

Oracle v. Google

Court of Appeals for the Federal Circuit

886 F.3d 1179

Decided March 27, 2018.

[A petition for certiorari in the United States Supreme Court is currently pending.]

[This is an abridged version of the court's opinion. An unabridged version is available at http://ccb.ff6.mwp.accessdomain.com/P/2018_Google.pdf]

- 01 Before O'MALLEY, PLAGER, and TARANTO, *Circuit Judges*.
- 02 O'MALLEY, Circuit Judge.
- 03 This copyright case returns to us after a second jury trial, this one focusing on the defense of fair use. Oracle America, Inc. ("Oracle") filed suit against Google Inc. ("Google")¹¹ in the United States District Court for the Northern District of California, alleging that Google's unauthorized use of 37 packages of Oracle's Java application programming interface ("API packages") in its Android operating system infringed Oracle's patents and copyrights.
- 04 At the first trial, the jury found that Google infringed Oracle's copyrights in the Java Standard Edition platform, but deadlocked on the question of whether Google's copying was a fair use.¹² After the verdict, however, the district court found that the API packages were not copyrightable as a matter of law and entered judgment for Google. Oracle appealed that determination to this court, and we reversed, finding that declaring code and the structure, sequence, and organization ("SSO") of the Java API packages are entitled to copyright protection. We remanded with instructions to reinstate the jury's infringement verdict and for further proceedings on Google's fair use defense and, if appropriate, on damages. *Id.* at 1381.
- 05 Google subsequently filed a petition for certiorari on the copyrightability determination. The Supreme Court called for the views of the Solicitor General, who expressed agreement with our determination and recommended denying review. The Supreme Court denied certiorari in 2015.
- 06 At the second jury trial, Google prevailed on its fair use defense. After the jury verdict, the district court denied Oracle's motion for judgment as a matter of law ("JMOL") and entered final judgment in favor of Google.
- 07 Oracle now appeals from the district court's final judgment and its decisions denying Oracle's motions for JMOL and motion for a new trial.
- 08 Because we conclude that Google's use of the Java API packages was not fair as a matter of law, we reverse the district court's decisions denying Oracle's motions for JMOL and remand for a trial on damages. ...

[For a summary of the facts of the case and the rulings in the previous rounds of litigation, refer to Oracle v. Google (Federal Circuit 2014), reprinted in earlier portions of these materials.]

46 Before turning to a consideration of the four statutory factors and any relevant underlying factual determinations, we first address the standard of review we are to employ in that consideration. While this section of most appellate opinions presents easily resolvable questions, like much else in the fair use context, that is not completely the case here.

We conclude that whether the court applied the correct legal standard to the fair use inquiry is a question we review de novo, whether the findings relating to any relevant historical facts were correct are questions which we review with deference, and whether the use at issue is ultimately a fair one is something we also review de novo.

57 While some courts once treated the entire question of fair use as factual, and, thus, a question to be sent to the jury, that is not the modern view.¹³ Since *Harper & Row*, the Ninth Circuit has described fair use as an "equitable defense." Indeed, the Supreme Court referred to fair use as "an equitable rule of reason" in *Harper & Row*, 471 U.S. at 560. Congress did the same when it codified the doctrine of fair use in 1976. See H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 65-66 (1976), U.S. Code Cong. & Admin. News 1976, 5659, 5679-80 ("[S]ince the doctrine [of fair use] is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts. . ."). If fair use is equitable in nature, it would seem to be a question for the judge, not the jury, to decide, even when there are factual disputes regarding its application. In that instance, it would be the judge's factual determinations that would receive a deferential review—being assessed for clear error on the record before the court.

58 That said, the Supreme Court has never clarified whether and to what extent the jury is to play a role in the fair use analysis. *Harper & Row* involved an appeal from a *bench* trial where the district court concluded that the use of the copyrighted material was not a fair use. The Court, thus, had no reason to discuss a jury determination of fair use and has not since taken an opportunity to do so.

59 Perhaps because of this silence, even after *Harper & Row*, several courts—including the Ninth Circuit—have continued to accept the fact that the question of fair use may go to a jury, albeit without analysis of why it may.

60 The Ninth Circuit has clarified, however, that the jury role in this context is limited to determining disputed "historical facts," not the inferences or conclusions to be drawn from those facts. . In *Fisher*, for example, the court explained that "[n]o material historical facts are at issue in this case. The parties dispute only the ultimate conclusions to be drawn from the admitted facts. Because, under *Harper & Row*, these judgments are legal in nature, we can make them without usurping the function of the jury. Accordingly, while inferences from the four-factor analysis and the ultimate question of fair use are "legal in nature," in the Ninth Circuit, disputed historical facts represent questions for the jury. Where there are no disputed material historical facts, fair use can be decided by the court alone.

61 Despite this case law, all aspects of Google's fair use defense went to the jury with neither party arguing that it should not. Thus, the jury was asked not just what the historical facts were, but what the implications of those facts were for the fair use defense. During the first appeal, Google argued to this court that there were disputed issues of material historical fact relevant to its fair use defense.

As discussed below, the parties stipulated—or at least ceased to dispute—some of those facts, and presented the remaining disputed historical facts to the jury on remand. The jury returned a verdict in favor of Google on its fair use defense. Because the verdict form—though captioned as a "special verdict"—did not ask the jury to articulate its fact findings in any detail, we must assume that the jury resolved all factual issues relating to the historical facts in favor of the verdict.^[4]

62 All jury findings relating to fair use other than its implied findings of historical fact must, under governing Supreme Court and Ninth Circuit case law, be viewed as advisory only. Accordingly, while we might assess the jury's role in the assessment of fair use differently if not bound by Ninth Circuit law, we proceed on the assumption both that: (1) it was not error to send the question to the jury, because the Ninth Circuit has at least implicitly endorsed doing so; and (2) we must assess all inferences to be drawn from the historical facts found by the jury and the ultimate question of fair use de novo, because the Ninth Circuit has explicitly said we must do so....

73 C. Applying the Fair Use Factors

74 Factor 1: The Purpose and Character of the Use

75 The first factor in the fair use inquiry involves "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." 17 U.S.C. § 107(1). This factor has two primary components: (1) whether the use is commercial in nature, rather than for educational or public interest purposes; and (2) "whether the new work is transformative or simply supplants the original." As explained below, the first is a question of fact and the second is a question of law. As Oracle points out, moreover, courts sometimes also consider whether the historical facts support the conclusion that the infringer acted in bad faith. See *Harper & Row*, 471 U.S. at 562. We address each component in turn.

76 a. Commercial Use

77 Analysis of the first factor requires inquiry into the commercial nature of the use. Use of the copyrighted work that is commercial "tends to weigh against a finding of fair use." Courts have recognized, however, that, "[s]ince many, if not most, secondary users seek at least some measure of commercial gain from their use, unduly emphasizing the commercial motivation of a copier will lead to an overly restrictive view of fair use." Accordingly, although the statute requires us to consider the "commercial nature" of the work, "the degree to which the new user exploits the copyright for commercial gain—as opposed to incidental use as part of a commercial enterprise—affects the weight we afford commercial nature as a factor."

78 "[I]t is undisputed that Google's use of the declaring code and SSO from 37 Java API packages served commercial purposes." Although the jury was instructed that commercial use weighed against fair use, the district court explained that the jury "could reasonably have found that Google's decision to make Android available open source and free for all to use had non-commercial purposes as well (such as the general interest in sharing software innovation)."

79 On appeal, Oracle argues that Android is "hugely profitable" and that "Google reaps billions from exploiting Java in Android." As such, Oracle maintains that no reasonable jury could have found Android anything but "overwhelmingly commercial."^[5]

80 Google responds that: (1) because it gives Android away for free under an open source license the jury could have concluded that Android has non-commercial purposes; and (2) the jury could have reasonably found that Google's revenue flows from the advertisements on its search engine which preexisted Android. Neither argument has merit.

81 First, the fact that Android is free of charge does not make Google's use of the Java API packages noncommercial. Giving customers "for free something they would ordinarily have to buy" can constitute commercial use. [*A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 \(9th Cir. 2001\)](#) (finding that "repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute a commercial use"). That Google might also have non-commercial motives is irrelevant as a matter of law. As the Supreme Court made clear when *The Nation* magazine published excerpts from Harper & Row's book, partly for the purpose of providing the public newsworthy information, the question "is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price." Second, although Google maintains that its revenue flows from advertisements, not from Android, commerciality does not depend on how Google earns its money. Indeed, "[d]irect economic benefit is not required to demonstrate a commercial use." We find, therefore, that, to the extent we must assume the jury found Google's use of the API packages to be anything other than overwhelmingly commercial, that conclusion finds no substantial evidentiary support in the record. Accordingly, Google's commercial use of the API packages weighs against a finding of fair use.

82 b. Transformative Use

83 Although the Copyright Act does not use the word "transformative," the Supreme Court has stated that the "central purpose" of the first fair use factor is to determine "whether and to what extent the new work is transformative." Transformative works "lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright, and the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use."

84 A use is "transformative" if it "adds something new, with a further purpose or different character, altering the first with new expression, meaning or message." The critical question is "whether the new work merely supersede[s] the objects of the original creation . . . or instead adds something new." This inquiry "may be guided by the examples given in the preamble to § 107, looking to whether the use is for criticism, or comment, or news reporting, and the like." "The Supreme Court has recognized that parodic works, like other works that comment and criticize, are by their nature often sufficiently transformative to fit clearly under the fair use exception."

85 "Although transformation is a key factor in fair use, whether a work is transformative is a often highly contentious topic." Indeed, a "leading treatise on this topic has lamented the frequent misuse of the transformation test, complaining that it has become a conclusory label which is `all things to all people.'" (Melville B. Nimmer & David Nimmer, 4 Nimmer on Copyright § 13.05[A][1][b], 13168-70 (2011)).

86 To be transformative, a secondary work must either alter the original with new expression, meaning, or message or serve a new purpose distinct from that of the original work. Where the use "is for the same intrinsic purpose as [the copyright holder's] . . . such use seriously weakens a

claimed fair use."

- 87 Although "transformative use is not absolutely necessary for a finding of fair use, the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works." As such, "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." Importantly, in the Ninth Circuit, whether a work is transformative is a question of law. See [Mattel, 353 F.3d at 801](#) (explaining that parody—a well-established species of transformative use—"is a question of law, not a matter of public majority opinion"); see also *Fox News Network, LLC v. TVEyes, Inc.*, No. 15-3885, 2018 WL 1057178, at *3-4 (2d Cir. Feb. 27, 2018) (reassessing whether the use in question was transformative and deciding it was as a matter of law).
- 88 In denying JMOL, the district court explained that "of course, the copied declarations serve the same function in both works, for by definition, declaring code in the Java programming language serves the [same] specific definitional purposes."⁶⁴ The court concluded, however, that the jury could reasonably have found that Google's selection of some, but not all, of the Java API packages—"with new implementing code adapted to the constrained operating environment of mobile smartphone devices," together with new "methods, classes, and packages written by Google for the mobile smartphone platform"—constituted "a fresh context giving new expression, meaning, or message to the duplicated code.
- 89 On appeal, Oracle argues that Google's use was not transformative because it did not alter the APIs with "new expression, meaning, or message." Because Google concedes that it uses the API packages for the same purpose, Oracle maintains that it was unreasonable for either the jury or the court to find that Google sufficiently transformed the APIs to overcome its highly commercial use.
- 90 Google responds that a reasonable jury could have concluded that Google used a small portion of the Java API packages to create a new work in a new context— "Android, a platform for smartphones, not desktops and servers." Google argues that, although the declarations and SSO may perform the same functions in Android and Java, the jury could reasonably find that they have different purposes because the "point of Android was to create a groundbreaking platform for smartphones."
- 91 Google's arguments are without merit. As explained below, Google's use of the API packages is not transformative as a matter of law because: (1) it does not fit within the uses listed in the preamble to § 107; (2) the purpose of the API packages in Android is the same as the purpose of the packages in the Java platform; (3) Google made no alteration to the expressive content or message of the copyrighted material; and (4) smartphones were not a new context.
- 92 First, though not dispositive, we turn to the examples given in the preamble to § 107, "looking to whether the use is for criticism, or comment, or news reporting, and the like." Google's use of the Java API packages does not fit within the statutory categories, and Google does not suggest otherwise. Instead, Google cites [Sony Computer Entertainment, Inc. v. Connectix Corp., 203 F.3d 596 \(9th Cir. 2000\)](#), for the proposition that the "Ninth Circuit has held other types of uses—specifically including uses of computer code—to be fair." In *Sony*, the court found that the defendant's reverse engineering and intermediate copying of Sony's copyrighted software system "was a fair use for the purpose of gaining access to the unprotected elements of Sony's software." The court explained that Sony's software program contained unprotected functional

elements and that the defendant could only access those elements through reverse engineering. The defendant used that information to create a software program that let consumers play games designed for Sony's PlayStation console on their computers. The court found that the defendant's use was only "modestly transformative" where: (1) the defendant created "a wholly new product" with "entirely new . . . code," and (2) the intermediate copying was performed to "produce a product that would be compatible." As Oracle points out, even the "modest" level of transformation at issue in *Sony* is more transformative than what Google did here: copy code verbatim to attract programmers to Google's "new and incompatible platform."

- 93 It is undisputed that the API packages "serve the same function in both works." And, as Oracle explains, the historical facts relevant to transformative use are also undisputed: what declaring code is, what it does in Java and in Android, how the audience of computer developers perceives it, how much Google took and added, what the added code does, and why Google used the declaring code and SSO. Indeed, Google conceded that "including the declarations (and their associated SSO) was for the benefit of developers, who—familiar with the Java programming language—had certain expectations regarding the language's APIs. The fact that Google created exact copies of the declaring code and SSO and used those copies for the same purpose as the original material "seriously weakens [the] claimed fair use."
- 94 Google argues that Android is transformative because Google selectively used the declarations and SSO of only 37 of the 166 Java SE API packages and wrote its own implementing code. But taking only select passages of a copyrighted work is, by itself, not transformative. See [*L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924, 938-39 \(9th Cir. 2002\)](#) ("Merely plucking the most visually arresting excerpt from LANS's nine minutes of footage cannot be said to have added anything new."). While, as discussed below, the volume of work copied is relevant to the fair use inquiry generally, thought must be given to the quality and importance of the copied material, not just to its relative quantity vis-à-vis the overall work. To hold otherwise would mean that verbatim copying could qualify as fair use as long as the plagiarist stops short of taking the entire work. That approach is inconsistent with settled law and is particularly troubling where, as here, the portion copied is qualitatively significant.
- 95 That Google wrote its own implementing code is irrelevant to the question of whether use of the APIs was transformative. As we noted in the prior appeal, "no plagiarist can excuse the wrong by showing how much of his work he did not pirate." The relevant question is whether Google altered "the *expressive content or message* of the original work" that it copied—not whether it rewrote the portions it did not copy. See [*Seltzer*, 725 F.3d at 1177](#). That said, even where the allegedly infringing work "makes few physical changes to the original or fails to comment on the original," it will "typically [be] viewed as transformative as long as new expressive content or message is apparent." Here, however, there is no suggestion that the new implementing code somehow changed the expression or message of the declaring code. While Google's use could have been transformative if it had copied the APIs for some other purpose—such as teaching how to design an API—merely copying the material and moving it from one platform to another without alteration is not transformative.
- 96 Google's primary argument on appeal is that Android is transformative because Google incorporated the declarations and SSO of the 37 API packages into a new *context*—smartphones. But the record showed that Java SE APIs were in smartphones before Android entered the market. Specifically, Oracle presented evidence that Java SE was in SavaJe mobile phones and that Oracle

licensed Java SE to other smartphone manufacturers, including Danger and Nokia. Because the Java SE was already being used in smartphones, Google did not "transform" the copyrighted material into a new context and no reasonable jury could conclude otherwise.^[7]

97 In any event, moving material to a new context is not transformative in and of itself—even if it is a "sharply different context." *TCA Television Corp. v. McCollum*, 839 F.3d 168, 181-83 (2d Cir. 2016) (finding that use "at some length, almost verbatim," of the copyrighted comedy routine "Who's on First?" in a dramatic play was not transformative where the play neither "imbued the Routine with any new expression, meaning, or message," nor added "any new dramatic purpose"). As previously explained, a use becomes transformative only if it serves a different purpose or alters the "expression, meaning, or message" of the original work. As such, "[c]ourts have been reluctant to find fair use when an original work is merely retransmitted in a different medium." Accordingly, although a change of format may be "useful," it "is not technically a transformation."

98 The Ninth Circuit has stated that "[a] use is considered transformative only where a defendant changes a plaintiff's copyrighted work or uses the plaintiff's copyrighted work in a different context such that the plaintiff's work is transformed into a new creation." In *Perfect 10*, for example, the court found Google's use of thumbnail versions of copyrighted images "highly transformative" because, "[a]lthough an image may have been created originally to serve an entertainment, aesthetic, or informative function, a search engine transforms the image into a pointer directing a user to a source of information." Although the court discussed the change in context (moving the copyrighted images into the electronic reference tool), it emphasized that Google used the images "in a new context to serve a different purpose." In reaching this conclusion, the court reiterated that "even making an exact copy of a work may be transformative so long as the copy serves a different function than the original work." It is clear, therefore, that the change in context alone was not dispositive in *Perfect 10*; rather, the change in context facilitated the change in purpose, which made the use transformative.

99 To some extent, any use of copyrighted work takes place in a slightly different context than the original. And of course, there is no bright line identifying when a use becomes transformative. But where, as here, the copying is verbatim, for an identical function and purpose, and there are no changes to the expressive content or message, a mere change in format (e.g., from desktop and laptop computers to smartphones and tablets) is insufficient as a matter of law to qualify as a transformative use.^[8]

100 c. Bad Faith

101 In evaluating the "purpose and character" factor, the Ninth Circuit applies "the general rule that a party claiming fair use must act in a manner generally compatible with principles of good faith and fair dealing." In part, this is based on the fact that, in *Harper & Row*, the Supreme Court expressly stated that "[f]air use presupposes 'good faith' and 'fair dealing.'" It is also in part true because, as the Ninth Circuit has said, one who acts in bad faith should be barred from invoking the equitable defense of fair use. *Fisher*, 794 F.2d at 436 (calling the principle of considering the alleged infringer's "bad conduct" as a "bar [to] his use of the equitable defense of fair use" a sound one).^[9]

102 Consistent with this authority, and at Oracle's request, the district court instructed the jury that it could consider whether Google acted in bad faith (or not) as part of its assessment of the first fair use factor. And, because Oracle was permitted to introduce evidence that Google acted in bad

faith, the court permitted Google to try to prove its good faith.

- 103 At trial, Oracle introduced evidence suggesting that "Google felt it needed to copy the Java API as an accelerant to bring Android to the market quicker" and knew that it needed a license to use Java. For its part, Google presented evidence that it believed that the declaring code and SSO were "free to use and re-implement, both as a matter of developer practice and because the availability of independent implementations of the Java API enhanced the popularity of the Java programming language, which Sun promoted as free for all to use." Given this conflicting evidence, the district court found that the jury could reasonably have concluded that "Google's use of parts of the Java API as an accelerant was undertaken based on a good faith belief that at least the declaring code and SSO were free to use (which it did use), while a license was necessary for the implementing code (which it did not use)."
- 104 On appeal, Oracle argues that there was ample evidence that Google intentionally copied Oracle's copyrighted work and knew that it needed a license to use Java. Google responds that the jury heard sufficient evidence of Google's good faith based on industry custom and was entitled to credit that evidence.
- 105 But, while bad faith may weigh against fair use, a copyist's good faith cannot weigh in favor of fair use. Indeed, the Ninth Circuit has expressly recognized that "the innocent intent of the defendant constitutes no defense to liability." If it were clear, accordingly, that the jury found fair use solely or even largely because it *approved* of Google's motives even if they were in bad faith, we would find such a conclusion improper. Because evidence of Google's good faith was relevant to rebut evidence of its bad faith, however, and there is no objection to the instructions to the jury on this or any other point, we must assume that the jury simply did not find the evidence of Google's bad faith persuasive.¹⁰⁰ We note, moreover, that merely "being denied permission to use a work does not weigh against a finding of fair use."
- 106 Ultimately, we find that, even assuming the jury was unpersuaded that Google acted in bad faith, the highly commercial and non-transformative nature of the use strongly support the conclusion that the first factor weighs against a finding of fair use.

107 Factor 2: Nature of the Copyrighted Work

- 108 The second factor—the nature of the copyrighted work—"calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied." This factor "turns on whether the work is informational or creative." Creative expression "falls within the core of the copyright's protective purposes." Although "software products are not purely creative works," it is well established that copyright law protects computer software. ("[T]he 1980 amendments to the Copyright Act unambiguously extended copyright protection to computer programs.").
- 109 Here, the district court found that the jury could have concluded that the process of designing APIs was "highly creative" and "thus at the core of copyright's protection" or it could "reasonably have gone the other way and concluded that the declaring code was not highly creative." While the jury heard testimony from Google's own expert that API design is "an art, not a science," other witnesses emphasized the functional role of the declaring code and the SSO and minimized the creative aspects. *Id.* Accordingly, the district court concluded that the "jury could reasonably have

found that, while the declaring code and SSO were creative enough to qualify for copyright protection, functional considerations predominated in their design."

110 On appeal, Oracle emphasizes that designing the APIs was a highly creative process and that the organization of the packages was not mandated by function. Indeed, this court has already held that the declaring code and the SSO of the 37 API packages at issue were sufficiently creative and original to qualify for copyright protection. According to Oracle, the district court erred in assuming that, because the APIs have a "functional role," they cannot be creative.

111 As Google points out, however, all we found in the first appeal was that the declarations and SSO were sufficiently creative to provide the "minimal degree of creativity," [*Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 \(1991\)](#), that is required for copyrightability. We also recognized that a reasonable jury could find that "the functional aspects of the packages" are "relevant to Google's fair use defense." On remand, Oracle stipulated that some of the declarations were necessary to use the Java language and presented no evidence explaining how the jury could distinguish the functionality and creativity of those declarations from the others. Google maintains that it presented evidence that the declarations and SSO were functional and the jury was entitled to credit that evidence.

112 Although it is clear that the 37 API packages at issue involved some level of creativity—and no reasonable juror could disagree with that conclusion—reasonable jurors could have concluded that functional considerations were both substantial and important. Based on that assumed factual finding, we conclude that factor two favors a finding of fair use.

113 The Ninth Circuit has recognized, however, that this second factor "typically has not been terribly significant in the overall fair use balancing." [*Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1402 \(9th Cir. 1997\)](#) (finding that the "creativity, imagination and originality embodied in *The Cat in the Hat* and its central character tilts the scale against fair use"); [*Mattel*, 353 F.3d at 803](#) (similar). Other circuits agree. *Fox News Network*, 2018 WL 1057178, at *5 ("This factor 'has rarely played a significant role in the determination of a fair use dispute,' and it plays no significant role here." (quoting [*Authors Guild v. Google, Inc.*, 804 F.3d 202, 220 \(2d Cir. 2015\)](#))). We note, moreover, that allowing this one factor to dictate a conclusion of fair use in all cases involving copying of software could effectively negate Congress's express declaration—continuing unchanged for some forty years—that software is copyrightable. Accordingly, though the jury's assumed view of the nature of the copyrighted work weighs in favor of finding fair use, it has less significance to the overall analysis.

114 Factor 3: Amount and Substantiality of the Portion Used

115 The third factor focuses on the "amount and substantiality of the portion used in . . . the context of the copyrighted work, not the infringing work." Indeed, the statutory language makes clear that "a taking may not be excused merely because it is insubstantial with respect to the *infringing* work." "[T]he fact that a substantial portion of the infringing work was copied verbatim [from the original work] is evidence of the qualitative value of the copied material, both to the originator and to the plagiarist who seeks to profit from marketing someone else's copyrighted expression." Thus, while "wholesale copying does not preclude fair use per se, copying an entire work militates against a finding of fair use." But, there is no relevance to the opposite—i.e., adding substantial content to the copyrighted work is not evidence that what was copied was

insubstantial or unimportant.

- 116 The inquiry under this third factor "is a flexible one, rather than a simple determination of the percentage of the copyrighted work used." The Ninth Circuit has explained that this third factor looks to the quantitative amount and qualitative value of the original work used in relation to the justification for its use. The percentage of work copied is not dispositive where the portion copied was qualitatively significant. Google is correct that the Ninth Circuit has said that, "this factor will not weigh against an alleged infringer, even when he copies the whole work, if he takes no more than is necessary for his intended use." But the Ninth Circuit has only said that is true where the intended use was a transformative one, because the "extent of permissible copying varies with the purpose and character of the use." Here, we have found that Google's use was not transformative and Google has conceded both that it could have written its own APIs and that the purpose of its copying was to make Android attractive to programmers. "Necessary" in the context of the cases upon which Google relies does not simply mean easier.
- 117 In assessing factor three, the district court explained that the "jury could reasonably have found that Google duplicated the bare minimum of the 37 API packages, just enough to preserve inter-system consistency in usage, namely the declarations and their SSO only, and did not copy any of the implementing code," such that Google "copied only so much as was reasonably necessary." In reaching this conclusion, the court noted that the jury could have found that the number of lines of code Google duplicated was a "tiny fraction of one percent of the copyrighted works (and even less of Android, for that matter)." We disagree that such a conclusion would have been reasonable or sufficient on this record.
- 118 On remand, the parties stipulated that only 170 lines of code were necessary to write in the Java language. It is undisputed, however, that Google copied 11,500 lines of code—11,330 more lines than necessary to write in Java. That Google copied more than necessary weighs against fair use. And, although Google emphasizes that it used a small percentage of Java (11,500 lines of declarations out of roughly 2.86 million lines of code in the Java SE libraries), it copied the SSO for the 37 API packages in its entirety.
- 119 The district court emphasized Google's desire to "preserve inter-system consistency" to "avoid confusion among Java programmers as between the Java system and the Android system." As we noted in the prior appeal, however, Google did not seek to foster any "inter-system consistency" between its platform and Oracle's Java platform. And Google does not rely on any interoperability arguments in this appeal.¹¹¹ Google sought "to capitalize on the fact that software developers were already trained and experienced in using the Java API packages at issue." But there is no inherent right to copy in order to capitalize on the popularity of the copyrighted work or to meet the expectations of intended customers. Taking those aspects of the copyrighted material that were familiar to software developers to create a similar work designed to be popular with those same developers is not fair use.
- 120 Even assuming the jury accepted Google's argument that it copied only a small portion of Java, no reasonable jury could conclude that what was copied was qualitatively insignificant, particularly when the material copied was important to the creation of the Android platform. Google conceded as much when it explained to the jury the importance of the APIs to the developers it wished to attract. Indeed, Google's own expert conceded that "it was a sound business practice for Google to leverage the existing community of developers, minimizing the amount of new material and

maximizing existing knowledge," even though Google also conceded that it could have written the APIs differently to achieve the same functions. . For these reasons, we find that the third factor is, at best, neutral in the fair use inquiry, and arguably weighs against such a finding.

121 Factor 4: Effect Upon the Potential Market

- 122 The fourth and final factor focuses on "the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). This factor reflects the idea that fair use "is limited to copying by others which does not materially impair the marketability of the work which is copied." It requires that courts "consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also whether unrestricted and widespread conduct of the sort engaged in by the defendant. . . would result in a substantially adverse impact on the potential market for the original."
- 123 The Supreme Court once said that factor four is "undoubtedly the single most important element of fair use." In its subsequent opinion in *Campbell*, however, the Court emphasized that none of the four factors can be viewed in isolation and that "[a]ll are to be explored, and the results weighed together, in light of the purposes of copyright." The Court has also explained that "[m]arket harm is a matter of degree, and the importance of this factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors."
- 124 The Ninth Circuit recently indicated that likely market harm can be presumed where a use is "commercial and not transformative." That presumption allegedly traces back to *Sony Corp. of America v. University City Studios, Inc.*, 464 U.S. 417, 451 (1984), where the Supreme Court stated that, "[i]f the intended use is for commercial gain, that likelihood [of future harm] may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated." The Supreme Court has since clarified that market impact, "no less than the other three [factors], may be addressed only through a `sensitive balancing of interests'" and that earlier interpretations of *Sony* to the contrary were incorrect. On this point, we must apply clear Supreme Court precedent rather than the more recent Ninth Circuit's statements to the contrary.
- 125 In evaluating the fourth factor, courts consider not only harm to the actual or potential market for the copyrighted work, but also harm to the "market for potential derivative uses," including "those that creators of original works would in general develop or license others to develop." *Campbell*, 510 U.S. at 592; see also *A&M Records*, 239 F.3d at 1017 ("[L]ack of harm to an established market cannot deprive the copyright holder of the right to develop alternative markets for the works."). A court can therefore consider the challenged use's "impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets."
- 126 Also relevant to the inquiry is the fact that a copyright holder has the exclusive right to determine "when, `whether and in what form to release'" the copyrighted work into new markets, whether on its own or via a licensing agreement. Indeed, the Ninth Circuit has recognized that "[e]ven an author who had disavowed any intention to publish his work during his lifetime" was entitled to copyright protection because: (1) "the relevant consideration was the `potential market'" and (2) "he has the right to change his mind."
- 127 Here, the district court concluded that the jury "could reasonably have found that use of the declaring lines of code (including their SSO) in Android caused no harm to the market for the

copyrighted works, which were for desktop and laptop computers." In reaching this conclusion, the district court noted that, before Android was released, Sun made all of the Java API packages available for free and open source under the name OpenJDK, subject only to the terms of a general public license. According to the district court, the jury could have concluded that "Android's impact on the market for the copyrighted works paralleled what Sun already expected via its OpenJDK."

- 128 On appeal, Oracle argues that the evidence of actual and potential harm stemming from Google's copying was "overwhelming," and that the district court erred as a matter of law in concluding otherwise. We agree.
- 129 First, with respect to actual market harm, the evidence showed that Java SE had been used for years in mobile devices, including early smartphones, prior to Android's release. Specifically, the jury heard testimony that Java SE was already in smartphones, including Blackberry, SavaJe, Danger, and Nokia. That Android competed directly with Java SE in the market for mobile devices is sufficient to undercut Google's market harm arguments. With respect to tablets, the evidence showed that Oracle licensed Java SE for the Amazon Kindle. After Android's release, however, Amazon was faced with two competing options—Java SE and Android—and selected Android.¹³³ The jury also heard evidence that Amazon later used the fact that Android was free to negotiate a steep discount to use Java SE in its newer ereader. In other words, the record contained substantial evidence that Android was used as a substitute for Java SE and had a direct market impact. Given this evidence of actual market harm, no reasonable jury could have concluded that there was no market harm to Oracle from Google's copying.
- 130 Even if there were a dispute about whether Oracle was licensing Java SE in smartphones at the time Android launched, moreover, "fair use focuses on *potential*, not just actual, market harm." Accordingly, although the district court focused exclusively on the market it found that Oracle had already entered—desktops and laptops—it should have considered how Google's copying affected potential markets Oracle might enter or derivative works it might create or license others to create. Licensing Java SE for smartphones with increased processing capabilities was one such potential new market. And the fact that Oracle and Google engaged in lengthy licensing negotiations demonstrates that Oracle was attempting to license its work for mobile devices, including smartphones.¹⁴⁴ Smartphones were, therefore, a "traditional, reasonable, or likely to be developed market."
- 131 Google argues that a reasonable jury could have concluded that Java SE and Android did not compete in the same market because Oracle: (1) was not a device maker; and (2) had not yet built its own smartphone platform. Neither argument has merit. That Oracle never built a smartphone device is irrelevant because potential markets include licensing others to develop derivative works. The fact that Oracle had not yet developed a smartphone platform is likewise irrelevant as a matter of law because, as Oracle submits, a market is a potential market even where the copyright owner has no immediate plans to enter it or is unsuccessful in doing so. Even assuming a reasonable jury could have found no *current* market harm, the undisputed evidence showed, at a minimum, that Oracle intended to license Java SE in smartphones; there was no evidence in the record to support any contrary conclusion. Because the law recognizes and protects a copyright owner's right to enter a "potential market," this fact alone is sufficient to establish market impact.
- 132 Given the record evidence of actual and potential harm, we conclude that "unrestricted and

widespread conduct of the sort engaged in by" Google would result in "a substantially adverse impact on the potential market for the original" and its derivatives. Accordingly, the fourth factor weighs heavily in favor of Oracle.

133 Balancing the Four Factors

134 Having undertaken a case-specific analysis of all four factors, we must weigh the factors together "in light of the purposes of copyright." We conclude that allowing Google to commercially exploit Oracle's work will not advance the purposes of copyright in this case. Although Google could have furthered copyright's goals of promoting creative expression and innovation by developing its own APIs, or by licensing Oracle's APIs for use in developing a new platform, it chose to copy Oracle's creative efforts instead. There is nothing fair about taking a copyrighted work verbatim and using it for the same purpose and function as the original in a competing platform.

135 Even if we ignore the record evidence and assume that Oracle was not already licensing Java SE in the smartphone context, smartphones were undoubtedly a potential market. Android's release effectively replaced Java SE as the supplier of Oracle's copyrighted works and prevented Oracle from participating in developing markets. This superseding use is inherently unfair.

136 On this record, factors one and four weigh heavily against a finding of fair use, while factor two weighs in favor of such a finding and factor three is, at best, neutral. Weighing these factors together, we conclude that Google's use of the declaring code and SSO of the 37 API packages was not fair as a matter of law.

137 We do not conclude that a fair use defense could never be sustained in an action involving the copying of computer code. Indeed, the Ninth Circuit has made it clear that some such uses can be fair. See *Sony*, 203 F.3d at 608; *Sega*, 977 F.2d at 1527-28. We hold that, given the facts relating to the copying at issue here—which differ materially from those at issue in *Sony* and *Sega*—Google's copying and use of this particular code was not fair as a matter of law....

142 IV. CONCLUSION

143 For the foregoing reasons, we conclude that Google's use of the 37 Java API packages was not fair as a matter of law. We therefore reverse the district court's decisions denying Oracle's motions for JMOL and remand for a trial on damages. The district court may determine the appropriate vehicle for consideration of infringement allegations regarding additional uses of Android.

144 REVERSED AND REMANDED

145 No costs....

Notes:

154 [9] As the district court recognized, there is some debate about whether good or bad faith should remain relevant to the factor one inquiry. See also Hon. Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1128 (1990) ("Whether the secondary use is within the protection of the [fair use] doctrine depends on factors pertinent to the objectives of the copyright law and

not on the morality or motives of either the secondary user or the copyright-owning plaintiff."). In *Campbell*, the Supreme Court expressed skepticism about "the weight one might place on the alleged infringer's state of mind." But the Ninth Circuit has not repudiated its view that "the propriety of the defendant's conduct' is relevant to the character of the use at least to the extent that it may knowingly have exploited a purloined work for free that could have been obtained for a fee." For that reason, and because we conclude in any event that the jury must have found that Google did not act in bad faith, we address that question and the parties' arguments relating thereto.