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**COMMERCIALITY AND FAIR USE**

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## I. INTRODUCTION

Under the Copyright Act of 1976 (hereinafter, the “1976 Copyright Act”),<sup>1</sup> copyright holders have extensive rights over copyrighted works.<sup>2</sup> These rights are subject to exceptions set forth in the Act.<sup>3</sup> One powerful exception to the rights of copyright holders is the doctrine of fair use. Under this exception, it is possible to use a copyrighted work without the copyright holder’s permission.<sup>4</sup> Fair use is a long-standing judicial doctrine.<sup>5</sup> In the United States, the doctrine of fair use originated in *Folsom v. Marsh*.<sup>6</sup> In that case, Justice Story outlined the factors that would become the basis of the fair use doctrine. The factors to determine if a party had engaged in fair use of a work were “the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.”<sup>7</sup>

Congress adopted the common law doctrine of fair use as Section 107 of the 1976 Copyright Act.<sup>8</sup> A court’s determination of fair use under Section 107 “calls for a case-by-case analysis.”<sup>9</sup> In its analysis, the court considers and “weighs together”<sup>10</sup> the nonexclusive four factors listed in Section 107.<sup>11</sup> The first factor is a critical part of overall

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<sup>1</sup> See Copyright Act of 1976, 17 U.S.C. §§ 101-1332 (2012).

<sup>2</sup> 17 U.S.C. § 106.

<sup>3</sup> 17 U.S.C. §§ 107-122.

<sup>4</sup> 17 U.S.C. § 107.

<sup>5</sup> See H.R. REP. NO. 94-1476, at 65 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5678 (noting that “the judicial doctrine of fair use [is] one of the most important and well established limitations on the exclusive right of copyright owners”).

<sup>6</sup> *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841). The term “fair use” first appeared in *Lawrence v. Dana*, 15 F. Cas. 26, 44 (C.C.D. Mass. 1869).

<sup>7</sup> *Folsom*, 9 F. Cas. at 348.

<sup>8</sup> 17 U.S.C. § 107. Section 107 provides that “the fair use of a copyrighted work . . . is not an infringement of copyright.” There was no provision for fair use in the previous Federal law, which was the 1909 Copyright Act (Copyright Act of 1909, 35 Stat. 1075, repealed by 1976 General Revision of Copyright Law, Pub. L. No. 94-553, 90 Stat. 2541 (1976)).

<sup>9</sup> *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569, 577 (1994); see also H.R. REP. NO. 94-1476, at 66 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5680 (“Beyond a very broad statutory explanation of what fair use is and some of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.”).

<sup>10</sup> *Campbell*, 510 U.S. at 578.

<sup>11</sup> The four factors listed in § 107 are “(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.” 17 U.S.C.

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fair use analysis. This factor addresses “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.”<sup>12</sup>

The purpose of this essay is to review and reflect on the reference to “a commercial nature” in the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes.” The essay traces how courts have considered commerciality of a use in fair use analysis from the initial inclusion of the wording in the statute through recent cases applying “transformative” use analysis.

Part II reviews the legislative history of Section 107 to reveal how the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes” appeared in Section 107 at the very end of the lengthy process that led to the enactment of the 1976 Copyright Act. Its appearance did not indicate that commercial uses were favored or disfavored. Part III discusses how courts during the period immediately following the enactment of the 1976 Copyright Act interpreted the phrase and dealt with uses of a commercial nature. Part IV discusses the impact of two United States Supreme Court cases in the mid-1980s that elevated consideration of the “commercial nature” of a use to a potentially determinative factor in fair use analysis. Part V discusses the confusion following these cases as reflected in judicial opinions. Part VI discusses how another Supreme Court case, *Campbell v. Acuff-Rose Music, Inc.*,<sup>13</sup> clarified the role of commerciality in fair use analysis and established “transformative” use analysis as an integral part of fair use determinations. Part VII reviews judicial treatment of fair use following the *Campbell* decision, including persistence in following rejected presumptions and confusion regarding the meaning of “transformative.” Part VIII discusses how acceptance of a different purpose as transformative use benefited users of copyright works for commercial purposes. It also discusses how a determination of transformative use can change the weight given commerciality and how it affects the fourth factor analysis. Part IX notes how in some commercial use cases courts consider the public benefit of the defendant’s use. The essay concludes in Part X by summarizing the treatment of commerciality in fair use analysis including the current status.

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§ 107(1)-(4) (2012).

<sup>12</sup> 17 U.S.C. § 107(1) (2012).

<sup>13</sup> *Campbell*, 510 U.S. at 569.

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## II. LEGISLATIVE HISTORY – ADDING A PHRASE TO THE FIRST FACTOR

The legislative history of the 1976 Copyright Act stretches over twenty years through reports, hearings, bills, committee reports and Congressional debate.<sup>14</sup> In the vast expanse of the legislative history of the 1976 Copyright Act, the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes” appeared as part of Section 107(1) only in the last months leading up to the passage of the 1976 Copyright Act.<sup>15</sup> All versions of bills prior to the final bill either included limited language in the fair use section<sup>16</sup> or referred only to the “purpose and character of the use” for the first

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<sup>14</sup> The work that led to the passage of the 1976 Copyright Act started in 1955 when the Copyright Office used Congressionally appropriated funds to authorize a series of studies on copyright law issues. *See* Legislative Appropriations Act of 1955, ch. 568, 69 Stat. 499 (1955); H.R. REP. NO. 94-1476, at 46 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5660. There were other attempts to revise copyright law after the enactment of the Copyright Act of 1909 (Pub. L. No. 60-349, 35 Stat. 1075), which are documented in SUB. COMM. ON PATENTS, TRADEMARKS, AND COPYRIGHTS, 86TH CONG., COPYRIGHT REVISION 13 (Comm. Print 1960). For researching the legislative history of the 1976 Copyright Act, there are two helpful sets, both of which are available through HeinOnline. They are: ALAN LATMAN & JAMES F. LIGHTSTONE, THE KAMINSTEIN LEGISLATIVE HISTORY PROJECT: A COMPENDIUM AND ANALYTICAL INDEX OF MATERIALS LEADING TO THE COPYRIGHT ACT OF 1976 (1981) (containing over 160 legislative history materials) and GEORGE S. GROSSMAN, OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (2001) (containing full text of legislative history materials). *See* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857 (1987) (discussing the development of the 1976 Copyright Act); WILLIAM F. PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW 261-365 (2nd ed. 1995) (discussing the development of the 1976 Copyright Act); *see also* BARBARA RINGER, SECOND SUPPLEMENTARY REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW: 1975 REVISION BILL OCTOBER - DECEMBER 1975 31-49 (1975) (hereinafter “Second Supplementary Report”).

<sup>15</sup> On February 19, 1976, the Senate passed S. 22, which was an act for the general revision of copyright law. 122 Cong. Rec. 3841-59 (1976). Section 107(1) in S. 22 referred only to “the purpose and character of the use.” 122 Cong. Rec. 3843. On September 3, 1976, the House of Representatives offered an amendment to S. 22 in the nature of a substitute. H.R. Rep. No. 94-1476, at 1 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659. It is in this amended version of S. 22 that the new phrase appears. The House Report contains a chart which compares the language of each section of S. 22 and the House version. H.R. Rep. No. 94-1476, at 186-358 (1976), *reprinted in* GEORGE S. GROSSMAN, 17 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 186-358 (2001). The comparison of language in § 107 appears on page 202. This chart is not in U.S.C.C.A.N.

<sup>16</sup> *See, e.g.*, H.R. 4347, 89th Cong. (1st Sess. 1965); S. 1006, 89th Cong. § 107 (1965).

factor.<sup>17</sup> The history shows that there was no intent to highlight or single out commercial uses for different treatment under fair use analysis. As discussed below, the legislative history does not support later negative treatment of commercial uses in courts' fair use analysis.

The addition of this phrase was a product of the extensive compromise and bargaining that occurred in the drafting of the 1976 Copyright Act. The language of the Copyright Act did not originate through Congressional action.<sup>18</sup> Instead, it derived from "compromises negotiated among those with economic interests in copyright."<sup>19</sup> The primary parties involved in the negotiation were publishers, authors and representatives of educational institutions.<sup>20</sup> As Barbara Ringer, the Register of Copyrights, noted:

Except for the most prescriptive and technical of its provisions, practically everything in the law is the product of at least one compromise, and many provisions have evolved from a long series of compromises reflecting constantly changing technology, competing commercial and financial interests, political and social conditions, judicial and administrative developments and—not least by any means—individual personalities.<sup>21</sup>

The drafting of the provision on fair use occurred through this process of negotiation and compromise. The addition of the phrase "including whether such use is of a commercial nature or is for nonprofit

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<sup>17</sup> See, e.g., HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 1ST SESS., COPYRIGHT LAW REVISION PART 3: PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW § 6 (Comm. Print 1963) (offering a preliminary draft of a bill that listed the "purpose and character of the use" as a factor for consideration); H.R. 11947, 88th Cong. § 6 (1964) (containing just the language "purpose and character of the use").

<sup>18</sup> Litman, *supra* note 14, at 860-61 ("[M]ost of the statutory language was not drafted by members of Congress or their staffs at all.").

<sup>19</sup> *Id.* at 869. Congress acted by appointing committees and groups to negotiate the terms of the new law.

<sup>20</sup> COPYRIGHT LAW REVISION: HEARINGS ON H.R. 2223 BEFORE THE SUBCOMM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE JUDICIARY COMM., 94th Cong. 1790 (1975), reprinted in GEORGE S. GROSSMAN, 16 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 1790 (2001) (testimony of Barbara Ringer, Register of Copyrights, on negotiations among authors, publishers and educators leading to the language of section 107 and its accompanying legislative history).

<sup>21</sup> Barbara Ringer, *First Thoughts on the Copyright Act of 1976*, 22 N.Y.L. SCH. L. REV. 477, 482 (1977), available at [http://heinonline.org/HOL/Page?handle=hein.journals/nyls22&div=28&g\\_sent=1&collection=journals](http://heinonline.org/HOL/Page?handle=hein.journals/nyls22&div=28&g_sent=1&collection=journals).

educational purposes” did not arise out of any concern for the application of fair use to commercial versus noncommercial use. Instead, it arose from the protracted debate over whether to address educational use with specific exceptions in the new copyright act. Concerns about educational use of copyrighted works dominated the negotiations regarding the fair use provision.<sup>22</sup> Photocopying for educational purposes was an especially contentious issue.<sup>23</sup> Educational organizations wanted more certainty in the fair use provision that nonprofit educational uses would receive fair use treatment.<sup>24</sup> In 1964, the Ad Hoc Committee on Copyright Law Revision, representing numerous educational organizations,<sup>25</sup> recommended an addition to the proposed fair use provision that would provide a presumption of fair use for “non-commercial use by a nonprofit educational institution or organization for nonprofit educational purposes.”<sup>26</sup> There was no agreement on adding any broad exception or presumption, such as the 1964 recommendation.<sup>27</sup> There were, however, additions to the proposed statute to address some concerns of educators. In 1966, the House Committee on the Judiciary added new proposed language in the fair use provision.<sup>28</sup> This language provided that “use by reproduction in copies or phonorecords” could be

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<sup>22</sup> H.R. REP. NO. 94-1476, at 65-74 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5679. The House Report that accompanied the House substitute bill in September 1976 noted that the “specific wording of Section 107” was “the result of a process of accretion, resulting from the long controversy over the related problems of fair use and the reproduction (mostly by photocopying) of copyrighted material for educational and scholarly purposes.” *Id.* at 66. Professor Litman described these negotiations as “tortuous.” Litman, *supra* note 14, at 875.

<sup>23</sup> H.R. REP. NO. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5679.

<sup>24</sup> See COPYRIGHT LAW REVISION: HEARINGS ON H.R. 2223 BEFORE THE SUBCOMM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE JUDICIARY COMM., 94th Cong. 1790 (1975), *reprinted in* GEORGE S. GROSSMAN, 16 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 1790 (2001) (Testimony of Barbara Ringer regarding the concerns of educators about the application of fair use).

<sup>25</sup> A list of the organizations is in U.S. COPYRIGHT OFFICE REPORT, DISCUSSION DRAFT 1961-1964, PART 4: TRANSCRIPT OF MEETING ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW, JANUARY 15, 1964, at 217, *reprinted in* GEORGE S. GROSSMAN, 3 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY AT 217 (2001).

<sup>26</sup> COPYRIGHT LAW REVISION, PART 5: STATEMENT BY AD HOC COMMITTEE ON COPYRIGHT LAW REVISION, TRANSCRIPT OF MEETING ON 1964 REVISION BILL, AUGUST 6, 1964, at 100. See discussion of this statement in WILLIAM F. PATRY, PATRY ON FAIR USE § 9.7 (2014).

<sup>27</sup> H.R. REP. NO. 89-2237, at 60 (1966) (The House Committee on the Judiciary stated that: “a specific exemption freeing certain reproductions of copyrighted works for educational and scholarly purposes from copyright control is not justified.”).

<sup>28</sup> *Id.* at 60-61.

a fair use.<sup>29</sup> This addition was to address the uncertainty as to whether photocopying could be a fair use.<sup>30</sup> The Committee in its report discussed the four factors in the proposed fair use section through the lens of “typical classroom situations,” thus demonstrating how strongly issues of educational use dominated the drafting of the fair use provision.<sup>31</sup> Of note regarding the first factor was a discussion of the “nonprofit element.”<sup>32</sup> The Committee first noted that “it is possible to imagine situations in which *use by a teacher* in an educational organization operated for profit . . . would constitute fair use.”<sup>33</sup> The Committee then stated that “the *nonprofit character of the school* in which the teacher works should be one factor to consider in determining fair use.”<sup>34</sup> These statements suggested the possibility that the nature of the institution, not the use, could affect the fair use determination.

In October 1975, the Register of Copyrights issued a Second Supplementary Report, which contained a discussion of the proposed act and a summary of the efforts to enact legislation.<sup>35</sup> In discussing the fair use proposals, the Register noted that educators had argued that there was a “not-for-profit” limitation on copyright holders’ rights that would encompass copying.<sup>36</sup> The Register dismissed this argument, observing that under the 1909 Act, there was such a limitation, but it only applied to certain public performances.<sup>37</sup> The Register then stated:

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<sup>29</sup> *Id.* (discussing the added language to H.R. 4347). This same language appears in H.R. REP. NO. 90-83, at 31-32 (1967). This report accompanied H.R. 2512, which was identical to H.R. 4347 as reported out of the Committee on the Judiciary. H.R. REP. NO. 90-83, at 1 (1967). Another addition to the proposed statute was language added to protect a teacher from excessive liability if he or she “honestly believed” that the use of a work was fair use. H.R. REP. NO. 89-2237, *supra* note 27, at 60.

<sup>30</sup> H.R. REP. NO. 89-2237, *supra* note 27, at 61.

<sup>31</sup> *Id.* at 62. The same language appears in H.R. Rep. No. 83, at 33.

<sup>32</sup> H.R. REP. NO. 89-2237, at 62.

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> Second Supplementary Report, *supra* note 14.

<sup>36</sup> *Id.* at 27-29, 52.

<sup>37</sup> *Id.* at 52-53; see Sections 1(c) and 1(e) of the 1909 Copyright Act (Copyright Act of 1909, 35 Stat. 1075, §§ 1(c) and (e), *repealed by* 1976 General Revision of Copyright Law, Pub. L. No. 94-553, 90 Stat. 2541 (1976); see also COPYRIGHT LAW REVISION: HEARINGS ON H.R. 2223 BEFORE THE SUBCOMM. ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE OF THE HOUSE JUDICIARY COMM., 94TH CONG. 1793 (1975), *reprinted in* GEORGE S. GROSSMAN, 17 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY 1793 (2001) (Testimony of Barbara Ringer); PATRY, *supra* note 26, at § 9:7. The House Committee on the Judiciary discussed that the proposed new copyright act did not provide any requirements that certain copyright holder rights applied only to “for-profit” uses. The Committee noted that “[t]he line between commercial and ‘nonprofit’ organizations is increasingly difficult to draw” and therefore there could not be any requirement that a right applied only to “for-profit” uses. H.R. REP. NO. 94-1476, at 62-63 (1976),

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[A]lthough *the commercial or nonprofit character of a use* is not necessarily conclusive with respect to fair use, in combination with other factors, it can and should weigh heavily in fair use decisions. It would certainly be appropriate to emphasize this point in the legislative commentary dealing with fair use and educational photocopying.<sup>38</sup>

This language foreshadows the discussion of fair use in the House Report on the final legislation that became the 1976 Copyright Act.<sup>39</sup>

In the Second Supplementary Report, the Register commented that the “tortuous history” of the fair use provision had resulted in a text that expressed legislative intent and was acceptable to the various parties that had been involved in the process.<sup>40</sup> Despite the Register’s advice that it would “be unwise and unnecessary to tinker with the language of section 107 as it stands,”<sup>41</sup> there was one more set of changes that added the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes.”<sup>42</sup>

This additional phrase appeared in a House amendment in the nature of a substitute to S. 22, which the Senate had passed on February 19, 1976.<sup>43</sup> In discussing the additional language, House Report 1476 noted that the Committee on the Judiciary still did not support any exemption for educational and scholarly uses.<sup>44</sup> The additions to Section 107 were to meet the need of teachers for “greater certainty.”<sup>45</sup> The Committee adopted the language in an earlier report concerning fair use in “classroom situations,” which included the discussion of the “nonprofit element” in determining if classroom use was fair use.<sup>46</sup> Most interestingly, the Committee echoed the Register of Copyrights in the Second Supplementary Report by maintaining that this additional phrase was not “to be interpreted as any sort of not-for-profit limitation [on the rights of copyright holders] on educational uses of copyrighted

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*reprinted in* 1976 U.S.C.C.A.N. 5659, 5679.

<sup>38</sup> Second Supplementary Report, *supra* note 14, at 53 (emphasis added).

<sup>39</sup> H.R. REP. NO. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5680.

<sup>40</sup> Second Supplementary Report, *supra* note 14, at 50.

<sup>41</sup> *Id.*

<sup>42</sup> For a discussion of the inclusion of this language *see supra* note 15.

<sup>43</sup> This amendment struck all of the language of S. 22 and substituted the House’s wording for the entire act. *See supra* note 15 for discussion of this action.

<sup>44</sup> *See* H.R. REP. NO. 94-1476, at 66–67, *reprinted in* 1976 U.S.C.C.A.N. at 5680 (quoting H.R. REP. NO. 90-83, at 31 (1967)).

<sup>45</sup> *See* H.R. REP. NO. 94-1476, at 67 (quoting H.R. REP. NO. 90-83, at 31 (1967)).

<sup>46</sup> *See* H.R. REP. NO. 94-1476, at 66–67.

works.”<sup>47</sup> The Committee’s statement of the purpose for the addition also echoes the Second Supplementary Report: “[The additional phrase] is an express recognition that, as under the present law, *the commercial or non-commercial character* of an activity, while not conclusive with respect to fair use, can and should be weighed along with other factors in fair use decisions.”<sup>48</sup> There are some differences from the Register’s language, e.g. the Committee states that the character of the activity should be “weighed along with other factors” while the Register states that the character should “weigh heavily” along with other factors.<sup>49</sup> While there are differences in language, the Committee’s discussion still focused on educational uses.<sup>50</sup>

The fair use provision of the 1976 Copyright Act “resulted from elaborate, protracted, down-to-the-wire negotiations.”<sup>51</sup> The inclusion of the phrase “including whether such use is of a commercial nature or is for nonprofit educational purposes” arose out of those negotiations to acknowledge that educational uses could be fair use.<sup>52</sup> The additional language was to appease educational interests since there was no adoption of an express exception for educational use.<sup>53</sup> The reference is not to “noncommercial” or “nonprofit uses” but specifically to “*nonprofit educational purposes.*” The House Judiciary Committee’s comments in House Report 1476 recognize that non-profit educational use fits into a broader examination of factors in fair use analysis, including the “commercial or non-profit character of an activity.”<sup>54</sup> Commercial use would also be a part of this overall examination of factors. There is no suggestion in the House Report that courts should disfavor commercial uses or favor nonprofit educational uses in fair use analysis.<sup>55</sup>

### III. EARLY POST-ENACTMENT CASES

Cases interpreting Section 107 immediately after the enactment of the 1976 Copyright Act considered whether a defendant’s use was

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<sup>47</sup> *Id.* at 66, reprinted in 1976 U.S.C.C.A.N. at 5679.

<sup>48</sup> H.R. REP. NO. 94-1476, at 66. The reference to the “present law” was to the common law application of the fair use doctrine.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.*

<sup>51</sup> Litman, *supra* note 14, at 883.

<sup>52</sup> PATRY, *supra* note 26, at § 3.3.

<sup>53</sup> Professor Patry describes this addition as a “sop to an unhappy interest group by recognizing in the statute itself that their type of use was one that might be fair in appropriate circumstances.” *Id.*

<sup>54</sup> H.R. REP. NO. 94-1476, at 66, reprinted in 1976 U.S.C.C.A.N. at 5679.

<sup>55</sup> *See id.*

commercial, but did not apply any special weight to this determination. For example, in *Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, the Fifth Circuit Court of Appeals criticized the district court for adopting a “per se rule that commercial motive destroys the defense of fair use.”<sup>56</sup> In *Triangle Publications*, the defendant had used the plaintiff’s copyrighted work in an advertisement.<sup>57</sup> The district court focused solely on the defendant’s commercial purpose in rejecting the defendant’s fair use argument and did not consider any other factors under Section 107.<sup>58</sup> In interpreting the recently enacted Section 107, the district viewed the term “commercial” as contrasting negatively with favored non-profit educational uses.<sup>59</sup> The Fifth Circuit corrected this analysis, quoting House Report 1476.<sup>60</sup> The court clarified that while the commercial nature of the use was relevant, it was not decisive.<sup>61</sup> While the court noted that “any commercial use tends to cut against a fair use defense,” it gave less weight to this fact after examining closely the characteristics of the use.<sup>62</sup> After analyzing all four factors, the Fifth Circuit determined that the defendant was entitled to the fair use defense.<sup>63</sup>

In another case, *Consumers Union of United States, Inc. v. General Signal Corp.*, the Second Circuit interpreted the references in Section 107 to “commercial nature” and “nonprofit educational purposes” as simply providing illustrations of types of uses to consider in analyzing the first factor.<sup>64</sup> While the court acknowledged that the defendant’s purpose was commercial, it examined other factors regarding the character of the use.<sup>65</sup> The court determined that the first factor favored the defendants since the use was to present factual information of value to the public.<sup>66</sup> The court ultimately determined that all four factors favored the defendant.<sup>67</sup>

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<sup>56</sup> *Triangle Publ’ns, Inc. v. Knight-Ridder Newspapers, Inc.* 446 F. Supp. 875, 1175 (S.D. Fla. 1978), *aff’d on other grounds*, 626 F.2d 1171 (5th Cir. 1980).

<sup>57</sup> *Id.* at 1172.

<sup>58</sup> *Id.* at 1175.

<sup>59</sup> *Knight-Ridder*, 445 F. Supp. at 880.

<sup>60</sup> *Triangle*, 626 F.2d at 1175.

<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 1178.

<sup>64</sup> *Consumers Union of United States, Inc. v. Gen. Signal Corp.*, 724 F.2d 1044, 1049 (2d Cir. 1983).

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> *See id.* at 1051.

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#### IV. *SONY* AND *HARPER & ROW* – CREATING PRESUMPTIONS

The first case in which the United States Supreme Court considered the fair use provision of the 1976 Act was *Sony Corp. of America v. Universal City Studios*.<sup>68</sup> In *Sony*, Justice Stevens posited that “a commercial or profit-making purpose” would be “presumptively” unfair.<sup>69</sup> Neither the statutory language nor the House Report support this statement. The *Sony* case arose in 1976 when the holders of copyrights for movies and programs sued companies that manufactured and distributed Betamax video tape recorder machines.<sup>70</sup> The plaintiffs had licensed some works for broadcast on television.<sup>71</sup> Purchasers of the machines could use the machines to record television programs, including the plaintiffs’, for viewing at a later time.<sup>72</sup> This recording involved making a copy of the program.<sup>73</sup> The Supreme Court examined whether the unauthorized copying of programs was not copyright infringement because it was fair use.<sup>74</sup>

Justice Stevens, discussing the first factor, noted that “[a]lthough not conclusive, the first factor requires that ‘the commercial or nonprofit character of an activity’ be weighed in any fair use decision.”<sup>75</sup> Justice Stevens quoted House Report 1476 instead of the statute, which placed the private home use in *Sony* within the broader context of considering the character of an activity.<sup>76</sup> At the same time, the language in the House Report suggests a dichotomy whereas the statutory language

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<sup>68</sup> *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984). The *Sony* case was also the first time the Supreme Court issued an opinion on fair use. In two other cases in which the Court considered fair use issues, there was a split decision and the Court issued no opinion. *See Benny v. Loew's, Inc.*, 239 F.2d 532 (9th Cir. 1956), *aff'd without opinion* sub nom.; *CBS, Inc. v. Loew's Inc.*, 356 U.S. 43 (1958); *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973), *aff'd without opinion*, 420 U.S. 376 (1975).

<sup>69</sup> *Sony*, 464 U.S. at 449 & n.32.

<sup>70</sup> *Id.* at 420.

<sup>71</sup> *Id.* at 421.

<sup>72</sup> *Id.* at 420-21.

<sup>73</sup> *Id.* at 422-23.

<sup>74</sup> *Id.* at 447. For a discussion of the *Sony* case, see Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917 (2005). The fair use analysis arose in an unusual set of circumstances in the *Sony* case. The plaintiffs sued the device manufacturers for contributory infringement. The fair use discussion was nested in a discussion of whether the machines had any non-infringing uses. Judge Leval referred to *Sony* as “a bizarre lawsuit.” Pierre N. Leval, *Nimmer Lecture: Fair Use Rescued*, 44 U.C.L.A. L. REV. 1449, 1455 (1997).

<sup>75</sup> *Sony*, 464 U.S. at 448-49 (quoting H.R. REP. NO. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. 5679).

<sup>76</sup> *Id.*

offers an example.<sup>77</sup> This quote from the House Report refers to “weighing” whether a use is commercial or “nonprofit” along with other factors.<sup>78</sup> Yet, Justice Steven then pronounced that the use of a Betamax “would presumptively be unfair” if it “were used to make copies for a commercial or profit-making purpose.”<sup>79</sup> This statement suggests that there is no “weighing” of this fact; it is a presumption. The District Court in *Sony* determined that the use of the Betamax machines for private home use was noncommercial.<sup>80</sup> Justice Stevens, noting the District Court’s determination, pronounced that if a use is noncommercial, there is a presumption that it is fair.<sup>81</sup> In discussing the fourth factor, Justice Stevens restated the presumptions regarding commercial and noncommercial use: “Thus, although every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright, noncommercial uses are a different matter.”<sup>82</sup> There is no support in House Report 1476 or the statute for these statements concerning commercial and noncommercial use.<sup>83</sup> The drafting history of Section 107 also does not support these statements.<sup>84</sup> The Supreme Court ultimately determined that the unauthorized, private noncommercial use of the Betamax for copying was a non-infringing use.<sup>85</sup> The statements in the opinion concerning commercial use seem superfluous given that the use was noncommercial. The Court also discussed the commercial nature of the use under both the first and fourth factors,<sup>86</sup> leading to “double counting.”<sup>87</sup> Double counting occurs when the commercial

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<sup>77</sup> Lloyd L. Weinreb, *Fair's Fair: A Comment on the Fair Use Doctrine*, 103 HARV. L. REV. 1137, 1154 & n.60 (1990) (discussing the use of the House Report language instead of the statutory language).

<sup>78</sup> H.R. REP. NO. 94-1476, at 66.

<sup>79</sup> *Sony*, 464 U.S. at 449. Jay Dratler, Jr., *Distilling the Witches' Brew of Fair Use in Copyright Law*, 43 U. MIAMI L. REV. 233, 263 (1988). Professor Dratler refers to this juxtaposition of sentences as “one of the most remarkable non-sequiturs in Supreme Court jurisprudence.”

<sup>80</sup> *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 454 (C.D. Cal. 1979) *aff'd in part, rev'd in part*, 659 F.2d 963 (9th Cir. 1981) *rev'd*, 464 U.S. 417 (1984).

<sup>81</sup> *Sony*, 464 U.S. at 449 (“The contrary presumption is appropriate . . . because the District Court’s findings plainly establish that time-shifting for private home use must be characterized as a noncommercial, nonprofit activity.”).

<sup>82</sup> *Id.* at 451. See Dratler, *supra* note 79, at 263-66 (discussing this portion of the *Sony* opinion).

<sup>83</sup> See H.R. REP. NO. 94-1476, at 66; 17 U.S.C. §107(1) (2012).

<sup>84</sup> See discussion *supra* Part II.

<sup>85</sup> *Sony*, 464 U.S. at 456.

<sup>86</sup> See *id.* at 449-51.

<sup>87</sup> See William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1661, 1672-73 (1988).

nature of the use raises a presumption under the first factor that the use is unfair, and then under the fourth factor the commercial nature of the use raises a presumption of market harm.

Just a year after the *Sony* opinion, the Supreme Court heard another case involving fair use, *Harper & Row v. Nation Enterprises*.<sup>88</sup> The Court, quoting *Sony*, reiterated the presumption that “every commercial use of copyrighted material is . . . an unfair exploitation.”<sup>89</sup> In *Harper & Row*, a magazine, *The Nation*, had obtained through an unauthorized source a copy of Gerald Ford’s unpublished memoir.<sup>90</sup> Excerpts from the memoir were published in an article in *The Nation*.<sup>91</sup> Harper & Row had an agreement with Ford to publish the memoir and also had entered into an agreement with *Time* magazine to publish excerpts.<sup>92</sup> The publication of the article in *The Nation* resulted in *Time*’s cancellation of its agreement with Harper & Row.<sup>93</sup> The Court determined that *The Nation*’s use of the excerpted material was not fair use.<sup>94</sup> Justice O’Connor, in discussing the purpose of the use, first stated that: “The fact that a publication was commercial as opposed to nonprofit is a separate factor that *tends to weigh against* a finding of fair use.”<sup>95</sup> This statement suggests that a commercial use carries some negative weight. She then, however, quotes the statement from *Sony* that commercial uses are presumptively unfair.<sup>96</sup> These statements in *Harper & Row* simply continued the confusion and reinforced the commercial/nonprofit (noncommercial) dichotomy. The Court also declared that “[t]he crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.”<sup>97</sup> This statement is circular in that if a use is a fair use, there would be no “customary price” to pay.<sup>98</sup>

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<sup>88</sup> *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985).

<sup>89</sup> *Id.* at 562.

<sup>90</sup> *Id.* at 542.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 543.

<sup>94</sup> *Id.* at 569.

<sup>95</sup> *Id.* at 562.

<sup>96</sup> *Id.* In a dissent, Justice Brennan challenged the Court’s negative consideration of commercial use because the defendant’s use was news reporting, a type of use listed in the preamble of Section 107. *Id.* at 592 (Brennan, J., dissenting) (“To negate any argument favoring fair use based on news reporting or criticism because that reporting or criticism was published for profit is to render meaningless the congressional imprimatur placed on such uses.”).

<sup>97</sup> *Id.* at 562.

<sup>98</sup> For a discussion of the circularity of this statement, see Leval, *supra* note 74, at 1460; see also Dratler, *supra* note 79, at 281; Fisher, *supra* note 87, at 1674 n.66;

There was no discussion of commercial use in the Court's analysis of market harm. The Court, however, declared that the effect on the market is "the single most important element of fair use."<sup>99</sup> If a commercial use raises a presumption of market harm and the fourth factor is the most important, then a commercial use will likely fail to meet fair use analysis.<sup>100</sup>

During the ten years following *Sony*, a third Supreme Court case offered no additional insight in applying fair use analysis. *Stewart v. Abend* concerned the distribution of a film based on a short story.<sup>101</sup> The film's producers distributed the film without the permission of the holders of the renewal term of the copyright in the short story.<sup>102</sup> The focus of the Court's discussion was on the making of derivative works and the renewal of copyrights,<sup>103</sup> but the Court also briefly considered the defendants' fair use argument.<sup>104</sup> In discussing the first factor, the Court merely noted that the defendants' use was not educational and it yielded twelve million dollars.<sup>105</sup> The Court, quoting *Sony*, stated that unauthorized commercial use of copyrighted works was unfair.<sup>106</sup> After reviewing the four factors, the Court agreed with the appellate court that the case was "a classic example of an unfair use."<sup>107</sup>

The Court's statements in *Sony* and *Harper & Row* elevated the commercial/non-profit determination from a simple consideration to a potentially determinative factor in fair use analysis. For the next ten years, courts struggled to apply these pronouncements concerning commercial and noncommercial use.

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William F. Patry & Shira Perlmutter, *Fair Use Misconstrued: Profit Presumptions, and Parody*, 11 CARDOZO ARTS & ENT. L.J. 667, 684 (1993).

<sup>99</sup> *Harper & Row*, 471 U.S. at 566.

<sup>100</sup> Scholars noted that this powerful combination of the presumption of market harm from *Sony* and the elevation of the fourth factor from *Harper & Row* results in making commerciality a determinative factor. Patry & Perlmutter, *supra* note 98, at 703 ("the commercial nature of the use [becomes] so powerful as to be nearly conclusive").

<sup>101</sup> *Stewart v. Abend*, 495 U.S. 207 (1990).

<sup>102</sup> *See id.* at 211-14.

<sup>103</sup> *Id.* at 217-36.

<sup>104</sup> *Id.* at 236-38.

<sup>105</sup> *Id.* at 237.

<sup>106</sup> *Id.* *See also* *Abend v. MCA, Inc.*, 863 F.2d 1465, 1482 (9th Cir. 1988) (quoting *Sony* in a brief discussion of fair use).

<sup>107</sup> *Stewart*, 495 U.S. at 238 (quoting *MCA*, 863 F.2d at 1482).

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## V. POST-SONY TREATMENT

Fair use decisions after *Sony* and *Harper & Row* ranged widely in application.<sup>108</sup> In *Financial Information, Inc. v. Moody's Investors Service, Inc.*,<sup>109</sup> a case decided soon after *Sony*, the Second Circuit declared that *Sony* required it to “recognize a presumption of unfair use” because the defendant’s use of the copyrighted material was commercial.<sup>110</sup> In its first factor analysis the court claimed that “*Sony* repeatedly stresse[d] that the ‘first factor’—whether the use is commercial or nonprofit—not only must necessarily be a part of a court’s analysis, but must also, *if the use proves commercial, give rise to a presumption of unfair use.*”<sup>111</sup> This statement reduced the first factor analysis to a determination of the commerciality of the defendant’s use. Given this analysis, it was easy for the court to conclude that since the defendant’s use was commercial, it was therefore “presumptively unfair.”<sup>112</sup> The court then repeated the *Sony* presumption in its analysis of the fourth factor, maintaining that harm to the copyright owner “may be presumed” if the use is commercial.<sup>113</sup> The defendant was unable to rebut the presumption and therefore, its fair use defense failed.<sup>114</sup>

At the other end of the spectrum, in *Maxtone-Graham v. Burtchaell*,<sup>115</sup> the Second Circuit thoughtfully discussed the contradictory statements in *Sony* regarding commercial use as well as the later treatment of commercial use in *Harper & Row*. The plaintiff, following the language in *Sony*, argued that a commercial use is presumptively unfair.<sup>116</sup> The Second Circuit rejected this interpretation, refusing to rely solely on the Court’s statement in *Sony* that every commercial use is unfair.<sup>117</sup> The court noted the Supreme Court’s reliance on House Report 1476, which refers to weighing the commercial nature of a use along with other factors.<sup>118</sup> Viewing the

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<sup>108</sup> See Dratler, *supra* note 79, at 282-83 (discussing the confusion after the *Sony* and *Harper & Row* decisions and the differing ways courts treated commercial use in fair use analysis); see also Patry & Perlmutter, *supra* note 98, at 706-07; Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549, 600-03 (2008) (discussing the results of a study of fair use cases).

<sup>109</sup> *Fin. Info., Inc. v. Moody's Investors Serv., Inc.*, 751 F.2d 501 (2d Cir. 1984).

<sup>110</sup> *Id.* at 509.

<sup>111</sup> *Id.* at 508 (emphasis added).

<sup>112</sup> *Id.*

<sup>113</sup> *Id.* at 510.

<sup>114</sup> *Id.* at 509.

<sup>115</sup> See *Maxtone-Graham v. Burtchaell*, 803 F.2d 1253 (2d Cir. 1986).

<sup>116</sup> *Id.* at 1262.

<sup>117</sup> *Id.*

<sup>118</sup> *Id.*

Court's discussion of commercial use in the context of the House Report language, the Second Circuit stated that the Court's statements did not alter "the traditional multi-factor fair use inquiry."<sup>119</sup> The Second Circuit also noted the statement in *Harper & Row* that a commercial use "tends to weigh against a finding of fair use."<sup>120</sup> In summarizing this discussion, the Second Circuit rejected the argument that the Court "intended to attach heightened significance to the element of commerciality."<sup>121</sup> In analyzing the defendant's use, the Second Circuit refused to choose between "two polar characterizations, 'commercial' and 'non-profit.'"<sup>122</sup> The court determined that the defendant's work contained educational elements that outweighed "the commercial aspects of the book."<sup>123</sup>

## VI. CLARIFICATION ARRIVES – *CAMPBELL V. ACUFF-ROSE*

In 1994, the Supreme Court heard another fair use case, *Campbell v. Acuff-Rose Music, Inc.*<sup>124</sup> The Court firmly rejected the presumption that commercial uses are unfair and declared that the commercial nature of a use is not determinative.<sup>125</sup> The Court also rejected the presumption that all commercial uses cause market harm.<sup>126</sup> In *Campbell*, a copyright holder of the song "Oh, Pretty Woman" sued the creators of a parody of the song.<sup>127</sup> The district court determined that the defendants' parody constituted a fair use of the original song.<sup>128</sup> The Sixth Circuit Court of Appeals reversed this decision, declaring that the defendants' "blatantly commercial purpose" prevented the use of the original song from being a fair use.<sup>129</sup> The fair use analysis of the district court and the court of appeals in *Campbell* demonstrate the different interpretations of the *Harper & Row* discussion of commercial use. The district court focused on the language in *Harper & Row* that a

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<sup>119</sup> *Id.*

<sup>120</sup> *Id.* (quoting *Harper & Row*, 471 U.S. at 562).

<sup>121</sup> *Maxtone-Graham*, 803 F.2d at 1262.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.*

<sup>124</sup> *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

<sup>125</sup> *Id.* at 583-85, 594.

<sup>126</sup> *Id.* at 591, 594.

<sup>127</sup> *Id.* at 573.

<sup>128</sup> *Acuff-Rose Music, Inc. v. Campbell*, 754 F. Supp. 1150, 1160 (M.D. Tenn. 1991), *rev'd*, 972 F.2d 1429 (6th Cir. 1992), *rev'd*, 510 U.S. 569 (1994).

<sup>129</sup> *Acuff-Rose Music, Inc. v. Campbell*, 972 F.2d 1429, 1439 (6th Cir. 1992), *rev'd*, 510 U.S. 569 (1994). Highlighting the court's focus on commercial use is the court's statement that "[i]t is likely, for example, that an identical use of the copyrighted work in this case at a private gathering on a not-for-profit basis would be a fair use."

commercial use “merely ‘tends to weigh against a finding of fair use.’”<sup>130</sup> The court of appeals, on the other hand, noted this language but then asserted that the Court in *Harper & Row* had “expressly affirmed” the presumption that every commercial use is presumptively unfair.<sup>131</sup>

The Supreme Court, in reversing the court of appeals’ decision, stated that the lower court erred “[i]n giving virtually dispositive weight to the commercial nature of the parody” including the court of appeals’ presumption of market harm.<sup>132</sup> The Court noted that “[i]f, indeed, commerciality carried presumptive force against a finding of fairness, the presumption would swallow nearly all of the illustrative uses listed in the preamble paragraph of § 107.”<sup>133</sup> The Court restored the consideration of commerciality to simply “one element of the first factor enquiry.”<sup>134</sup> In its discussion, the Court rejected the statement in *Sony* that all commercial uses are presumptively unfair.<sup>135</sup> By rejecting this presumption, the Court clarified that the commercial or non-profit nature of a use only “tends to weigh” against fair use, and that weight will vary.<sup>136</sup>

The Court rejected the presumption under the first factor that a commercial use is unfair, but it did not completely reject the presumption under the fourth factor that a commercial use causes market harm.<sup>137</sup> Instead, the Court refined this presumption regarding market harm by focusing on the transformative nature of the defendant’s use.<sup>138</sup> The Court focused the overall fair use inquiry on whether the new work merely “supersedes” the original or whether it is “transformative.”<sup>139</sup> A finding of transformative use alters the fair use inquiry: “[T]he more transformative the new work, the less will be the

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<sup>130</sup> *Acuff-Rose Music, Inc.*, 754 F. Supp. at 1154 (quoting *Harper & Row*, 471 U.S. at 562).

<sup>131</sup> *Acuff-Rose Music*, 972 F.2d at 1436-37. The court of appeals also adopted the presumption from *Sony* that there was a “likelihood of market harm” since the use was commercial. *Id.* at 1438.

<sup>132</sup> *Campbell*, 510 U.S. at 583-84, 590-91, 594.

<sup>133</sup> *Id.* at 584.

<sup>134</sup> *Id.*

<sup>135</sup> *Id.* at 584-85.

<sup>136</sup> *Id.* at 585 (quoting *Harper & Row*, 471 U.S. at 562). By rejecting the statement in *Sony* that commercial uses are unfair, the Court in *Campbell* was also negating the use of that statement in *Harper & Row*.

<sup>137</sup> *Id.* at 583-84, 591. The Court held that the court of appeals erred in the application of the presumption of market harm (emphasis added).

<sup>138</sup> Barton Beebe, *supra* note 108, at 618.

<sup>139</sup> *Campbell*, 510 U.S. at 579 (quoting *Folsom v. Marsh*, 9 F.Cas. 342, 348 (C.C.D. Mass. 1841); and Pierre N. Leval, *Commentary, Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990)).

significance of other factors, like commercialism, that may weigh against a finding of fair use.”<sup>140</sup> In discussing the fourth factor, the Court stated that “[n]o ‘presumption’ or inference of market harm . . . is applicable to a case involving something beyond mere duplication for commercial purposes.”<sup>141</sup> If a commercial use is “a mere duplication of the entirety of the original” then it supersedes the original, and it is “likely that cognizable harm to the original will occur.”<sup>142</sup> This use would be non-transformative. On the other hand, if the use is transformative, then it is less likely that the use is a substitution for the original and “market harm may not be so readily inferred.”<sup>143</sup> The commerciality of the use does not by itself merit a presumption of harm.<sup>144</sup> Instead, the inference or presumption is stronger or weaker depending on the transformative nature of the use.<sup>145</sup>

## VII. POST-CAMPBELL: PRESUMPTIONS RETREAT, TRANSFORMATIVE USE RISES

The Supreme Court’s adoption of transformative use analysis altered courts’ overall treatment of fair use cases.<sup>146</sup> Added to this altered treatment was the Court’s rejection of presumptions regarding commercial and noncommercial uses. After *Sony*, there was a concern that courts would find typical commercial uses of copyrighted works to be unfair.<sup>147</sup> After the decision in *Campbell*, it appeared that commerciality of a use would simply be part of overall factor analysis rather than a trigger for a cursory decision that a use is unfair.<sup>148</sup> This

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<sup>140</sup> *Campbell*, 510 U.S. at 579.

<sup>141</sup> *Id.* at 591.

<sup>142</sup> *Id.* An example of a case in which the court applied the *Campbell* analysis is *Schiffer Pub., Ltd. v. Chronicle Books*, No. CIV.A. 03-4962, 2004 WL 2583817, at \*12 (E.D. Pa. Nov. 12, 2004). The court determined that the defendants copied the plaintiffs’ work verbatim and used it with little modification. The court concluded that this “‘commercial use amounts to mere duplication of the entirety of an original,’ and thus ‘supersedes the objects of the original and serves as a market replacement for it, making it likely that cognizable market harm to the original will occur.’” *Id.* (internal quotations omitted).

<sup>143</sup> *Chronicle Books*, 2004 WL 2583817 at \*12.

<sup>144</sup> *Campbell*, 510 U.S. at 584-85.

<sup>145</sup> *Id.*

<sup>146</sup> Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715, 719 (2011); see also Pierre N. Leval, *supra* note 74, at 1465-66.

<sup>147</sup> See Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917, 949 (2005); Pierre N. Leval, *supra* note 74, at 1463-64.

<sup>148</sup> See Patry & Perlmutter, *supra* note 98, at 706-07 (1993) (discussing the cursory analysis courts used in following the *Sony* presumptions). Examples of post-*Sony* cases that used this cursory analysis are: *Fin. Info., Inc. v. Moody's Investors Serv., Inc.*, 751 F.2d 501, 508-09 (2d Cir.1984) and *Acuff-Rose Music, Inc. v.*

treatment benefited users of copyrighted works for commercial purposes since they were no longer facing a “per se disqualification”<sup>149</sup> in asserting fair use.

After the *Campbell* decision, however, some courts continued to follow the *Sony* presumptions, or, even more confusingly, to cite both *Sony* and *Campbell* regarding consideration of commerciality.<sup>150</sup> For example, in *Micro Star v. Formgen Inc.*, the Ninth Circuit quoted *Campbell* to note that the existence of a commercial purpose did not end the discussion, but then quoted the *Sony* presumption that all commercial uses are presumably unfair.<sup>151</sup> The court then, in a footnote, commented that under *Campbell* a transformative use would lessen the weight of commercialism.<sup>152</sup> Since the defendant’s use was commercial and not transformative, the implicit conclusion under the first factor analysis was that the use was unfair.<sup>153</sup> In another case ten years after *Micro Star*, the Ninth Circuit relied on *Sony*’s double presumptions in determining that the defendant’s use was unfair.<sup>154</sup> In *Leadsinger, Inc. v. BMG Music Publishing*, the court noted under the first factor that the defendant’s purpose was commercial and therefore presumptively unfair under *Sony*.<sup>155</sup> Under the fourth factor, the court simply stated: “We have . . . concluded that [the defendant’s] use is intended for commercial gain, and it is well accepted that when ‘the intended use is for commercial gain,’ the likelihood of market harm ‘may be presumed.’”<sup>156</sup> The court ignored *Campbell*’s pronouncements concerning the commerciality presumptions.

Reliance on the *Sony* presumptions has persisted in more recent decisions. In *Monge v. Maya Magazines, Inc.*, the Ninth Circuit reviewed a magazine’s use of photographs and not only quoted the *Sony* presumption but mangled the discussion in *Harper & Row* of commercial use.<sup>157</sup> In discussing the first factor, the Court, quoting *Sony*, noted that every commercial use is presumptively unfair.<sup>158</sup> Then the court fused two quotes from *Harper & Row*: commercial use is a factor that “tends to weigh against a finding of fair use” because “the

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*Campbell*, 972 F.2d 1429, 1439 (6th Cir. 1992), *rev’d*, 510 U.S. 569 (1994).

<sup>149</sup> Patry & Perlmutter, *supra* note 98, at 707.

<sup>150</sup> See PATRY, *supra* note 26, § 3:4.

<sup>151</sup> *Micro Star v. Formgen, Inc.*, 154 F.3d 1107, 1113 (9th Cir. 1998).

<sup>152</sup> *Id.* at 1113 n.6.

<sup>153</sup> *Id.* at 1113.

<sup>154</sup> *Leadsinger, Inc. v. BMG Music Publishing*, 512 F.3d 522 (9th Cir. 2008).

<sup>155</sup> *Id.* at 530 (quoting *Sony*, 464 U.S. at 451). The court rejected the defendant’s argument that its use was transformative.

<sup>156</sup> *Id.* at 531 (quoting *Sony*, 464 U.S. at 451).

<sup>157</sup> *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164 (9th Cir. 2012).

<sup>158</sup> *Id.* at 1176.

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user stands to profit from exploitation of the copyrighted material without paying the customary price.”<sup>159</sup> This fusion of two very separate statements from *Harper & Row* creates an assumption that users of works for commercial purposes are not “paying the customary price.” *Monge* was a 2012 case, but in 2014, a California district court quoted the *Monge*-fused language as if it were a direct quote from *Harper & Row*, thus potentially perpetuating a misinterpretation.<sup>160</sup> The ongoing usage of the *Sony* and *Harper & Row* quotes concerning commercial use, despite later clarification, demonstrates the need for defendants to understand and articulate the appropriate interpretation of these statements.<sup>161</sup>

Another challenge in asserting fair use of copyrighted works for commercial purposes was establishing that the use was “transformative.” Given the importance of transformative use analysis, establishing whether a use is transformative can be determinative of the outcome of a case. Studies of fair use decisions have determined that transformative use has dominated fair use analysis since the Supreme Court’s decision in *Campbell*.<sup>162</sup> While a non-transformative use could still qualify as a fair use,<sup>163</sup> a finding of transformativeness has a strong influence on the overall analysis and outcome. The influence is especially strong because of the Court’s close connection between the first and fourth factors.<sup>164</sup> The Court in *Campbell* restored “commerciality” as part of the evaluation of factors in fair use analysis, but retained an inference that a non-transformative commercial use was

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<sup>159</sup> *Id.* (quoting *Harper & Row*, 476 U.S. at 562) (emphasis added to show added language).

<sup>160</sup> *Erickson Prods., Inc. v. Kast*, No. 5:13-CV-05472 HRL, 2014 WL 5474741, at \*2 (N.D. Cal. Oct. 28, 2014).

<sup>161</sup> While the cases cited in this paragraph are all from the Ninth Circuit, other courts have also perpetuated the *Sony* presumption. See, e.g., *Ivory v. Holme*, No. 8:07-CV-2354-T-TBM, 2009 WL 513720, at \*7 (M.D. Fla. Feb. 27, 2009) (quoting *Sony*, 464 U.S. at 417) (stating that “the Supreme Court has clarified that a ‘commercial or profit-making purpose’ is presumptively unfair”); *Thomas M. Gilbert Architects, P.C. v. Accent Builders & Developers, LLC*, 629 F. Supp. 2d 526, 533 (E.D. Va. 2008) (quoting *Campbell* regarding transformative works, but then stating that “where the primary use of the copyrighted work is for a commercial purpose” the use is presumptively unfair).

<sup>162</sup> Netanel, *supra* note 146, at 734, 736, 746; see also Michael D. Murray, *What is Transformative? An Explanatory Synthesis of the Convergence of Transformation and Predominant Purpose in Copyright Fair Use Law*, 11 CHL-KENT J. INTELL. PROP. 260, 261 (2012) (“The transformative test . . . has become the defining standard for fair use.”); Matthew Sag, *Predicting Fair Use*, 73 OHIO ST. L.J. 47, 84 (2012) (“[E]vidence . . . confirms the centrality of transformative use.”).

<sup>163</sup> *Campbell*, 510 U.S. at 579.

<sup>164</sup> See Pierre N. Leval, *Campbell v. Acuff-Rose: Justice Souter's Rescue of Fair Use*, 13 CARDOZO ARTS & ENT. L.J. 19, 22–23 (1994).

likely to be a substitution for the original.<sup>165</sup> The Court, in effect, retained double-counting under the first and fourth factors by linking a finding of non-transformative use under the first factor to the likelihood of market harm under the fourth factor.<sup>166</sup> Illustrating the connection between a determination of transformativeness and market harm, with regard to a commercial use, is the decision in *Oasis Publishing Co. v. West Publishing Co.*<sup>167</sup> In evaluating the fourth factor, the court referred to the presumption in *Sony* that a commercial use will harm the market for the original work.<sup>168</sup> The court then noted that under *Campbell*, the presumption did not apply if the use was transformative.<sup>169</sup> The court determined that the defendant's use was not transformative, and therefore, the court presumed market harm to the plaintiff.<sup>170</sup>

Given the importance of establishing that a use was transformative, the lack of clarity in the meaning of "transformative" was especially challenging in determining whether a commercial use would qualify. In *Campbell*, the Court stated that in analyzing the first factor:

"the central purpose" is to determine if "the new work merely 'supersede[s] the objects' of the original . . . or instead *adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message . . .* in other words, whether and to what extent the new work is 'transformative.'<sup>171</sup>

This statement was ambiguous as to the definition of transformative.<sup>172</sup> Court decisions following *Campbell* lacked clarity and consistency in

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<sup>165</sup> See *Campbell*, 510 U.S. at 591.

<sup>166</sup> Jeremy Kudon, *Form over Function: Expanding the Transformative Use Test for Fair Use*, 80 B.U. L. REV. 579, 605 (2000); see Laura G. Lape, *Transforming Fair Use: The Productive Use Factor in Fair Use Doctrine*, 58 ALB. L. REV. 677, 716 (1995).

<sup>167</sup> *Oasis Publishing Co. v. West Publishing Co.*, 924 F. Supp. 918 (D. Minn. 1996).

<sup>168</sup> *Id.* at 928; see Matthew D. Bunker, *Eroding Fair Use: The "Transformative" Use Doctrine After Campbell*, 7 COMM. L. & POL'Y 1, 18–20 (2002) (discussing the relationship between a finding of transformativeness under the first factor and a finding of market harm under the fourth factor).

<sup>169</sup> *Oasis Pub Co.*, 924 F. Supp. at 929.

<sup>170</sup> *Id.* In discussing the first factor, the court had also rejected the defendant's argument that the use was transformative. *Id.* at 927.

<sup>171</sup> *Campbell*, 510 U.S. at 579 (emphasis added). The Court quoted Judge Leval's influential article on fair use in its discussion of transformative use. Pierre N. Leval, *supra* note 139, at 1111.

<sup>172</sup> See Netanel, *supra* note 146, at 746–47.

interpretation.<sup>173</sup> It was unclear whether a transformative work should have a different purpose from the original, a different character, or both.<sup>174</sup> Did there need to be some alteration in the work or incorporation of the work into a new work, or would simply having a different purpose suffice? One commentator reviewed decisions in the six years after the *Campbell* decision and determined that courts rejected claims of transformative use for works lacking “explicit, additional creative value.”<sup>175</sup> He lamented that these determinations “precluded the use of the fair use defense for all secondary works that fail to provide explicit commentary, criticism, parody or scholarship.”<sup>176</sup> If a use needed to have “additional creative value” in order to be transformative, this could be problematic for some commercial uses that required use of an unaltered copy of a work.

An illustration of cases focused on the requirement of alteration and additional creativity is the Second Circuit decision in *Infinity Broadcast Corp. v. Kirkwood*.<sup>177</sup> In this case, the defendant retransmitted radio programs to subscribers.<sup>178</sup> The district court acknowledged that the defendant did not change the original broadcasts.<sup>179</sup> The court instead determined that the defendant’s different purpose for the use of the broadcasts supported fair use.<sup>180</sup> The court of appeals reversed the decision.<sup>181</sup> The court recognized that the defendant’s purpose for the use was different from the purpose of the original broadcasts.<sup>182</sup> The court stated, however, that “difference in purpose is not quite the same

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<sup>173</sup> See Matthew D. Bunker, *Transforming the News: Copyright and Fair Use in News-Related Contexts*, 52 J. COPYRIGHT SOC’Y 309, 326 (2004) (“Criteria for transformativeness seem underdeveloped, if not absent.”); Diane Leenheer Zimmerman, *The More Things Change, the Less They Seem “Transformed”*: Some Reflections on Fair Use, 46 J. COPYRIGHT SOC’Y 251, 251 (1998) (“[T]he use of the term [transformative] seemed governed by no set meaning, and the conclusions reached about transformativeness—its presence or absence—were wildly divergent.”).

<sup>174</sup> Netanel, *supra* note 146, at 746–47; see Rebecca Tushnet, *Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It*, 114 YALE L.J. 535, 546 (2004) (expressing concerns that “transformative” use required “new, critical meaning”).

<sup>175</sup> Jeremy Kudon, *Form over Function: Expanding the Transformative Use Test for Fair Use*, 80 B.U. L. REV. 579, 597–98 (2000).

<sup>176</sup> *Id.* at 599.

<sup>177</sup> *Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104 (2d Cir. 1998).

<sup>178</sup> *Infinity Broad. Corp. v. Kirkwood*, 965 F. Supp. 553, 554 (S.D.N.Y. 1997), *rev’d*, 150 F.3d 104 (2d Cir. 1998).

<sup>179</sup> *Id.* at 557.

<sup>180</sup> *Id.*

<sup>181</sup> *Infinity Broad. Corp.*, 150 F.3d at 112.

<sup>182</sup> *Id.* at 108.

thing as transformation.”<sup>183</sup> Since the defendant’s use involved no new expression, meaning, or message, it was not transformative.<sup>184</sup> The court concluded its discussion of fair use by stating that the defendant “creates nothing and advances no body of knowledge or criticism. He simply takes [the plaintiff’s] unaltered broadcasts and markets them to a specific clientele.”<sup>185</sup> The court of appeals ultimately determined that the defendant’s use was unfair.<sup>186</sup>

Other concerns arose in *American Geophysical Union v. Texaco Inc.* (“Texaco”).<sup>187</sup> In *Texaco*, scientists working for Texaco made unauthorized copies of articles from journals for later reference in their research.<sup>188</sup> Publishers of the journals sued Texaco for infringement.<sup>189</sup> Texaco argued that the copying constituted a fair use of the works.<sup>190</sup> Both the district court and the Second Circuit determined that the copying was not transformative.<sup>191</sup> The district court determined that Texaco lost under the first factor analysis not only because the copying was not transformative, but because “it was carried on in a commercial context for the purpose of producing profits.”<sup>192</sup> Even though there were no resales of the copies and the scientists used the copies “to assist in socially valuable scientific research,” their research was still “conducted for commercial gain.”<sup>193</sup> The Second Circuit acknowledged that the “link between Texaco’s commercial gain” and the copying was “somewhat attenuated.”<sup>194</sup> Texaco gained no “direct or immediate commercial advantage” from the scientists’ copying.<sup>195</sup> The court stated, however, that it “need not ignore” Texaco’s “for-profit nature” and determined that “Texaco “reap[ed] at least some indirect

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<sup>183</sup> *Id.* at 108.

<sup>184</sup> *Id.*

<sup>185</sup> *Id.* at 111–12.

<sup>186</sup> *Id.* at 112.

<sup>187</sup> *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913 (2d Cir. 1994), *amending and superseding* 37 F.3d 881 (2d Cir).

<sup>188</sup> *Id.* at 915–16.

<sup>189</sup> *Id.* at 914–15.

<sup>190</sup> *Id.*

<sup>191</sup> *Am. Geophysical Union v. Texaco Inc.*, 802 F. Supp. 1, 13 (S.D.N.Y. 1992); *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 922 (2d Cir. 1994). The district court decision was before the *Campbell* decision. Interestingly, Judge Leval, who wrote the opinion for the district court, discussed transformative use. Judge Leval is author of the article the Supreme Court relied upon in its discussion of transformative use in *Campbell*. See *Campbell*, 510 U.S. at 579 (1994) (citing Piere N. Leval, *supra* note 139, at 1111).

<sup>192</sup> *Am. Geophysical Union*, 802 F. Supp. at 16.

<sup>193</sup> *Id.*

<sup>194</sup> *Texaco*, 60 F.3d at 922.

<sup>195</sup> *Id.* at 921.

economic advantage” from the copying.<sup>196</sup> This determination was disturbing in that it focused on the nature of the user and not just the use itself.<sup>197</sup> It also assumed that this “intermediate use” which “*might* have led to the development of new products”<sup>198</sup> was enough to consider the use unfair under the first factor. It raised the issue of whether any uses by commercial users could meet the first factor test. Under the fourth factor, the Second Circuit focused on the loss of licensing revenues for the copied articles.<sup>199</sup> The court determined that there was a “workable market” to obtain licenses to copy the articles.<sup>200</sup> The loss of licensing revenue, and “to a minor extent” some subscription revenue, resulted in the demonstration of “substantial harm” under the fourth factor.<sup>201</sup> After reviewing all four factors, the Second Circuit affirmed the district court’s decision that the copying was not fair use.<sup>202</sup>

### VIII. DIFFERENT PURPOSE AS TRANSFORMATIVE USE

For users of works for commercial purposes, many interpretations of the transformative use test after *Campbell* were not helpful in that they focused on the need to add to or alter the original work. Over time, however, courts recognized that a different purpose *alone* could constitute a transformative use. Studies focused on courts’ application of transformative use analysis determined that in later cases courts have predominately focused on the purpose of the defendant’s work rather than the content.<sup>203</sup> It is a different purpose, not “new expressive content” that determines if the secondary work is transformative.<sup>204</sup> Further, there are a significant number of cases finding a transformative use when the defendant copied the entire work without alteration and used it for a different purpose.<sup>205</sup> These cases are especially prevalent

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<sup>196</sup> *Id.* at 922.

<sup>197</sup> The Second Circuit noted that it was not considering whether the outcome of the analysis would be different if the scientists were making copies as independent researchers rather than for a company. *Id.* This comment also focused on the nature of the employment of the scientists rather than the use.

<sup>198</sup> *Id.* at 921 (emphasis added).

<sup>199</sup> *Id.* at 930.

<sup>200</sup> *Id.*

<sup>201</sup> *Id.* at 931.

<sup>202</sup> *Id.*

<sup>203</sup> R. Anthony Reese, *Transformativeness and the Derivative Work Right*, 31 COLUM. J.L. & ARTS 467, 485 (2008); Murray, *supra* note 162, at 261; Netanel, *supra* note 146, at 747.

<sup>204</sup> Netanel, *supra* note 146, at 748. The dominance of transformative use analysis also appeared after 2005. *Id.* at 734, 736.

<sup>205</sup> *Id.* at 748; Reese, *supra* note 203, at 485.

after 2005.<sup>206</sup> This expanded interpretation of transformative use supported determinations that commercial uses not involving alterations in the original work could qualify for fair use treatment. Examples of these cases show how an expansive range of uses in commercial contexts that qualified as fair use. The cases illustrate the significant effect that transformative identification has on fair use analysis and outcome of cases involving commercial uses. In a study of fair use cases from 1995 to 2010, Professor Netanel determined that “the plaintiff won on fair use in 90.3% of the cases in which the court held that the use was commercial but not (unequivocally) transformative.”<sup>207</sup> Plaintiffs, however, won in “only 12.5% of the cases in which the court held that the use was both commercial and unequivocally transformative.”<sup>208</sup> Essentially, “a judicial finding that the use is also unequivocally transformative trumps the significance of commerciality.”<sup>209</sup>

#### A. Changing Transformation – *Swatch Group*

The case of *Swatch Group Management Services, Ltd. v. Bloomberg, L.P.*, is especially interesting because of the comparison of the two opinions that the Second Circuit issued in this case.<sup>210</sup> In *Swatch Group*, Bloomberg distributed to its subscribers an unauthorized copy of a recorded Swatch conference call involving company executives and investment analysts.<sup>211</sup> The Second Circuit determined that Bloomberg’s use and distribution of the recording were fair use even though Bloomberg had distributed an unaltered copy of the recording in its entirety without any added commentary.<sup>212</sup> Under the first factor analysis, the court determined that Bloomberg’s use of the work was transformative solely due to its different message and purpose.<sup>213</sup> The Second Circuit initially issued an opinion in which it

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<sup>206</sup> Netanel, *supra* note 146, at 748.

<sup>207</sup> *Id.* at 743 n.125.

<sup>208</sup> *Id.* Professor Netanel notes that “[f]or the period 2006-2010, [the] plaintiff win rates were 88.2% versus 20%, respectively.” *Id.*

<sup>209</sup> *Id.*

<sup>210</sup> *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P. (Swatch Group II)*, 756 F.3d 73 (2d Cir. 2014), *amending and superseding* *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P. (Swatch Group I)*, 742 F.3d 17 (2d Cir. 2014).

<sup>211</sup> *See Swatch Group II*, 756 F.3d at 78–79. The call was to discuss company earnings and was by invitation only. Media representatives were not invited to join the call. *Id.* at 78.

<sup>212</sup> *See id.* at 92.

<sup>213</sup> *See Swatch Group II*, 756 F.3d at 84–85. Bloomberg disseminated the recording to evidence “newsworthy information of what Swatch Group executives had said.” *Id.* at 85. Swatch used the call to assure analysts of the reliability of its

discussed how non-transformative uses could be fair use.<sup>214</sup> In that initial opinion, the court stated that even though “Bloomberg did not transform Swatch’s work through additional commentary or analysis” the first factor analysis still favored fair use.<sup>215</sup> The court did not discuss a different purpose for determining transformative use.<sup>216</sup> The amending and superseding opinion contains substantial additional discussion of the defendant’s purpose and the transformativeness of this purpose.<sup>217</sup> In its final opinion, the court assigned “*relatively little weight*” to the commercial nature of the use given the lack of proof of any “commercial exploitation.”<sup>218</sup> In the original opinion, in which the court determined that Bloomberg’s use was not transformative, the court assigned the commercial nature of the use “*somewhat reduced weight*.”<sup>219</sup> In both opinions, the court determined that the use was fair, but in the opinion in which the use was transformative, the weight of commerciality changed.

## B. Search Engines and Databases

A series of cases involving search engines and searchable databases illustrate how the identification of a different purpose as transformative use supported findings that commercial uses qualified for fair use treatment.<sup>220</sup> These cases highlight the connection between a finding of transformative use and the weight accorded to commerciality. They also demonstrate the connection between a finding of transformative use and the treatment of commerciality under the fourth factor.

Two cases involved the use of thumbnail images of copyrighted works as internet search tools. In *Kelly v. Arriba Soft Corp.* and *Perfect 10, Inc. v. Amazon.com, Inc.*, the Ninth Circuit held that the use of the thumbnail images as search tools was transformative, even though there were no alterations in the images.<sup>221</sup> *Kelly* provides the basic

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previously announced earnings. *See id.* The Second Circuit contrasted Bloomberg’s message (“this is what they said”) with Swatch’s message (“this is what you should believe”). *Id.* Bloomberg’s different purpose gave its “use at least an arguably transformative character.” *Id.*

<sup>214</sup> *See Swatch Group I*, 742 F.3d at 28.

<sup>215</sup> *Id.* at 29.

<sup>216</sup> *See id.* at 28–30.

<sup>217</sup> *See Swatch Group II*, 756 F.3d at 84–86.

<sup>218</sup> *Id.* at 83 (emphasis added).

<sup>219</sup> *Swatch Group I*, 742 F.3d at 28 (emphasis added).

<sup>220</sup> One of the cases (*HathiTrust*) does not involve a commercial use, but illustrates the important connection between a finding of transformative use under the first factor and the effect on market analysis under this fourth factor.

<sup>221</sup> *Kelly v. Arriba Soft Corp.*, 336 F.3d at 819; *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d at 1165.

recognition that a different purpose can qualify as a transformative use.<sup>222</sup> In *Kelly*, the defendant's use was transformative and did not supersede the original works because the defendant's purpose was to "improv[e] access to information on the internet" while the plaintiff's purpose was "artistic expression."<sup>223</sup> The court briefly mentioned commerciality, noting that since the defendant's use "was not highly exploitative, the commercial nature of the use weigh[ed] only slightly against a finding of fair use."<sup>224</sup>

*Perfect 10* involved Google's use of thumbnail images.<sup>225</sup> This case highlighted not only the identification of a different purpose as transformative use, but the effect that identification of transformative use could have on weight of commerciality. The case also demonstrates how transformative use negates *Campbell's* modified presumption against commercial use under the fourth factor. In *Perfect 10*, the Ninth Circuit followed its reasoning in *Kelly*, determining that Google's use was "highly transformative" even though Google used exact, unaltered copies of the works.<sup>226</sup> This use turned the images into "a pointer directing a user to a source of information."<sup>227</sup> The district court determined that there were possible superseding uses for the thumbnail images (use on cell phones) and possible commercial benefits to Google because some of the thumbnail images directed users to websites that participated in Google's AdSense program.<sup>228</sup> The district court, therefore concluded that the commerciality of Google's use of the images resulted in the first factor weighing "slightly" *in favor of the plaintiff*.<sup>229</sup> The Ninth Circuit disagreed with this assessment, determining that the first factor weighed "heavily in favor of Google" due to the "transformative nature" of the use.<sup>230</sup> The court relied on *Campbell* to support its conclusion that the transformative nature of the use outweighed "any incidental superseding use or the minor commercial aspects of Google's search engine and website."<sup>231</sup> Transformative use therefore changed the weight of the first factor from slightly in favor of the plaintiff to heavily in favor of the defendant. In discussing the fourth factor, the Ninth Circuit rejected any presumption

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<sup>222</sup> *Kelly*, 336 F.3d at 819.

<sup>223</sup> *Id.*

<sup>224</sup> *Id.* at 818.

<sup>225</sup> *Perfect 10*, 508 F.3d at 1155.

<sup>226</sup> *Id.* at 1165 ("even making an exact copy of a work may be transformative so long as the copy serves a different function than the original work").

<sup>227</sup> *Id.*

<sup>228</sup> *Id.* at 1165-66.

<sup>229</sup> *Id.* at 1167.

<sup>230</sup> *Id.* (emphasis added).

<sup>231</sup> *Id.* (quoting *Campbell*, 510 U.S. at 579).

that commerciality resulted in the likelihood of market harm. Relying on *Campbell*, the court noted that “this presumption does not arise when a work is transformative.”<sup>232</sup> Since Google’s use was highly transformative, there could be no presumption of market harm.<sup>233</sup>

Other cases in which courts determined that a different purpose alone constituted a transformative use involved the use of copyrighted works in the creation of searchable databases. These cases also illustrate the limited weight given to commercial uses, if a use is transformative, and the effect of transformative use on fourth factor analysis. In *A.V. ex rel. Vanderhye v. iParadigms, LLC*, the defendant created a database of the full, unaltered text of student papers that users could search to determine plagiarism.<sup>234</sup> Users could only see matches for searches and not the full papers.<sup>235</sup> The Fourth Circuit determined that the defendant’s use was transformative because the use was for “an entirely different function and purpose than the original works.”<sup>236</sup> The plaintiffs argued that the defendant was a for-profit company that was receiving revenues for use of its database so the defendant’s admittedly commercial use was presumptively unfair.<sup>237</sup> The court dismissed this argument, noting *Campbell’s* rejection of the presumption.<sup>238</sup> The court agreed with the district court’s assessment that due to the transformative nature of the defendant’s use, the commercial aspect of the use was not significant.<sup>239</sup>

*Authors Guild, Inc. v. Google, Inc.* also involved the creation of a searchable database through the scanning and digitization of books.<sup>240</sup> The database was searchable, but users could only see a “snippet view” of results of searches.<sup>241</sup> The District Court for the Southern District of New York held that Google’s use of the digitized works was “highly transformative.”<sup>242</sup> While Google used the full text of the works, Google’s use had a much different purpose than the use of the original books.<sup>243</sup> Users were not reading the scanned books; they were using the words from the books as “pointers.”<sup>244</sup> The district court recognized

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<sup>232</sup> *Id.* at 1168.

<sup>233</sup> *Id.*

<sup>234</sup> *A.V. ex rel. Vanderhye v. iParadigms, LLC*, 562 F.3d 630 (4th Cir. 2009).

<sup>235</sup> *See id.* at 634.

<sup>236</sup> *Id.* at 639.

<sup>237</sup> *Id.* at 638. The plaintiffs relied on the *Sony* presumption.

<sup>238</sup> *Id.* at 639.

<sup>239</sup> *Id.*

<sup>240</sup> *Authors Guild, Inc. v. Google Inc.*, 954 F. Supp. 2d 282, 285-87 (S.D.N.Y. 2013).

<sup>241</sup> *Id.*

<sup>242</sup> *Id.* at 291.

<sup>243</sup> *Id.*

<sup>244</sup> *Id.*

that Google was a for-profit entity and the scanning project was largely a commercial endeavor.<sup>245</sup> The court noted that Google did not receive any direct commercial benefit from the scanning and operation of the database.<sup>246</sup> Although the court considered that Google could benefit indirectly from the use of the database, it did not give the factor much weight.<sup>247</sup> The court barely discussed the fourth factor since there was no evidence that there was any substitute offered for the original books.<sup>248</sup> In a similar case, *Authors Guild, Inc. v. HathiTrust*, the Second Circuit held that the creation of a searchable database of the full text of scanned books was a “quintessentially transformative use.”<sup>249</sup> The court focused on the defendant’s different purpose for the use.<sup>250</sup> The court in *HathiTrust* discussed the fourth factor in terms of whether the defendant’s use served as a substitute for the original work.<sup>251</sup> The court emphasized that “any economic ‘harm’ caused by transformative uses does not count, because such uses . . . do not serve as substitutes for the original work.”<sup>252</sup> Since the defendant’s use was transformative, there was no substitute for the original works, and it did not matter that there might be licensing available.<sup>253</sup>

Another case involving the creation of a searchable database was *Fox News Network, LLC v. TVEyes, Inc.*<sup>254</sup> In *TVEyes*, the defendant maintained a searchable database of audio-visual content gathered from televisions and radio stations on a 24/7 basis.<sup>255</sup> Some of the plaintiff’s programs were included in the database.<sup>256</sup> The defendant recorded the entire content, but subscribers could only obtain access to limited

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<sup>245</sup> *Id.* (noting that “for the year ended December 31, 2011, [Google] reported over \$36.5 billion in advertising revenues”).

<sup>246</sup> *Id.*

<sup>247</sup> *Id.* at 291-92.

<sup>248</sup> *Id.* at 292-93.

<sup>249</sup> *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 97 (2d Cir. 2014). *HathiTrust* did not involve a commercial entity, but is useful to reference because of the discussion of the effect of transformative use on licensing.

<sup>250</sup> *Id.*

<sup>251</sup> *Id.* at 99.

<sup>252</sup> *Id.*

<sup>253</sup> *Id.* at 99-100 (“Lost licensing revenue counts under Factor Four only when the use serves as a substitute for the original and the full-text-search use does not.”). The Second Circuit cites *Campbell*, 510 U.S. at 591-92, and *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 614 (2d Cir. 2006) in its discussion concerning licensing. For a discussion of the *Bill Graham Archives* case, see *infra* text accompanying notes 290-293.

<sup>254</sup> *Fox News Network v. TVEyes, Inc.*, 43 F. Supp. 3d 379, 383 (S.D.N.Y. 2014).

<sup>255</sup> *Id.* at 383-85.

<sup>256</sup> *Id.*

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portions of the programs identified through a search.<sup>257</sup> The District Court for the Southern District of New York determined that the defendant through its search function provided a unique service that did not serve the same function as the original programming.<sup>258</sup> The court recognized that TVEyes was a for-profit entity and obtained revenues from its services.<sup>259</sup> The court did not assign this factor much weight, finding that first factor weighed in favor of the defendant.<sup>260</sup> In analyzing the fourth factor, the court stated that “any economic harm caused by transformative uses” would not factor into the analysis because transformative uses are not “substitutes for the original work.”<sup>261</sup>

In yet another case, *White v. West Publishing Corp.*, the U.S. District Court for the Southern District of New York determined that the inclusion of digitized legal briefs, memoranda, and documents in West and Lexis searchable databases was fair use.<sup>262</sup> The court determined that the database providers’ use of the digitized documents to provide “an interactive legal research tool” was transformative.<sup>263</sup> The purpose of the original documents was to provide legal services, while the database providers used the documents to aid in research.<sup>264</sup> The defendants also “add[ed] something new” to the documents through coding, linking, and other modifications.<sup>265</sup> The court acknowledged that the defendants’ use was for commercial benefit, but noted that the weight of that factor was limited due to the transformative nature of the use.<sup>266</sup>

### C. The Patent Application Cases

Two cases involving patent applications offer not only a discussion of different purpose as transformative use, but also how a finding of transformative use affects a claim for licensing fees. These cases also addressed some of the arguments from *Texaco* concerning intermediate uses.

In *American Institute of Physics v. Winstead PC*<sup>267</sup> and *American*

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<sup>257</sup> *Id.* at 383.

<sup>258</sup> *Id.* at 393.

<sup>259</sup> *Id.* at 385-86.

<sup>260</sup> *Id.* at 393-94.

<sup>261</sup> *Id.* at 395.

<sup>262</sup> *West v. White Publ’g. Corp.*, 29 F. Supp. 3d 396, 400 (S.D.N.Y. 2014).

<sup>263</sup> *Id.* at 399.

<sup>264</sup> *Id.*

<sup>265</sup> *Id.*

<sup>266</sup> *See id.*

<sup>267</sup> *Am. Inst. Of Physics v. Winstead PC*, Civ. A. No. 3:12-CV-1230-M, 2013

*Institute of Physics v. Schwegman*,<sup>268</sup> publishers sued law firms for copyright infringement, alleging that the firms had not obtained permission before filing copies of copyrighted articles in patent applications.<sup>269</sup> In both cases, judges determined that the defendants' copying constituted fair use as a matter of law and granted summary judgment for the defendants.<sup>270</sup> Both judges concluded that the defendants' copying was transformative because the defendants used the copies for a different purpose than the original.<sup>271</sup> The defendants' purpose was to provide the articles as evidence of the existence of information relevant in the context of the patent process.<sup>272</sup> The plaintiffs' purpose was to provide current research to the scientific community.<sup>273</sup> The use was transformative even though the defendants used exact, unaltered copies.<sup>274</sup>

In both cases, the plaintiffs argued that the defendant law firms were for-profit businesses that derived commercial benefits from the copying, a factor which should weigh against them under the first factor analysis.<sup>275</sup> In *Schwegman*, the judge determined that due to the defendants' different "evidentiary" purpose for using the works, the defendants did not "unfairly exploit" the copyrighted works.<sup>276</sup> In *Winstead*, the judge stated that even if the use occurred in a "commercial context," that factor was not determinative.<sup>277</sup> Since the defendants' use was transformative, under *Campbell*, the significance of any commercialism would decrease.<sup>278</sup>

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WL 6242843, at \*1 (N.D. Tex. Dec. 3, 2013).

<sup>268</sup> Am. Inst. Of Physics v. Schwegman, Civ. No. 12-528, 2013 WL 4666330, at \*1 (D. Minn. Aug. 30, 2013). The district court adopted the magistrate judge's report and recommendation after a de novo review. 2013 WL 4666330 at \*1. The magistrate judge's opinion is included in full as the district court's opinion.

<sup>269</sup> *Winstead*, 2013 WL 6242843, at \*1; *Schwegman*, 2013 WL 4666330, at \*2.

<sup>270</sup> *Winstead*, 2013 WL 6242843, at \*13; *Schwegman*, 2013 WL 4666330, at \*2.

<sup>271</sup> *Winstead*, 2013 WL 6242843, at \*5; *Schwegman*, 2013 WL 4666330, at \*10.

<sup>272</sup> *Winstead*, 2013 WL 6242843, at \*5-6; *Schwegman*, 2013 WL 4666330, at \*10-12.

<sup>273</sup> See *Winstead*, 2013 WL 6242843, at \*5; *Schwegman*, 2013 WL 4666330, at \*10. In *Schwegman*, the judge distinguished *Texaco* by discussing that in *Texaco* the researchers were using the copies for the same original purpose the original articles were produced. 2013 WL 4666330 at \*13.

<sup>274</sup> *Winstead*, 2013 WL 6242843, at \*5, 10; *Schwegman*, 2013 WL 4666330, at \*10-11, 17. For a detailed discussion of these opinions, see D.R. Jones, *Law Firm Copying and Fair Use: An Examination of Different Purpose and Fair Use Markets*, 56 S. TEX. L. REV. 101 (2014).

<sup>275</sup> See *Winstead*, 2013 WL 6242843, at \*6-8; *Schwegman*, 2013 WL 4666330, at \*12.

<sup>276</sup> *Schwegman*, 2013 WL 4666330, at \*12.

<sup>277</sup> *Winstead*, 2013 WL 6242843, at \*8.

<sup>278</sup> *Id.*

The plaintiffs in *Winstead* relied on *Texaco* to argue that the defendants' were obtaining an indirect commercial profit from the hourly charges for attorneys' time spent reviewing the articles.<sup>279</sup> The judge rejected this argument, stating that the money derived was from "the use of the attorney's own time and not the content of the article."<sup>280</sup> She distinguished *Texaco* by noting that in that case, the defendant's use was not transformative. She focused, however, on the court's determination in *Texaco* that the use of the copies was a substitute for additional subscriptions.<sup>281</sup> This was a focus on the market impact in *Texaco* and not on the use of the copies for the same purpose as the original works. In both cases, under the fourth factor analysis, the plaintiffs argued that they lost licensing fees for the copies.<sup>282</sup> In *Winstead*, the judge relied on *Campbell* to negate an inference of market harm for commercial uses.<sup>283</sup> Since the defendants' use was transformative, substitution and market harm could not be inferred.<sup>284</sup> The judge also noted that the public benefit derived from defendant's copying outweighed any potential fees.<sup>285</sup> In *Schwegman*, the plaintiffs relied on *Texaco* to argue that the defendant should pay licensing fees where licenses were available.<sup>286</sup>

The judge in *Schwegman* distinguished *Texaco*, noting that in *Texaco*, the defendant's purpose for using the articles was not different from the intended purpose for the original.<sup>287</sup> Therefore, the use in that case "superseded the originally intended use."<sup>288</sup> In *Schwegman*, the defendants' use was for a "new and different purpose" and therefore did not supplant the market.<sup>289</sup> The judge relied on *Bill Graham Archives v. Dorling Kindersley Ltd.*,<sup>290</sup> to discuss how a determination of a transformative use under the first factor affected analysis under the

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<sup>279</sup> *Id.* at \*7. The plaintiffs also argued that the defendants were operating a "commercial enterprise" by profiting charging clients for copies. *Id.* at \*6. The judge rejected this argument, noting that the defendants received no profit from the copies. Even if they charged clients for the copies, they only recouped costs. *Id.* at \*7–8.

<sup>280</sup> *Id.* at \*7.

<sup>281</sup> *Id.*

<sup>282</sup> *Winstead*, 2013 WL 6242843, at \*11; *Schwegman*, 2013 WL 4666330, at \*14.

<sup>283</sup> *Winstead*, 2013 WL 6242843, at \*11.

<sup>284</sup> *Id.*

<sup>285</sup> *Id.* at \*12. The public benefit was derived from minimizing costs in patent application filings and maximizing accuracy in the patent process. *Id.*

<sup>286</sup> *Schwegman*, 2013 WL 4666330, at \*15.

<sup>287</sup> *Id.*

<sup>288</sup> *Id.*

<sup>289</sup> *Id.*

<sup>290</sup> *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605 (2d Cir. 2006).

fourth factor.<sup>291</sup> In *Bill Graham Archives*, the Second Circuit held that the use of reduced-size images of posters in a biographical work constituted a transformative use of the posters due to the different purpose for the use.<sup>292</sup> Since the use was transformative, it was not relevant that a license was available for the use.<sup>293</sup> The judge in *Schwegman* discussed that the defendants' use, like the use in *Bill Graham Archives*, was transformative and therefore within a "transformative market."<sup>294</sup> The loss of any fees therefore did not result in market harm to the plaintiffs.<sup>295</sup>

These cases highlight the importance of determining whether a use is transformative. The determination not only affects the first factor; it can override a plaintiff's argument for licensing fees.

### IX. COMMERCIAL USE – PUBLIC BENEFIT

An interesting part of the fair use analysis in some of the cases involving commercial use is a determination under the fourth factor that the defendant's use provides a "public benefit," which is weighed as part of the consideration.<sup>296</sup> Several cases illustrate that courts in the fourth factor analysis consider the public benefit of a commercial use. For example, the court in *TVEyes* stated how public benefit fits in the analysis: "The fourth factor requires a balance between the 'benefit the public will derive if the use is permitted, and the personal gain the copyright owner will receive if the use is denied.'"<sup>297</sup> The court determined that TVEyes provided "substantial benefit to the public" through its searchable database of television and radio programming.<sup>298</sup> The court concluded that the fourth factor did not weigh against fair use, given that "the *de minimis* nature of any possible competition is considered in comparison to the substantial public service TVEyes provides."<sup>299</sup> Similarly, in *Swatch Group*, the court determined that "[a]lthough Bloomberg copied the recording without changing it,

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<sup>291</sup> *Schwegman*, 2013 WL 4666330, at \*15.

<sup>292</sup> *Bill Graham Archives*, 448 F.3d at 613.

<sup>293</sup> *Id.* at 615.

<sup>294</sup> *Schwegman*, 2013 WL 4666330, at \*15.

<sup>295</sup> *Id.* at \*14–15.

<sup>296</sup> One court has indicated an inclination to favor commercial uses that exhibit a public purpose. The Second Circuit has "been more solicitous of the fair use defense in works, which though intended to be profitable, aspired to serve broader public purposes." *Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1375 (2d Cir. 1993).

<sup>297</sup> *TVEyes*, 43 F. Supp. 3d at 396.

<sup>298</sup> *Id.* at 397 (quoting *Bill Graham Archives*, 448 F.3d at 610).

<sup>299</sup> *Id.*

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Bloomberg's use served the important public purpose of disseminating important financial information, without harm to the copyright interests of the author."<sup>300</sup> In *American Institute of Physics v. Winstead PC*, the judge recognized a public benefit in the filing of copies of articles as part of patent applications.<sup>301</sup> In discussing the fourth factor, the judge stated that the public benefit of "minimiz[ing] excessive costs in patent applications and maximiz[ing] the accuracy of the patent process" outweighed any gain to the plaintiffs from potential fees.<sup>302</sup> While in the cases discussed above the court had identified a minimum market impact on the plaintiff, in *Winstead*, the plaintiff had claimed licensing fees.<sup>303</sup> The judge was recognizing that the public benefit of the defendants' use outweighed this claim.<sup>304</sup>

In two other cases, the courts in summarizing the fair use analysis recognized the public benefit of the defendant's commercial use. In *Authors Guild, Inc. v. Google Inc.*, the District Court for the Southern District of New York recognized the significant public benefits of the Google Books database.<sup>305</sup> In *American Institute of Physics v. Schwegman*, the judge finalized the discussion of fair use by noting the defendants' through their filing of copies in patent applications "confer[ed] a public benefit" that promoted the progress of science and useful arts.<sup>306</sup>

## X. CONCLUSION

Fair use analysis under Section 107 of the 1976 Copyright Act focuses on the use, not the user. Commercial entities are entitled to rely on fair use, and many have been successful in their reliance.<sup>307</sup> Commercial uses, however, have received varied treatment under Section 107 since its enactment and in some courts may still be subject to a presumption of unfairness. A careful study and understanding of

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<sup>300</sup> *Swatch Group II*, 756 F.3d at 92.

<sup>301</sup> *Am. Inst. Of Physics v. Winstead*, Civ. A. No. 3:12-CV-1230-M, 2013 WL 6242843, at \*12 (N.D. Tex. Dec. 3, 2013).

<sup>302</sup> *Id.*

<sup>303</sup> *Id.* at \*11.

<sup>304</sup> *Id.* at \*9.

<sup>305</sup> *Google, Inc.*, 954 F. Supp. 2d at 293.

<sup>306</sup> *Am. Inst. of Physics v. Schwegman*, Civ. No. 12-528, 2013 WL 4666330, at \*18 (D. Minn. Aug. 30, 2013).

<sup>307</sup> As Professor Sag noted, "[t]he right to make fair use of a copyrighted work is equally applicable to Fortune 500 companies as it is to struggling artists." Sag, *supra* note 174, at 85. Professor Sag notes that some lawyers that are unfamiliar with copyright law assume a for-profit entity cannot qualify for fair use, which is not the case. *Id.* at 59. Cases discussed in Part VII of this Essay reflect a diversity of different commercial entities that have successfully proven fair use.

the history and interpretation of Section 107(1) of the 1976 Copyright Act is essential to increase the possibility that a commercial use will qualify for fair use treatment. The reference to the “commercial nature” of a work was added to Section 107 without any intent to institute a presumption of unfairness or to indicate that commerciality was more important than other factors.<sup>308</sup> If there was any intent, it was to retain the treatment of commerciality simply as one of the factors considered in a fair use determination.<sup>309</sup> Prior to the enactment of the 1976 Copyright Act, courts considered commerciality as a factor in fair use analysis, but not necessarily as a determining factor.<sup>310</sup> The Supreme Court’s pronouncement in *Sony* of a presumption of unfairness elevated the importance of commerciality in potential effect, especially in linking determinations of unfairness in the first and fourth factors. The Court in *Campbell* seemingly rejected the presumption that all commercial uses were unfair, although the *Sony* pronouncement still haunts some opinions. The Court in *Campbell* also retained a limited presumption that under the fourth factor, a commercial use was unfair if it was not transformative. The transformative use test from *Campbell* has become the dominant analysis in fair use decisions, making it important that a use qualify as transformative to increase the likelihood that the use will receive fair use treatment. A determination of transformative use can affect both the first and fourth factor analysis, even outweighing a plaintiff’s claim for licensing fees through a ready market. For commercial uses, it is helpful that in following *Campbell*, courts recognized that a different purpose for the use of a work could be transformative even if there was no alteration in the work.<sup>311</sup> This analysis expanded the universe of uses that could qualify for fair use treatment. Commercial uses, such as the creation of databases of searchable works, benefited from this analysis. Recent transformative use analysis<sup>312</sup> provides a positive vehicle for users of copyrighted works for commercial purposes to qualify for fair use. This analysis restores commerciality as simply a factor in fair use analysis rather than a determiner of outcome.

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<sup>308</sup> See H.R. REP. NO 94-1476, at 66, reprinted in 1976 U.S.C.C.A.N. at 5679 (“[This amendment] is an express recognition that, as under the present law, the commercial or non-profit character of an activity, while not conclusive with respect to fair use, can and should be weighed along with other factors in fair use decisions.” (emphasis added)).

<sup>309</sup> *Id.*

<sup>310</sup> See, e.g., *Rosemont Enters. v. Random House, Inc.*, 366 F.2d 303, 307 (2d Cir. 1966).

<sup>311</sup> As discussed in Part IX, demonstrating a public benefit can also support an argument for fair use treatment. The cases mentioned in that section reflect diverse types of activities that courts identified as generating a public benefit.

<sup>312</sup> See discussion *supra* Part VIII.

