

**E-PUBLISHING LEGAL UPDATE**  
**(PUBLISHER'S RIGHTS, ORPHAN WORKS, GOOGLE, KINDLE 2 AND KINDLE**  
**PUBLICATION AGREEMENT)**

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**I. Copyright and Significant Pre-Google E-Publishing Cases.**

**A. Basic Copyright.** Congress has the power "... to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." (U.S. Constitution, Article I, § 8, ch. 8).

*Original Works* - Copyright protection exists in original works of authorship fixed in a tangible medium of expression, from which the work can be perceived, reproduced or communicated. Works of authorship include literary works.

*Exclusive Rights*- Under Section 106 of the Copyright Act, copyright ownership provides the owner of a literary work with the exclusive rights: (i) to reproduce the work in copies or phonorecords, (ii) to prepare derivative works based on the work, (iii) to distribute copies by sale, ownership transfer, rental, lease or lending, and (iv) to perform and publicly display the copyrighted work.

**B. Tasini, et al. v. New York Times Company, Inc., et al., 533 U.S. 483 (2001).**

1. In 1993 six free lance authors brought suit against The New York Times Company, Newsday, Inc., Time, Inc. (print publishers), University Microfilms International and Mead Data Central Corp. (electronic database publishers).

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<sup>1</sup>©2009 Lloyd L. Rich and Jon R. Tandler. This outline and the information herein is summary only, and is qualified in its entirety by reference to the applicable court decisions, and in the matter of the Google litigation the actual Settlement Agreement, the attachments thereto and the requirements of the Settlement Administrator. Additionally, this outline was prepared as of November 2, 2009, and events subsequent to such date may occur which may render inaccurate or otherwise impact the information presented herein.

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2. The print publishers licensed rights to copy and sell articles to LEXIS/NEXIS. The Times also had licensing agreements with UMI to reproduce the Times materials on two CD-ROM products, one text only and one image based. These two products were searchable in a manner similar to LEXIS/NEXIS; *importantly, retrieved articles were published and accessible on a standalone basis with no links to other articles, graphics or format appearing in the original print publications in which the articles appeared.*

3. The agreements by which the print publishers contracted with the authors for their articles, did not transfer copyright or grant the publishers the right to publish the articles in electronic databases.

4. The authors filed suit alleging their copyrights were infringed when, as arranged and fostered by the print publishers, LEXIS/NEXIS and UMI placed the articles in their electronic databases.

5. The defendants claimed they were permitted to electronically reproduce the authors' works under Section 201(c) of the Copyright Act, which provides as follows:

**Section 201(c) - Contributions to Collective Works.** Copyright in each separate contribution to a collective work is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution. *In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.*

6. The Court held that Section 201(c) did not permit the copying - the electronic publishers infringed the authors' copyrights by reproducing and distributing the articles in a manner not authorized by the authors or the Copyright Act. The Court stated that Section 201(c) serves to restrict the publisher's copyright in its collective work to enable a writer to retain exclusivity over the copyright in his/her original work and thus further exploit it.

7. The Court's majority opinion, presciently, also stated that authors and publishers may *"enter into an agreement allowing continued electronic reproduction of the Authors' works; they, and if necessary the courts and Congress, may draw on numerous models for distributing copyrighted works and remunerating authors for their distribution."*

**C. Faulkner, et al. v. National Geographic, et al., 409 F. 3d 26 (2d Cir. 2005).**

1. In 1997 National Geographic produced "The Complete National Geographic" (CNG); this was a CD ROM set containing each monthly issue of the Magazine, as originally published from 1888 through 1996.

2. Faulkner and other freelance photographers and writers sued National Geographic and other parties on the grounds that the CNG electronically reproduced the print magazines that had included their works, without their permission or consent.

3. Based on the CNG using the same selection, coordination and arrangement of the individual contributions as displayed in the original print works and what the user sees is an electronic replica of pages of the Magazine, in this case the court determined that National Geographic's use of the plaintiffs' works was privileged under Section 201(c).

**D. Random House, Inc. v. Rosetta Books, LLC, 283 F.3<sup>rd</sup> 490 (2d Cir. 2002)**

1. Rosetta Books contracted with several authors to publish certain of their titles in digital format over the Internet. In February 2001 Rosetta Books launched its e-book business, offering the digitized titles for sale. Random House filed a complaint accusing Rosetta Books of committing copyright infringement and tortiously interfering with the contracts Random House had with certain of its authors.

2. Random House alleged that the phrase in its form agreements "in book form" means to faithfully reproduce the author's text in its complete form as a reading experience and that, since e-books concededly contained the complete text of the work, Rosetta could not also possess those rights. Random House also claimed that the non-compete clauses in the authors' contracts granted it broad, exclusive rights in their work. Random House requested the court to grant a preliminary injunction that would prevent Rosetta Books from publishing e-books of the Random House titles.

3. The court ruled in favor Rosetta Books and denied Random House's request for a preliminary injunction. Relying on the language of the contracts and basic principles of contract interpretation, the court found that the right to "print, publish and sell the work[s] in book form" in the contracts at issue did not include the right to publish the works in the format that has come to be known as the "e-book." "To print, publish and sell the work in book form" is understood in the publishing industry to be a "limited" grant. The "new use" — electronic digital signals sent over the Internet — is a separate medium from the original use — printed words on paper.

## **II. Orphan Works**

### **A. History.**

Works are given copyright protection the moment they are written. There may be no way to find authors to seek their permission to republish their material. The penalties for infringement are high. Therefore, there is a lot of material that cannot be republished because the authors are essentially not locatable. That is, the cost to locate them, if they can even be located, is often too high to justify the use of the work. Factoring in the term of copyright protection (life plus 70 years), a large amount of work is likely to be unrepublishable for over a hundred years and possibly lost altogether.

The issue of “orphan works” (a term used to describe the situation where the owner of a copyrighted work cannot be identified and/or located by someone who wishes to make use of the work with permission of the copyright owner) has become more prevalent in recent years. Even where the user has made a reasonably diligent effort to find the owner, if the owner is not found, the user faces uncertainty – she cannot determine whether or under what conditions the owner would permit use.

Where the proposed use goes beyond an exemption or limitation to copyright, the user cannot reduce the risk of copyright liability for such use, because there is always a possibility, however remote, that a copyright owner could bring an infringement action after that use has begun.

Concerns have been raised that in such a situation, a productive and beneficial use of the work is forestalled – not because the copyright owner has asserted his exclusive rights in the work, or because the user and owner cannot agree on the terms of a license – but merely because the user cannot locate the owner.

Many users of copyrighted works have indicated that the risk of liability for copyright infringement, however remote, is enough to prompt them not to make use of the work. Such an outcome is not in the public interest, particularly where the copyright owner is not locatable because he no longer exists or otherwise does not care to restrain the use of his work.

## **B. Identification problems.**

Digital technology has made it easier for a work/part of a work to become separated from ownership and permissions information, both by accident and bad faith actors.

There have been significant changes in copyright law. Copyright law has moved away from a highly formalistic system as copyright protection has become automatic. Copyright registration is now optional and is only required to bring an infringement action. Copyright notices on works are no longer required. The term of copyright protection has been increased: the 1909 Act provided protection for 28 years plus a 28 year renewal (maximum protection was 56 years); the 1976 Act now provides protection for the life of the author plus 70 years.

## **C. Changes in ownership or circumstances of ownership.**

Copyright is a form of property and therefore it may be transferred through many hands.

This occurs by the transfer of a single work, mergers between companies and the acquisition of assets of entire company.

Multiple transfers often create problems for the owners themselves as the owner may be simply unaware of what they own.

This problem worsens if (i) a work is out-of-print as there is no incentive for an owner to resolve the matter or respond to requests from potential users, (ii) the copyright owner dies - how do you contact the estate to get the necessary permission, and (iii) publishers ceasing operations.

**D. Difficulties researching copyright information.**

Conducting searches can be costly, time-consuming and non-productive.

**E. Legislation to Resolve Orphan Works Problem**

Legislation initially proposed in 2006 in U.S. as Orphan Works Act but it did not pass. Legislation is now pending again; Senate passed bill in September 2008 but passage still waiting in House. Some other countries have more comprehensive Orphan Works statutes than the U.S. (which has none at this time).

Components of the pending legislation

1. Study of current copyright registration system.
2. Voluntary owner registry.
3. Reasonably diligent search effort.
4. Usage of an "orphan work" must be identified by a symbol
5. Attribution required

6. When an owner appears. New Users - rights of owner restored. Existing Users - should be permitted to continue using orphan work with reasonable compensation to owner, which should represent the amount the user would have paid to owner if had engaged in negotiations before infringing use occurred. Injunction possible but only if work had not been transformed. Statutory damages/attorney fees are precluded for "good faith" users of orphan works

**III. The Google Litigation - The Authors' Guild, Inc., Herbert Mitgang, Betty Miles, Daniel Hoffman, Paul Dickson, Joseph Goulden, The McGraw Hill Companies, Inc., Pearson Education, Inc., Penguin Group (USA), Inc., John Wiley & Sons, Inc., Simon & Schuster, Inc. and Association of American Publishers, Inc. v. Google Inc.**

A. **History.** In 2004 Google developed the Google Library Project (the GLP, now called Google Book Search), to publish via searchable database books which it obtains from participating libraries and then scans and digitizes; the GLP includes both books in copyright and public domain (PD) books. Among benefits participating libraries were to receive under the GLP, they would have their collections submitted to Google scanned, digitized and returned to them electronically.

As examples, among many popular titles originally submitted by the participating libraries, were *The Elements of Style*, *The Art of Happiness*, *The Joy Luck Club*, *Lonesome Dove*, *1776*, *Truman*, *John Adams*, and *Bush at War*.

In 2005, plaintiffs commenced copyright infringement suits against Google, on the basis that Google did not have the rights to digitize, provide excerpts from, or otherwise use the copyrighted materials from the libraries. Plaintiffs were of the position that these acts violated the copyright owners', or their exclusive publisher licensees', exclusive rights of reproduction, copying and display under Section 106 of the Copyright Act.

The parties entered into settlement discussions and over a two-year period negotiated and structured a complex, and now controversial, settlement agreement which impacts the author, publishing and copyright communities.

The settlement requires court approval, after fairness hearings and comments by interested persons. Several author groups, professors, the Department of Justice and the United States Copyright Office have weighed in and have opposed the Settlement, causing the parties to extend the dates for the judicial fairness hearings and to commence efforts to restructure and renegotiate certain terms. That process is ongoing. As of this writing, the parties have advised that they expect to have revised terms (a revised settlement agreement) to propose for judicial approval by not later than November 9, 2009.

B. **What and Who is Included in the Proposed Settlement?** All "Books" (defined as a written or printed work published in hard copy and registered for U.S. copyright by January 5, 2009) and "Inserts" (defined as textual content, children's Book illustrations, musical notations, and tables, charts and graphs) registered for U.S. copyright by January 5, 2009 either alone or as part of another work, are included in the proposed Settlement.

A "Copyright Interest" is the ownership, including joint ownership, of a U.S. copyright interest or an exclusive license of a U.S. copyright interest, in each case only if the interest is a use authorized or for which compensation is payable under the proposed Settlement.

*Books and Inserts published and/or registered for copyright after January 5, 2009 are not included in the Settlement; these works will have the opportunity to participate in other digitized publishing programs of Google.*

C. **The Settlement Class** consists of all Persons who, as of January 5, 2009 hold a Copyright Interest in a Book(s) or Insert(s). The Settlement Class consists of publishers and authors - a *Rightsholder* is a member of the Settlement Class who has not opted out of the proposed Settlement by September 4, 2009 (unless that opt out date is extended).

1. **“In-Print” Books and Display Uses.**

a) **In Print Books:** Google will not make "Display Uses" of Books unless Rightsholders of in-print books **affirmatively include** their Books in the Google Book Search program and grant Google Display Uses on the designated Claim Form.

**Display Uses** include “Access Uses”, “Preview Uses”, “Snippet Displays”, and “Display of Bibliographic Pages”.

**Access Uses** include viewing and annotating an entire Book, and printing and copying portions of the Book, subject to page number limitations. The uses include institutional subscriptions, consumer purchase of online access, public access at libraries and elsewhere.

**Preview Uses** are designed as marketing tools and allow a searcher to view up to 20% of a book before making a purchase decision; Preview Uses are not intended to allow a searcher to copy and paste, annotate or print any pages from the Book.

**Snippet Displays** allow a search to view a few lines of text with up to three **snippet** uses per user for the Book.

**Display of Bibliographic Pages** means that users can see the Book’s title page, copyright page, table of contents and index.

b) In order to participate in the cash settlement for books Google has digitized **on or before May 5, 2009**, the Claim Form must be submitted by June 5, 2010 – this date may be extended; if such Rightsholders wish to remain in the proposed Settlement and further grant the right to make Display Uses, Rightsholders should submit the Claim Form as soon as possible although at this time there is no strict deadline for submission for Display Uses.

Rightsholders of in-print Books can decide, on a title-by-title basis, to include one or more of their Books in any or all Display Uses by completing the Claim Form. Alternatively, Rightsholders have the right to completely remove their Books from the GLP (that is, to have them deleted from all servers or sources from which Google or the participating libraries could make any uses), by making the necessary request not later than April 5, 2011 (unless this date is extended). After this date and/or after submitting a Claim Form, the Publisher or the Author has the right to

request Google not to digitize a Book only if it has not already been digitized.

c) The Publisher and Author of a Book that is in-print must, in the first instance, agree to include the Book in the GLP or it will not be digitized. They must also agree on the Display Uses. The Publisher must notify the Author of the Display Uses it is granting to Google.

d) If the Publisher and Author do not agree on the Display Uses, then Google will only use the Display Uses that have been agreed upon by the Publisher and Author unless the Book was created as a Work Made For Hire and thus Publisher owns the rights.

e) The revenues generated from Display Uses will go 63% to Publishers and Google will retain 37%. The Publisher will then pay the Author as per the publishing agreement.

f) Publisher can set the price of Book for individual purchasers. Google will set the price for Institutional Subscriptions.

2. **Out-Of-Print Books and Display Uses:** Except for the following, the procedures set forth above for in-print Books also apply to out-of-print Books.

a) Out-of-print Books will automatically be included in the Google Book Search program and included in all Display Uses **unless a Rightsholder expressly opts out** of the Settlement Agreement by September 4, 2009 – it is possible this date will be extended when other settlement terms are revised. This is the provision that some characterize as “**reverse principles of copyright law**” – see comments of Mary Beth Peters below.

b) In categorizing whether a Book is in print or not (that is, whether the Book is “Commercially Available”), Google will determine whether or not it is available new through typical sales channels. Google will initially determine whether a Book is out-of-print but the Google decision is subject to challenge by the Rightsholder.

c) If the rights to an out-of-print Book have reverted to the Author, then only the Author shall be considered a Rightsholder for such Book and the Publisher cannot submit a Claim Form for such Book.

d) Rightsholders of out-of print Books can decide, on a title-by-title basis, to exclude one or more of their Books from any or all Display Uses by completing a Claim Form.

#### D. **Publisher Alternatives.**

##### 1. **Publisher Opts Out of the Settlement.**

- a) Publishers and Authors must have expressly opted out of the proposed Settlement by September 4, 2009; otherwise they are considered to be “Rightsholders”.
- b) By opting out of the proposed Settlement Publishers and Authors will not receive any benefits from the Settlement; they will not be bound by its terms, including the release of claims against Google for the unauthorized digitization and electronic publication of Book.
- c) Opting out may not be done on a per-title basis, but rather is a decision not to participate in the proposed Settlement at all.

**2. Publisher and Author Participate in Proposed Settlement – Eligible to Receive Remuneration for “Display Uses.”** As to Both In Print and Out of Print Books, the following procedures and Display Uses apply:

- a) Publisher is automatically included in the Settlement if the Publisher has not opted out by September 4, 2009 – again this date may be extended.
- b) Google will pay the Publisher a fee (a cash settlement of not less than \$60.00) for each of the Publisher's Books that were digitized without authorization on or before May 5, 2009, under a fee schedule based on the kind of work involved. To receive this payment the Publisher must submit a Claim Form by June 5, 2010 – this date may be extended. Publishers who wish to remain in the Settlement and earn revenues from Google’s Display Uses, should submit a Claim Form but currently there is no strict deadline for doing this.
- c) A Publisher can learn whether its books have been or will likely be digitized as of May 5, 2009 through the online claiming process, which can be found at <http://www.googlebooksettlement.com>.
- d) Payments under the Settlement for an already digitized Book will be made to the Publisher, who will then pay pursuant to the publishing agreement with the Author.

**3. Publisher does not Opt Out.**

- a) If a Publisher owns a copyright interest in a Book, the Publisher need not do anything at this time to remain in the Settlement. *Remember - the September 4, 2009 was an opt out date.*
- b) If the Publisher submits the Claim Form, the Publisher will receive the benefits of the proposed Settlement if approved by the Court, and the Publisher's claims for copyright infringement against Google will be released and will be dismissed by the Court.

c) If the Publisher does not submit the Claim Form, Google will not make Display Uses for in-print Books and Publisher will receive no cash payments for settlement or from Google Display Uses. Google will make Display Uses for out-of-print Books.

**E. Other Aspects of the Settlement.**

1. The settlement is non-exclusive; Rightsholders who participate in the Settlement are **not** precluded from negotiating and entering into other arrangements for the electronic publication of their works.

2. The revenues generated from *Display Uses* will go 63% to *Rightsholders* and Google will retain 37%.

3. The Settlement establishes the Books Rights Registry, a non-profit entity that will initially be funded by Google in the amount of \$34.5m. Among many other activities, the Registry will locate *Rightsholders* and coordinate payments to them. After initial funding, it will be funded by an administrative fee as a percentage of revenues.

4. Google will pay not less than \$45m for Books and Inserts that Google has digitized without authorization as of the opt-out deadline, under a fee schedule based on the kind of work involved. If more dollars are necessary to pay bona fide claims, Google will put additional funds in the settlement. If less dollars are necessary, the dollars put in will be increased to the *Rightsholders* up to stated maximums. Payments under the settlement for an already digitized Book will be made to the Publisher, who will then pay as per the publishing agreement with the author.

**F. Information Sources on the Proposed Settlement.**

<http://www.googlebooksettlement.com> - this is the settlement administration website which has information about the settlement overall and the various documentation and procedures governing the settlement.

[Booksettlement\\_en@rustconsulting.com](mailto:Booksettlement_en@rustconsulting.com) – assistance with documents and claims processing.

**G. Position of the United States Copyright Office** – Excerpts from Statement of Marybeth Peters, U.S. Registrar of Copyrights, before the Committee on the Judiciary, United States House of Representatives, September 10, 2009, at the Hearing on Competition and Commerce in Digital Books:

➤ The Copyright Office does not view the settlement as a true settlement (that is an arrangement which resolves past acts which were at issue in the underlying infringement suits); rather, the proposed settlement creates mechanisms which enable Google to scan into the future and create commercial products without the consent of

rights holders. The settlement could affect the exclusive rights of millions of copyright owners, in the United States and abroad, as to their abilities to control new products and new markets for years.

➤ It is not clear why the parties defined the class according to whether a book was or was not published by January 5, 2009 - the result is to give Google control over a body of works that is many times larger than the works originally at issue in the copyright infringement litigation.... In effect the proposed settlement creates a structure similar to a compulsory licensing scheme, allowing it to continuously scan copyrighted books and inserts. A compulsory license (also known as a statutory license) is a legislative licensing scheme whereby copyright owners are required to license their works to a specified class of users at a government fixed price and terms.

➤ As to out – of – print works, the question of whether a work is in print or out of print is irrelevant as to whether the work is entitled to copyright protection. The settlement gives Google permission to use out of print works by operation of the default rules. The out of print default rules would allow Google to operate under **reverse principles of copyright law** and not be subject to infringement claims.

➤ Additionally, the scope of the out-of-print provisions would conflict with the work the Copyright Office and Congress have been doing to address orphan works and concomitantly impact the rights of authors, publishers, their heirs and successors.

➤ Aspects of the settlement that have conceptual merit include the creation of a rights registry for the copyright community, technology sector and the public to create a paradigm to license works and create payments efficiently, the ability to offer titles to visually disabled persons, the ability to have content owners and advertising companies share revenue streams on mutually agreeable terms, and the ability of libraries to offer increased online access.

#### IV. A. Kindle 2 and Publisher Rights.

In February 2009 Amazon shipped Kindle 2, a thinner, faster version of Kindle 1 with added functionality, including the ability to read text aloud (text to speech technology). Authors and publishers expressed concern that functionality infringed upon a copyright holder's exclusive rights under Section 106 of the Copyright Act to reproduce the work in phonorecords, to prepare derivative works of the work, and to perform or publicly display a work.

➤ The Copyright Act defines “phonorecords” as material objects in which sounds, ...are **fixed** by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, directly with the aid of a machine or device; one issue is whether the functionality and underlying hardware and software of the text to speech reader actually **fix** a copy of the work. The technology reads the text but does not fix or record it.

➤ The Act defines “derivative works” as a work based upon one or more preexisting works, such as a ...sound recording, or any other form in which a work may be recast, transformed or adapted; Kindle 2’s text to speech technology is a method which (even if there is no actual fixation or recording) recasts, transforms or adapts the original work.

➤ The Act defines “performing or displaying a work publicly” to include transmitting or otherwise communicating a **performance** or display of the work to a place open to the public or to where a substantial number of persons is gathered, **by means of any device** or process, regardless of whether the members of the public capable of receiving the performance or display receive it in the same place or at the same time; the legal issue here is whether the reading functionality rises to the level of **performance** contemplated by the Act’s **device** language.

➤ Amazon resolved the issue, after listening to concerns from the publisher and author communities, by determining it would allow publishers and authors to block the text to speech function on Kindle 2 on a title by title basis, thereby relying on the publishers and author to contractually agree that the publisher will have those rights in conjunction with electronic publishing rights.

➤ This matter provides guidance to publishers, in that they should now consider ancillary or subsidiary rights provisions in their contracts, included within the electronic rights clauses, for the reader/reading device to reproduce the work with a text to speech or similar audio reader mechanism.

## B. Kindle Digital Publication Distribution Agreement

A discussion of issues involving the “terms and conditions” included in the Kindle Digital Publication Distribution Agreement. A copy of this Agreement is attached for discussion purposes.

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