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Finding the Unobstructed Window for Internet Film Viewing

Alexis Garcia*

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I. INTRODUCTION

“The moving picture will be delivered at home as is the morning newspaper.”¹ —Film pioneer Siegmund “Pop” Lubin, 1906

Though uttered nearly a century ago, Lubin’s words ring clearer today than he could have possibly imagined. Yet despite its antiquated charm in referring to movies as “moving picture[s],” his prediction stands on the brink of realization as the Internet may provide the final push. Most likely, Lubin would have been satisfied with the emergence of television and astonished at the capabilities of videocassette, cable, and pay-per-view. Though he spoke before theaters were even common, he imagined a viewer being able to access films from the comfort of their living room. In terms of broadcast movies, this has already been the case for years. Recently, services have emerged that deliver videocassettes or DVDs to one’s doorstep, precisely to the mailbox.²

However, a closer reading of Lubin’s prediction forecasts the next step in the delivery of movies, one not yet in place because of technological, business and legal obstacles. Implicit in comparing a “moving picture” to a “morning newspaper” is the idea of immediacy and demand; a reader pays to receive the most up to date news at the earliest and most convenient time. Still, most major movies accessible from the home have already cycled through theatrical and home video releases.³ Internet innovations will not threaten the theatrical release system for the mere reason that the movie going experience provides benefits for which viewers will pay a premium, including state-of-the-art equipment, a big screen and the thrill of seeing a new release with a crowd of excited spectators. Yet, as the convergence of computers and television sets becomes a reality, the question remains, how will the Internet affect the other delivery systems and how will the studios utilize the new

¹ Lubin has been described as “America’s first movie mogul a generation before that term was ever used.” Siegmund Lubin <<http://faculty.mc3.edu/jeckhard/lubin.htm>> (accessed Aug. 23, 2002). See also JOSEPH P. ECKHARDT, *THE KING OF MOVIES: FILM PIONEER SIEGMUND LUBIN* (1999).

² See Netflix.com, Inc. <www.netflix.com> (accessed Jan. 24, 2001). Netflix customers create a list of movies and depending on the terms of their agreement, receive one to eight DVDs at a time. These DVDs are shipped to the customer and come with a postage-paid envelope for returning the DVDs. On the envelope Netflix advertises being “the most convenient way to rent movies,” as it “automatically delivers the films you want to see to your doorstep.” With over 600,000 subscribers and a library exceeding 11,500 titles, Netflix is the world’s largest online DVD rental service and quickly becoming a competitor to traditional video retailers like Blockbuster Video.

³ See discussion *infra* Part II.

media to exploit their works.⁴ One possible scenario involves studios making their libraries accessible via the Internet for on-demand viewing by consumers, and it is in this picture that Lubin's prediction could be realized in its deeper meaning.⁵

This Comment examines the many obstacles that impede such a realization. The first involves the difficulty with interpreting the scope of copyright licenses in light of a new media like the Internet. Put in the simplest terms, the question is as follows: when a "new use" emerges that was not mentioned in a grant of rights for a given work, who owns the ability to exploit that work in the new medium? This issue has a long history in the courts and is tied to cases involving motion picture rights. Since the advent of the "moving picture," there have been numerous technological innovations that have opened doors for derivative or different methods of distributing those works. The Internet is not just the most recent example of this, but it is also one of the most poignant ones because of the swiftness with which the Internet has emerged, and the uncertainty of how it will be utilized, including its effect upon other methods of distribution. The main principle underlying the issue involves the distribution of a windfall. In most cases,

⁴ See e.g. Andy Patrizio, *TV Jumps on Broadband*, WIRED NEWS, Nov. 30, 2000 (available at <www.wired.com/news/technology/1,1282,50358,00.html>) (describing "[t]he latest devices for delivering Internet content over broadband").

⁵ In fact, most studios have already been experimenting with this possibility. Among the most active of the studios is MGM. In February, 2002, MGM struck a deal with CinemaNow.com, marking the first such partnership between an online video-on-demand service and a major studio. Two MGM films became available on the service via download as part of a test which, according to MGM Home Entertainment Group president and chief operating officer David Bishop, would allow "us to explore how consumers are using Internet VOD [video-on-demand] and helps us prepare for a more competitive future." See Scott Hettrick, *Lion Pix With A Click: MGM, CinemaNow to offer download service*, DAILY VARIETY, Feb. 20, 2002, at 8 [hereinafter Hettrick, *Lion*]. MGM is also an equity partner in Movielink (formerly known as MovieFly), a joint venture along with Sony, Warner Bros., Universal, and Paramount to provide an Internet-based movie-on-demand service. The venture was announced August, 16, 2001, and Movielink was scheduled to launch in the U.S. in the second half of 2002. Under the terms of the venture, each of the content-providing partners will independently determine its own release windows and pricing strategies. See Scott Hettrick and Marc Graser, *Studios Download Internet Pic Deal*, DAILY VARIETY, Aug. 17, 2001, at 1; Scott Hettrick, *Ramo to Head Movielink*, DAILY VARIETY, Jan. 30, 2002, at 2. Fox and Disney had partnered to create their own Internet distribution channel partnership, Movies.com, but this venture fell apart when Fox pulled out earlier this year. See *Fox Slinks Away from Movie.com Venture*, REUTERS, Apr. 28, 2002 (available at <http://news.com.com/2100-1023-893683.html?tag=CD_mh>). For more details on CinemaNow.com see *infra* note 94. For further discussion on the technologies and business models involved in Internet video-on-demand (VOD), see *infra* Part III. For more background on studios entering the realm of Internet distribution, see Laura Rich, *Invasion of the Killer Internet Movies*, THE INDUS. STAND. MAG., May 15, 2000 (available at <www.thestandard.com/article/display/1,1151,15102.html>); Mark Saylor, *Coming Soon to a Computer Near You: Movies Off the Net*, L.A. TIMES, May 19, 1999 at A1.

neither party is aware of the emerging use and thus fails to bargain for it, leaving the court to decide who should reap the unexpected benefits of exploiting the use. For reasons explained below in Part I of this Comment, the decisions are often seen as inconsistent and undependable, making it all the more difficult for a grantor or grantee to exploit the new use with confidence. Part I explores this line of cases and argues that a clear methodology can exist to provide guidance for resolving disputes regarding the ownership of Internet rights.

Part II also involves "new use" analysis, but focuses on the emerging technology itself, specifically the possible models of motion picture distribution via the Internet. Because of the various possibilities, the Internet model of distribution might end up resembling more than one "old" use, for example pay-per-view television and home video. This ambiguity might influence a court's decision, especially if disputing parties each own rights to one of these "old" uses, which in turn could influence the development of the Internet model within the industry. To avoid this vicious circle courts should be wary in classifying this new use. Part II provides guidance for making such a classification. At the heart of this section is the exploration of where Internet distribution could and should end up within the sequence of a film's release, with a conclusion that the benefits of this mode of distribution will only fully be realized if it is given the chance to grow within a profitable release window.

Finally, Part III considers another major hurdle introduced by Internet distribution, the lack of territorial boundaries. Since many licenses are restricted to territories for which the Internet provides no equivalent, even an ideal resolution of "new use" disputes could leave parties with rights that cannot be exploited. Part III also examines how, in light of current knowledge concerning this dilemma, the disposition of Internet rights is taking place among studios and other parties. In particular, when parties enter an agreement to split worldwide rights to a motion picture, how do they deal with this new and still undeveloped right that knows no boundaries? The Author of this Comment interviewed various business affairs personnel from major studios to explore this issue and offers a temporary remedy in this section to support the development of Internet distribution.⁶

Apart from the issues explored in this Comment, the most determinative hurdle to Internet distribution involves the technological in-

⁶ Although this Comment incorporates the collective data and opinions gathered through numerous interviews, it does not directly refer to such interviews, because all parties interviewed requested anonymity for themselves and their employers. These interviews will remain on file with the Author.

novations that need to emerge before this new use can become widespread.⁷ These innovations must provide the speed, security and boundaries to allow for widespread, safe and profitable distribution. Underlying the analysis in this Comment is the recognition that parties dealing with the disposition of, and courts resolving disputes involving, Internet rights can influence the swiftness with which these conditions are met. The opinions offered below take the position that because of this capability the parties *should* take steps to help this new use develop in order to further the primary purpose of copyright law, the dissemination of works for the public. Once the issue of who should receive the financial rewards related to the new use is resolved, the dissemination of works for the public should take center stage, allowing consumers to take advantage of the benefits offered by emerging technologies and making Lubin's prediction a reality.

II. "NEW USE" ANALYSIS AND THE NIMMER METHODOLOGY

Before beginning the analysis, it is necessary to clarify what types of conveyances are subject to the "new use" hurdle of contract interpretation. "The problem arises when the grantor conveys less than the whole and it becomes necessary to determine what was granted and what was retained."⁸ Thus, grants of "all rights" are not at issue, nor are rights attached to "works made for hire," in which the employer studio retains all rights. The cases examined in the analysis reveal disputes that arose over the licensing of previously existing work for incorporation in motion pictures, most commonly in the context of music for the score or soundtrack and the adaptation of novels or plays. While adaptations may not be as common today, it is precisely these older works, in which no mention of the Internet could possibly have been made, that bear the brunt of the hurdle. And while a song may seem expendable if it prevents distributing a film to the public, just imagine if "As Time Goes By" had only been licensed to the producers of *Casablanca* for use in particular mediums, obviously with no mention of the Internet. Now imagine rooms full of studio attorneys poring over the minute details of such agreements, to determine whether a studio has

⁷ For an introduction to such technological necessities and other issues involved, see Saylor, *supra* note 5. See also Harris E. Tulchin, *Distribution Deals for Movies and Other Programming over the Internet* <www.medialawyer.com/IntdisSS.htm> (accessed Jan. 23, 2001). For a more detailed technological and legal analysis, see Baoding Hsieh Fan, *When Channel Surfers Flip to the Web: Copyright Liability for Internet Broadcasting*, 52 *FED. COMM. L.J.* 619, 620-27 (2000).

⁸ Barbara D. Griff, *A New Use for an Old License: Who Owns the Right?*, 17 *CARDOZO L. REV.* 53, 55 (1995) (citing Morris E. Cohn, *Old Licenses and New Uses: Motion Picture and Television Rights*, 19 *LAW & CONTEMP. PROBS.* 184, 186 (1954)).

Internet rights (whether to exploit them or to calculate the value of a library), only to turn to precedent that seems to offer no guidance. In this context, the following analysis should bring hope to such ventures.

A. *Introducing Nimmer*

In examining the history of “new use” cases, one comes across such a variety of opinions and results that it appears virtually impossible to ascertain a uniform pattern of reasoning.⁹ Multiple factors contribute to this confusion. The first factor involves the process required of this type of analysis. In dealing with the scope of a license under federal copyright law, the heart of the analysis depends on the basic principles of state contract interpretation.¹⁰ Most of these laws dictate a particular order of analysis. The court should first consider the face of the contract to determine whether the language is susceptible to either party’s interpretation. If such ambiguity exists, the court must then consider extrinsic evidence to ascertain the parties’ true intent about the scope of the license.

The difficulty arises in the timing of when to consider extrinsic evidence, as some states provide that the contract itself must be ambiguous, while others consider extrinsic evidence to determine whether such an ambiguity exists. This provides the potential for licenses with similar grants and circumstances to hinge on a particular state’s rules for introducing parol evidence.¹¹ Another factor that contributes to the confusion is that the determination of ambiguity and intent depends on the particular language used in the disputed contracts. Thus, “[d]ifferences in language employed in different licenses may well lead to different results, even though both purport to license rights in the same me-

⁹ See e.g. Stacey M. Byrnes, *Copyright Licenses, New Technology and Default Rules: Converging Media, Diverging Courts?*, 20 LOY. L.A. ENT. L.J. 243, 244 (2000) (“Courts have ostensibly taken different approaches to determining new use cases involving grants of rights for the creation and dissemination of derivative works. . . . This Article analyzes the divergence between the Second and Ninth Circuit approaches and examines whether courts have adopted or should adopt any default rules to decide close cases.”); see also Griff, *supra* note 8, at 57.

¹⁰ See 3 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 10.08, at 10-71 (2000) (“Principles of contract law are generally applicable in the construction of copyright assignments, licenses and other transfers of rights.”).

¹¹ Compare *Rey v. Lafferty*, 990 F.2d 1379, 1385 (1st Cir. 1993), *cert. denied*, 510 U.S. 828 (1993) (“[P]arol evidence may not be used to ‘create ambiguity where none otherwise exists.’”) with *Barris Indus., Inc. v. Worldvision Enters., Inc.*, 875 F.2d 1446, 1450 (9th Cir. 1989) (“Under California law, the test of admissibility of extrinsic evidence to explain the meaning of a written instrument is not whether it appears to the court to be plain and ambiguous on its face, but whether the offered evidence is relevant to prove a meaning to which the language of the contract is reasonably susceptible.”).

dium.”¹² Also, because of the importance of each single term of the contract, any precedent, no matter how binding, could be distinguished through a subtle difference in the contract language. This leaves room for independent analysis or reliance on the reasoning of a court that faced somewhat more similar language and circumstances.

However, despite this recipe for a disaster area of precedent, nearly every court facing the matter has relied heavily on the opinions of those that preceded it. Within the myriad of conclusions, citations, and opinions, one source has emerged as a touchstone to allow one to discern how these courts arrived at their decisions and how future courts will handle the matter. Surprisingly, it is not an opinion by a Supreme Court justice or an ancient doctrine, rather it is a treatise first published in 1964 by Professor Melville B. Nimmer entitled *The Law of Copyright*, and now known by all as *Nimmer on Copyright*.¹³ The examination of “new use” cases illustrates that Professor Nimmer’s treatise has surpassed the realm of mere persuasion to become the guiding light for courts. In particular, courts have relied on the chapter entitled “Construing the Scope of Assignments and Other Transfers,” particularly part B, “Determination of Media to Which Licenses Apply.”¹⁴ The power of Nimmer’s treatise lies in his recognition that while the basic rules of contract construction require courts to determine the “‘intent’ of the parties as reflected in the particular instrument in issue. . . [t]he very fact that we are most often dealing with a later developed technological process (even if it were known in some form at the time of execution) suggests that the parties’ ambiguous phraseology masks an absence of intent rather than a hidden intent that the court simply must ‘find.’”¹⁵ Thus, Nimmer suggests that once that ambiguity is found and the floodgates are opened to extrinsic evidence, the court might as well search for the fountain of youth rather than waste time searching for a non-existent “true intent.”

Rather than leaving his observation at that, Professor Nimmer suggests that this state of affairs leaves the court with two approaches to contract construction:

It may be held that a license of rights in a given medium (e.g., “motion picture rights”) includes only such uses as fall within the unambiguous core meaning of the term (e.g., exhibition of motion picture film in motion picture theaters) and exclude any uses that lie within the ambiguous penumbra (e.g., exhibition of motion picture film on television or on videocassettes). . . . The other alternative, and the

¹² NIMMER, *supra* note 10, at §§ 10.10[B], 10-88 to 10-89.

¹³ See NIMMER, *supra* note 10.

¹⁴ *Id.* §§ 10.10, 10-85 to 10-92.1.

¹⁵ *Id.* § 10-89.

one that is believed to be preferred, is to hold that the licensee may properly pursue any uses that may reasonably be said to fall within the medium as described in the license.¹⁶

Ironically, while Professor Nimmer describes the “new use” cases as lacking uniformity, this Comment proposes that courts can achieve a clear and consistent guideline for reasoning and conclusions with “Nimmer’s choices” as the focus. Basing a methodology upon Professor Nimmer’s approaches is beneficial because it provides certainty that any court that applies the first approach will likely find that the licensed use excludes the “new use,” while those courts that follow the “preferred” approach will invariably come to the opposite conclusion. As summarized at the end of Part I, the guideline employed throughout the “new use” cases involved three substantial phases, which this Author terms “Reaching Nimmer,” “Choosing an Approach,” and “Applying the Approach.” To test this methodology¹⁷ the following sections focus on finding uniformity in cases with the “new use” result, especially those that either neglect to mention Nimmer’s choices, appear to reject them, or seem to stray from the suggested methodology.

However, for Nimmer to have made his observation and suggest his approaches, he must have had cases to base his opinion upon. Indeed, there was “new use” analysis before Nimmer, though much of the reasoning found in those cases was rarely, if ever, employed after publication of his Treatise.

B. *Pre-Nimmer Cases: The Origin of “New Use” Analysis*

The first two sets of cases that faced the “new use” issue concerned the development of motion picture technology, both the actual advent of motion pictures and the transition to motion pictures that included sound, known as “talkies.” While these cases preceded the writing of Nimmer’s treatise and the use of his methodology, these cases are important to determine what methods the courts used to reach their conclusions, as these were likely the cases upon which Nimmer based his approaches. Nimmer’s treatise states that “[t]hose cases that have ruled on the issue of whether dramatic rights include motion picture rights present no clear pattern of decision.”¹⁸ The foundation of this statement apparently lies in the fact that some courts held that motion picture rights were included in dramatic rights, while others did not. However, even before the introduction of Nimmer’s choices, a pattern

¹⁶ *Id.* §§ 10-89 to 10-90.

¹⁷ Hereinafter, the term “methodology,” unless otherwise indicated, shall refer to the guideline based on Nimmer’s approaches.

¹⁸ NIMMER, *supra* note 10, at § 10.10[B], 10-86.

does exist which shows that regardless of the conclusion the courts employed similar methods of analysis. The courts focused primarily on the value of the explicitly granted property and justified its conclusion based upon the actual language of the licenses.

Take the leading case of *Frohman v. Fitch*,¹⁹ which, according to Nimmer,²⁰ held that motion picture rights were included in a grant of dramatic rights. In *Frohman*, the plaintiff grantee sought to enjoin defendant grantor from producing a motion picture based on the play to which dramatic rights had been granted. While granting the injunction, the court never declared that the right to produce the play would also include the right to produce motion pictures because this was not a disputed issue. The grantor conceded that point and based its argument instead on the fact that the plaintiff's grant contained a provision limiting production to "first-class theater[s] . . . in a first-class manner."²¹ The grantor argued that since the grant was limited to a type of production and the parties had no intent to include other types of productions in the grant, the grantor had reserved such a right. Essentially, the grantor made the most fundamental argument of contract interpretation: that the parties did not have the necessary intent to read the grant broadly. The judge held that to agree with the grantor and allow him to produce the play as a motion picture would be a "clear violation of the contract" because it would "destroy the plaintiff's property or diminish the value of what he purchased."²² As shown below, this pol-

¹⁹ A.D. 231 (N.Y. App. Div. 1914) (interpreting a contract formed in 1900). Henceforth, the introduction of case names will be followed by the initial date of the disputed contract. This notation helps create a timeline that includes the origin of the dispute, the actual case date and the general time frame of the emerging technologies. Such a distinction helps differentiate between the technology at the time the contract was born and the time the judge analyzes it. In this case, the contract preceded the invention of the narrative motion picture. For a comprehensive yet concise timeline, see Irvin Fang, The Media History Project, *Timeline of Communication History* <<http://mediahistory.umn.edu/time/alltime.html>> (accessed Jan 23, 2001) (offering a timeline of communication history dating from 3500 B.C. to 1995).

²⁰ See *id.* at § 10-86 n. 7 (noting the referenced case as one "holding that motion picture rights are included").

²¹ *Frohman*, 164 A.D. at 233 ("The defendant's counsel conceded, upon the argument of the question presented, that a moving picture presentation of the play in the manner contemplated by the Play Company would constitute production of a play, but contends that the right to such a production was reserve."). The court also recognized that the grantor reserved the right to produce the play in any second-class theater in a second-class manner. In this light, the court's reluctance to agree is more compelling. This slippery slope problem could explain why this outcome differs from the other cases, with the implication being that a grant of dramatic rights includes motion picture rights. Despite the implication, the grantee was incapable of exploiting those rights because it was limited by the terms of the contract. Thus, the result was the same as in those cases where dramatic rights were held not to include motion picture rights. See *infra* note 32 and accompanying text.

²² *Frohman*, 164 A.D. at 233.

icy concern was exactly what drove other courts to conclude that dramatic rights did *not* include motion picture rights.

In considering the court's analysis, it appears the process was two-fold: first, the court looked at the intent of the parties at the time of contract formation, paying particular attention to the terms of the license; and then it used policy to determine the outcome. However, at no point in the case did the judge find that the grantee held the right denied to the grantor, and thus any grant of dramatic rights did not include motion picture rights. While not stating such, the court implicitly found that the contract contained an implied negative covenant on the part of the grantor not to exploit the play in a way that would devalue the granted rights.²³ It is in this doctrine that the policy concern gains substantive power under state contract law.

Turning to the cases that held motion picture rights were excluded, a similar analysis is apparent. Just two years later, in *Harper Brothers v. Klaw*,²⁴ the court first turned to the terms of the contract to determine if the language allowed for the defendant grantee's reading that "they alone possess[ed] the photo-play rights."²⁵ The narrow language granted the defendants "the exclusive right of producing *such dramatic version* on the stage," referring to the authorized dramatization of the novel *Ben-Hur*.²⁶ Apart from this limited language, the grant, like that in *Frohman*, provided for a particular manner and specific venues, as well as a procedure for computing royalties that was only applicable to a stage production.²⁷ Consequently, the court held that "[t]he whole arrangement made between the parties . . . is not only inconsistent with, but repugnant to, the thought of making 'movies' out of *Ben Hur*."²⁸ However, rather than agree with the grantors that they must have retained the right, the court found an implied negative covenant on the part of the grantors "not to use the ungranted portion of the copyright estate to the detriment, if not destruction, of the licensees' estate."²⁹

²³ The fact that the court did not explicitly state this principle might attribute to Nimmer's grouping of this case as one where motion picture rights were included in a dramatic grant. While the court prevented the grantor from producing the motion picture, it never explained where that right should then lie. The grantee, being limited to the terms of the contract, could not exploit it despite the grantor's concession that "production" of a play would include making a motion picture. In effect, the rights were "frozen." See *infra* Part IV and accompanying text.

²⁴ 232 F. 609 (S.D.N.Y. 1916)(contract formed in 1899).

²⁵ *Id.* at 610.

²⁶ *Id.* (emphasis added).

²⁷ *Id.*

²⁸ *Id.* at 612.

²⁹ *Id.* at 613.

The Supreme Court later reached an almost identical result in *Manners v. Morosco*.³⁰

Therefore, rather than standing in opposition to the *Frohman* holding, these different results can be reconciled as leaving the motion picture right incapable of exploitation by either party under the terms of the original contracts.³¹ By freezing the “new use” right through the implied negative covenant, the court eliminated the danger of a windfall and preserved the value of explicitly licensed rights. Similarly, the cases that dealt with whether a grant of motion picture right prior to the invention of “talkies” included the right to create sound motion pictures, adopted similar principles while generally concluding with an affirmative answer.³² A contrary holding would have left the grantee holding virtually worthless rights, regardless of the breadth of the grant, while the grantor celebrated an enormous windfall. Furthermore, an implied negative covenant would not be an appropriate remedy in this circumstance, as the very inability of the grantee to exploit the “new use” would devalue its property. What the court instead implied was intent of the parties that the granted rights be valuable in the motion picture market, which would require the incorporation of sound. This intent could not have literally existed at the time of contract formation, as *Nimmer* would later point out, because the parties did not anticipate the technological invention and would have mentioned it in the contract had they done so.

In summary of the pre-*Nimmer* cases, the pattern appears clear. First the courts considered whether the language was ambiguous enough to lead to the broad interpretation, a reading which the excluding courts rejected, the *Frohman* court did not need to consider, and the “talkie” courts found necessary for a grant to have any value at all. The courts then considered policy in constructing fictional remedies that allowed for an equitable conclusion based on an implied contractual doctrine or an implied intent. The “talkie” cases allowed for the grantee to reap the benefits of his bargain, while the result in the other

³⁰ *Manners v. Morosco*, 252 U.S. 317, 327 (1920) (quoting *Harper Bros.*, 232 F. at 613 (contract formed in 1912, modified 1914) (“As was said by Judge Hough in a similar case: ‘there is implied a negative covenant on the part of the [grantor] . . . not to use the ungranted portion of the copyright estate to the detriment, if not destruction, of the licensees’ estate.”)).

³¹ Thus, the conclusion of all the courts was that neither party should outright own the right but instead should return to the bargaining table. Alternatively, as these cases dealt with licenses, the grantor could just wait until the contract expired. See *Manners*, 252 U.S. at 327.

³² See *L.C. Page & Co. v. Fox Film Corp.*, 83 F.2d 196 (2d Cir. 1936); *Murphy v. Warner Bros. Pictures, Inc.*, 112 F.2d 746 (9th Cir. 1940); *Rosenberg & Lesser v. Harold Bell Wright*, 20 Copyright Off. Bull. 599 (Cal. 1934).

cases was a seemingly fair one, since both parties must return to the negotiating table to bargain over the windfall. Some commentators have argued that an equitable solution, such as the implied negative covenant, should be employed with all "new uses;" however, it never appeared again in the line of analysis.³³ The reason for this perhaps lies in one of the other major distinguishing factors between the pre-Nimmer cases and those incorporating the treatise's methodology: the extreme economic difference between the granted right and the emerging technology, which had far greater value than the rights conveyed. The technological shift between theater and motion pictures was so great so as to preclude an explicit reading that a grant of dramatic rights included the latter; yet, the windfall created was so large that a grantor could not justly reap benefits at the expense of the grantee. Likewise, the effect of "talkies" upon silent motion pictures was so immense as to turn the latter obsolete, requiring the liberal reading given by the courts. While consideration of whether a motion picture grant includes television or videocassette rights deals with the stream of distribution by which the grantee can or cannot exploit its license, these earlier cases dealt with a new form of production, one that the courts feared would virtually eliminate the licensed use (correctly or incorrectly, for while "talkies" did indeed replace silent pictures, dramatic forms have survived the emergence and development of motion pictures, though undoubtedly the income generation between the two is undeniable).³⁴

C. *Enter Nimmer*

Before analyzing the role of Nimmer's treatise on the rest of the "new use" cases, the question arises: how did the courts even come to rely on his doctrine? Recall that Professor Nimmer published his treatise in 1964. Subsequently, in 1967, the Second Circuit faced the next question in the line of "new use" analysis in *Bartsch v. Metro-Goldwyn-Mayer, Inc.*,³⁵ whether an assignment of worldwide motion picture rights for a song should include the right to authorize telecasting of the

³³ See Griff, *supra* note 8, at 79-81, 83. Perhaps the lack of even a mention of the implied negative covenant is due to the outcome, in which the "new use" could be frozen in a stalemate while the parties return to negotiations or sit out a license. This can burden an emerging technology, as is further explored in Part III, which addresses the current disposition of Internet rights.

³⁴ See *Harper Bros.*, 232 F. at 613 ("Admittedly if Harper Bros. . . . permitted photo-plays of Ben Hur to infest the country, the market for the spoken play would be greatly impaired, if not destroyed."); see also *Manners*, 252 U.S. at 327 (quoting and agreeing with this conclusion).

³⁵ 391 F.2d 150 (2d Cir. 1968) (dealing with a 1930 contract).

film.³⁶ Prior to reaching the Second Circuit's introduction of Nimmer's choices, it is interesting to note the circumstances of the case and how it might have turned out had either Nimmer never written his treatise or the court had depended instead on the precedent outlined above.³⁷ Putting aside the breadth of the grant for now, consider the following clause: "All other rights now in existence or which may hereafter come into existence shall always be reserved to the Owner and for his sole benefit, but nothing herein contained shall in any way limit or restrict the rights which Purchaser has acquired."³⁸ The first portion, a reservation of rights, seems to provide even more persuasive facts than those in *Manners*, *Frohman*, or *Harper Brothers* for finding that the grantor indeed retained the "new use" rights. Meanwhile, the latter portion of the clause almost explicitly states what those courts came to conclude through an implied negative covenant, that such a reservation should not be found to devalue the granted rights.³⁹ Focusing on this clause and relying on precedent, the contract leaves ample room for concluding that the parties should have returned to the negotiating table to bargain for the television rights.

So, why the departure? Just like the pre-Nimmer contracts, the answer apparently lies in the reading of the contract as a whole. Unlike the contracts in *Manners* and *Harper Brothers*, whose terms pointed only to a narrow reading consistent with the more limited right, the language in the *Bartsch* contract creates the ambiguity necessary to reach the next phase of analysis.⁴⁰ In particular, the defendant was granted the right "to project, transmit and otherwise reproduce the said musical play . . . by the art of cinematography or any process analogous thereto."⁴¹ The inclusion of this language creates an ambiguity in the contract, allowing for either interpretation. Faced with this ambiguity, the lower court should then have followed the state laws of contract

³⁶ *Id.* at 151.

³⁷ The precedent above was obviously authoritative, not only because *Manners* was a Supreme Court case, but also because the other cases, being from within the same circuit, were at least persuasive.

³⁸ *Bartsch*, 391 F.2d at 152.

³⁹ However, note that the use of the words "limit or restrict" does leave room for the broader reading that the grantee should have such a right, rather than resorting on the implied negative covenant doctrine, which would leave them frozen.

⁴⁰ See *Bartsch*, 391 F.2d at 154 (citations omitted) (The court distinguishes *Manners*, along with other precedent: "This is not a case like *Manners* . . . in which an all encompassing grant found in one provision must be limited by the context created by other terms of the agreement indicating that the use of the copyrighted material in only one medium was contemplated."). Also, note that this next phase referred to in the text is the one the Author has labeled as "Choosing an Approach."

⁴¹ *Id.* at 152 (emphasis added).

construction and allowed for extrinsic evidence to determine the true intent of the parties. However, the lower court instead tossed aside the reserved rights clause and concluded that television was an analogous process, thereby finding for the assignee.⁴²

Rather than correct the lower court for taking this leap, the Second Circuit instead found the analogy too tenuous to support such a conclusion and focused instead on the breadth of the granting clause, which “included the right ‘to copyright, vend, license and exhibit such motion picture photoplays throughout the world.’”⁴³ For the Second Circuit, the ambiguity was created by the use of the word “exhibit,” which could lead to either parties’ reading of the contract.⁴⁴ The court then correctly turned to state laws of contract interpretation, allowing extrinsic evidence to determine the true intent of the parties. The main evidence the court considered was the fact that “[d]uring 1930 [the time of the contract formation] the future possibilities of television were recognized by knowledgeable people in the entertainment and motion picture industries,’ though surely not in the scope it has attained.”⁴⁵ Therefore, after concluding that the grantor Bartsch was an “experienced businessman” and dismissing the plaintiff’s rebuttals, the

⁴² In fact, Judge Bryan, ruling in the lower court, did not apparently think it was a close case. See *id.* at 151 (“Although the issue seems considerably closer to us than it did to Judge Bryan.”).

⁴³ *Id.* at 152 (“But to characterize the to us nigh miraculous processes whereby these images actuate airwaves so as to cause electronic changes in sets in millions of homes which are then ‘unscrambled’ or ‘descanned’ and thus produce pictures on television screens . . . as ‘analogous’ to cinematography pushes the analogy beyond the breaking point.”). The differing views of technologies between the judges are evident here, and some commentators have pointed to this as one of the unreliable factors that leads to varying opinions. See Griff, *supra* note 8, at 77 (“Simply put, [the judge’s] own view of the new technology will influence the determination of whether he finds the new use included in the description of the original grant of rights.”). Though this is definitely a factor to consider and its implications are further discussed in Part III, the resolution in *Bartsch* shows that these differing views will not necessarily lead to different conclusions and that Nimmer’s methodology can bridge that gap in views.

⁴⁴ This accentuates the importance of every word in copyright grants. Had that particular word not been used and should it have been just a worldwide grant, the Second Circuit probably would have found that the other terms of the contract, specifically the reservation of rights clause, could only lead to one reading, that television rights were *not* included. Instead, the court noted that the reservation of rights clause could not be read “as standing for more than the truism that whatever Bartsch had not granted, he had retained.” *Bartsch*, 391 F.2d at 155 n. 1. Despite the breadth of this clause in including rights “which may hereafter come into existence,” once the court looks beyond the four corners of the contract, this precaution will likely fail. *Id.*

⁴⁵ *Id.* at 154.

court concluded that had Bartsch intended not to grant television rights he would have specifically done so.⁴⁶

Thus the evidence pointing toward a broad interpretation, the court could have simply stamped "Affirmed" and washed its hands of the case. Instead, the Second Circuit concluded with a paragraph that introduced Nimmer's treatise into the courts and set the tone for reliance on his doctrine. Despite the court's reasoning as detailed above, the first sentence of the final paragraph begins as follows: "With Bartsch dead, his grantors apparently so, and the Warner Brothers lawyer understandably having no recollection of the negotiation, any effort to reconstruct what the parties actually intended nearly forty years ago is doomed to failure."⁴⁷ After having spent three paragraphs explaining how the evidence pointed to an intent that the contract include television rights, why did the court then turn around and say that their attempt at determining the intent was doomed? Perhaps it was not persuaded enough by that sole piece of evidence, knowledge of the technology, to justify granting such a valuable right.⁴⁸ Perhaps, as their policy reasons detailed below exhibit, the court had already made up its mind as to the conclusion and just wanted to fortify reaching it. Or maybe it found the case too close to call and was looking for a tiebreaker, even just one based on a secondary authority. Whatever the reason, the court placed complete confidence in Professor Nimmer, not only noting that the "decision must turn" upon his suggestion but agreeing with his preference between the two choices.⁴⁹ Thus it came to be that Nimmer's *The Law of Copyright* entered the "new use" cases, and his labeled preference became "the preferred method" of analysis.

Every major "new use" case since *Bartsch* has employed Nimmer's choices, so it is quite likely that future cases will do so as well. After *Bartsch*, the analytical method became clear and consistent. First, the "Reaching Nimmer" phases, determining whether on its face the contract is ambiguous enough to allow for either reading. The majority of the time this will be the case since the contract is silent on the exact

⁴⁶ *Id.* Though the court seems to be addressing Bartsch's intent here, its next paragraph makes this unlikely, as explained in the text. Instead the court is just dismissing his rebuttals by noting that while "New York will not charge a grantor with [the] duty of expressly saving television rights when he could not [have] know[n] of the invention's existence," Bartsch clearly had or should have had that knowledge. *Id.* (citing *Kirke La Shelle Co. v. Paul Armstrong Co.*, 263 N.Y. 79 (1938)).

⁴⁷ *Id.* at 155.

⁴⁸ Then again, with the burden being on the plaintiff, Bartsch's case should have failed nonetheless.

⁴⁹ *Bartsch*, 391 F.2d at 155.

“new use,” either reading (e.g., either incorporating it as part of the licensed use or not) is possible. Basic contract law would then instruct the court to allow evidence to determine the true intent, which likely does not exist, at least not in regards to the specific “new use.” Therefore, in the second phase of this methodology, this evidence should be used to determine which of Nimmer’s approaches to apply. Since one is the “preferred method,” the court will likely go with that method, thereby allowing the grantee the reading it desires, barring a conclusion that such use is not within the parameters of “reason.” Again, for this guideline to hold up it is important not to analyze the courts that followed *Bartsch* or even those that found for the grantee, but those cases that ended up finding for the grantor. Are they really employing a different method, leading to the confusion, unpredictability and divergence that supposedly exist? As shown below, these cases can all be either distinguished or reconciled or both, and but for the distinguishing factors would have come to the same conclusion.

D. *Nimmer in Action*

As Nimmer points out in his treatise, when it comes to the “question of whether a grant of motion picture rights include the right to exhibit the film on television, most, but not all, have found that such right is included.”⁵⁰ Of the three cases to which Nimmer then cites as being in the minority, two of them could not have explicitly applied the methodology because they occurred before the *Bartsch* ruling. That leaves *Filmvideo Releasing Corporation v. Hastings*,⁵¹ which is also distinguishable. First and foremost, the agreement differs tremendously because it expressly mentions both motion picture and television rights, with the grantor explicitly reserving the latter. The dispute arose over whether the grantor’s reserved television rights covered only live television or did it preclude the use of television by the grantees to exhibit its motion picture, which is a completely different issue than determining whether a contract silent on a “new use” nonetheless includes that use. Simply put, the *Filmvideo* court never needed Nimmer’s choices because a true intent was ascertainable through extrinsic evidence. The court found that the plaintiff grantee’s “interpretation of the license . . . require[d] a reading of the 1935 Agreement which is both illogical and contrary to the practical construction given it for nearly four decades.”⁵²

⁵⁰ NIMMER, *supra* note 10 at § 10.10[B], 10-87.

⁵¹ 446 F. Supp. 725, 725 (S.D.N.Y. 1978) (interpreting a contract formed in 1963).

⁵² *Id.* at 727.

Finally, we arrive at the final major question explored in the “new use” cases, whether motion picture or television rights encompass videocassette technology. Though this section appears the most ambiguous and is primarily responsible for leading to the image of diverging courts,⁵³ a careful analysis reveals that those cases concluding with a narrow interpretation employ the same reasoning and can be reconciled with the methodology.

In what appears to be the most trying challenge to the methodology, the Ninth Circuit in *Cohen v. Paramount Pictures Corporation* excluded video rights from a television grant and neglected to mention Nimmer’s choices at any point in its decision.⁵⁴ Many commentators refer to this case as characteristic of the Ninth Circuit view that stands in opposition to the Second Circuit’s view in *Bartsch* and its progeny.⁵⁵ The grounds for this view lie in the court’s rejection of grantee Paramount’s argument that pursuant to the granting language “[videocassette display] is the equivalent of ‘exhibition . . . by means of television.’”⁵⁶ The Ninth Circuit also went so far as to reject conclusions of previous courts facing the issue “[t]o the extent those courts may have equated exhibition by means of television with home video display.”⁵⁷ However, the court’s interpretation of the new technology was only one part of its decision, which was aimed at rejecting the grantee’s reading of the contract in light of the other terms of the contract.⁵⁸ As restrictive as its view appears, the court offered two policy justifications that bring it in line with Nimmer’s methodology and indicate Internet rights might not receive similar treatment. The court first noted that because “the original licensee could not have bargained for, or paid for, the rights associated with videocassette reproduction . . . [t]he holder of the license should not now ‘reap the entire windfall’ associated with the new medium.”⁵⁹ As explained in Part II, *infra*, Internet distribution of motion pictures should not merely be seen as a “windfall” which pro-

⁵³ For example, Robert A. Gorman and Jane C. Ginsburg present two such cases in order to contrast them, with follow-up questions regarding the different results. ROBERT A. GORMAN AND JANE C. GINSBURG, *COPYRIGHT* (5th ed. 1999).

⁵⁴ 845 F.2d 851, 855 (9th Cir. 1988) (interpreting a 1969 contract).

⁵⁵ See, e.g., Joanne Benoit Nakos, *An Analysis of the Effect of New Technology on the Rights Conveyed by Copyright License Agreements*, 25 CUMB. L. REV. 433; Griff, *supra* note 8, at 56.

⁵⁶ *Cohen*, 845 F.2d at 859 (noting that Paramount bases its argument on “the fact that a conventional monitor of a television set may be used both to receive television signals and to exhibit a videocassette”).

⁵⁷ *Id.* at 855 note 2.

⁵⁸ See *supra* note 43 (regarding technological views of judges).

⁵⁹ *Id.* (citing Neil R. Nagano, *Past Copyright Licenses and the New Video Software Medium*, 29 UCLA L. REV. 1160, 1184 (1982)).

vides for a truly additive source of revenue without eating into the revenue of old uses. Furthermore, the acknowledgement that no intent could have existed echoes the justification for Nimmer's methodology.

The second policy concern dealt with the Copyright Act's purpose of "afford[ing] greater encouragement to the production of literary works of lasting benefit to the world." The court reasoned that it would "frustrate the purposes of the Act were we to construe *this* license — with its limiting language — as granting a right in a medium that had not been introduced to the domestic market at the time the parties entered into the agreement."⁶⁰ The court's focus on the particular language of this license indicates that it simply could not read the contract in more than one way. In other words, when considering the entire license, which lacked a future technology clause but contained an explicit reservation of rights to the grantor, the court did not find the ambiguity necessary to reach the level of analysis that would incorporate Nimmer's choices, or phase two of the methodology.⁶¹ In distinguishing two cases which reached that phase and chose the preferred approach, the court pointed out that the *Cohen* agreement "lack[ed] such broad language" as the future technology clauses in those contracts *and* included a restrictive reservation of rights clause.⁶² Thus, rather than disagreeing with the analysis in those cases, *Cohen* instead stands for the proposition that when the contract language lacks any mention of future technology and explicitly reserves all other rights to the grantor, an ambiguity cannot be found. A question that still remains is whether the court, had it found the contract ambiguous and employed Nimmer's preferred approach, would have considered video rights to be "reasonably . . . said to fall within the medium as described in the license."⁶³ The court's examination of the differences between the two media would seem to indicate that it would not read it so; however, it is important to remember that this examination took place while considering whether, as Paramount argued, "videocassette display is the *equivalent* of 'exhibition . . . by means of television,'" thus making the contract ambiguous.⁶⁴ Because interpretation of the grant

⁶⁰ *Id.* (emphasis added). This particular policy concern also seems tenuous in light of the given circumstances of the case, as well as the likely scenario for a dispute regarding Internet rights. The court implies that composers need the incentive of a "windfall" (in addition to the expected compensation) to create original works, when the very nature of that boon is that it is unexpected.

⁶¹ However, because this case deals with California parol evidence rules, the court could have looked beyond the four corners of the contract before determining whether such an ambiguity existed. See *supra* note 11.

⁶² *Cohen*, 845 F.2d at 854.

⁶³ NIMMER, *supra* note 10, at § 10.10[B], 10-90.

⁶⁴ *Cohen*, 845 F.2d at 853.

was limited by the other terms of the license, the court never reached the interpretive stage that would have allowed for the broader consideration of whether video rights “reasonably” fell within the meaning of “exhibition . . . by means of television.”⁶⁵

Nonetheless, the Supreme Court of New York in *Tele-Pac and Video-Cinema Films v. Grainger* would likely argue that *Cohen* would have come out the same way regardless.⁶⁶ While relying heavily on *Cohen*, *Tele-Pac* is distinguishable in many ways. On one hand, the *Tele-Pac* license does not contain an express reservation of rights. However, as in *Cohen*, the *Tele-Pac* court also found the “contract . . . clear on its face” and thus did not reach the Nimmer stage of interpretation.⁶⁷ More importantly, while the contract lacked the explicit reservation of rights, the terms of the grant were actually more limited than those of *Cohen* because they only gave the grantee the right to “distribute films for *broadcasting* by television,” a term which the court felt was not susceptible to a reading that would include home video distribution.⁶⁸ In dicta, the court then went on to consider Nimmer’s treatise anyway, referring to the “preferred” approach as “the ‘new use’ doctrine.”⁶⁹ Though strengthening the legitimacy of Nimmer’s approach, the court arguably misinterpreted Nimmer’s language, stating that “[s]ince we are of the view that the two technologies are so dissimilar as to preclude consideration of video rights as even falling within the ‘ambiguous penumbra’ of the terms used in the agreement, reliance on the doctrine does nothing to advance the dissent’s position.”⁷⁰ Nevertheless, Nimmer’s preferred approach only requires that the use “reasonably be said to fall within the medium as described.”⁷¹ While Nimmer

⁶⁵ *Id.* (dealing with a 1964 contract).

⁶⁶ 168 A.D.2d 11, 17 (N.Y. App. Div. 1991).

⁶⁷ *Id.* at 19 (“Since the interpretation of the agreement presents a pure question of law, there is no need to resort to extrinsic evidence.”).

⁶⁸ *Id.* at 13, 15-16 (emphasis added) (Though the agreement actually had some future technology language that “by television or any other similar device now known or hereafter to be made known,” those words modified the “broadcasting” term that the court refused to look past, noting “we are unaware of any usage of the term ‘broadcasting’ in [videotape] context.”). However, “broadcasting” or the coined term “netcasting” are commonly used to describe the provision of entertainment content via the Internet; so even applying the exact same analysis, it is possible the *Tele-Pac* court would have found an ambiguity with Internet rights that was missing from a videocassette argument.

⁶⁹ *Id.* at 18.

⁷⁰ *Id.* Again, the court even indicating that it would turn to Nimmer’s methodology when it found the contract clear on its face was already an erroneous interpretation of the doctrine. *Id.* Dissenting Judge Asch, on the other hand, had found the agreement ambiguous enough to reach phase two of Nimmer’s methodology, as he could justify a broader definition of “broadcasting.” *Id.* at 17-21.

⁷¹ NIMMER, *supra* note 10, at § 10.10[B], 10-90.

concludes that the ambiguous penumbra "is within the medium in a reasonable sense," it does not follow that a use that the court considers outside the penumbra falls short of the reasonableness standard.⁷² Rather, the more flexible standard asks the court to determine the "outer limits of a reasonable meaning of a term."⁷³ That crucial term in *Tele-Pac* was "broadcast," as opposed to the term "exhibition . . . by means of television" in *Cohen*. While interpretation of "broadcast" might fall short under the reasonable standard, especially in light of the *Cohen* court's view of the technologies, it does not follow that the broader terms in *Cohen* would have fallen short had the Ninth Circuit reviewed them through the preferred approach. Therefore, because the Supreme Court of New York did not give full value to the reasonableness standard and was facing a more limited term in the grant, its implication that the Ninth Circuit would have come to a similar conclusion regarding Nimmer's approach to construction lacks justification. Nevertheless, its decision not only to consider Nimmer's approach, but also to describe it as "the 'new use' doctrine" reemphasized the importance of the doctrine in this type of analysis.⁷⁴

Unfortunately, the Ninth Circuit, unlike the Supreme Court of New York, did not explicitly mention Nimmer's approach. By no means does this Comment suggest that had it done so it would have come out with a different conclusion. Rather, despite the Ninth Circuit's restrictive view of the technologies, had it been faced with broader terms that would have called into play Nimmer's choices, it would not necessarily find, in contrast to what *Tele-Pac* implies, that video rights are outside the reasonable definition of television exhibition. Nonetheless, both cases introduce another important factor in the "new use" analysis that ties into the Nimmer theory. Even assuming that all courts agree with Nimmer as to the preferred approach of contract construction, their interpretation of whether the new use falls within the scope of that approach might depend on the judge's view of technology. While this might throw an unpredictable wrench into the gears of the analysis, note that the only courts that failed to include video rights within the scope of television rights never even reached the point of relying on the preferred approach because they found the contract unambiguous.

Finally, an examination of the First Circuit's decision in *Rey v. Laferty* will show that this case acknowledges the methodology proposed by this comment, reinforces the role of Nimmer's analysis, and adds a

⁷² *Id.*

⁷³ *Id.* (emphasis added).

⁷⁴ *Tele-Pac*, 168 A.D.2d at 16.

final factor to predicting how a court will rule on “new use” issues based on the methodology.⁷⁵ In *Rey*, the lower court held that the right to distribute films “for television viewing [did] not include . . . [video technology] . . . which probably was not in existence at the time the rights were given.”⁷⁶ Thus, the court apparently came to its conclusion by relying on *Cohen*’s differentiation of the technologies. In reviewing for clear error, the First Circuit began by outlining the “interpretive methodology” for “‘New Uses’ and Copyright Law.”⁷⁷ In relying on this “interpretive methodology,” the court implicitly stated that, unlike the contracts in *Cohen* and *Tele-Pac*, enough ambiguity existed here to warrant calling on Nimmer’s approaches. The reason for doing so is evident in a comparison of the contracts. Unlike in the *Cohen* license, the grantor in *Rey* did not explicitly reserve all other rights, and unlike the “broadcast” term in *Tele-Pac*, the term “for television viewing” in *Rey* was not so limited as to prevent the reading desired by the grantee.⁷⁸ Therefore, even though the *Rey* grant lacked any mention of future technologies, the court found the term “for television viewing” ambiguous enough to proceed in the methodology and reach Nimmer’s approaches.

Consequently, the court explicitly chose to apply the “alternative interpretive method . . . assum[ing] that a license of rights in a given medium (e.g., ‘motion picture rights’) includes only such uses as fall within the unambiguous core meaning of the term.”⁷⁹ In justifying the use of this approach and its subsequent conclusion, the court relies on *Cohen*, stating that this approach “may also be appropriate where a particular ‘new use’ was completely unforeseeable and therefore could not possibly have formed part of the bargain between the parties at the time of the original grant.”⁸⁰ The problem with this justification is two-fold. First, the fact that the “new use” was unforeseeable and not part of the bargain is understood in either approach, for Nimmer clearly states that the necessity for using one of the approaches arises because of an “absence of intent.”⁸¹ More importantly, the First Circuit’s implication that *Cohen* applied the more limited approach is erroneous; for, as explained above, the *Cohen* court found the contract unambiguous

⁷⁵ 990 F.2d 1379 (1st Cir. 1993) (interpreting multiple contracts, beginning with one from 1977).

⁷⁶ *Id.* at 1387.

⁷⁷ *Id.* at 1387-89. Please note that this “interpretive methodology” should not be confused with Nimmer’s methodology, as used throughout this Comment.

⁷⁸ *Id.* (emphasis added).

⁷⁹ *Id.* at 1388.

⁸⁰ *Id.*

⁸¹ See NIMMER, *supra* note 10, at §10.10[B], 10-89.

based on its terms and never reached the point of analysis that would incorporate Nimmer's approaches. The First Circuit's subsequent reliance on *Cohen's* technological views are also irrelevant, since the First Circuit already decided to apply the more restrictive approach, as it stated that it should be clear that video rights do not fall within the "unambiguous core meaning" of the term "for television viewing."

However, the First Circuit provided further justification for choosing the "alternative" approach, and it is here that the final factor is introduced: "This [alternative interpretive] method . . . is particularly appropriate in situations which involve overreaching or exploitation of unequal bargaining power by a licensee in negotiating the contract."⁸² Indeed, the court reinforces its decision based on this reasoning by stating that:

any lingering concerns about the correctness of the district court's interpretation are dispelled by the evidence that the [license] was drafted and proposed by [the licensee], a professional investment firm accustomed to licensing agreements. Rey, an elderly woman, does not appear to have participated in its drafting, and indeed, does not appear to have been represented by counsel during the larger part of the transaction.⁸³

This fact logically leads to the use of the narrower method for policy reasons. The difference between the approaches basically determines which party should reap the windfall of the "new use," in this case the less sophisticated party who did not draft the contract reaped the windfall.

E. *The Nimmer Methodology Revisited*

Thus "new use" cases can be reconciled around a clear and simple methodology:⁸⁴

1. Reaching Nimmer

First the face of the contract will be considered to determine whether its terms are ambiguous enough to allow for either party's interpretation. At this point, the courts will analyze the following terms:

⁸² *Rey*, 990 F.2d at 1388.

⁸³ *Id.* at 1391.

⁸⁴ For opposing viewpoints criticizing the use and very existence of Nimmer's categories, see Byrnes, *supra* note 9, at 257 (stating that "the Nimmer categories are unsatisfactory and should be abandoned"); Griff, *supra* note 8, at 76 (stating that "the Nimmer schema provides no better analytic guidance than traditional contract interpretation"). The dislike of Nimmer's categories understandably stems from the fact that they had appeared throughout all the cases despite varying results. The methodology proposed by this Comment attempts to provide the uniting link that might change perspectives on Nimmer's approaches.

(a) The breadth of the granting language

On one extreme, the grant may include sweeping language, especially a future technology clause, in which case an ambiguity is likely to exist and the court would turn to Nimmer's choices.⁸⁵ On the other extreme, where the granting language is so limited as to preclude any reading that would involve the "new use" or includes a term that is only susceptible to one interpretation (i.e., "broadcast" in *Tele-Pac*), no ambiguity will be found and the analysis will end in favor of the grantor unless other terms of the contract create that ambiguity. Where the language does not fall within the above categories but could be susceptible to either party's reading, the court will then look to the rest of the contract.

(b) Other terms, including reservation of rights

If other terms of the contract make a party's reading illogical or unreasonable, the contract is found unambiguous and the analysis should end. An example of this might be a reservation of rights clause. In the absence of sweeping language or a future technology clause, the reservation of rights clause will likely make the broad view unattainable and the contract clear on its face (i.e., *Cohen*), in which case the grantee's reading is rejected unless he can show that the licensed right is "equivalent" to the "new use." However, an explicit reservation of rights will not preclude ambiguity if the court has already found said ambiguity through (a), above.⁸⁶

2. Choosing One of Nimmer's Approaches

A court will likely prefer the second approach, as this is the established and almost default "preferred method," which requires a reasonableness standard that includes all uses within the ambiguous penumbra of the licensed use. However, the court may choose the "alternative" approach if the contract was drafted by a licensee with unequal bargaining power relative to the grantor, in which case the "new use" must be found to be within the unambiguous core meaning of the licensed use to be included in the grant.

⁸⁵ Potentially, though "a" court has yet to do this, a future technology clause could be broad and specific enough to lead the court to outright reject the grantor's argument. For example, a license may have included future technology language that, while not specifically naming Internet rights, speaks of some kind of new media rights that are broad or specific enough to show that the "new use" rights were clearly in the bargain.

⁸⁶ In this case the reserved rights clause is merely a "truism," for it is up to the court to determine which rights were granted and thus not reserved. See *supra* note 44 and accompanying text.

3. Applying the Approaches

If a court is applying the reasonableness standard, the “new use” will likely be included. Likewise, if a court applies the alternative approach, the “new use” will likely be excluded. However, in either case, the judge’s view of the different technologies may result in an unexpected conclusion.⁸⁷ This section is elaborated upon in Part II, which examines the nature of Internet rights.

III. THE NEW USE: THE NATURE OF INTERNET RIGHTS

In the context of this paper, “Internet rights” refers to any license or grant which would authorize the exhibition of a motion picture through the medium known as the Internet.⁸⁸ However, even in the limited sense used in this Comment, the nature of such Internet rights are difficult to pin down. When a court facing a “new use” dispute has finished applying the analysis described in the first two phases of Nimmer’s methodology, it should then determine whether the technology falls within a certain spectrum of the explicitly licensed use. For the court to do this, it will need to consider whether the new use resembles the licensed or reserved technologies enough to fall within that spectrum. As the very idea of an emerging technology implicates growth and evolution, the court should not only consider the current state of the new use but also its future development.

Yet, as convergence leads to the unification of personal computers, television sets, and even home video systems, the possibility exists for Internet rights to take the shape of more than one “old” use, in particular television and video. Throughout this examination of the nature of Internet rights, one of the most important effects to keep in mind concerns the impact of the “new use” upon the “old” market; i.e. whether Internet rights will be additive or cannibalistic, and if the latter, upon which use it will feed. The following sections describe three variable

⁸⁷ Some would argue that this happened in both *Cohen* and *Tele-Pac*. However, as expressed in the analysis of those cases, those courts never truly applied an approach because they found no ambiguity in the contract. See *Cohen*, 845 F.2d 851; *Tele-Pac*, 168 A.D.2d 11.

⁸⁸ A typical contract might define the Internet medium as follows: “a non-licensed, open access, open to the public (as opposed to intranet), and free of charge to the consumer data delivery network or networks for point-to-point or point-to-multipoint transfer of digital information (including but not limited to video, audio, and text) to any device capable of accommodating open protocol, including TVs, PCs, set-top boxes and other Internet-enabled devices.” See Agreement on file with the Author. In a broader sense, though, Internet rights could encompass or be tied into various other ancillary markets or uses. For example, the term could also include the right to produce an original work for the Internet, sell merchandise or home videos via the Internet, or promote and advertise a movie over the Internet. See, e.g. Mark Litwak, *Internet Distribution: Promises and Pitfalls* <www.marklitwak.com/int_dist_p&p.html> (accessed Jan. 23, 2001).

characteristics of Internet rights that make up its nature for the purpose of this inquiry, and conclude that for this method of distribution to blossom the more fitting analogy should be to video rights.

A. *Exhibition Windows*

The most important factor in determining the nature of Internet rights involves where they should and will fit into the current model of film distribution windows. Though established solely by custom, the film industry dictates a specific cycle through which a feature film passes after theatrical exhibition. Typically, a film becomes available for hotels and airplane exhibition approximately four months after its initial theatrical release ("ITR"), and VHS and DVD rental and/or sale follows six months after ITR. Next pay-per-view television commences thirty to seventy-five days later. Premium pay runs through months fifteen through thirty. Finally, a film reaches the network television or basic cable window in the thirty-first or thirty-third month. The home video and DVD rental cycle is followed by a second and third cycle, during which time the film is offered at a sale price and then at a discounted sale price; therefore, once the film becomes available on this medium, it stays available for many years. Within the television market, the three specific windows normally have a limited life span and are exclusive of one another, so that the first cycle of free television begins at the cessation of the pay television window and the second cycle of pay television picks up at the end of the first cycle of television and so on.⁸⁹

The strategy behind this sequence is simply to squeeze the most revenue out of the film at the optimal times. The order of windows is dictated by another simple premise, viewers will pay more to watch a film when it is closest to its initial theatrical release.⁹⁰ Where Internet windows fit into the picture will ultimately depend on how the technology is embraced by the film industry and whether studios view this distribution as having additive or cannibalistic tendencies. In other words, will Internet distribution provide an additional and independent revenue stream without cutting into the pre-existing ones, or will it instead slice into and perhaps swallow up one of the other models?

The very means by which these windows are established, through custom rather than written law, provides for a variety of options, as

⁸⁹ Recently, studios are experimenting with pay-per-view exhibition windows during the pay television or network window, but exclusivity is still the norm.

⁹⁰ Though some of the actual prices may be higher in later stages, as when videos and DVDs are first sold, that price reflects an unrestricted number of viewing experiences and is not limited to one person viewing.

individual Internet film companies vie for different windows for different purposes. For example, SightSound.com, one of the pioneers in on-line film distribution, has made multiple deals acquiring rights early in a film's distribution cycle, even prior to the video window.⁹¹ Other companies are pitching on-line distribution as a means of building buzz even prior to a film's theatrical window.⁹² A multi-picture development deal between Artisan Entertainment and Intertainer, a maker of broadband technology, carved out an Internet window after video release.⁹³ However, the most common distribution currently available involves indie and niche-market films that have already gone through all the other windows. Some production companies have even established online distribution arms with which to mine additional revenues out of older films while others have established options with Internet companies for films in development.⁹⁴ What currently ties all these approaches together is the lack of mainstream, big budget, contemporary films; for example, the Artisan deal involves pictures with budgets of only \$500,000 or less.

However, once technology provides viewers with a convergent monitor and quick access to high quality Internet film distribution, the major studios will enter the mix, begging the question: where will and should the Internet window fit into the system? The answer to this last question depends on the other two characteristics of Internet rights considered below. Without a clear indication of what means will be used and how consumers will react to this form of exhibition, the film industry is unlikely to open its early windows to Internet rights. The most popular prediction places Internet distribution in the pay-per-view window, under the theory that such on-line viewing will be the equivalent of or replacement for the current model of video-on-de-

⁹¹ See SightSound Press Releases <www.sightsound.com> (accessed Jan. 23, 2001); see also Rich, *supra* note 5, at 1. In 2000, SightSound premiered *Quantum Project*, the first feature film created exclusively for worldwide Internet distribution. More recently, Sight-Sound acquired the rights to the 1999 Miramax film *Guinevere* and released it on the Internet on Jan. 22, 2001.

⁹² See Rich, *supra* note 5, at 2.

⁹³ *Id.* Intertainer has since partnered with MGM, Universal, Warner Bros., DreamWorks, and Microsoft for content and promotional affiliation as it launched its broadband video-on-demand, subscription service in the nation's top 35 markets in October of 2001. See Hettrick, *Lion*, *supra* note 5; Scott Hettrick, *Intertainer, Microsoft Pact*, DAILY VARIETY, Oct. 17, 2001, at 31.

⁹⁴ See e.g. CinemaNow, *CinemaNow* <www.cinemanow.com> (accessed Jan. 23, 2002). This company, majority-owned by Lions Gate Entertainment, also includes a library with approximately 1,700 films from Lions Gate, Trimark Pictures, Allied Artists, Tai Seng Video, Avalanche and Salvation Films. See CinemaNow, *Company Background* <www.cinemanow.com/about/background.asp> (accessed Jan. 20, 2002). See also Hettrick, *Lion*, *supra* note 5.

mand (“VOD”) or near video-on-demand (“NVOD”), with the Internet providing the advantage of immediate access.⁹⁵ If Internet distribution receives such treatment, it will remain in the shadows, a minimal force in producing revenues, a non-moneymaker. People will be more likely to visit the rental store or rent on-line than wait an additional two months to pay a comparable fee. At most, it might threaten pay-per-view services offered by cable, satellite or digital television providers. This prediction is due to a fear of piracy, a concern that is magnified in the Internet world as the film industry attempts to avoid a fate similar to the one Napster brought on the recording industry.⁹⁶ Also, it comes at a time when the value of Internet rights is difficult to pin down. With VHS and DVD distribution providing a major source of revenue for films — nearly fifty percent — studios will be hesitant to diminish the sales force of this right by allowing a preceding or even concurrent Internet window that cannot make up for the difference. For example, a video retailer would no longer pay full price for video and DVD rights (or reduce the unit order) if a competing system were as easily accessible on-line in a prior or concurrent window.

⁹⁵ Consider the following VOD definition from a recent agreement on file with the Author:

VOD: the exhibition of a single theatrical motion picture for Home Use by means of a telecommunications system from a digital storage device at a time chosen solely by a viewer, or presented in any form that permits the exhibition of such picture in a non-linear fashion in the discretion of the viewer, using computer information storage retrieval and management techniques in respect of which a fee is charged for the privilege of viewing one such picture in a single subscriber transaction.

Basically, VOD is really the equivalent of pay-per-view television, except that the subscriber chooses the start time as opposed to the operator. While pay-per-view offers a similar service, it lacks the immediateness of “on demand,” as films are offered on fixed schedules (usually repeating every one to two hours). NVOD is a current model that offers a movie once every fifteen minutes, thus coming closer to the ideal VOD scheme. However, as implemented, this system ties up too many channels and has been undesirable to most programmers. One exception is DirecTV, which in May of 2001 partnered with Blockbuster to rebrand its pay-per-view channels “Blockbuster Direct Ticket.” At the time of the deal, DirecTV had 44 pay-per-view channels available, allowing Blockbuster Direct Ticket to approach the NVOD sphere. See Scott Hettrick, *Blockbuster Beams*, DAILY VARIETY, May 31, 2001, at 8.

⁹⁶ See *A & M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091 (9th Cir. 2002); Jesse Berst, ZDNet, *ZDNet Anchor Desk, What the Recording Industry Must Do to Survive* <www.zdnet.com/anchordesk/stories/0,10738,2598542,00.html>. For examples of recent cases regarding piracy instigated by the television and motion picture industry, see *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000) (involving the encryption of DVDs); *Twentieth Century Fox Film Corp. v. ICRAVETV*, 53 USPQ.2D (W.D. Pa. 2000) (regarding web site that illegally transmitted television broadcast signals to Canada). See generally Jack Valenti Press Releases, <www.mpa.org/jack> (accessed Jun. 17, 2002), in particular Valenti Testifies to Studios’ Desire to Distribute Movies Online to Consumers; Calls on Congress to Support Enforcement of Theft of Intellectual Property as Piracy has Potential to Cripple a Great American Asset (Apr. 23, 2002).

Therefore, the definitive transition from Internet distribution as a source for older content or low-scale films to a release window with profit potential will rely on such rights being sold as part of DVD and video distribution. In this scenario, the large video retailer would purchase the entire package and provide the driving momentum for the transition to a true and competitive VOD scheme, with on-line distribution eliminating many of the transaction costs involved in the rental business and eliminating the need for the consumer to make trips to the store and worry about late charges. Assuming that Internet distribution falls under such a VOD umbrella, the possible interaction over the Internet could also allow for fringe benefits, such as, instant feedback on trailers or the film itself and perhaps even instant links to relevant merchandise and tie-ins. Indeed the realm of possibilities associated with this type of distribution leads to a scenario in which a film lingers in the no man's land of pay-per-view, an unsatisfactory solution.

In the video window, Internet distribution would appear to be the next natural step in the evolution of home videos, providing a more compact delivery and more extras than a DVD, while eliminating many of the costs for distributors. Whether this will eventually cause the extinction of DVDs or video rentals is up to the technological advances inherent in the quality of the film, the development of a convergent monitor, and the growth of consumers with access to the means.

The current, favored placement of such rights in the pay-per-view window, though likely temporary, can be problematic. A dispute may arise over whether a party with television rights or one with video rights can properly distribute or license the distribution of a film over the Internet (or alternatively, the licensor might claim this right).⁹⁷ A judge looking to trade custom might find these Internet rights grouped in with pay-per-view and conclude that the "new use" falls under the television penumbra. This conclusion may be supported by other characteristics, as shown below. However, courts must keep in mind the maturity stage of this "new use," for Internet rights may be more analogous to television in the beginning but will invariably grow into something more. Without considering this development, courts might risk damaging or even stripping explicitly licensed rights while thinking they are merely distributing a windfall. In fact, because of the cannibalistic potential of Internet rights, they should not be categorized as a windfall at all, but rather an extension of a pre-existing right requiring more careful analysis.

⁹⁷ Such a dispute is more likely to arise with older films and licenses. See *supra* discussion in Introduction to Comment. For current major pictures, the studios will likely control all rights in a given territory.

B. *Internet Delivery Model: Downloading v. Streaming*

A second major characteristic in determining the nature of Internet rights will depend on the technology adopted to deliver the film.⁹⁸ Though more advanced variations will likely evolve, two different methods currently allow for the delivery of content. In downloading a file, a computer makes an entire copy that resides in its memory. Conversely, the streaming video process establishes a “buffer” of memory in the user’s random access memory, to which a few seconds of video and audio are continuously downloaded and then replaced. This process allows for real-time playback and does not leave a copy in the computer’s hard drive. Also, due to this buffer, a user need not wait for the entire file to download before receiving any audio and video. What results is essentially Webcasting, and this technology has already been used to broadcast live sports events, music concerts and provide news programming.⁹⁹ However, even this process is not advanced enough to provide high quality picture and sound; ultimately these advances will depend both on the technology behind the process and a greater bandwidth access to the Internet from the home. Downloading currently excels in picture but drags far behind in terms of time required. Thus, as home connections and file techniques improve, downloading should remain an alternative to streaming media. Needless to say, a clear security concern distinguishes the two, as any downloaded file can just as easily be uploaded onto the Internet for sharing with other users, while attempts at copying streaming video would likely result in primitive and inferior copies. However, just as the delivery system requires technological advances, so does the development of encoding play a major role in making Internet distribution safe from piracy, just as it did for DVD.¹⁰⁰

At first glance, it appears that the major difference between the two concerns the duration of the exhibition, with streaming media resembling pay-per-view television’s more transitory nature and downloading resembling video sale as a copy is put in the user’s computer. Using the latter technology would then lead to a model of Internet distribution involving a video library that is accessible on-demand, while the former would compete or supplement network television and cable. However, many variations on these themes could be employed. Perhaps a viewer would be allowed a given time period in

⁹⁸ It is quite possible that we could end up with both models.

⁹⁹ See Fan, *supra* note 7, at 619-627.

¹⁰⁰ This statement must be qualified in that piracy concerns still exist in the realm of DVD. See *Reimerdes*, 111 F. Supp. 2d 294; Marc Graser, *Apple, Compaq to Bow Recordable DVD Drives*, DAILY VARIETY, Jan. 8, 2001 (available at <www.ev.variety.com/index>).

which it may stream the film as many times as desired for a flat rate. On the other hand, this streaming could be used to show a one-time Webcast of a film at a certain time, much like a television broadcast. As for downloading, the technology already exists to limit the life span of downloaded files, so that the file might only be accessible for a certain time limit or number of viewings.¹⁰¹ Thus, a distributor could theoretically make a film available for downloading only at a certain time rather than set up an on-demand scheme. The fundamental difference will likely lie in the viewer's ability to access the film, whether on demand or at a dictated broadcast time.

Although one may rise to the top if it is flexible enough to serve both models, it is unlikely that this will happen because one model of distribution dictates a certain means. VOD and Webcasting will likely co-exist, and thus further blurring the line between which technology Internet rights should resemble in "new use" analysis. To illustrate this tension, let's revisit the case of *Cohen v. Paramount*, which held that the licensee had the right to exhibit the film on television, but not via videocassette. Following the court's reasoning, once a convergent monitor is in use, does this mean that Paramount should be able to license "Medium Cool" for Webcasting but not for VOD, even though both processes encompass Internet rights? This seems to follow the court's logic; however, in considering this ambiguity, would the court then look to industry custom, find that Internet rights were given a pay-per-view window, and thus allow either method of distribution under the scope of the grant? According to this Comment's prediction of where Internet rights are headed, the answer should be no. For if another licensee owns the video rights, he will then be precluded from shifting to a VOD system. This is exactly why the window system may prove crucial, depending on the timing of a dispute, and also why the court should consider the future of Internet rights as opposed to its current placement.

Still, the alternative resolution provides a similarly discomfiting outcome, which is that Paramount would be precluded from distributing via the Internet, even though the Internet is seemingly more analogous to television. Yet, this outcome is more justified considering the value of Internet film distribution to the two models. Although the preceding section outlined how a VOD model of distribution would transform and possibly envelop video rights, it does not follow that

¹⁰¹ See Rich, *supra* note 5, at 2. SightSound's *Guinevere* file includes a security feature that makes it viewable for only 24 hours. The MGM movies offered on CinemaNow.com are offered for download 24 hours after purchase and must be played on the computer on which they are downloaded. See Hettrick, *Lion*, *supra* note 5.

Webcasting would pose a similar threat to owners of television rights. First, television is already immediately accessible to a viewer through cable and network systems. Thus, the introduction of another delivery system into a monitor does not provide any clear improvement on access, in contrast to VOD's impact upon video. Arguably, technological advances might reveal Internet broadcasting as a superior means of delivery, or at least provide additional outputs for independent stations, similar to the television model. However, the potential of convergence for television lies in the interactivity that would allow for instant links to advertisers or merchandise. Therefore, only if Internet broadcasting threatens to replace this delivery system, which is unlikely, would the value of television rights be hampered by the preclusion of Webcasting.

Returning to the *Cohen* example, any type of Internet distribution is more valuable to the owner of the videocassette rights than the owner of television rights. Therefore, the video rights should include Internet distribution regardless of the model, whether VOD or Webcasting, that the licensee chooses to adopt. Thus, internet rights avoid giving one party a windfall, and provide a crucial element to the maintenance of the value of video rights, even if the custom currently places Internet rights in a pay-per-view window.

In applying this reasoning to films that are in distribution chains and were licensed without mention of Internet rights, the relative value is even clearer. The video rights, having arisen earlier in the sequence, were presumably costlier than television rights, assuming that the licensor studio likely has a stake in the video royalties. A scenario that would place Internet rights with the television licensee would allow it to jeopardize the remaining value of those video rights while reaping a potential windfall. The contrary conclusion would result in a system that mirrors the current sequence of distribution and reflects the relative value differences between the rights. Although a film distributed on television will always compete with the availability of that film in the video market, it earns its revenues from a different business model. This conclusion is elaborated upon in the next section, which considers the third defining characteristic of Internet rights — the “business model.”

C. *The Business Model*

As discussed the sequential distribution of feature films reflects the consumer's willingness to pay more to view a film when it is closest to its theatrical release. Likewise, the business models employed by the respective owners of the distribution rights are based on this theory.

1. Pay-per-transaction

In the windows that encompass the first year of a film's release, including pay television, viewers are charged a flat rate to access the movie. This sequence reveals a descending ladder in the price of that transaction, as individual viewers pay up to \$8.50 to see a movie in the theater and up to \$4.00 to view a video rental, which allows for multiple viewers and multiple viewing. On-line viewing will presumably employ this business model if it is grouped in any of these windows, as VOD currently is. Its exact placement and delivery model will have an impact on how much this service will cost. If it takes the shape of VOD, providers can charge slightly more than traditional pay-per-view because of instant access. Alternatively, if the film is Webcast during certain time periods, the charge will be more equivalent to pay-per-view (approximately \$4.00 per subscriber transaction) unless it appears in the aforementioned sneak preview prior to theatrical release, or a limited window prior to video.

If on-line viewing shares the video window, the price would presumably be higher because of the more convenient delivery. Further, theoretically, a distributor would not need to impose such a limited rental time in order to have a copy back in stores for a subsequent transaction. The unlimited number of copies of the film which the distributor would then have access to might also require a higher royalty agreement with the licensor, which would be reflected in the transaction price.

The effect of this type of business model on determining which model Internet rights would resemble more is inconclusive, since television also employs this model.

2. Subscription Model

Once a film reaches the pay television window, the business model shifts to one based on a subscription price, with the licensee charging a flat fee for access to a variety of scheduled programming. Likewise, the free television window operates on this model when it comes to basic cable, with the transaction price bundled in the access charge to cable or satellite.¹⁰² The clearest way in which Internet distribution would fall in this category might be by charging a subscription rate and then Webcasting certain titles from its libraries at scheduled times. This model only seems plausible if the Internet distributor is restricted to a concurrent window and charged a price that reflects this late stage of

¹⁰² *But see infra* Section 3.

the sequence. Otherwise, it would not be capitalizing upon the full value of its acquisition.

It is more likely that an on-line distributor would charge a subscription price for access to its library of acquisitions, parallel to the model envisioned for Napster and other on-line music distributors.¹⁰³ This would depend on which window Internet rights fall into. In this scenario, it would be difficult to categorize Internet rights as resembling television rights more than video because this is a hybrid of the two business models, with the viewer paying a bundled charge but having immediate access to any given title in the library. In fact, some video distributors are already employing a similar model. For example, on-line rental company Netflix charges a subscription rate for access to its titles and then ships selected titles to its customers. The price of the subscription varies with the number of titles that the consumer wishes to keep at home at any given time. However, this service is neither instant (in that customers must endure the shipping delay) nor unlimited (in that when taking into account the delay, a customer can only receive so many titles within a month's time). Since subscription rates hover around \$20 a month to keep four titles at a time, the Netflix model is probably closer to a pay-per-transaction model with its lower overhead allowing for potential savings by the customer. Therefore, if an on-line distributor were to employ this hybrid model, it is unclear whether this would more closely resemble video or television.

3. Free-viewing/Advertiser-based Model

Finally, when a film enters the free television window, the distributor reaps revenue from charging advertisers for the intervening commercials rather than the viewer for access. In this premature stage of Internet film distribution, this is the prominent model currently employed. This allows the sites to gain a following and attract studios to deal with them while waiting for the technology to allow for a strong market of viewers. In exchange for the free service, many sites collect detailed information regarding the customers, which can then be utilized to attract advertisers. Once these transmissions achieve higher quality and are received on a monitor similar to a television, these sites will likely shift to another model in order to make profits. However, the ability to gather consumer information and receive instant feedback

¹⁰³ However, contractual restrictions may prevent a studio from distributing a film on any subscription basis during the pay or free windows. Without eliminating such restrictions, studios would need to set up a system in which the subscription rate is offered to viewers while accounting for each film rental internally. Netflix serves as an example of this type of circumvention. Netflix, *Subscriptions* <<http://www.netflix.com>> (accessed Oct. 19, 2001).

does leave room for sites to base their revenues on advertisements. Should this remain a popular model for Internet film distribution, this aspect of on-line viewing will closely resemble television.

In conclusion, the potential for Internet rights to embody a variety of characteristics clouds any confident predictions about the eventual nature of this form of distribution. Consumer behavior, marketing strategy, and the success and stability of the companies spearheading the transition will influence most of these variables. The combination of elements that could resemble either television or video could cancel each other out. However, the placement of Internet distribution within a release sequence is a factor established by industry custom and likely to be relied upon by the court in making an analogy. While several factors might prevent such distribution to be placed in a video window in the near future, consumers and studios will not appreciate the full benefits of this model unless it eventually settles in that window. Despite these barriers, video distributors like Blockbuster are already planning for the eventual transition.¹⁰⁴ Thus, when considering the nature of Internet rights and within what penumbra, if any, they should lie, the court should anticipate the development of Internet film distribution and realize that it is not a windfall at stake but a root in the future value of licensed rights.

IV. TERRITORIALITY AND CONTEMPORARY CONTRACTS

Part II analyzed the problem inherent in a new use when such use can arguably resemble one or two different licensed uses. For example, a potential dispute could arise between an owner of video rights and a different owner with pay-per-view rights, with each party arguing that Internet distribution falls within its grant as specified in the contract. While this scenario accurately describes the litigation involved in the "new use" cases examined above, it differs from the current model of film finance and distribution, which is based on territory rather than the

¹⁰⁴ However, Blockbuster has already faced struggles. A much-touted joint venture with Enron Broadband Services to develop a Blockbuster branded video-on-demand service over Enron's fiber-optic networks over the next 20 years fell apart in March, 2001. Enron blamed the failure on Blockbuster's inability to secure VOD rights from the studios. At the time of the falling out, Blockbuster had only attracted two studios to provide movies. See Paul Sweeting and Scott Hettrick, *VOD Venture Voided*, DAILY VARIETY, Mar. 12, 2001, at 9; see also Paul Sweeting, *Staying Together*, DAILY VARIETY, Mar. 29, 2001, at 6. On the other hand, though Blockbuster's partnership with DirecTV is characterized as a pay-per-view relationship (or NVOD, at best), both companies have confirmed that "the PPV relationship could evolve into VOD" and that while they "don't see VOD as an economic model today . . . this helps us get there." Hettrick, *supra* note 95.

type of media.¹⁰⁵ This territory-by-territory arrangement could arise in two different scenarios, both of which present a hurdle for Internet distribution of films.

A. *Internet Rights in Licenses for Other Media*

In one scenario, a studio might just license distribution rights in a film to a foreign distributor. In such a license, the studio might relinquish certain rights while holding onto others through certain contractual restrictions such as detailed restrictions on distribution outside of the studio's specified territory (e.g., holdbacks, sequential distribution restrictions, etc.). However, such restrictions are incompatible with Internet distribution because no territorial boundaries currently exist on the Internet. Thus, a licensee of German rights could set up a server that would allow an American user to access the film, violating the terms of the contract.

In modern contracts, precautions have likely been taken to avoid this conflict, and such precautions are discussed below. However, what about older contracts that do not specifically address Internet rights? For these contracts, the standard "new use" analysis will be vital. This Comment has argued that Internet rights should be considered an extension of video rights in order to foster its growth and value to the consumer. This should be the conclusion regardless of which of Nimmer's approaches is utilized, so the crucial question should be whether the license is ambiguous enough to reach that stage of analysis. As *Cohen* has shown, language that is very specific to a media will preclude such a reading; however, the inclusion of future technology language should be enough to find such an ambiguity. Therefore, unless an older license is particularly limiting or the studio reserved such future technologies, the foreign distributor should *own* Internet distribution rights as part of its license. The Internet rights have thus been split by territory, similar to other media.

Due to the territoriality problem, such ownership does not lead to at-will exploitation, instead it results in multiple owners of rights that cannot be exploited. As undesirable as this result may seem, a windfall has been avoided. On the other hand, if the rights were to be viewed as a completely different animal that did not pass to the licensee without an extremely broad grant, the studio would then presumably own all Internet rights and would be free to exploit such rights without regards

¹⁰⁵ However, this is not always the case, as an agreement can incorporate both techniques. For example, a party may own worldwide television rights. See *Worldwide Distribution Warner Bros., Distribution* <<http://www.warnerbrothers.com/distribution>> (accessed Oct. 19, 2001).

to those owned by a foreign licensee. Instead, both parties remain at the mercy of technological breakthroughs. From an economic point of view, this result is also more desirable in that all parties would benefit from such a technology and would have incentive to foster that breakthrough, thus spreading the costs of and increasing the revenue sources for such discovery.

Alternatively, modern contracts that address Internet rights with knowledge of the territoriality problems have taken various routes. The most common practice has involved "freezing" such rights. This may sound similar to the scenario outlined above, except the question of ownership has not been addressed. Instead, Internet rights are removed from the negotiation until such a time as exploitation is possible. While this dodges the problem at hand and still depends on technology for resolution, it raises many questions. At what point will a technology be secure enough to reintroduce the subject? How will the worth of such rights then be determined? Once exploitation is possible, will it give the grantor the upper-hand in demanding more than would have been expected at the initial bargaining table? Arguably, floors, ceilings, or other terms of negotiation could be included in the original license to anticipate these questions; but the most undesirable aspect of freezing the rights would involve a potential stalemate that hinders the accessibility of more contemporary works. Parties have devised other means of handling Internet rights, and these are detailed below. The uncertainty of such alternatives and justifiable hesitation involved with the Internet has made "freezing" the dominant choice.

Ironically, the least desirable disposition of such rights between the two scenarios seems to be in the latter scenario, when the parties actually had knowledge of the potential problems and the future technology. However, that conclusion can only be reached by putting full faith in the courts to decide the matter as outlined in this Comment, a resolution based on the current status of a constantly evolving medium. Yet, studios can use this knowledge to move towards the desired disposition that will foster the growth of the new medium rather than shy away from any resolution, instead relying on specific language and precautions to preclude court involvement.

B. *Co-Productions: Split Rights*

A different scenario with similar outcomes involves split-rights deals, "transactions that involve multiple foreign distributors forming a cooperative unit to acquire foreign film rights from a major U.S. stu-

dio.”¹⁰⁶ As the costs of producing a film continue to rise, these deals become more common,¹⁰⁷ begging the question: how do and how should the parties address the splitting of Internet rights in light of the territorial hurdle? According to information gathered from interviews with business affairs personnel from various major studios, the most common answer again involves freezing those rights until the appropriate technology is developed.

Another approach, which could likewise be used with the licensing of rights, involves structuring the Internet rights by language instead of just territory, with the owner of the rights being able to distribute the dubbed work. Theoretically, this would limit access to those viewers who understand the language and are thus located in specific territories. However, there are numerous problems associated with this approach. First, it disregards consumers who are fluent in multiple languages. While in the grand scheme of things this might seem negligible, it would not be so in territories where two or more languages are commonly spoken (e.g., Switzerland) and would be more damaging with certain languages than others, for example those that are more commonly second languages. Second, this would involve structuring the other rights by the same method to avoid conflicts between Internet distribution and other media and thus maintaining non-interfering sequential distribution in each territory. Therefore, Spanish language rights would include not only Spain but also all of Central and South America, thus driving up the costs of handling non-Internet distribution across vast and remote territories. Finally, and depending on where the Internet window fits in, consider the problems associated with different release schedules in various parts of the world. In Australia, for example, films generally reach theaters six months behind the United States. If Australian viewers could view the film in English on the Internet at an earlier time, this would presumably hurt theatrical revenues. Alternatively, if the English Internet release will be delayed for six months, the rights remain virtually worthless. With the worth of Internet rights still uncertain, such an approach justifiably causes hesitation.

Still another approach might dictate certain methods that could be used to exploit the Internet rights, such as identifying a user's location through a credit card number or dial-in number. However, such meth-

¹⁰⁶ SCHUYLER M. MOORE, *THE BIZ: THE BASIC BUSINESS, LEGAL AND FINANCIAL ASPECTS OF THE FILM INDUSTRY* 103 (2000).

¹⁰⁷ The advantages of split-rights deals include increasing opportunities for foreign distributors to acquire quality films and allowing the studio to receive budget money more rapidly than if it were to distribute the film. *See id.* at 104.

ods can still be circumvented, and parties would likely rather wait for technology than let Internet pirates test the waters.

While freezing may thus remain the popular choice, co-productions leave room for another alternative. Because such deals usually involve revenue sharing, which party actually exploits the Internet rights might not matter as much. For example, if the deal calls for all revenue to go into a "shared pot," the holder of the Internet rights will be sharing the revenue with the other party, perhaps after deducting relevant distribution fees. The parties could determine the rights holder or arrange a way to split or share them without regards to the territoriality conflicts, since the sharing of the revenues reduces that problem. Also, the less capable party (in terms of having the ability to put the films on-line) could concede to the co-financier without worrying about losing rights that turn out to be valuable in the future. The studio would likely want immediate control of these rights in order to build an accessible library on the Internet in preparing for a role in this market, and this arrangement would allow for that. Though drawbacks to this scenario are addressed below, the result is desirable because it almost jumps past the territoriality hurdle ("almost" because it does not solve the problem concerning differing release schedules in various parts of the world) by opening the doors for immediate experimentation in the Internet market, subject to licenses and holdbacks given for other media. While the full potential of the Internet rights might not be realized yet, it gives the parties a chance to test technologies and audiences with contemporary films. This situation could accelerate the growth of the Internet as a medium for film, as opposed to the freezing process that seems to retard such growth.

However, the first drawback with this arrangement involves the difficulties calculating revenues resulting from the Internet rights. How should the gross be determined and what are appropriate expenses to deduct for showing the film? If the film is accessible through a studio's general website, how much, if any, of the website costs should be attributed to showing a particular movie? Matters are complicated if the films are not also shown on a pay-per-transaction model, or if the film is available for downloaded purchase rather than streamed rental. If a user pays a flat subscription rate, how should that be divided among the different movies? Should advertising revenues count and, if so, how? What if those revenues are only secondary to an additional customer charge? Though these questions are numerous and complex, they could all be answered at the bargaining table and outlined in any agreement. The room for taking advantage of the other party through deceptive language or "Hollywood Accounting" is really no different than

what would be possible in other calculations of revenues.¹⁰⁸ Parties would learn lessons from each agreement, adjust their demands accordingly, and adapt to the changes in the technology and market. Furthermore, while this would undoubtedly complicate negotiations in a business where the deal must be wrapped yesterday, important customs and standards would be paved that could ease future proceedings between the same parties and within the industry as a whole. Any concerns about the instability of the medium could be addressed through a look-back clause, similar to that utilized in trademark, where parties agree to review the terms of the agreement after a certain amount of time. And arguably, the negotiations would be easier than if the rights had to be frozen and parties were forced to return to the table once the full value of such rights were determined by the market.

Another difficulty with this scenario is that the “shared pot” is not necessarily the standard arrangement for a co-production. The parties may have two separate pots or partial sharing, introducing an additional problem if one party has not recouped and the other has. The offering studio may be unwilling to share the pot if it feels its rights will generate disproportional revenues. Also, a studio may not be so eager to set up an Internet library where it is sharing revenues on numerous titles; then again, the wonders of “Hollywood Accounting” could result in those titles bearing the costs for others or otherwise not producing revenue. Just as Internet rights can be frozen and completely removed from a deal, the treatment of these rights does not have to follow the same scheme. Even if the rest of the arrangement call for two separate pots, the parties could allow for Internet revenues to be shared equally, perhaps including terms for buyouts or re-negotiations once the technology is in place.

To sum up this section, a revenue sharing scheme could free up Internet rights for exploitation and value growth, and this scheme is most evident, though not dominant, in split rights deals. Arguably, the rights are worth more if a party can immediately exploit them, consistent with sequential distribution, even though they may have to share potential revenues, than if they allowed those rights to sit in a frozen limbo waiting to be defrosted by technological advances. The liberation of these rights would at least help determine the market and worth of these rights, making it possible for parties to assign value to the rights and purchase them from each other. Thus, this Comment proposes this arrangement as a framework for an equitable, temporary

¹⁰⁸ See Tim Connors, *Beleaguered Accounting: Should the Film Industry Abandon Its Net Profits Formula?*, 70 S. CAL. L. REV. 841 (1997) (discussing a detailed analysis and critique of “Hollywood Accounting”).

means for dealing with the territoriality issue explored in Section III.A. Rather than freezing Internet rights, parties should untie them in a revenue sharing arrangement that would allow for either or both parties to exploit the rights while accounting for and splitting the revenues in a designated matter. Instead of demanding user information to restrict access, a method lacking security, users would be asked to volunteer information just in order to account for their presence. Because access would not be dependent on location, a user would lack the incentive to lie, at least if only streaming rather than download purchasing is allowed. According to the arrangement, the parties could then split the revenues based on the location of the users. While each party would be free to exploit the rights and prices, other terms of the viewing would be fixed by the contract, so as to prevent one party from charging less and making revenues through a secondary means, such as advertiser based. Also, the agreement could run on a fixed term or could expire upon certain circumstances, such as a technological advancement that would secure territorial boundaries. While temporary and potentially complex, this remedy would allow studios and other parties to experiment with services, technologies, audiences, and websites in order to prepare for the future and gauge the value of rights that would otherwise remain temporarily worthless.

Nevertheless, so long as piracy remains a threat, even such a temporary solution might not be desirable to the studios. Instead, experimentation with library pictures as opposed to "hotter" features will provide studios with a relatively harmless way to test the market and various models, and to draw conclusions regarding the cannibalistic potential of Internet rights. Granted, these older pictures will have already played out on television, allowing viewers to tape record them rather than purchase or rent them on-line; but this library also reduces the risks to which the studios are exposed. Until technological innovations eliminate the fear of piracy before putting up territorial fences on the Internet, those who play it safe can learn from the mistakes and success of others and hope they are as prepared when the secured floodgates open for this new medium.

V. CONCLUSION

Many hurdles block the path to the Internet distribution of films. This Comment provides a roadmap for avoiding these obstacles, which could threaten the growth of a new medium. By proposing a novel test for interpreting "new use" cases, identifying the distinctive, yet malleable, nature of Internet rights that makes application of the test precarious, and recognizing the restrictions that impede disposition of such

rights even in a contemporary and informed setting, this Comment advocates the cautious nurturing of the new medium. While this analysis can assist a court in furthering this goal and the test allows for easier prediction of judicial outcomes, it is hoped that parties can instead use this study to shape the path themselves. For as discussed, even with a reliable test at hand courts may purport to apply one kind of analysis while really just incorporating its view of technology to support a conclusion. In the end, the shaping of Internet rights and their subsequent disposition should be left in the hands of more knowledgeable decision makers, the studios continuously involved in exploiting those rights and developing the technology involved. Lubin predicted that movies would one day be delivered like a newspaper; but the Internet promises that even the doorstep is not close enough.

