ARIZONA STATE UNIVERSITY
COLLEGE OF LAW
COPYRIGHT LAW
LAW 646

Professor Karjala

FINAL EXAMINATION

2 Hours

MODEL ANSWERS

Wednesday, December 10, 2014

Instructions

This examination consists of a two essay questions that you are to answer in bluebooks or by computer. The total exam time is 2 hours. The problems will be weighted equally in determining the grade on the exam, but you may allocate your time to the problems as you choose.

You are permitted to have with you and to use during the examination your textbook, the statutory supplement or other printed version of the Copyright Act, any class handout materials (including materials printed from the Course Materials web page for the class), your class notes, and any other written materials made by you or your study group (not photocopied from printed materials). You may also make use of materials that are stored on the computer you are using to write the exam answers. During the examination you are permitted to visit the class web page at http://homepages.law.asu.edu/~dkarjala/Copyright/Syllabus.htm, including any links from that page, but visiting any other internet site during the examination will be considered a violation of the College Honor Code. Be sure to save your exam often while you are writing, and after the exam be sure your exam gets transcribed to the registrar’s thumb drive (if that is the method employed this year - in any event, make sure the registrar gets a copy somehow).

Base your answers SOLELY on the materials that were assigned on the Syllabus or discussed in class. Please remember that your answers should RAISE issues, not eliminate them. Even if you are quite sure that your resolution of one issue eliminates the need to consider others, where significant issues arise with another initial resolution, try to deal with those issues on the assumption that the first issue is resolved contrary to your own approach to it. This is especially the case if there are facts in the problem that are relevant only to these subsidiary issues and that you have not made use of in resolving the primary issue. This is an EXAM, not real life! Furthermore, do not give abstract lectures on copyright law (and, in particular, do not give back to me lengthy quotes concerning what you think I said in class). In applying copyright law to the facts of a given problem, be sure you make full use of the facts that are given. If you have not used all the facts, you are probably missing an issue that you are expected to consider.

If you write your answers in longhand, please write legibly, double space, and ON ONE SIDE OF A BLUEBOOK PAGE ONLY. If you type or use a computer, try to type enough of the letters of each word correctly to make the words decipherable. Your score will be based on what is actually on the paper, not my guess as to what you might really have meant.

GOOD LUCK!
Problem 1

S is the author and copyright owner of a sculptural work that is embodied in a copy (the “Sculpture”) that is owned by City. S’s copyright is duly registered. Sculpture stands in a prominent spot in City and to some extent Sculpture has become a symbol for City. (Think of the St. Louis Arch, for example.) City sponsors a local symphony orchestra and sells tickets to performances. In order to generate season ticket sales for the upcoming orchestra season, City created a brochure that included ten photos of places in City, including a photo of Sculpture in its entirety. S was not asked for permission to use the photo of Sculpture in the brochure, nor did S give actual or express permission for such use. The brochure was distributed free at the symphony hall and other City locations. City has generated total symphony ticket sale revenues of $4 million. Total expenses for a single season of the orchestra will be $3 million.

S sues City for copyright infringement. Discuss whether City is liable for copyright infringement and, if so, how much it might have to pay S in damages. (Do not consider statutory damages.)

Model Answer

City has reproduced and distributed copies of Sculpture. (More accurately, City has produced a two-dimensional derivative work based on Sculpture, but the fair use analysis does not change whether we treat the photos as copies or as derivative works, so this answer will use that simpler phraseology.) While City owns the physical Sculpture (the “original” copy), S still owns the copyright as provided in the facts. The photo necessarily reproduces protected elements of the protected work, so 106(1) & (3) are implicated as well as 106(2). The copyright owner gave no express permission for such reproduction or distribution, and there is nothing in the facts from which such permission might be implied. If there were facts suggesting that City had used pictures of Sculpture in the past to publicize City and its environment, it is conceivable that the basis of an argument for an implied license could be found. It does seem likely that pictures of Sculpture have, in fact, been seen by people, given that Sculpture has become “a sort of symbol” for City. Therefore, we must proceed on the assumption that City is prima facie liable for copyright infringement.

Fair Use

City has a potential defense of fair use. While the infringement in this case related generally to culture and the arts, the use does not easily fit within any of section 107’s preambular terms like “criticism” or “comment.” However, while those types of uses are supposedly favored for fair use, fair use is not precluded for other uses. For those, and indeed for all, uses, we must look to the statutory fair use factors.

Factor 1 looks to the purpose and character of the use, expressly contrasting commercial uses with nonprofit educational uses. The case law we have studied asks as well whether the use is “transformative.” This does look a bit like a commercial use, as City actually makes a profit from its symphony (in contrast to most such civic cultural attractions). Still, City itself is a nonprofit organization, so it may be fair to assume that whatever profits City keeps will end up serving the nonprofit purpose of maintaining necessary City services. Spreading knowledge and
appreciation of music may also be considered “educational,” and here Sculpture has become a symbol of City and is arguably as useful, if not necessary, identifier. On balance, I would say that the use of the photo is commercial, because its sole application is in a brochure designed to increase the sale of season tickets. That City uses the proceeds for a “good” purpose does not change the commercial character of the use generating such proceeds. Is the use “transformative”? The photo does transform the three-dimensional sculptural work into a two-dimensional photograph, but the photo is still used for the same purposes as Sculpture itself, namely, to present the appearance of the work to viewers. On balance, Factor 1 goes against fair use.

Factor 2 looks to the nature of the protected work. Here we are dealing with a sculptural work, which is at the traditional core of copyright. While snapshots by tourists of Sculpture are likely a fair use, City’s use of the photo here goes well beyond the normal use of a snapshot, and the claim here is not for taking the picture (we do not even know who took it) but for reproducing and distributing it. This Factor also argues against fair use.

Factor 3 looks to the amount and substantiality of the portion used in relation to the protected work as a whole. While the photo is two-dimensional, it reproduces as much of the three-dimensional work as is possible given that change. In other words, for Factor 3 purposes, we can say that the entire work was copied. This would not negate favoring fair use if there were a legitimate purpose under Factor 1 for reproducing the entire work. Having concluded that Factor 1 does not favor the use in question, however, Factor 3 would also seem to flunk the fair use test. Of course, the analysis under Factor 1 did require some balancing, and to that extent the negative effect from entire copying under Factor 3 may be slightly reduced as well. (While some courts have erroneously looked to the percentage of the accused work that consists of infringing material, they have only done so when such analysis favors the copyright owner. We know that the infringing material is quantitatively no more than 10% of the brochure and probably less because that is based solely on the pictures without taking into consideration verbal sections, but this in principle does not help City in the fair use analysis.)

Factor 4 looks to the effect of the use on the potential market for or value of the protected work. It seems unlikely that anyone who desired a good photograph of Sculpture would use the photo in the brochure as a substitute. Indeed, widespread distribution of the brochure may have the result of increasing public awareness of Sculpture so that authorized sales of photographs might even increase. On the other hand, S has lost whatever license fees City might have been willing to pay to include the photo in the brochure. While this argument is circular, in that City would not need to pay a license fee if its use were fair, this type of argument was accepted in, for example, the Texaco case. There is no real market failure here, in that S and City should not find it difficult to negotiate. Had City initiated negotiations and received a flat refusal from S to license at any price, or even any reasonable price (whatever that might be), this factor might come out the other way. On these facts, Factor 4 argues against fair use.

On balance, I conclude that the fair use defense is not available to City on these facts.

**Damages**

Section 504 allows an award of actual damages as well as the infringer’s profits.
attributable to the infringement, but avoiding double counting. Damages are sales by S that were lost because of an infringing substitute. The facts give no evidence of any such damages in this case. Even if there is an established market for sales of photos of Sculpture, it is unlikely that City would have paid that market price for each reproduction in the brochure. S did lose a licensing fee that S could have extracted had City sought permission to use the photo but again we have no facts on which to base a detailed analysis.

City’s profits require S to prove City’s gross revenues, and City has the burden of proving deductible expenses as well as elements of profit attributable to factors other than the protected work.

What is City’s gross revenue? Is it limited to the $4 million in symphony ticket sales or must we look to all of City’s revenues – presumably primarily from taxes? While the statute says that burden of proof is on City to show that revenues besides those for the symphony are not attributable to the infringement, courts have actually modified this a bit by requiring the copyright claimant to show nonspeculative facts making a plausible connection between a given revenue stream and the infringement. In any event, it is difficult on the limited facts we have before us to find any logical connection between City’s overall tax revenues and the infringement, outside the ticket sales themselves. It is not plausible that citizens paid more taxes to City because of the infringement in the brochure. Therefore, we take gross revenue to be $4 million.

The facts tell us that total expenses for the symphony are $3 million. Lawyers for S will want to review these expenses carefully, because generally courts allow only direct expenses to be deducted in these profits calculations, not general overhead items that City allocates among various city functions. (For example, if the Mayor’s salary is $100,000 and the Mayor spends 1% of her time dealing with symphony matters, an accountant might allocate an expense of $1,000 to the symphony. Generally, this kind of indirect expense is not allowed.) We do not have facts to delve into this question with any depth, so we will accept that the $3 million figure relates entirely to direct expenses (performers’ salaries, light and heat, etc.).

That leaves $1 million in profit. Obviously, not all of this can be attributable to the use of the photo of Sculpture in the brochure, but City has the burden of proving allowable deductions. The Frank Music case divided profits into direct and indirect, but in that case the infringed work was part of what was offered for sale, and the courts calculated direct profits essentially by asking what portion of the total performance consisted of infringing material. Here, the relevant questions are, first, what percentage of ticket sales are due to the brochure and, second, what is the relative value of the photo of Sculpture to the sales power of the brochure? On the first question, City might try to show that ticket sales only increased by X% this year over previous years when no brochure, or a noninfringing brochure, was used. City would try to quantify any other new sales techniques, if any, it used this year to increase sales, in an effort to downplay the sales power of the brochure.

Much more difficult would be to show how much the infringing photo contributed to the sales power of the brochure. We are told that the brochure had ten photos in it, so a first cut would be that the infringing photo contributed no more than 10% of the brochure’s sales power. It is true that Sculpture has become a symbol of City, which may increase its value in such a sales...
brochure over less well known things or places, but there is other information in the brochure that likely contributes to sales as well – most importantly, who the guest performers will be and what musical works will be performed. If the works being performed this year are known to be more popular, the use of the photo in the brochure would have a reduced connection to the sales increase.

A starting point on profits directly attributable to the infringement, therefore, might be 10% of X, the percentage sales increase. If sales have increased by 10%, 1% of the profits would be attributable to the infringement, or in this case 1% of $1 million = $10,000.

Are there any indirect profits here? To a large extent we have already dealt with this issue in deciding to limit gross revenues to those received from symphony ticket sales. If City runs a snack or drink bar at the symphony or operates a pay parking lot, profits from those activities on symphony days would seem rather directly connected to the symphony tickets and should be included if they have not already been included in the $1 million profit. This is not like the MGM hotel, where many customers spent money before and after the show at restaurants and the casino. It is unlikely that people attending the symphony are thereby induced to make voluntary tax payments to City. Some, however, might make charitable contributions to assist in keeping the symphony in operation. Investigation of whether such contributions might in some way have increased as a result of the infringing use of the photo in the brochure might be worth trying by S, but this sort of thing gets very speculative. If out-of-towners have been attracted to the Symphony by the brochure and spend money locally at restaurants or hotels, and if City has a sales tax, these indirect profits should also, in principle, be included in the calculation, but again on the facts given these are so speculative that a court would be unlikely to include such profits in the calculation.

Problem 2

Author A wrote and published a novel ("Novel") in 1980 and duly registered a copyright in the work in that same year. In 1982, A granted movie company M the right to make a movie of Novel in exchange for a flat one-time royalty of $100,000. M made and distributed such a movie (the "Original Movie") in 1982. Original Movie was an immediate popular success and has had enduring value via replays in art theaters, television, and even streaming via companies like Netflix.

A and Spouse S had one child C. C and C’s spouse had two children, E and F. In 1985, both A and C were killed in an automobile accident. S inherited all of A’s copyright rights. Given the popularity of Original Movie, M decided to do a remake using bigger name stars. M’s lawyers believed that the original grant from A was ambiguous as to whether it authorized the making of more than one movie. In 1985 M sought S’s permission to modify the original grant to allow the remake expressly, to allow the making of sequels, prequels, and other films based on Novel, and to grant merchandising rights involving characters and plot elements from Novel. In exchange M agreed to pay S a royalty of 1% of the net profits from both the Original Movie and all films and merchandise sales made under the 1985 modified agreement. The 1985 modified
agreement between M and S also states, “S expressly and irrevocably agrees that neither the rights granted under this modified agreement nor under the original grant from A shall be subject to termination under section 203 of the Copyright Act.” The remake is duly made and since that time S has been receiving substantial royalty payments.

As time has gone on, some of the characters from Novel – largely as a result of the films made by M – have achieved popularity in their own right, so there is a growing demand for new films and merchandise based on them. S believes that the 1% royalty S negotiated in 1985 is too low. S asks your assistance concerning termination. What is your advice as to S’s substantive right to terminate and with whom, if anyone, does S need to act in order to effect a termination?

Model Answer

It is important to note (many students failed to do so) that S is not an author, so if the 1985 modified agreement is separate from author A’s 1982 grant of rights to make the Original Movie, there will be no termination rights at all for the modified agreement. A’s 1982 grant to M was a post-1978 grant by an author and therefore is potentially subject to termination under section 203. Any termination effected by S and the grandchildren must be of that earlier grant by A. Failure to recognize this leads to hopeless confusion.

The earliest date termination can be effective is 2017, and notice of termination must be sent between 2 and 10 years in advance. Therefore, if termination is available and S seeks the earliest possible date, S will have to move quickly to serve the notice. Because A is not alive, the termination rights vest under 203(a)(2) in S and C’s children (because C is not alive, either). S owns 50% of the termination interest, and C’s children E and F each own 25%. C’s interest, however, can only be exercised by a majority of those receiving C’s interest on a per stirpes basis – in other words, a majority of E and F, which in this case means both E and F. Termination may only be effected by persons holding more than half of the author’s original termination interest. Therefore, S cannot act alone, and E and F must act together, meaning in this case that unanimity among S, E, and F is required for termination to be effected. I proceed on the assumption that S will be able to enlist the participation of S’s grandchildren E and F in the process.

We further assume that S, E, and F comply with the notice requirements of the statute. The question then is whether the right to terminate has been lost as a result of the 1985 modified agreement between S and M. The modified agreement was a substantial enlargement of the original grant, and provided for a royalty revenue to S (who was receiving nothing under the original grant because A granted movie rights for a one-time royalty payment). If the modified agreement were viewed as a new agreement between S and M, no termination rights would be available at all, because the rights transferred under that agreement were post-1977 and not granted by an author.

Here, however, for whatever reason (and we do not have the full agreement before us), S and M said they were only “modifying” the original grant from A to M. That original grant is subject to termination, unless the modified agreement somehow supersedes it. While the modified agreement does expressly refer to termination rights and purports to abrogate them, the statute itself says that termination may be effected notwithstanding any agreement to the contrary. It is therefore clear that the purported abrogation language in the modified agreement
cannot, in itself, result in loss of any termination rights. However, some courts have held that when a copyright transfer is renegotiated, especially in the light of an imminent possibility of termination, the result can be a new agreement that follows the voluntary abrogation of the original copyright transfer. This was the situation in *Milne* (text pp. 223-25), which was decided under section 203’s companion for pre-1978 transfers, section 304(c), but which has nearly identical language concerning the right to terminate and agreements to the contrary. The new agreement in *Milne* expressly abrogated the original transfer and vested new rights in the transferee. Moreover, the new agreement was negotiated under the shadow of imminently exercisable termination rights, of which both parties were conscious. The Ninth Circuit in *Classic Media*, on the other hand, refused to treat a 1978 expansion of a 1976 transfer of rights as abrogating the original 1940 transfer or the 1976 expansion. The 1976 and 1978 agreements were entered into well before the 5-year termination window would open in 1994. The 1976 and 1978 agreements did not mention termination rights, so there was no evidence that the transferor intended to relinquish such rights. Even if it did, the court said, it would be an invalid “agreement to the contrary” under the statute.

The case at hand lies somewhere between *Milne* and *Classic Media*. Here, similar to *Milne*, it is clear that the parties did contemplate termination rights in the 1985 modified agreement, because they expressly stated that neither the original grant nor any new rights in the modified agreement were subject to termination. On the other hand, the 1985 modified agreement, as in *Classic Media*, was negotiated long before any termination rights would become exercisable. Moreover, the agreement itself does not purport to abrogate the original 1982 transfer in favor of an entirely new agreement, which also makes this case more similar to *Classic Media* than to *Milne*. Whereas the parties by their express words did intend that such termination rights would disappear, S has a strong argument that it cannot simply be a matter of the parties’ intent. The statute states that termination may be granted notwithstanding any agreement to the contrary and is obviously designed to prevent, at least to some extent, the making of intentional though bad deals by persons holding termination rights. While it is true that S has benefitted financially from the modified agreement, in that S is receiving substantial royalty income, it is difficult to see how that fact plays a role in determining whether the 1985 modified agreement is invalid as to termination rights as an “agreement to the contrary.” I would advise that S has a strong case for the proposition that the clause in the 1985 modified agreement purporting to deny termination rights is invalid under the express language of the statute.

I would also have to inform S of what might be a rather strong counterargument that M would make if termination issues get litigated. The 1982 transfer by A was quite limited. It gave M the right to make a single movie in exchange for a one-time royalty. The 1985 modified agreement was vastly larger. It not only incorporated a royalty payment for exploitation of Original Movie, made under the 1982 grant from A, but also for remakes, the making of sequels, merchandising, and more. M will argue that, even if the 1982 grant from A is subject to termination, the new rights granted by S in the 1985 modified agreement were so much larger that, to the extent of those new rights, S was making a new agreement. If the rights to sequels, etc., are deemed a new agreement, the transfer by S is not terminable, because S is not an author. S is simply the owner of the copyright in 1985 by reason of the author A’s death.

Another point is worth at least noting here. The 1985 modified agreement was executed by S, who owns only half of the interests necessary to terminate the 1980 grant. The other 50%
is owned by E and F, who were not parties to that agreement. If the modified agreement is deemed a new agreement that abrogates the 1982 grant by A or, in any event, has transferred nonterminable and vastly expanded rights to M, E and F essentially lose not only their termination rights but also any rights they would acquire through exercise of their termination rights to the fruits of the expanded deal covered by the 1985 modified agreement. The Steinbeck case (text p. 226) arguably allows this type of ex parte negotiations by the then-current copyright owner, but this seems to run contrary to the statutory goal of giving the surviving spouse and children of the author equal rights on termination. If the 1985 modified agreement is deemed a part of the 1982 transfer by A and subject to termination, E and F would be able to get a piece of the ongoing action, because under the statute the terminated rights vest in all of the statutory heirs, not just the heir to the author’s copyright interests.

Assuming that S, together with E and F, terminate A’s 1982 transfer of copyright, the question is, who ends up with the right to do what after termination? The 1982 grant covered only rights to make a single movie. If only the 1982 transfer is terminated, it is clear that M would lose the right to make new movies of Novel after termination, but it is also clear that M could continue to exercise its rights to Original Movie (a derivative work) as it did under the grant. Thus, M can show authorize public performances of Original Movie and, under the 1982 grant, would not have to pay S, E, and F (hereinafter just S) anything. M could continue making sequels, etc., however, because those are authorized by the 1985 modified agreement. It is vital to S that the expanded rights granted in the 1985 modified agreement be deemed a part of the terminated 1982 grant, because it is apparent that most of the current and future income from the “franchise” will come from sequels, prequels, and merchandising rather than exploitation of the Original Movie. Of course, M can continue to exploit derivative works already made but will at least have to pay the 1% royalty negotiated in 1985, and M would not be permitted to create any new derivative works such as sequels or new items of merchandise. Effectively this means that termination of the 1982 grant must include termination of the 1985 modified agreement for termination to do S any good. M’s argument above that the 1985 modified agreement was, in essence, a new and separate grant, is a strong one.

The case is therefore a close one. I would advise S that M is likely to resist termination and that litigating the complex issues involved will be costly. S’s best strategy, perhaps, is to begin making small noises about termination in the hope of opening new negotiations to enlarge S’s share of the royalties.