout the United States.” 344 U.S. at 395. According to the *Herald*, the same kind of thing now has occurred in the news industry, making it equally appropriate to aggregate the market shares of the firms without proof of horizontal collaboration (for there was none in *Motion Picture Advertising Service*). The district court was not impressed, for the approach of *Motion Picture Advertising Service*-which depends on “foreclosure” of sales to competitors without proof of injury to consumers-reflects a bygone day in antitrust analysis. But the district court properly did not rely entirely on a belief that the opinion is a derelict. See *Khan v. State Oil Co.,* 93 F.3d 1358, 1362-64 (7th Cir.1996) (implementing another antique antitrust opinion that is unlikely to be reaffirmed if the Supreme Court revisits the subject). It held that *Motion Picture Advertising Service* is not controlling even if it remains authoritative.

First, *Motion Picture Advertising Service* was decided under § 5 of the FTC Act. The Commission has the authority under that provision to forbid practices that pose risks to effective competition, even when they do not violate the Sherman Act. The Court remarked on this in *Motion Picture Advertising Service:* “The ‘unfair methods of competition,’ which are condemned by § 5(a) of the Act, are not confined to those that were illegal at common law or that were condemned by the Sherman Act.” 344 U.S. at 394. A district court lacks the FTC's power to go beyond the limits of the Sherman Act. Similarly, *Standard Stations* was decided under § 3 of the Clayton Act, 15 U.S.C. § 14, and does not assist the plaintiff in a Sherman

Act case that cannot be characterized as involving tie-in sales. Granted, the Court remarked in *Motion Picture Advertising Service* that “a device which has sewed up a market so tightly for the benefit of a few falls within the prohibitions of the Sherman Act”, 344 U.S. at 395, but this bald and unreasoned assertion is not conclusive. Poorly reasoned holdings bind the inferior courts; unreasoned dictum does not-and this statement was obiter dictum, for the Court had emphasized only a paragraph before that it was deferring to the FTC's findings as § 5 of the FTC Act requires. No subsequent case has read *Motion Picture Advertising Service* to abolish the requirement of concerted action under § 1 of the Sherman Act.

Second, *Motion Picture Advertising Service* involved exclusive *dealing*, while this case involves exclusive *distributorships*. Despite the similarity in nomenclature, there is a difference-one vital to the theory of *Motion Picture Advertising Service* itself. See generally Hovenkamp, *Federal Antitrust Policy* § 10.8. An exclusive dealing contract obliges a firm to obtain its inputs from a single source. Each of the theaters was committed to one distributor for all of its ads. This was the genesis of the concern about foreclosure. A new advertising distributor could not find outlets. An exclusive distributorship, by contrast, does not restrict entry at either level. None of the newspapers in Chicago (or anywhere else) has promised by contract to obtain all of its news from a single source-and the sources have not locked all of their output together (unlike the “block booking” involved in *Loew's*). A new entrant to the supplemental news service business could sell to every newspaper in the United States, if it chose to do so. Existing features syndicates sell to multiple firms in the same market (although most features go to one paper per city; this is the exclusive distribution aspect of the contracts). So vendors can and do sell news and features to multiple customers, and customers can and do buy news and features from multiple vendors. “Foreclosure” of the kind about which *Motion Picture Advertising Service* was concerned does not occur under exclusive distribution contracts.

Third, the FTC and the Supreme Court concluded that even exclusive dealing contracts are lawful if limited to a year's duration. 344 U.S. at 395-96. The Commission saw that exclusivity can promote competition by making it feasible for firms to invest in promoting their products-for these costs would not be recoverable if the contracts were of very short terms, or if rivals could exhibit the same films and obtain the benefit of this promotional activity. Moreover, with year-long contracts, the entire market is up for grabs. A new entrant can sell to a twelfth of the theaters in the first month, a sixth of all theaters by the end of the second month, and so on; competition for the contract makes it possible to have the benefits of exclusivity and rivalry simultaneously. Things work similarly in the newspaper business. Contract terms are short, so competition for the contract can flourish. Meanwhile, exclusive distribution of news or features through a single paper in a city helps the paper distinguish itself from, and compete with, its rivals. The *SunTimes* will not promote a readership for a particular columnist if the *Tribune* and the *Herald* carry the same column; free-riding would spoil the investment and thwart this aspect of competition.

Contracts in the news business, unlike those in the motion picture advertising business, are of indefinite duration, and either side may terminate after giving the required advance notice. According to the *Herald*, this makes all the difference, but we don't see why. A termination clause works just like a stated time limit in facilitating competition for the contract. The FTC did not insist that dealings between a distributor and a theater *cease* after a year; the parties were free to renew their arrangement for successive years; it was enough that there be an option to change distributors or renegotiate once a year. That option exists in the newspaper business. Both sides to these contracts enjoy an annual (or more frequent) right to negotiate new terms or change partners. To this the *Herald* responds, in essence: The contracts aren't terminated in fact, so the legal terms do not matter; the contracts should be treated as perpetual. Yet for all we can tell renewal was (and remains) the norm in the motion picture business. As long as arrangements serve the interests of both parties, they will continue, whether that means signing another in a series of one-year contracts or declining to exercise an annual option to cancel a contract. Enduring exclusive distribution contracts characterize markets that are recognized as competitive: for example, *Babylon 5* appears exclusively on WPWR-TV (Channel 50) in Chicago, and almost all other shows are exhibited exclusively on one channel per locale, sticking with that station for their entire original production run, even though no one thinks that individual stations or producers have market power. Cf. *Schurz Communications, Inc. v. FCC,* 982 F.2d 1043 (7th Cir.1992); *Capital Cities/ABC, Inc. v. FCC,* 29 F.3d 309 (7th Cir.1994). The FTC and the Supreme Court in *Motion Picture Advertising Service* wanted to ensure that dealings continued only while they remained in the interests of both distributors and theaters-which meant that someone else could come along with a better deal and get the business. Likewise someone with a better offer can get or sell news on short notice. The *Herald* has never tried to make a better offer, and we conclude that it has come to the wrong forum. It should try to outbid the *Tribune* and *Sun-Times* in the marketplace, rather than to outmaneuver them in court.

AFFIRMED.

## NOTES AND QUESTIONS

1. An "output contract," or "exclusive dealership" is an agreement in which a supplier appoints a single dealer and promises not to appoint other dealers in that area. They are governed by antitrust's rule of reason, which means that they are unlawful only if at least one of the two parties has market power in the area in question and if the restriction can be shown to exclude rivals unreasonably. See 8 Phillip E. Areeda & Herbert Hovenkamp, Antitrust Law ¶¶1650-1654 (3d ed. 2010). Why would a supplier appoint a single distributor in a region? Ordinarily not to create a monopoly there because the monopoly profits would go to the distributor, making the supplier worse off. *See* E & L Consulting, Ltd. v. Domain Industries, Ltd., 472 F.3d 23 (2d Cir. 2006), cert. denied, 552 U.S. 816 (2007), which held that even when the supplier had a high market share its appointment of a single dealer was lawful:

> [A]n exclusive distributorship would be counterproductive so far as any monopolization goal of Doman [the supplier] is concerned. A monopolist manufacturer of a product restricts output of the product in order to maximize its profits. The power to restrict output to maximize profit is complete in the manufacturing monopoly, and there is no additional monopoly profit to be made by creating a monopoly in the retail distribution of the product. On the contrary, a firm with a monopoly at the retail distribution level will further reduce output to maximize its profits, thereby reducing the sales and profit of the monopoly manufacturer. Like any seller of a product, a monopolist would prefer multiple competing buyers unless an exclusive distributorship arrangement provides other benefits in the way of, for example, product promotion or distribution. In fact, we have explicitly noted that "a vertically structured monopoly can take only one monopoly profit."
>
> The only detriment to competition alleged to result from the Doman-Sherwood agreement is that "end-users of lumber and finished wood products have fewer options to purchase their required supplies and are now required to pay artificially inflated prices." This, by itself, is not a sufficient allegation of harm to competition caused by the exclusive distributorship, again, because the alleged single source and price increase, even if monopolistic, is something Doman can achieve without the aid of a distributor.

What if it is the distributor rather than the supplier who is the monopolist? In that case the distributor might insist on an exclusive right at the supplier’s expense.

2. What if the supplier simply wants to go into business for itself in the affected area and thus not use any independent dealer at all? See Spectators' Communication Network Inc. v. Colonial Country Club, 253 F.3d 215 (5th Cir. 2001). The Fifth Circuit denied summary judgment on a Sherman Act §1 challenge to the defendant Professional Golfers Association (PGA) for dropping the plaintiff's license to broadcast PGA tournaments on site. While the plaintiff had previously done such broadcasts, the PGA wished to enter the business for itself and negotiated a new contract with a large sponsor, the Anheuser-Busch brewery, under which the PGA provided the services through an agent and Spectators, the plaintiff, was excluded. The court did not explain how substitution of one broadcaster for another could injure competition. More significantly, in this case the substituted provider was the PGA itself, which had made the decision to integrate vertically into broadcasting of its own games. The court thus appeared to hold that once a third party is established as a dealer in a distribution chain the antitrust laws give it a right to stay there unmolested by the supplier's wish to engage in self-distribution. Is that good antitrust policy?

**THE AUTHORS GUILD V. GOOGLE, INC.**
**770 F.Supp.2d 666 (S.D.N.Y. 2011)**

CHIN, Circuit Judge.

Before the Court is plaintiffs' motion pursuant to Rule 23 of the Federal Rules of Civil Procedure for final approval of the proposed settlement of this class action on the terms set forth in the Amended Settlement Agreement (the “ASA”). The question presented is whether the ASA is fair, adequate, and reasonable. I conclude that it is not.

While the digitization of books and the creation of a universal digital library would benefit many, the ASA would simply go too far. It would permit this class action—which was brought against defendant Google Inc. (“Google”) to challenge its scanning of books and display of “snippets” for on-line searching—to implement a forward-looking business arrangement that would grant Google significant rights to exploit entire books, without permission of the copyright owners. Indeed, the ASA would give Google a significant advantage over competitors, rewarding it for engaging in wholesale copying of copyrighted works without permission, while releasing claims well beyond those presented in the case.

… In 2004, Google announced that it had entered into agreements with several major research libraries to digitally copy books and other writings in their collections. Since then, Google has scanned more than 12 million books. It has delivered digital copies to the participating libraries, created an electronic database of books, and made text available for online searching…. Google users can search its "digital library" and view excerpts—"snippets"—from books in its digital collection.

The benefits of Google's book project are many. Books will become more accessible. Libraries, schools, researchers, and disadvantaged populations will gain access to far more books. Digitization will facilitate the conversion of books to Braille and audio formats, increasing access for individuals with disabilities. Authors and publishers will benefit as well, as new audiences will be generated and new sources of income created. Older books—particularly out-of-print books, many of which are falling apart buried in library stacks-will be preserved and given new life.

Millions of the books scanned by Google, however, were still under copyright, and Google did not obtain copyright permission to scan the books.[2] As a consequence, in 2005, certain authors and publishers brought this class action and the related case, respectively, charging Google with copyright infringement. The authors seek both damages and injunctive relief, and the publishers seek injunctive relief. Google's principal defense is fair use under § 107 of the Copyright Act, 17 U.S.C. § 107.

The parties engaged in document discovery and, in the fall of 2006, began settlement negotiations. On October 28, 2008, after extended discussions, the parties filed a proposed settlement agreement.

The ASA is a complex document. It is 166 pages long, not including attachments. Article I sets forth 162 definitions, including the capitalized terms discussed below. I will not describe the ASA in detail, but will

[2] "Google proceeded to scan, digitize, and copy books ... without attempting to contract with rightsholders beforehand to obtain rights and licenses to copy in-copyright books and display portions of them on its website. In doing so, Google reversed the default copyright arrangement by shifting the burden to rightsholders to assert their rights." Alessandra Glorioso, *Google Books: An Orphan Works Solution*, 38 Hofstra L.Rev. 971, 992 (2010) (footnotes omitted).

summarize its principal provisions.

The Class consists of all persons (and their heirs, successors, and assigns) who, as of January 5, 2009, own a U.S. copyright interest in one or more Books or Inserts….

Under the ASA, Google is authorized to (1) continue to digitize Books and Inserts, (2) sell subscriptions to an electronic Books database, (3) sell online access to individual Books, (4) sell advertising on pages from Books, and (5) make certain other prescribed uses. The rights granted to Google are non-exclusive; Rightsholders retain the right to authorize others, including competitors of Google, to use their Books in any way. Google will pay to Rightsholders 63% of all revenues received from these uses, and revenues will be distributed in accordance with a Plan of Allocation and Author–Publisher Procedures.

The ASA will establish a Book Rights Registry (the "Registry") that will maintain a database of Rightsholders, and the Registry will administer distributions of revenues. Google will fund the establishment and initial operations of the Registry with a payment of $34.5 million (which will also cover the costs of notice to the Class). The Registry will be managed by a Board consisting of an equal number of Author Sub–Class and Publisher Sub–Class representatives (at least four each). The ASA will also create an "independent" Unclaimed Works Fiduciary to represent interests with respect to, and assume responsibility for certain decisions pertaining to, unclaimed works, including pricing and book classification.

Rights holders can exclude their Books from some or all of the uses listed above, and they can remove their Books altogether from the database. At any time Rightsholders can ask Google not to digitize any Books not yet digitized, and Google will use "reasonable efforts" not to digitize any such Books. A Rights holder may also request removal from the Registry of a Book already digitized….

Going forward, the ASA provides for Google to split revenues with Rightsholders. For works covered by the ASA, Google will pay to the Registry, on behalf of Rightsholders, 70% of net revenues from sales and advertising; net revenues reflect a 10% deduction for Google's operating costs….

The ASA obligates the Registry to use "commercially reasonable efforts” to locate Rightsholders…. After ten years, unclaimed funds may be distributed to literary-based charities.

The ASA distinguishes between in-print (Commercially Available) and out-of-print (not Commercially Available) Books. Google may not display in-print Books at all unless and until it receives prior express authorization from the Books' Rightsholders. The ASA does give Google the right to make Non–Display Uses of in-print Books. Google may display out-of-print Books without the prior express authorization of the Books' Rightsholders, but its right to do so ceases when and if the Rightsholder directs Google to stop.

Approximately 500 submissions were filed commenting on the ASA and the original proposed settlement. The vast majority objected to the ASA.

Certain objectors, including two of Google's major competitors, Amazon.com, Inc. (“Amazon”) and Microsoft Corp. (“Microsoft”), object to the ASA on the grounds it would violate existing copyright law. They contend, for example, that judicial approval of the ASA would infringe on Congress's constitutional authority over copyright law. They contend further that the provisions of the ASA pertaining to “orphan works” would result in the involuntary transfer of copyrights in violation of the Copyright Act, as copyrighted works would be licensed without the owners' consent. *See* 17 U.S.C. § 201(e).

Certain objectors oppose the ASA on antitrust grounds, arguing that (1) certain pricing mechanisms would constitute horizontal agreements that would violate the Sherman Act; (2) the ASA would effectively grant Google a monopoly over digital books, and, in particular, orphan books; and (3) such a monopoly would further entrench Google's dominant position in the online search business.

Certain objectors, including the Center for Democracy and Technology and the Electronic Privacy Information Center, contend that the ASA raises significant privacy issues, as the digitization of books would enable Google to amass a huge collection of information, including private information about identifiable users, without providing adequate protections regarding the use of such information….

Public policy, of course, favors settlement. *Wal–Mart Stores,* 396

F.3d at 116–17; *accord Williams v. First Nat'l Bank,* 216 U.S. 582, 595 (1910) ("Compromises of disputed claims are favored by the courts."); *TBK Partners, Ltd. v. W. Union Corp.,* 675 F.2d 456, 461 (2d Cir.1982) (noting "the paramount policy of encouraging settlements"). Consequently, when evaluating a settlement agreement, the court is not to substitute its judgment for that of the parties, nor is it to turn consideration of the adequacy of the settlement "into a trial or a rehearsal of the trial." *Grinnell,* 495 F.2d at 462. "Rather, the Court's responsibility is to reach an intelligent and objective opinion of the probabilities of ultimate success should the claims be litigated and to form an educated estimate of the complexity, expense and likely duration of such litigation and all other factors relevant to a full and fair assessment of the wisdom of the proposed compromise." ….

Although I am persuaded that the parties are seeking in good faith to use this class action to create an effective and beneficial marketplace for digital books, I am troubled in several respects.

### A Matter for Congress

First, the establishment of a mechanism for exploiting unclaimed books is a matter more suited for Congress than this Court. The ASA would create, for example, the Registry and the Fiduciary. Together, they would represent—purportedly on an independent basis—the interests of Rightsholders, including those who have not registered but are covered merely because they did not opt out.

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. Indeed, the Supreme Court has held that "it is generally for Congress, not the courts, to decide how best to pursue the Copyright Clause's objectives." *Eldred v. Ashcroft,* 537 U.S. 186, 212 (2003); *accord Sony Corp. of Am. v. Universal City Studios, Inc.,* 464 U.S. 417, 429 (1984) ("[I]t is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product.").

From its beginning, the law of copyright has developed in response to significant changes in technology. Indeed, it was the invention of a new form of copying equipment—the printing press—that gave rise to the

original need for copyright protection. Repeatedly, as new developments have occurred in this country, it has been the Congress that has fashioned new rules that new technology made necessary.
464 U.S. at 430–31 (footnotes omitted).

In fact, Congress has made "longstanding efforts" to enact legislation to address the issue of orphan works. (Objections of Microsoft to ASA & Certification of Class 4–5 & nn. 10–11, ECF No. 874 (quoting Statement of Marybeth Peters)). "Orphan Books" legislation was proposed in Congress in 2006 and 2008, but the proposed laws were not enacted. *See* Glorioso, *supra* n. 3, at 980 (reviewing proposed legislation)….

***Copyright Concerns***

… [T]he Copyright Clause of the Constitution grants Congress the power "[t]o 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." U.S. Const. art. I, § 8, cl. 8. The Supreme Court has recognized that courts should encroach only reluctantly on Congress's legislative prerogative to address copyright issues presented by technological developments: "Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials." *Sony*, 464 U.S. at 431.

The ASA raises statutory concerns as well. Certain objectors contend that the ASA's opt-out provisions would grant Google the ability to expropriate the rights of copyright owners who have not agreed to transfer those rights. The argument may have merit. The Copyright Act provides:

> When an individual author's ownership of a copyright, or any of the exclusive rights under a copyright, has not previously been transferred voluntarily by that individual author, no action by any governmental body or other official or organization purporting to seize, expropriate, transfer, or exercise rights of ownership with respect to the copyright, or any of the exclusive rights under the copyright, shall be given effect under this title, except as provided under title 11.

17 U.S.C. § 201(e). Yet, the ASA proposes to expropriate rights of individuals involuntarily.

A copyright owner's right to exclude others from using his property is fundamental and beyond dispute. As counsel for Amazon argued: "[T]he law of the United States is a copyright owner may sit back, do nothing and enjoy his property rights untrammeled by others exploiting his works without permission." Under the ASA, however, if copyright owners sit back and do nothing, they lose their rights. Absent class members who fail to opt out will be deemed to have released their rights even as to future infringing conduct. "Copyright owners who are not aware that the [ASA] affects their interest unknowingly leave Google to decide how their books are used."

Many objectors highlighted this concern in their submissions to the Court. An author from the United Kingdom states, very simply: "I do not want my books to be digitized." A 79–year old nature writer and author of 23 books illustrated with photographs of animals in the wild worries that the loss of control over her works could result in their being used to "vilif[y] the wildlife I spent my life trying to help the public come to understand and protect."… Finally, an author from Texas gives the example of her grandfather. He self-published a memoir, *Dust and Snow,* in 1988. He passed away in the 1990s, and the copyright to the book passed to his three daughters. The author observes:

> From Google's point of view, *Dust and Snow* is an "orphaned" book. If and when Google scans it, the company is likely to be unsuccessful in trying to locate the publisher, since the book was self-published and my grandfather is now deceased. In essence, the way the settlement is written, such "orphaned" titles are automatically handed to Google free of charge to do with as it will.
>
> From my family's point of view, *Dust and Snow* is not orphaned at all. It is very clear who owns the copyright. So why is Google being granted the automatic right to take over the copyright of books like my grandfather's?

While the named plaintiffs and Google would argue that these authors can simply opt out, the comments underscore certain points. First, many authors of unclaimed works undoubtedly share similar concerns. Second, it is incongruous with the purpose of the copyright laws to place the onus on copyright owners to come forward to protect their rights when Google copied their works without first seeking their permission. [FN18] Third, there are likely to be many authors—including those whose works will not be scanned by Google until some years in the future—who will simply not know to come forward.

***Antitrust Concerns***

The United States, Amazon, and Microsoft, among others, raise a number of antitrust concerns presented by the ASA.

The ASA would give Google a de facto monopoly over unclaimed works. Only Google has engaged in the copying of books en masse without copyright permission. As the United States observed in its original statement of interest:

> This de facto exclusivity (at least as to orphan works) appears to create a dangerous probability that only Google would have the ability to market to libraries and other institutions a comprehensive digital-book subscription. The seller of an incomplete database—*i.e.*, one that does not include the millions of orphan works—cannot compete effectively with the seller of a comprehensive product.

And as counsel for the Internet Archive noted, the ASA would give Google "a right, which no one else in the world would have, ... to digitize works with impunity, without any risk of statutory liability, for something like 150 years."

The ASA would arguably give Google control over the search market The ASA would permit third parties to display snippets from books scanned by Google, but only if they "have entered into agreements with Google." Likewise, the ASA would permit third parties to "index and search" scanned books only if they are non-commercial entities or they otherwise have Google's prior written consent. The ASA would broadly bar "direct, for profit, commercial use of information extracted from Books in the Research Corpus" except with the express permission of the Registry *and* Google. Google's ability to deny competitors the ability to search orphan books would further entrench Google's market power in the online search market.

***International Law Concerns***

The original settlement included any book subject to a U.S. copyright interest as of the Notice Commencement Date. That definition would have included *all* books published after 1989 in *any* country that is a signatory to the Berne Convention because the Berne Convention guarantees that foreign authors be given the same rights and privileges for their works as domestic authors. As the United States signed onto the Berne Convention in 1988, and it became effective in 1989, foreign books are covered by U.S. copyright protection (regardless of formal registration) after the effective date.

The ASA narrowed the definition so that any non-"United States work," *see* 17 U.S.C. § 101, is covered only if the copyright was affirmatively registered in Washington, D.C. *or* if the Book was published in Canada, the United Kingdom, or Australia, on or before January 5, 2009. …

,,, [C]ertain foreign objectors emphasize that the problem of orphan books is a global one. As Germany notes: "Courts and class action settlements are not the proper province for creating a cutting edge copyright ... framework to bind future generations and impact global competition for the future of digital libraries." Likewise, France argues:

> Concerning Unclaimed books, national laws on "orphan" or "unclaimed" books in the digital age are now being elaborated in many countries. Each nation, pursuant to its own governing laws and structure, is the only actor with sufficient legitimacy to make decisions that affect Copyright. France considers that, in the meantime, any digital exploitation of books must abide by the international principles of copyright and, in particular, the prior consent of the rights holders.

***CONCLUSION***

In the end, I conclude that the ASA is not fair, adequate, and reasonable. As the United States and other objectors have noted, many of the concerns raised in the objections would be ameliorated if the ASA were converted from an "opt-out" settlement to an "opt-in" settlement. I urge the parties to consider revising the ASA accordingly.

The motion for final approval of the ASA is denied, without prejudice to renewal in the event the parties negotiate a revised settlement agreement. The motion for an award of attorneys' fees and costs is denied, without prejudice.

## NOTES AND QUESTIONS

1. The opinion notes that Google's rights to the original books (not to Google's own scans) are non-exclusive. That is, anyone else can duplicate all or any part of Google's library, or individual authors can agree to permit others scan their works. Since scanning technology is readily available should this serve to satisfy all antitrust concerns? Or is Google's headstart alone decisive?

2. Many of the books subject to the settlement agreement are in the public domain, either because their maximum copyright term had expired or else because they had not been renewed under terms of the pre-1976 Copyright Act. Others were still under copyright but out of print, meaning that they could perhaps be found in some libraries or used book stores, but were not available for purchase from the publisher. Still others were so-called "orphan" works, or works whose copyright owners could not readily be located at all. The Settlement agreement provided for the creation of a Registry to facilitate the recordation of ownership interests as they would appear over time, as well as escrowing of royalties for future payment and licensing of works for distribution by others.

The court found that most of the factors stated in the Second Circuit's decision in *City of Detroit v. Grinnell Corp*., 495 F.2d 448 (2d Cir. 1974) regarding antitrust class action settlements favored the settlement in this case. The factors are (1) the complexity, expense, and likely duration of the litigation; (2) the reaction of the class to the settlement; (3) the stage of the proceedings and the amount of discovery completed; (4) the risks of establishing liability; (5) the risks of establishing damages; (6) the risks of maintaining a class action through trial; (7) the ability of defendants to withstand greater judgment; (8) the range of reasonableness of the settlement fund in light of the best possible recovery; and (9) the range of Nreasonableness of the settlement fund in light of the attendant risks of litigation.

Nevertheless, the court was concerned that the terms of the settlement amounted to a change in basic copyright protection that only Congress could effect. In particular, the problem of locating the authors of orphan works was long standing. On at least two occasions Congress had considered but declined to pass legislation on the issue. The court's principal concern was that the owners of orphan works had not been located and notified of the settlement and as a result had not been given an opportunity to object to the terms or to decline participation.

3. For its concerns about excessive exclusion the court rel*ied* on the Supreme Court's holding in *United States v. Griffith, 334 U.S. 100 (1948),* that exclusive first run movie contracts were exclusionary when the licensee had monopoly power in the town in question. But aren't the issues quite different? The exclusive first run agreements in *Griffith* prevented competing theaters from licensing the movies from any source during the period covered by the exclusive first run arrangement. By contrast, the *Google* arrangement limited the rights of others to make use of Google's own scans except subject to the settlement terms, but it did not limit the power of competitors to make their own scans independently. Given the extreme reluctance of United States antitrust law to force a firm to deal with its rivals,[3] this antitrust objection seems unwarranted. Clearly, the books settlement is output increasing when one compares the situation under the settlement with the status quo, in which many of these books are effectively unavailable at all. An increase in output is a strong indicator that a practice benefits rather than harms competition. Further, under the terms of the revised settlement agreement the Registry, which is independently *controlled, may syndicate any work or collection of works in its database for online sale by any third party.*

*4. The courts, including the Second Circuit, have approved settlement agreements that seem far more exclusionary than the Google settlement. First, the Google settlement did not involve an action that would otherwise be per se unlawful under the antitrust laws, as many approved settlements have. Indeed, it is doubtful that the settlement would violate the antitrust laws under the* rule of reason, given its nonexclusive nature with respect to the original works and the wide availability of licensing of the scanned copies to third parties. See the Second Circuit's decision in Arkansas Carpenters Health and Welfare Fund v. Bayer AG, 604 F.3d 98, (2d Cir. 2010), which is reprinted in Chapter Four. Did the *Google* decision follow the Second Circuit correctly?

5. In Authors Guild v. Google, Inc., 282 F.R.D. 384 (S.D.N.Y. 2012), the court approved and certified a class action alleging that Google's book digitization program amounted to massive copyright infringement.

[3] See *Verizon Communic., Inc. v. Law Offices of Curtis V. Trinko,* 540 U.S. 398 (2004).