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## **Licensing Update - Battersby and Grimes, HIGHLIGHTS**

Licensing Update - Battersby and Grimes  
2024 Edition

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**Last Updated: 4/2024**

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### **Licensing Update 2024 Edition**

*By Gregory J. Battersby and Charles W. Grimes*

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The Licensing Update covers the year's most significant cases and developments in licensing. The annual update identifies critical trends that licensing professionals and practitioners must understand thoroughly in this rapidly evolving area and provides guidance from licensing experts in a variety of areas of specialty.

#### **Highlights of the 2024 Edition**

Fully updated chapters in all of the major licensing topic areas:

- Updated listing of the top 150 licensors for 2023. See [§1.02](#).
- A completely rewritten chapter on patent licensing and issues that arise in the context of mergers and acquisitions. See [Chapter 2](#).
- The copyright licensing chapter examines new topics such as the copyrightability of artificial intelligence (AI), the *Server* test, architecture designs, and digital libraries. See [Chapter 4](#).
- In licensing trends, a look at some of the contractual issues including licensors' attempts to reduce liability. See [§6.02\[D\]](#).

**4/24**

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## Licensing Update - Battersby and Grimes, PREFACE

Licensing Update - Battersby and Grimes  
2024 Edition

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### **Last Updated: 4/2024**

It is really difficult for us to imagine that with the **2024 Licensing Update** we have now completed 24 books in this series of “licensing annuals.” It doesn't seem that long ago that we first made the proposal to Aspen Law and Business Press about doing an annual publication on licensing and had to convince the powers that be that there was a sufficient audience for such a work. We intended then and continue to believe now that there is a need in the licensing and intellectual property community to provide a timely publication that reports on the latest changes in licensing during the past year. We hope that the **Licensing Update** continues to fill that void. We believe that the publication has grown substantially over the years in both depth and acceptance by members of the community as a valuable and timely resource for good, practical information.

When we launched the first issue of the “Update,” we were fortunate to find some of the leading experts in the licensing community to contribute their time and talent to join us. We have perhaps been even more fortunate in that many of the original contributors have continued with us since the first issue. Many of these same individuals are also columnists and authors in *The Licensing Journal*, our monthly publication in the area, and they continue to share their insights and secrets so that we can all learn more about this subject.

Since the first edition, we have tried to provide readers with an overview or snapshot of the most significant events in the licensing industry during the past year. The approach must be successful since the subscriber list grows every year and we continue to receive favorable reviews and compliments on the work from our readers and peers. We hope that you will enjoy this volume as much as earlier editions.

As explained in earlier editions, the concept of an “Update” or licensing annual found its genesis when we first started *The Merchandising Reporter* in 1982 (the predecessor to *The Licensing Journal*). This series has been the culmination of that initial thought—a volume that contained the highlights of licensing during the past year so that the reader could easily and quickly educate himself or herself on what happened during the past 365 days. We are all busy and immersed in our own businesses and frequently lack the time to keep abreast of the latest events. It is our hope that this volume will give both the licensing professional and lawyer the opportunity to remain current in his or her chosen field.

We truly understand that there is tremendous competition for the reader's time and bookshelf space as more and more publishers offer more and more works on intellectual property and licensing topics. In this context, we are quite pleased with the response from readers. We understand that this volume will not replace these other sources of information. We have, instead, tried to synthesize the vast amount of information currently available to the industry at large into a single source of the most pertinent information, which the reader can go through in a single session or, alternatively, leave on the bookshelf until a problem should surface in the area.

The contributors continue to perform at the highest level, which is no easy feat. As a serialized publication continues, one is always concerned about whether a regular contributor or author has simply run out of things to say. Candidly, that is always a problem, and we are quite sensitive to this fact. The ability to maintain high quality for many years is far more difficult than simply writing a single excellent article. After reading the articles that these individuals have submitted, we are happy to announce—yet one more time—that they are all timely and very well done. While we are not sure how each and every one of these authors is able to continue to contribute at this level, we are certainly happy that they can.

The purpose of a preface is to tell the readers what they might otherwise have missed from the promotional material but, more importantly, to thank all of those individuals who have contributed to this effort.

To our authors and contributors—this work would not have been possible without your excellent contributions. As authors ourselves, we understand and appreciate, perhaps better than anyone, the work that goes into preparing such a chapter. We, therefore, extend to you our deepest and warmest thanks.

To the associates and staff members of our firms, we appreciate the extra time and effort that went into your contributions. We understand that much of the time that you spent on these chapters was at the expense of other things in your life and we are grateful.

Special thanks must be expressed to the outstanding job done by our editor Michelle Houle who took responsibility for the organization of the work and did the initial edit. Michelle had the difficult task of dealing with both our individual authors and with the editors at Aspen—one that put her between conflicting deadlines on a daily basis. She did this with skill and excellence and was able to satisfy everyone—a very tall order.

We would also like to express our appreciation to Susan Gruesser for the excellent and timely job she has done in laying out this book on a very tight deadline and giving it one last edit before it goes to press. Thanks should also be extended to our former editors, Matt Gallaway and Rob Gessinger; their assistance and continued support have been greatly appreciated.

We also thank Michelle Virzi and Rick Kravitz at Aspen who had the initial vision to see the possibilities for a publication such as this. Their encouragement on this and other publications we do for Aspen has been greatly appreciated. Candidly, without their support and subtle cajoling, this publication would not be possible.

Lastly, we thank you, the reader, for supporting this work and coming back for more. We continue to seek feedback from you. What subjects would you like to see covered in future issues? What did you like about this issue? What didn't you like? We value your comments.

*GJB and CWG*

## [Licensing Update - Battersby and Grimes, Chapter 4 COPYRIGHT LICENSING by Jess M. Collen and Andrew Stewart of Rothwell Figg](#)

Licensing Update - Battersby and Grimes

**Licensing Update - Battersby and Grimes**

Chapter 4 COPYRIGHT LICENSING by Jess M. Collen and Andrew Stewart of Rothwell Figg

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### **Chapter 4 Jess M. Collen and Andrew Stewart of Rothwell Figg**

## [Licensing Update - Battersby and Grimes, §4.01, INTRODUCTION](#)

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.01 (2024 Edition 2022)  
2024 Edition

**Last Updated: 4/2024**

Licensing is a creature of contract. It is not surprising that courts decide licensing issues based on contract language and where possible will rely on parties' contractual agreements to resolve disputes over copyrighted content. As we review some of 2023's more interesting decisions, note how often the parties could have articulated their understanding in a different way.

## [Licensing Update - Battersby and Grimes, §4.02, COPYRIGHT OFFICES SAYS THAT AI GENERATED WORKS ARE NOT COPYRIGHTABLE](#)

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.02 (2024 Edition 2022)  
2024 Edition

**Last Updated: 4/2024**

On September 15, 2022, Kristina Kashtanova submitted an application to the U.S. Copyright Office attempting to register a copyright in her comic book entitled *Zarya of the Dawn*. <sup>[1]</sup> Kashtanova wrote the text and arranged the images within the book, but she produced the images themselves using the generative artificial intelligence (AI) tool Midjourney. The Copyright Office registered the work. Soon after, a journalist pointed the Copyright Office to Kashtanova's social media posts claiming that she had used AI. The Copyright Office notified Kashtanova of its intention to cancel the registration unless she responded, which she did.

After review, the Copyright Office determined that parts of the registered work had to be disclaimed, but other parts were registerable. Kashtanova was entitled to a copyright in the text of the comic book because the text was written entirely by Kashtanova herself. Similarly, Kashtanova was entitled to a copyright in the selection and arrangement of the text and images because the selection and arrangement of the images was her own work as well. However, Kashtanova did not have a copyright in the images themselves because they were produced by Midjourney, the non-human author.

The Office has taken the position that it does not "register works produced by a machine or mere mechanical process that operates randomly or automatically without any creative input or intervention from a human author."

<sup>[2]</sup> Kashtanova argued that she had "creative input" in the form of original prompts, which generate the AI work.

However, the Copyright Office likened such prompts to directions given to a commissioned artist; the artist is the author, not the commissioner. Under this type of analysis, the Copyright Office ruled that Midjourney, not Kashtanova, had the traditional elements of authorship. According to the Copyright Office's findings, the images produced by Midjourney were too unpredictable to be controlled by Kashtanova, and hence she lacked the authorship necessary to entitle her to copyright in these portions of the work.

In August, the United States District Court for the District of Columbia held that the Copyright Office's 2022 denial of registration for an AI-generated work did not violate the Administrative Procedure Act (APA). <sup>[3]</sup> Judge Howell reaffirmed that “human creativity is the *sine qua non* at the core of copyrightability.” <sup>[4]</sup>

In September 2023, the Copyright Office rejected registration when an artist refused to disclaim the elements of his work created by Midjourney. <sup>[5]</sup>

In December 2023, the Copyright Office again denied registration to an AI-generated image. <sup>[6]</sup> In this instance, an artist had taken his photograph and run it through an AI that changed the art style. The Copyright Office recognized that he had a copyright in the underlying photograph, but the derivative work did not have human authorship.

For parties negotiating copyright licenses, these Copyright Office rulings focus on the importance of clarity in whether and to what extent generative AI is used to produce the material for which any entity is seeking to claim copyright registration. Material produced exclusively by generative AI will not be afforded copyright registration, and parties may want to take this into account when determining the value of a license. Misrepresenting the nature of authorship of AI-generated material as being human-generated may constitute fraud. In any event, parties need to consider licensing language and terms that make full representation about the source, creation, and authorship of the material being licensed.

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## Footnotes

- 1 Zarya of the Dawn Letter, Feb. 21, 2023 (copyright.gov), <https://www.copyright.gov/docs/zarya-of-the-dawn.pdf>.
  - 2 Chapter 300: Copyrightable Authorship: What Can Be Registered, FIP-CPYPRC Ch. 300, [https://1.next.westlaw.com/Document/I449d2b26ada411e498db8b09b4f043e0/View/FullText.html?transitionType=Default&contextData=\(oc.Default\)](https://1.next.westlaw.com/Document/I449d2b26ada411e498db8b09b4f043e0/View/FullText.html?transitionType=Default&contextData=(oc.Default)).
  - 3 Thaler v. Perlmutter, No. CV 22-1564 (BAH), 2023 WL 5333236 (D.D.C. Aug. 18, 2023).
  - 4 *Id.* at \*3.
  - 5 Théâtre D'opéra Spatial Review Board Decision Letter (copyright.gov), <https://www.copyright.gov/rulings-filings/review-board/docs/Theatre-Dopera-Spatial.pdf>.
  - 6 SURYAST Review Board Decision Letter, Dec. 11, 2023 (copyright.gov), <https://copyright.gov/rulings-filings/review-board/docs/SURYAST.pdf>.
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## Licensing Update - Battersby and Grimes, §4.03, CAN AI MODELS USE COPYRIGHTED WORKS?

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.03 (2024 Edition 2022)  
2024 Edition

**Last Updated: 4/2024**

Generative AI models—such as OpenAI's ChatGPT—take in a large amount of data in the form of text, images, videos, etc. (training data). The models then find patterns in that training data and use those patterns to produce more data in line with the training data. One issue with these models is that they require a large amount of

training data to produce good output. The best training data is human-produced. Thus, much of the best training data is copyright protected. The legal implications of using copyrighted works as training data are still emerging.

Several copyright holders have sued various makers of generative AI for infringement related to the use of the copyrighted materials as training data. <sup>[7]</sup> These cases and many others like them are still in early stages of litigation. Many of the AI-makers are claiming that use as training data is fair use. It remains to be seen whether the courts will accept that defense, or conclude that such uses infringe the original author's copyright.

Additionally, several licensing deals related to the use of copyrighted materials have been announced. For example, in July 2023, the Associated Press signed a deal to license its extensive catalogue of news stories to OpenAI for use in training OpenAI's ChatGPT. <sup>[8]</sup> This indicates that there is a market for training data licensing. The fact that OpenAI has paid for training data may hurt it in its fair use defense moving forward.

Overall, the law in this area is still up in the air. A lot will likely happen in the next year or two. While speculation is beyond the scope of this chapter, further reading is available: The Generative AI Copyright Fight Is Just Getting Started | WIRED. <sup>[9]</sup>

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#### Footnotes

<sup>7</sup> See, e.g., *Andersen v. Stability AI Ltd.*, No. 23-CV-00201-WHO, 2023 WL 7132064 (N.D. Cal. Oct. 30, 2023); *Kadrey v. Meta Platforms, Inc.*, No. 23-CV-03417-VC, 2023 WL 8039640 (N.D. Cal. Nov. 20, 2023).

<sup>8</sup> <https://apnews.com/article/openai-chatgpt-associated-press-ap-f86f84c5bcc2f3b98074b38521f5f75a>.

<sup>9</sup> See <https://www.wired.com/story/livewired-generative-ai-copyright/>.

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## Licensing Update - Battersby and Grimes, §4.04, SUPREME COURT LOOKS AT FAIR USE

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.04 (2024 Edition 2022)  
2024 Edition

**Last Updated: 4/2024**

In 1981, Lynn Goldsmith took a photograph of the musician, Prince. <sup>[10]</sup> Three years later, Goldsmith licensed the photograph to Vanity Fair to be used as an “artist reference for an illustration.” <sup>[11]</sup> The terms of that license limited use to one full page and one quarter page use. Vanity Fair hired pop artist Andy Warhol to use the photograph to create an illustration. Warhol not only created a print for Vanity Fair's use, but he also created fifteen other derivative works.

After Prince's death in 2016, Condé Nast licensed one of Warhol's other derivative works, “Orange Prince,” from the Andy Warhol Foundation for the Visual Arts (AWF), Inc. for use on the cover of a special tribute magazine. Goldsmith became aware after seeing the published cover. Goldsmith notified AWF that she believed it had infringed her copyright. AWF filed Declaratory Judgment Action in United States District Court for the Southern District of New York, and Goldsmith counterclaimed for infringement.

District Judge John Koeltl granted summary judgment for AWF, holding that all four fair use factors weighed in the Foundation's favor. The Court of Appeals for the Second Circuit reversed and remanded, holding that all four factors weighed in Goldsmith's favor. AWF petitioned for certiorari, which the Supreme Court granted on the narrow question of whether the first fair use factor—“the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes” —weighed in favor of Goldsmith, or of AWF. The Court held that the first factor favored Goldsmith.



In her majority opinion, Justice Sonia Sotomayor repeatedly emphasized that adding new meaning is not enough to render copying fair use. The courts must look to the purpose of the new use. Here, the Court said Goldsmith's photograph and AWF's licensing of Warhol's print had the same purpose: to portray Prince in a magazine about his life. The Court emphasized that it was not looking at Warhol's Prince Series as a whole, but it was looking specifically at AWF's licensing of one print of great significance to licensees. The court said that to hold otherwise would allow parties to use a "transformed" work for free in place of the original work; the Court called such substitution "copyright's bête noire." <sup>[12]</sup>

Additionally, the Court cautioned that consideration of "transformative" use must not be allowed to swallow up a copyright holder's exclusive right to create derivative works, stating that all derivative works are to some degree transformative, and that most add new meaning. However, not all derivative works qualify as fair use.

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#### Footnotes

<sup>10</sup> Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith, 598 U.S. 508, 143 S. Ct. 1258, 215 L. Ed. 2d 473 (2023).

<sup>11</sup> *Id.* 517.

<sup>12</sup> *Id.* 528.

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## [Licensing Update - Battersby and Grimes, §4.05, THE SERVER TEST REMAINS GOOD LAW IN THE NINTH CIRCUIT](#)

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.05 (2024 Edition 2022)  
2024 Edition

**Last Updated: 4/2024**

A pair of photographers brought a case against Instagram for induced copyright infringement. <sup>[13]</sup> The publications *Buzzfeed* and *Time* had embedded the photographers' Instagram posts without getting a license for the photographs. While Instagram was not a direct infringer, the plaintiffs argued that Instagram had enabled third-party platforms' acts of infringement.

The District Court for the Northern District of California granted Instagram's motion to dismiss. Judge Breyer cited the Ninth Circuit's Server Test as articulated in *Perfect10*. <sup>[14]</sup> The Server Test requires that an infringing image be "fixed in the computer's memory." The district court concluded that since *Buzzfeed* and *Time* did not create copies of the images or store the images, they did not violate the photographers' display rights. Where there is no direct infringement, a party—such as Instagram—cannot be held liable for induced infringement.

The plaintiffs argued on appeal that the Ninth Circuit should overrule *Perfect10* and eliminate the Server Test. The plaintiffs made several arguments, including that the Server Test was inconsistent with a Supreme Court decision that post-dated *Perfect10*. <sup>[15]</sup> In *Aereo*, the Supreme Court held that Aereo had infringed copyrights when it provided internet streaming access to public broadcasts of local programming. The Court found that Aereo had "publicly performed" the broadcasts in violation of the Transmit Clause. Hunley argued that the performance right analysis in *Aereo* was indistinguishable from the display right analysis in this case. The court of appeals rejected those arguments on the basis that the performance right and the display right require distinct analyses. The court affirmed *Perfect10*, and held that the Server Test applies to embedded social media posts.

No other Circuit to date has either explicitly adopted or rejected the Server Test, but several district courts have rejected the Server Test, including the Southern District of New York. <sup>[16]</sup> This split may have potential ramifications for choice of law in certain licensing agreements. For instance, it should be kept in mind when a license of copyrighted material covers social media use or in social media terms of use.



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## Footnotes

- [13](#) Hunley v. Instagram, LLC, 73 F.4th 1060 (9th Cir. 2023).
  - [14](#) Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146 (9th Cir. 2007).
  - [15](#) American Broad. Cos., Inc. v. Aereo, Inc., 573 U.S. 431, 134 S. Ct. 2498, 189 L. Ed. 2d 476 (2014).
  - [16](#) McGucken v. Newsweek, No. 19 Civ. 9617 (KPF), 2022 U.S. Dist. LEXIS 50231 (S.D.N.Y. Mar. 21, 2022).
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## [Licensing Update - Battersby and Grimes, §4.06, REMINDER: CHOREOGRAPHY IS STILL COPYRIGHTABLE](#)

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.06 (2024 Edition 2022)  
2024 Edition

### **Last Updated: 4/2024**

Congress first extended copyright protection to choreography in the 1976 Copyright Act. Since then, relatively few suits have been brought to enforce choreographic copyrights. One of those was brought in March 2022 by choreographer Kyle Hanagami. [\[17\]](#) Hanagami alleged that Epic Games had infringed his copyright by incorporating a distinct four-count portion of his five-minute choreographed dance—set to singer Charlie Puth's “How Long”—into Epic's popular game *Fortnite*.

Epic moved to dismiss, alleging that individual dance steps are not copyrightable. Epic disputed that a four-count portion was eligible for copyright protection, claiming it was too small of a component of Hanagami's protected work. The district court granted Epic's motion.

The Ninth Circuit reversed. The court of appeals held that the district court erred in reducing choreography into solely a static series of poses. The court analogized choreography to musical compositions. Just as music is composed of more than just a series of notes, choreography is more than just a series of poses. Where music further comprises melody, harmony, and arrangement, choreography is formed from many other elements—such as body position, transitions, timing, energy, and use of space.

The Ninth Circuit also found that the district court erred in holding as a matter of law that the portion was too short to be protected. Instead, the Ninth Circuit reiterated that “no bright line rule exists as to what quantum of similarity is permitted before crossing into the realm of substantial similarity.” [\[18\]](#)

This case serves as an important reminder that choreography is subject to copyright and that licenses are a necessary part of the framework for anyone wanting to use this type of original creation. Since—as with most all areas of copyright law—there is no bright line rule as to the amount of taking that will be deemed infringement, parties should be cautious before relying on de minimus doctrine to protect themselves whenever they “borrow” from another's work.

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## Footnotes

- [17](#) Hanagami v. Epic Games, Inc., 85 F.4th 931 (9th Cir. 2023).
  - [18](#) Hanagami v. Epic Games, Inc., 85 F.4th 931, 945 (9th Cir. 2023) (quoting *Baxter v. MCA, Inc.*, 812 F.2d 421, 425 (9th Cir. 1987)).
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## **Licensing Update - Battersby and Grimes, §4.07, A CONTRACT TO PROVIDE ARCHITECTURAL PLANS MAY IMPLY A RIGHT TO CREATE DERIVATIVE WORKS**

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.07 (2024 Edition 2022)  
2024 Edition

**Last Updated: 4/2024**

Padua Realty entered an agreement with architect Loeb-Defever to design an assisted living community in Texas. <sup>[19]</sup> Part-way through the project, the relationship between the developer and the architect broke down. The developer brought in another architectural firm. The developer provided the second architect with Loeb-Defever's designs as a "starting point." <sup>[20]</sup> When Loeb-Defever became aware that the developer and the new architect had been using her designs, she registered the work with the Copyright Office. Yet, she waited until after construction was complete and the units were being marketed—nearly five years—to sue the developer.

Loeb-Defever filed suit in the United States District Court for the Southern District of Texas. She alleged that the developer (1) infringed her copyright by creating derivative works (i.e., the second architect's designs and the completed construction), (2) violated the Digital Millennium Copyright Act (DMCA) by posting the derivative floorplans on a promotional website without proper acknowledgement, and (3) breached their contract. The defendants (which included the developer and other project-related entities) moved for summary judgment. Judge Hanks granted the motion, and Loeb-Defever appealed. In a per curiam opinion, the Fifth Circuit Court of Appeals affirmed the grant of summary judgment.

The court determined that the language of her contract with the developer gave the developer the right to create derivative works, and also gave the developer the right to "reproduce" the schematics. In construing the contract, the court held that "[t]he plain meaning of the verb 'reproduce'... suggests the license granted Defendants the right to create derivative works." <sup>[21]</sup> The court found further that a limitation on use for "other projects" implied permission to use the schematics as needed within the confines of the original project.

The court's broad interpretation of the meaning of the word "reproduce" reinforces the importance of particularity in licenses. As in any contract, it is dangerous to rely on presumptions. These principles apply across the board, from literature to software to musical performance, to less frequently considered types of work like choreography and architectural works.

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### **Footnotes**

<sup>19</sup> Loeb-Defever v. Mako, LLC, No. 22-20362, 2023 WL 5611042 (5th Cir. Aug. 30, 2023).

<sup>20</sup> *Id.* \*1.

<sup>21</sup> *Id.* \*4.

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## **Licensing Update - Battersby and Grimes, §4.08, AN IMPLIED SUBLICENSE CANNOT EXCEED THE SCOPE OF THE INITIAL EXPRESS LICENSE**

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.08 (2024 Edition 2022)  
2024 Edition

**Last Updated: 4/2024**

Katie Sowers was the first openly gay coach in the NFL and first woman coach to make it to the Super Bowl. Stephanie Campbell took a photograph of Sowers in 2017. <sup>[22]</sup> Campbell licensed the photograph to Catch+Release, a content licensing platform, who in turn licensed the image to Microsoft for use in its 2020 Super Bowl ad. Someone working on behalf of Microsoft then reached out to Gannett, publisher of *USA Today*, and requested that Microsoft's ad be included in *USA Today's Super Bowl Ad Meter*, its annual review of Super Bowl commercials. As requested, the ad was included in the *Ad Meter*, along with a screenshot containing Campbell's copyrighted photograph.

After Campbell sued Gannett for copyright infringement, Gannett argued that Microsoft's request for inclusion had given Gannett an implied license to use the photograph. Because a nonexclusive implied license can be given orally or implied by conduct, Gannett argued that Microsoft's choice of Gannett to distribute its ad created an implied license for Gannett to distribute the ad.

Judge Ketchmark of the Western District of Missouri rejected Gannett's argument. The court found that an implied license would be a sublicense, and would thus have to be within the scope of the original express license that Campbell granted to Catch+Release. The court looked to the language of that license. It granted Catch+Release the right to sublicense, which Catch+Release did to Microsoft for use in the ad. However, there was no indication Campbell intended to allow further sublicensing from any sublicensee (including Microsoft). Therefore, an implied sublicense from Microsoft to Gannett would exceed the scope of the original licensing agreement between Campbell and Catch+Release. Since Microsoft was a sublicensee under that agreement, Microsoft's rights could not exceed Catch+Release's. In particular, Campbell had not given Catch+Release the right to give Microsoft the right to give Gannett a license—implied or explicit—shining the light on another presumption which the court rejected: reliance on a non-existent, implied right. If a right to sublicense is not expressly granted, it may not exist. If a party enters into a license with a right to sublicense, it is important to be sure it is in the agreement. If a party is taking a sublicense, such sublicensee should be sure it falls within the sublicensor's grant.

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## Footnotes

<sup>22</sup> Campbell v. Gannett Co., Inc., No. 4:21-00557-CV-RK, 2023 WL 5250959 (W.D. Mo. Aug. 15, 2023).

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## Licensing Update - Battersby and Grimes, §4.09, DIGITAL LIBRARY CANNOT LEND DIGITAL COPIES IN LIEU OF PHYSICAL COPIES OWNED

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.09 (2024 Edition 2022)  
2024 Edition

### **Last Updated: 4/2024**

In a case which affirmed the importance of the market for licensed eBooks, one court held that converting physical copies to eBooks was still infringing activity.

The Internet Archive (IA) maintains an online collection of 3.6 million eBooks. <sup>[23]</sup> To build this collection, IA acquires physical copies of books, scans them, and uploads them in electronic format. IA does not allow for mass download; instead, it claims that it controls the number of electronic copies in circulation through what it calls "Controlled Digital Lending" (CDL). Under this practice, IA keeps its physical copies of the books in storage, and then says that it only lends out as many digital copies as it has physical ones. For example, if IA has three physical copies of a given book, IA will keep those books in storage and only allow three "patrons" at a time to download the digital copy from the website. In theory, IA lends out digital copies in lieu of the physical copies. It views its practices as replacing physical copies with digital copies, rather than creating and circulating new copies.

In June 2020, a group of book publishers filed suit against IA in the United States District Court for the Southern District of New York. The parties cross-moved for summary judgment. IA conceded that it was violating the publishers' copyrights, but argued that its CDL was valid as fair use. Judge Koeltl rejected IA's fair use argument and granted summary judgment to the publishers.

Analyzing fair use requires a court to weigh four statutory factors, the first of which is "the purpose and character of the use." The court here found that IA's use was not transformative. IA added no commentary or meaning, nor was the use non-commercial, since IA's website solicited donations and directed patrons to purchase books from IA's bookstore partner. IA did not pay the licensing fees that the publishers typically charge libraries that wish to lend out digital copies of their books.

IA further argued that its use fell under the first sale doctrine, which finds that the exclusive right to distribute a copyrighted work extinguishes with the sale of the work. However, the facts here focused not on a re-sale of the printed books but on the reproductions of those books. Therefore, the court found that IA's scheme relied on an irrelevant factor: what IA does with its physical copies.

The court had little difficulty with the second and third factors, namely, "the nature of the copyrighted work," and "the amount and substantiality of the portion used in relation to the copyrighted work as a whole," holding in favor of the publishers.

Regarding the fourth factor, the court found that IA's activities provided a "significantly competing substitute" to the thriving market for licensing eBooks to libraries. <sup>[24]</sup> In fact, the court determined that if IA's practice were left unchecked, it could obliterate the market entirely. However, IA countered that it was benefiting the public by providing wider access to books. The court rejected IA's argument that its practices helped the public by increasing access to books, holding that even increasing public access to a copyrighted work cannot counteract any market harm, pointing out that practically any infringer can claim it is providing the "benefit" of increasing public access. Thus, regarding the fourth factor, "the potential market for or value of the copyrighted work," the court found that this factor, too, favored the publishers.

This decision highlights the value of licensed books, and the fact that electronic copies—even where the owner owns the physical-copy equivalents—are not allowed. The court used the existence of an active licensing market as evidence against fair use. IA has appealed this decision to the Second Circuit.

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#### Footnotes

<sup>23</sup> Hachette Book Grp., Inc. v. Internet Archive, No. 20-CV-4160 (JGK), 2023 WL 2623787 (S.D.N.Y. Mar. 24, 2023).

<sup>24</sup> *Id.* at \*14.

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## [Licensing Update - Battersby and Grimes, §4.10, "RETURNS" INCLUDE RETURNS FOR ANY REASON](#)

Gregory J. Battersby & Charles W. Grimes, Licensing Update §4.10 (2024 Edition 2022)  
2024 Edition

#### **Last Updated: 4/2024**

Audible is one of the world's leading providers of Audiobooks. Since 2012, Audible has allowed its customers to return audiobooks within 365 days of purchase for any reason. Audible advertised this policy on its website and in emails as its "Great Listen Guarantee," promising "A Great Listen Every Time." If a customer finished a book and left a negative review, Audible would actually prompt the customer to exchange the audiobook.

Golden Unicorn Enterprises and Big Dog Books produce audiobooks. <sup>[25]</sup> Both companies licensed their audiobooks to Audible. In October 2020, the companies discovered that Audible was deducting all returned audiobooks from their royalties, even audiobooks that customers had played in their entireties and returned months later. The companies sued Audible in the Southern District of New York for breach of contract and breach of the implied covenant of good faith. After the close of discovery, Audible moved for summary judgment. Judge Furman granted the motion with respect to the breach of contract claim, but delayed ruling on the implied covenant of good faith claim pending further briefing.

The court held that the language of the contract was unambiguous and that Audible had not breached. The contract specified that royalties would be paid based on “net sales,” defined to exclude “returns.” The court held that nothing in the “returns” language excluded returns for any reason.

The producers had two theories of breach of implied covenant of good faith. First, the producers alleged that Audible had “surreptitiously” deducted returns from the royalties paid because it had been unaware of this calculation until the defendant mistakenly provided it with a different version of the customary royalty report. The court rejected this theory, holding that the contract explicitly allowed Audible to report only net sales. The producers also argued that Audible's return policy improperly encouraged customers to return their books. After ordering the parties to submit supplemental briefing, the court granted summary judgment to Audible on this second theory as well. <sup>[26]</sup> The court found that the plaintiffs provided no evidence to differentiate the “encouraged” returns from the “non-encouraged” returns. The court found that there was no evidence presented to prove that a single one of the producer's audiobooks was returned because of Audible's encouragement. The producers have appealed to the Second Circuit Court of Appeals.

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#### Footnotes

<sup>25</sup> Golden Unicorn Enters., Inc. v. Audible, Inc., No. 21-CV-7059 (JMF), 2023 WL 4561718 (S.D.N.Y. July 17, 2023).

<sup>26</sup> Golden Unicorn Enters., Inc. v. Audible, Inc., No. 21-CV-7059 (JMF), 2023 WL 6143567 (S.D.N.Y. Sept. 20, 2023).

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