Annual Update

Significant Developments in U.S. and European Copyright Law 2016

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Contents

Below are the selections of Covington's Intellectual Property Rights Practice Group for the "Top Ten" most significant and interesting developments in U.S. and European copyright law during 2016.

Supreme Court clarifies availability of attorney's fees in copyright cases.

In *Kirtsaeng v. John Wiley & Sons, Inc.*, the Supreme Court ruled that courts must account for all appropriate factors in deciding whether to award fees in a copyright case, and should not apply any presumptions based on the reasonableness of the losing party's litigation position.

Court watchers likely recall the caption from this case: a divided Supreme Court ruled in 2013, as to the same parties, that the first-sale doctrine applies to copies of a work lawfully made abroad. Wiley, an academic publisher, had sued Supap Kirtsaeng, a student, for selling foreign-edition textbooks in the U.S. The books were cheaper abroad, so Kirtsaeng arbitraged them in the U.S. and made about $1.2 million in revenue. Wiley sued Kirtsaeng for copyright infringement, ultimately losing when the Supreme Court ruled for Kirtsaeng's first-sale defense. Kirtsaeng then sought an award of fees against Wiley.

The Copyright Act gives courts discretion to award attorney's fees to the prevailing party. Under prior Supreme Court precedent, courts ruling on fee requests are to consider frivolousness, motivation, objective unreasonableness, and the need in particular circumstances to advance considerations of compensation and deterrence. Notably, fee requests must be considered case-by-case, not awarded automatically, and courts may not treat prevailing plaintiffs and prevailing defendants differently.

Kirtsaeng requested over $2 million in fees from the trial court, which denied his request based on Second Circuit law. It gave "substantial weight" to the "objective reasonableness" of Wiley's litigation position and ruled that giving Kirtsaeng fees would not promote the purposes of the Act. The Second Circuit affirmed.

The Supreme Court rejected the Second Circuit's decision because of what it saw as *over*-reliance on the "objective reasonableness" standard in the Second Circuit. The Court agreed that the objective reasonableness of the losing party's position should be given substantial weight in lower courts' decisions to fee-shift. But the Court noted that, especially in the Second Circuit, objective reasonableness had become essentially the controlling factor in assessing fee applications.

As Justice Kagan explained, the Second Circuit's suggestion that reasonableness raises a presumption against granting fees had gone too far in cabining how district courts may structure their fee analyses. So the Court offered three guidelines to establish that although objective reasonableness is important, courts must also give due consideration to all other factors in deciding whether to award fees.

First, the Court confirmed that the reasonableness of a party's position is *an* important factor for consideration in whether to award fees.

Second, the Court considered Kirtsaeng's argument that even if Wiley's litigation position was reasonable (and the fact that it took a divided Supreme Court to decide the issue in the prior ruling made clear it was), he was entitled to fees because the case "meaningfully clarified" an issue of copyright law. The Court's 2013 opinion certainly clarified an aspect of the first sale doctrine. But the Court disagreed because the principle would produce "no sure benefits" as it would not necessarily encourage parties to litigate such cases to judgment.

Third, the Court returned to the question of reasonableness and clarified that although it is indeed important, it cannot be the controlling factor in courts' fee-award decisions. While it did not point to specific factors the lower court should consider in Kirtsaeng's case on remand, the Supreme Court noted that the Second Circuit's precedent on reasonableness veered too close to a presumption against granting fees just because the loser relied on a reasonable position. For instance, the Court explained, what about a losing party that adopts a reasonable litigation position but conducts itself unethically throughout the litigation? Fees could be awarded to discourage that type of practice, despite objective reasonableness.

Thus, in rejecting the Second Circuit's clearer standard in copyright attorney's fee cases, the Supreme Court's ruling gives district courts more flexibility in ruling on fee requests in copyright cases and so likely makes such disputes somewhat less predictable.

Jury agrees Google's copying of Oracle code was fair use and district judge does not disagree.

Oracle's copyright suit against Google for copying certain method declarations and organization from Oracle's Java API packages has captured copyright watchers' attention for several years now. In May, it reached another significant milestone after a weeks-long trial on remand, the jury found Google's copying protected under the fair use defense.

The case had a long trip to the jury. Oracle brought the case in 2010, asserting patent and copyright claims against Google. The heart of its case, ultimately, was the claim that Google copied the structure, sequence, and organization ("SSO") of the Java application programming interface ("API"), basically a library of pre-written Java functions (*e.g.*, for performing a math equation or creating a display). Oracle also claimed Google copied the "declaring code" that programmers use to invoke the pre-written functions. Although Google copied 7,000 lines of Oracle's declaring code, it wrote its own implementation code to perform the functions invoked by the declaring code.

Oracle's case first reached a jury in 2012. That jury found that Google had infringed Oracle's SSO and declaring code, but hung on the question of whether Google's copying nonetheless constituted fair use. Google moved for judgment as a matter of law, claiming that the code at issue was not copyrightable under Section 102(b) of the Copyright Act because it was a "system or method of operation." The district court agreed with Google: it held that the SSO and declaring code were functional in nature and thus within the ambit of Section 102(b). Oracle appealed to the Federal Circuit (which had jurisdiction because Oracle had pled a patent claim too).

The Federal Circuit reversed the district court in 2014. It held that regardless of how "functional" Oracle's SSO and declaring code might seem—because Java became an industry standard—the choices of Oracle's predecessor in designing the SSO and declaring code met the standard for originality under the Copyright Act. Also, the Federal Circuit ruled that Section 102(b) did not apply because Oracle's code was creative and original, even if the code also performed functions. Oracle could have designed the code in many different, alternative ways, but the one it chose was enough to render its code copyrightable and not subject to Section 102(b)'s bar. So the case went back to the district court for a jury trial on fair use.

This time, the jury agreed with Google on fair use. Google had argued that in adapting parts of the Java SSO and declaring code to a *mobile environment*—Java was designed for desktop environments—Google had transformed Oracle's code and given it a new purpose and object. Google had also argued that its adaptation did not hurt Oracle's market for the SSO and declaring code because Oracle did not successfully move Java to mobile itself. (Oracle disputed this.)

Following the trial, Oracle moved for judgment as a matter of law on the fair use defense. The district court denied its motion. So the case goes back to the Federal Circuit—and from there, perhaps to the Supreme Court, which previously denied cert on the copyrightabliity issue but may be more willing to take up a potentially era-defining fair use case.

Second Circuit issues strong ruling favoring DMCA safe harbors.

In June, the Second Circuit issued its opinion in *Capitol Records, LLC v. Vimeo, LLC*, making several significant rulings on the applicability of safe harbors under the Digital Millennium Copyright Act ("DMCA") to non-federally protected works, and regarding the knowledge an Internet service provider ("ISP") must have before it loses the benefit of the DMCA safe harbors.

The plaintiffs, a group of record labels including Capitol Records, hold rights to numerous sound recordings fixed before and after 1972. Vimeo, the defendant,operates a video-sharing website where users can upload videos.

The *Vimeo* plaintiffs asserted that Vimeo infringed copyright in a group of sound recordings fixed both before and after 1972. Sound recordings are not protected by federal copyright law if they were fixed before February 15, 1972, so owners of such works may only bring infringement claims under state law theories (to the extent particular state laws recognize such rights), not the U.S. Copyright Act.

Before the district court, on cross-motions for summary judgment, Vimeo argued that Section 512(c) of the DMCA shielded it from monetary liability as to all of the works in question. Provided they meet certain statutory conditions, Section 512(c) grants Internet service providers ("ISPs") immunity from claims (other than certain forms of injunctive relief) for "infringement of copyright" with respect to content uploaded at the direction of a user. Companies can lose the Section 512(c) safe harbor if they have actual knowledge of infringing material or if they have "red flag" knowledge—awareness of facts or circumstances that make infringing activity apparent—but do nothing in response. Companies can also lose safe harbor by being willfully blind: making deliberate efforts to avoid guilty knowledge of infringement of a plaintiff's work.

In response to Vimeo's arguments, the plaintiffs contended that Section 512(c) did not protect Vimeo because (1) the statute only applies to federally protected works and thus excludes pre-1972 sound recordings; (2) some of Vimeo's employees had viewed videos of "recognizably" copyrighted songs, imputing red flag knowledge to Vimeo; and (3) Vimeo had a general policy of willful blindness to infringement of sound recordings, proven by a few emails and video comments from Vimeo employees indicating that they were essentially encouraging users to post infringing content.

The trial court ruled that (1) pre-1972 sound recordings are not within the scope of the DMCA's safe harbors, (2) genuine issues of material fact precluded summary judgment on red flag knowledge, and (3) Vimeo was not willfully blind to copyright infringement based on the sporadic emails on the record.

Both parties appealed. Judge Pierre Leval, author of the recent Google Books decision, was on the panel and wrote the appellate opinion.

First, as to whether Section 512(c) covers pre-1972 sound recordings, the Second Circuit considered whether the statute's reference to "infringement of copyright" included pre-1972 sound recordings, which are not protected by federal copyright but can be protected by state law. As the Court of Appeals explained, Congress did not qualify the phrase with a reference to "federal" copyright alone. Because courts assume Congress means what it says, the Second Circuit ruled this language applies to *all* copyright infringement liability, including under state law. Here, the court was neither persuaded nor bound by the Copyright Office's 2011 report advising that the DMCA does not apply to pre-1972 sound recordings, which the court stated ignored Congress's clear intent not to qualify "infringement" in Section 512.

Second, as to whether red flag knowledge would be imputed to Vimeo because certain of its employees viewed some of the allegedly infringing videos that contained "all or virtually all of a recognizable, copyrighted song," the court also ruled for Vimeo. The court explained that under its prior *Viacom* decision, to be disqualified for red flag knowledge a provider must actually have known facts that would make the specific infringement claimed objectively obvious to a reasonable person.

On this point, the Second Circuit found that the district court erred by ruling very broadly that Vimeo could lose its safe harbor because some employees viewed all or substantially all of a certain video. Rather, the district court should have required more specific evidence from the plaintiffs than the "mere fact" that employees viewed videos that contained "recognizably" copyrighted songs. The Second Circuit offered four examples of why that is true: the employee might not have had time to ascertain the video's contents; the reason for viewing the video might have been unrelated to copyright; the employee might not have recognized the song (for many reasons including age and musical taste); and employees cannot generally be assumed to have expertise in copyright, such that they could distinguish lawful from infringing material.

Third, the Second Circuit rejected the plaintiffs' argument that Vimeo was willfully blind to copyright infringement. The plaintiffs had argued three points: (1) Vimeo monitored videos for infringement of *visual* but not *audio* content; (2) Vimeo was aware of facts suggesting a likelihood of infringement giving rise to a duty to investigate; and (3) some Vimeo employees encouraged users to post infringing material, but Vimeo ignored the material on its service.

The Court of Appeals rejected all three points. On the first two points it ruled that Section 512(m), another provision of the DMCA, clearly states that hosts like Vimeo have no duty to monitor their services, and any knowledge vitiating that lack of a duty must rise to the level of specific knowledge of infringement, not just suspicion. On the third point, the court held that even if a few Vimeo employees commented on videos to encourage posting infringing music, sporadic instances among millions of posted videos cannot support a finding of broad encouragement of infringement sufficient to support a finding of willful blindness.

The Second Circuit's ruling in *Vimeo* thus sets a high standard for copyright holders seeking to strip away ISP safe harbor protections. The plaintiffs are seeking Supreme Court review, so the opinion may be revisited.

Second Circuit hands down significant ruling limiting safe harbor protection in *MP3tunes* case.

In *EMI Christian Music Group, Inc. v. MP3Tunes, LLC*, the Second Circuit ruled in favor of the record label plaintiffs, reversing the district court's holding that MP3tunes, an online music service, was entitled to DMCA safe harbor with regard to its MP3 locker and search services.

MP3tunes let people upload and store MP3 files into online lockers for a fee. The company also offered a "sideloading" service that indexed and linked to MP3s available online and let users add those files to their lockers. No fee was associated with either the sideloading of songs or the storage of sideloaded songs. So the sideloading service drove a great deal of traffic to MP3tunes's locker service because users could sideload as much as they wanted. Separately, MP3tunes CEO Michael Robertson directed employees to add songs to the company's sideload.com index, providing a list of sites featuring free MP3s, most of which were pirated. MP3tunes also had an automated cover art downloading feature, which scraped Amazon's servers for album art.

The plaintiffs sued MP3tunes and Robertson for direct and secondary copyright infringement. On summary judgment, the district court ruled that MP3tunes qualified for safe harbor under the DMCA because it complied with the DMCA requirement to terminate the accounts of "repeat infringers"by terminating 153 users who let people access and copy their music files.

After the Second Circuit's decision in *Viacom International, Inc. v. YouTube, Inc.*, which held that willful blindness and red flag knowledge of infringing activity can demonstrate knowledge or awareness of infringement sufficient to remove DMCA safe harbor, the district court partially reconsidered its ruling that MP3tunes qualified for DMCA safe harbor protection. Holding that the question presented an issue of fact, the court sent the matter to a jury. The jury found for the plaintiffs, determining that MP3tunes was liable for copyright infringement. But the district court granted judgment as a matter of law on certain claims—namely on the jury's specific findings that MP3tunes was willfully blind or had red-flag knowledge about certain categories of MP3s—because, the court found, there was insufficient evidence to support those findings. (Aside from those categories, the district court upheld the jury verdict against MP3tunes.)

The Second Circuit reversed vacated and reversed parts of the district court's judgment. Though the DMCA provides that safe harbor protection cannot be conditioned on a service's monitoring for infringing activity, the panel said a reasonable jury could have concluded that it was reasonable for MP3tunes to track and terminate users who repeatedly linked to or copied infringing content in the sideload.com index. Essentially, the Second Circuit reasoned that MP3tunes already had (or could be imputed) a great deal of knowledge about what infringing content was on its services. This was not monitoring, the Second Circuit said, because MP3tunes "already had adequate information at its disposal" in the form of takedown notices about infringing links, as opposed to having to "cobble together" information, which would be burdensome.

Similarly, the panel found that a reasonable jury could have concluded pre-2007 major label MP3s were obviously infringing because no major labels offered songs in the MP3 format before then. Similar reasoning applied to Beatles songs on the service, which the panel concluded MP3tunes should have known were not legally available in MP3 form at this time.

The panel upheld the district court's ruling that MP3tunes acted with sufficient "volitional" conduct to render it directly liable for infringement of cover art, even though the process of obtaining the art was automated. Because evidence showed that the MP3tunes system retrieved a copyrighted item the user did not request at the time the user uploaded a file, the panel concluded that MP3tunes—not users—directed the copying.

This case could have important consequences for companies that rely on DMCA safe harbor as it implies that a service that receives takedown notices and is reasonably capable of operationalizing review of information covered by those notices should do so to minimize the risk of losing Section 512 safe harbor protection.

Tenth Circuit rules DMCA safe harbor applies to independent contractors.

The Tenth Circuit ruled in April that a website's use of independent contractors for content uploads did not deprive the website of DMCA safe harbor protections.

AXS runs an entertainment website, whose content is submitted by paid independent contractors. BWP owns the rights to many celebrity photos.

BWP sued AXS for copyright infringement based on BWP photos that were uploaded by AXS's independent contractors. AXS won summary judgment because the court found the DMCA's safe harbor provisions protected it from monetary liability for infringement based on material the independent contractors had uploaded. The DMCA safe harbors protect ISPs that meet certain statutory conditions from monetary liability for copyright infringement when the material is uploaded at the direction of a "user."

On appeal, BWP argued that AXS could not rely upon the safe harbors because the independent contractors were not "users" under the statute. BWP had two main arguments on this point: (1) the plain meaning of "user" excludes independent contractors, and (2) AXS directed the independent contractors' uploading of content (or at least had sufficient knowledge of it to take away AXS's safe harbor).

The Tenth Circuit rejected both of BWP's arguments, ruling in favor of AXS. First, the Court found that the plain meaning of "user" simply meant "one that uses." BWP argued that this definition would protect every ISP from infringement liability in all cases. The Court rejected that argument because the ISP still had to meet all the other DMCA safe harbor requirements, including not having actual or circumstantial knowledge of the infringement, as well as taking down or disabling the infringing material after learning about it.

Moreover, the Court ruled that the independent contractors were not "agents" of AXS. Rather, their contracts with AXS expressly said they were *not* agents, employees, or other legal representatives of AXS. The court also held that no principle of agency law supported finding the contractors to be AXS's agents as a matter of law. And even if they were, the Court noted, they would still be "users" under the DMCA, so AXS would not be automatically disqualified from safe harbors in any event.

Second, the Court ruled that AXS did not direct its contractors to post infringing content. Instead, it told them clearly that infringement was prohibited and gave them licensed photographs to accompany their posts.

BWP argued further that AXS was willfully blind to infringement because celebrity photos (AXS's focus) are generally copyright-protected, and that principles of agency law imputed knowledge of infringement to AXS sufficient to take away its safe harbor. As to the first argument, the Court ruled that a general knowledge that the ISP's services *could* be used to infringe copyright was insufficient to show actual or circumstantial knowledge of infringement. For the second, the Court rejected AXS's argument because it had not been raised below.

The Tenth Circuit's ruling has significant implications for websites that use independent contractors to curate and post content. So long as such websites structure retention of independent contractors properly and give them appropriate instructions on respective copyright, the DMCA safe harbor may be available with respect to content posted by those contractors.

Preliminary injunction shuts down video streaming site.

In December, the plaintiff movie studios in *Disney Enterprises, Inc. v. VidAngel, Inc.* won a preliminary injunction in a copyright infringement case before a California federal court, shutting down the defendant's video streaming site.

For a fee, VidAngel allows subscribers to watch movies stripped of nudity, violence, and profanity. The plaintiff studios claim that VidAngel is an unlicensed video-on-demand service. VidAngel operates by buying DVDs and Blu-Ray discs and "selling" them to customers. Though it is possible for customers to request physical delivery of the disc, most customers "buy" the movie by streaming it from a master copy on VidAngel servers, and then "sell" the movie back to VidAngel, at a lower price, when they are finished watching it.

The plaintiffs brought a DMCA anti-circumvention claim and copyright infringement claims. The court found that the plaintiffs were likely to succeed on their DMCA anticircumvention claim, which alleged that VidAngel had bypassed technical access restrictions on the plaintiffs' movies.

On the infringement claims, the court found also that plaintiffs were likely to succeed on the merits. VidAngel had reproduced the plaintiffs' movies, violating the Copyright Act. VidAngel had argued that its "copies"—encrypted fragments of less-than-10-second clips stored in the cloud—were not viewable by users, and were instead lawful "intermediate" copies. The court rejected this argument, finding that the fragments were "able to be perceived with the aid of VidAngel's software."

The court also found that even assuming VidAngel's buy/sellback service creates a valid ownership interest in the *physical* copy of the movie, that ownership interest does not apply to the *digital* content that paying subscribers view.

VidAngel had also argued that its filtering service was transformative and thus a fair use. The court disagreed because VidAngel added nothing to the films it edited, and used its edited films for the same purposes as the originals, *i.e.*, entertainment. Also, VidAngel took the most important parts of the plaintiffs' copyrighted movies, and harmed the market for those movies by substituting its infringing movies for the originals.

VidAngel has appealed the preliminary injunction.

Ninth Circuit creates circuit split on sampling.

In *VMG Salsoul, LLC v. Ciccone*, the Ninth Circuit created a clear circuit split with the Sixth, holding that de minimis copying is not infringement even for sound recordings—contrary to the Sixth Circuit's controversial holding otherwise.

The "Ciccone" of the case name is Madonna Ciccone, the musician better known just by her first name. In her 1990 single "Vogue," Madonna sampled a 0.23 second snippet of a horn hit from an earlier song called "Love Break." VMG Salsoul owns the rights to that song, and it sued Madonna for infringement in both the composition and sound recording of "Love Break." (The two rights are separate under the Copyright Act.)

Madonna argued that the sample was "de minimis" because no reasonable juror would recognize the appropriation. The Ninth Circuit agreed, noting that the entirety of the sampled material totaled less than a second and appeared only a few times in Madonna's song.

The parties' disputed whether the de minimis doctrine applies to sound recordings at all. In 2005, the Sixth Circuit held in *Bridgeport Music, Inc. v. Dimension Films* that no matter how brief, unauthorized copying of a sound recording is always infringement. VMG Salsoul, of course, argued for this rule before the Ninth Circuit.

But the Ninth Circuit disagreed, noting that its own precedent held that the de minimis rule "applies throughout the law of copyright, including cases of music sampling." Reviewing the Copyright Act, the court found no evidence that Congress meant to exclude sound recordings from the de minimis defense. Rather, it found that the statutory history suggested infringement arises when at least a "substantial portion" of a sound recording is copied. From this it concluded—after a painstaking review of the Sixth Circuit's decision—that the Sixth Circuit simply got it wrong.

Recognizing the circuit split it created, the Ninth Circuit explained that it could not square its duty to determine congressional intent with the goal of avoiding a split in this case. And it noted that a split essentially already existed because almost every district court outside the Sixth Circuit has refused to apply *Bridgeport*. However, VMG Salsoul declined to seek Supreme Court review, so the split awaits resolution for another time.

Auction houses defeat California resale royalty claims with preemption arguments.

In April, a federal judge in *Estate of Robert Graham v. Sotheby's Inc*. ruled that the California Resale Royalty Act ("CRRA") is preempted under the U.S. Copyright Act.

CRRA requires the seller of fine art to pay the artist a five percent royalty as long as "the seller resides in California or the sale takes place in California." The right to royalties may not be waived, but it may be expanded beyond five percent. The CRRA applies to both sellers and their agents.

The plaintiff artists alleged that Sotheby's, Christie's, and eBay failed to comply with CRRA. In 2012, the court dismissed the action, concluding that CRRA's regulation of sales outside California violated the dormant commerce clause. On appeal, the Ninth Circuit, sitting en banc, partially affirmed but held that the statute could be applied as to plaintiffs' claims for art sold in California.

On remand, the district court found the CRRA was preempted under the Copyright Act of 1976. The analysis pointed out two relevant types of preemption: conflict preemption and express preemption. Conflict preemption applies when a state law actually conflicts with federal law or when the state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress in enacting the federal law. Express preemption refers to "preemption clauses" in federal statutes that expressly displace the challenged state law. The court found the CRRA was preempted on both bases.

For the conflict preemption analysis, the court examined the first sale doctrine, codified at 17 U.S.C. § 109(a). According to that doctrine, buyers of copyrighted works are free to dispose of them as they wish. Notably, the court said that "[n]o authority supports the proposition that states can eliminate the first sale doctrine, and imbue copyright holders with unprecedented market power, simply because a reseller can enter into a distribution agreement with the copyright holder." In its 1980 *Morseburg v. Balyon* decision, the Ninth Circuit concluded that the first sale doctrine *did not* preempt the CRRA because it does not restrict the transfer of art works. In other words, it regulates not the resale of fine art, but rather the proceeds derived from that resale.

The district court concluded that *Morseburg* is no longer good law. In addition, the 1976 Copyright Act (which was not at issue in *Morseburg*) contains an express preemption clause, which the court interpreted to preempt CRRA.

The plaintiffs have appealed the district court ruling to the Ninth Circuit.

European Court of Justice rules linking to infringing content can create liability.

In *GS Media v. Sanoma Media Netherlands*, the Court of Justice of the European Union (CJEU) ruled that anyone who posts hyperlinks to copyright-infringing content for financial gain presumably has knowledge of the protected nature of the works to which the links relate—potentially rendering the act of hyperlinking an unlawful communication to the public, unless the linker can rebut the presumption of knowledge.

The defendant, GS Media, runs a tabloid website on which it posted hyperlinks to third party websites, which were unlawfully hosting photographs owned by Sanoma, the owner of Playboy. Although Sanoma was initially successful in asking GS Media to remove the hyperlinks, links to the copyright-protected content kept reappearing. Sanoma therefore sued GS Media for copyright infringement.

The CJEU was asked to determine whether GS Media's posting of hyperlinks to a third-party website that hosts copyright-infringing content made *GS Media* itself an infringer of copyright—and, in particular, whether GS Media was committing an unlawful act of communication to the public. (Under EU law, communications of a copyright-protected work to the public must be authorized by the copyright holder where the work is either (a) communicated using different technical means from the initial communication, *or* (b) communicated to a "new public"—

that is, a public that was not originally contemplated by the copyright holder when they authorized the initial communication of their work.)

In previous cases, the CJEU has held that where a party provides a hyperlink to a third-party website containing copyright-protected works that are *already* freely available online with the permission of the copyright holder (*e.g.*, hyperlinking to a news website that is available for anybody to view), there is no unlawful act of communication to the public. In this case, however, both the initial communication to the public of the photographs on the third-party website, and the subsequent hyperlinking to those photographs by GS Media, took place without the authorization of Sanoma, the copyright holder.

Faced with these facts, the CJEU held that liability for copyright infringement should be tied to the profit-making nature of the act of hyperlinking. According to the CJEU, a linker who does *not* pursue a profit by linking to other websites (*e.g.*, an ordinary Internet user) should not be assumed to reasonably know whether the content to which they are linking was originally authorized by the copyright holder. But a person *does* commit an unlawful act of communication to the public by posting links to copyright-protected content in circumstances where the hyperlink is posted "for profit". The Court did not specify what constitutes "profit", but it seems possible that any form of financial gain, including website advertising revenue, will suffice.

Where hyperlinks are posted for profit, the CJEU concluded that there is a rebuttable presumption that those links are posted with full knowledge of the protected nature of the work, and the possible lack of authorization from the copyright holder. As such, the act of hyperlinking will be treated as an unauthorized communication to the public—unless the linker can rebut the presumption of knowledge.

Since the CJEU's judgment, Member State courts in Sweden, Germany and, most recently, the Czech Republic have heard cases in which they have been required to apply the ruling in GS Media.

CJEU rules right to resell legally acquired works does not extend to backup copies of software.

In *Case C-166/15 Ranks and Vasiļevičs*, the CJEU interpreted the right to resell software that it set out in 2012, in its *UsedSoft GmbH v. Oracle International Corp* judgment.

In *UsedSoft,* the CJEU held that the first digital "sale" of a copy of software within the EU by the copyright owner (or with the owner's consent), exhausts the copyright owner's distribution right in that copy. A "sale" of the software is deemed to occur where the copyright owner grants an unlimited license to the purchaser of a copy of the software in exchange for a fee that represents the economic value of the work. The CJEU explicitly stated that the analysis did not depend on whether the copy of the software is made available to the purchaser via digital download or on a physical medium, such as a CD—the transfer of either a digital or physical original copy exhausts the first sale right.

The facts in *Ranks* differed, in that the case did not involve resale of an original copy. Instead, the *Ranks* defendants—faced with criminal charges—alleged that they had resold "backup" DVD- or CD-ROM copies of Microsoft software for which the original disks had been destroyed. The question presented to the Court was whether the distribution right in *back-up copies* of computer programs exhausts.

The relevant EU law, the EU Computer Programs Directive, includes an exception to the reproduction right that permits licensees to make back-up copies. But the law is silent on whether those lawfully made back-up copies exhaust.

To resolve the question, the CJEU pointed to the language of the Directive, which provides that "the making of a back-up copy by a person having a right to use the computer program may not be prevented by contract in so far as it is *necessary for that use*." As a result, "It follows that a back-up copy of a computer program may be made and used only to meet the sole needs of the person having the right to use that program and that, accordingly, that person cannot—even though he may have damaged, destroyed or lost the original material medium—use that copy in order to resell that program to a third party." So although EU law provides that the original purchaser of software may resell their copy and the accompanying license to a new acquirer, they cannot do so by giving the new acquirer their backup copy unless the rightsholder authorizes otherwise.

As a practical matter, this is an important case for holders of rights in computer programs, as it should deter attempts by third parties to burn counterfeit copies and "mask" them as back-up copies that can lawfully be resold.

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