

No. 19-55264

**IN THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

DIVINE DHARMA MEDITATION INTERNATIONAL, INC. et al.,
Plaintiffs-Appellants,

v.

INSTITUTE OF LATENT ENERGY STUDIES,
Defendant-Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA
DOUGLAS F. MCCORMICK, DISTRICT JUDGE • CASE No. 8:16-cv-00226

APPELLANTS' OPENING BRIEF

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CORPORATE DISCLOSURE STATEMENT

Appellant Divine Dharma Meditation International, Inc. is a California non-profit corporation. It has no parent corporation and no publicly held corporation has an ownership interest in it.

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APPELLANTS' OPENING BRIEF

INTRODUCTION

A jury found that copying a creative work to use in the same manner as the copyright holder, and to promote a competing organization, was a “fair use” that precluded liability for copyright infringement. The district court deferred to the jury’s fair use finding, concluding it was “reasonably within the record.” (1 ER 13.) The district court erred because it did not make an independent assessment of the legal aspects of the fair use analysis, and because Plaintiffs were entitled to judgment as a matter of law under the correct analysis.

Plaintiff Divine Dharma Meditation International, Inc., and its founders Plaintiffs Thuan and Beverly Nguyen, are engaged in the identical business as Defendant Institute of Latent Energy Studies (“ILES”). Both operate meditation centers devoted to teaching the meditation techniques designed by a nineteenth century spiritual philosopher named Dasira Narada. For more than thirty years, the Nguyens used an image of Narada that had been imagined and created by Mr. Nguyen to attract membership, solicit donations, and symbolize their centers’ goodwill.

The founder of ILES had been the leader of one of the Nguyens’ meditation centers. After she resigned her position, she commissioned a painting that copied Plaintiffs’ image of Narada, which she used to promote her own meditation center in the same ways the Nguyens have used the image.

The district court applied the wrong approach to analyze whether Defendant’s conduct could sustain a fair use defense. As a mixed question of law and fact, the district court was required to draw its own legal conclusions from the undisputed historical facts. But the district court instead viewed each of the four statutory factors in forming the fair

use analysis, and even the ultimate weighing of the factors together, as primarily factual inquiries, and deferred to the jury's verdict without independently applying the legal principles that should have driven the analysis.

The undisputed historical facts of this case do not sustain the fair use defense as a matter of law. The fair use defense does not protect a defendant who copies a work to use in the same manner as the copyright holder, and to promote an organization that competes with the copyright holder's. This principle applies even when the copy is used for a nonprofit educational purpose. *See Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d 1110, 1117-20 (9th Cir. 2000) (religious denominations); *Marcus v. Rowley*, 695 F.2d 1171, 1175-77 (9th Cir. 1983) (public school teachers). Were it otherwise, nonprofit organizations would be stripped of the value of and control over their creative content merely because that content is similarly valuable to advance a competing organization's interests.

For these reasons, and for the reasons explained below, this Court should reverse the judgment and remand for a trial on damages because Defendant's use was not fair as a matter of law. In the alternative, this

Court should remand for the district court to independently reconsider the fair use defense in equity.

JURISDICTIONAL STATEMENT

Plaintiffs sued Defendant for copyright infringement in the Central District of California, Southern Division (Santa Ana). (1 ER 18.) The district court exercised federal question and copyright jurisdiction. *See* 1 ER 18-19; 28 U.S.C. § 1331, 1338.

The district court entered a final judgment for Defendant on September 28, 2018, following a jury trial. (1 ER 1.) After the entry of an order denying Plaintiffs' motion for judgment as a matter of law or new trial on March 1, 2019 (1 ER 75), Plaintiffs timely filed a notice of appeal on March 6, 2019 (1 ER 16).

Plaintiffs appeal from the final judgment and order denying its JMOL and new trial motion. This Court has jurisdiction under 28 U.S.C. §§ 1291, 1294(1), 2107(a), and Fed. R. App. P. 4(a).

STATEMENT OF ISSUES PRESENTED

1. Is a court required to consider de novo whether each of the four statutory fair use factor weighs in favor of applying the defense in light of the undisputed historical facts?
2. Is a court required to consider de novo whether the four fair use factors, viewed together, justify applying the fair use defense?
3. Is it fair use for a meditation center to use a copy of a competitor's creative work to attract members and solicit donations in a manner similar to the competitor's use?
4. Is fair use an equitable defense that should be tried to the court?

STATEMENT OF THE CASE

A. Thuan Nguyen creates a picture of Dasira Narada from his imagination.

Dasira Narada developed a method of spiritual meditation. (2 ER 110; 4 ER 637.) Narada lived near the end of the nineteenth century. (2 ER 110; *see* 4 ER 636.)

In 1978, Mr. Nguyen created an image of Narada from his imagination using colored pencils on tissue paper (“the image” or “the

work”). (2 ER 56.) The image depicts a man with a walking stick. (2 ER 57.) No one, then or now, knows what Narada looked like. (4 ER 591, 611, 636, 637.)

B. Plaintiffs use the image to promote their meditation centers that teach Narada’s techniques.

In 1989, Thuan Nguyen and his wife Beverly Nguyen began to design a curriculum to teach Narada’s meditation techniques. (3 ER 343.) Since then, they have created, run, and licensed a number of meditation centers focused on teaching Narada’s techniques. (3 ER 332, 334, 335, 348, 441, 442, 444-446; 4 ER 581, 598-599.) Mr. and Mrs. Nguyen formed DDMI in 2015 as the organization through which to advance this project. (*See* 2 ER 110.)

In 2013, the Nguyens registered a copyright for the image of Narada published in their textbook. (2 ER 40.) Plaintiffs display their image of Narada in their meditation centers on the wall over their altars / offering tables, and reproduce it in their advertisements, brochures, textbooks and on the internet. (2 ER 007, 18-30; 3 ER 482, 483; 4 ER 593, 598-599 d, 610.)

C. Esther Lu obtains a copy of the image for use at one of Plaintiffs' meditation centers. Ms. Lu copies the image to promote her competing meditation center, ILES.

Esther Lu used to lead one of Plaintiffs' meditation centers. (*See* 2 ER 162-164, 214; 4 ER 583.) Now, Ms. Lu operates ILES, a meditation center which also professes to teach the meditation techniques originated from Narada. (2 ER 110.)

In 2010, the Nguyens loaned a copy of the image to Ms. Lu (and her father) for use at one of Plaintiffs' meditation centers, in conformity with the Nguyens business practice. (4 ER 580, 598, 599, 603.) When Ms. Lu resigned her position at Plaintiffs' meditation center, she complied with Plaintiffs' demand to return the borrowed copy to Plaintiffs. (2 ER 162-164, 214; 4 ER 583.) However, Ms. Lu retained a photograph of the image. (2 ER 215.)

In October 2013 (after her resignation), Ms. Lu used the photograph to commission the Pasadena Art School to copy the image in a painting ("the painting"). (2 ER 179, 191-198, 215.) The image depicted in the painting is substantially similar to the copyrighted image of Narada. (1 ER 4; 2 ER 058, 138-162, 179, 215; 4 ER 667.) Below are copies of the Plaintiffs' image (left) beside Defendant's copy (right):



(2 ER 57.)

In June 2015, Defendant registered a copyright for the painting, while disclaiming the image of the man with the walking stick. (2 ER 289.)

Defendant uses the painting, and copies of the painting, to promote its meditation center and solicit donations in manners identical to Plaintiffs' use of the image. (2 ER 57; 2 ER 191-198, 203-204; 4 ER 597-599, 600-607, 623-633.)

D. A jury finds that Defendant's use of the image was fair. The district court defers to the jury's verdict and concludes it is supported by substantial evidence. Plaintiffs appeal.

After Defendant failed to respond to Plaintiffs' several written cease and desist demands, Plaintiffs filed this action to enforce their copyrights in the image of Narada. (2 ER 018, 214; 4 ER 617-622.)

A jury found that Plaintiffs owned valid copyrights in the works that they claim Defendant infringed, and that Defendant copied original expression from one or more of Plaintiffs' copyrighted works. (4 ER 667.) However, the jury found that Defendant made "fair use" of Plaintiffs' copyrighted works. (*Id.*) The district court therefore entered judgment in favor of Defendant. (1 ER 2.)

Plaintiffs moved for judgment as a matter of law, or in the alternative, for a new trial because Defendant did not establish the affirmative defense of fair use. (2 ER 77-106.) The district court denied the motion because it concluded that "the jury was reasonably within the record of finding fair use." (1 ER 13.)

Plaintiffs timely appealed. (1 ER 16-17.)

SUMMARY OF THE ARGUMENT

1. Whether a defendant has established the fair use defense in a copyright action presents a mixed question of law and fact. This requires a court to assess each of the four statutory fair use factors de novo, and also to weigh the factors de novo to assess whether the defense applies in light of the underlying undisputed historical facts. The district court erred because it did not make a fair use assessment de novo based on the undisputed historical facts, but rather reviewed the jury's fair use finding for substantial evidence.

2. The fair use defense does not apply here as a matter of law because each of the four statutory factors weighs against it. (1) Defendant's using the image in the same manner as Plaintiffs to promote a competing meditation center was nontransformative, and Defendant benefitted from that use to grow its own organization. (2) The image, a creative work, is close to the core of intended copyright protection. (3) Defendant copied the heart of Plaintiffs' work. (4) Defendant's use of the work to promote a competing meditation center diminishes the work's value to Plaintiffs.

3. If this Court does not conclude that the fair use defense is inapplicable as a matter of law, it should remand for the district court to consider in equity whether Defendant has met its burden to prove the defense. Fair use is an equitable defense that should be tried to the court.

ARGUMENT

I. Plaintiff is entitled to judgment as a matter of law that Defendant's copying its painting to promote a competing center was not fair use.

A. The district court erred by deferring to the jury's fair use finding instead of independently resolving the legal questions presented by a fair use analysis.

1. A defendant has the burden to establish its use of a plaintiff's copyrighted work was fair in light of four statutory factors.

Fair use is an affirmative defense to a copyright infringement claim. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994); *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1403 (9th Cir. 1997).

Courts are directed to determine whether a defendant has engaged in fair use of a plaintiff's copyrighted work on the basis of the following four non-exclusive factors:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

Monge v. Maya Magazines, Inc., 688 F.3d 1164, 1171 (9th Cir. 2012), citing 17 U.S.C. § 107. The results of exploring the four non-exclusive factors should be weighed together in light of the purposes of copyright. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994).

Because fair use is an affirmative defense, the defendant has the burden to introduce evidence to support the legal conclusion that a particular fair use factor weighs in its favor and that the fair use defense applies. *See Campbell*, 510 U.S. at 590; *Dr. Seuss*, 109 F.3d at 1403; *Monge*, 688 F.3d at 1170.

2. The court must determine de novo what inferences and conclusions to draw from the historical facts.

Whether a defendant has established the affirmative defense of fair use “is a mixed question of law and fact.” *Harper & Row Publishers, Inc.*

v. Nation Enters., 471 U.S. 539, 560 (1985). A reviewing court should break mixed questions into their component parts and review each under the appropriate standard of review. *Oracle America, Inc. v. Google LLC*, 886 F.3d 1179, 1192 (Fed. Cir. 2018) (applying Ninth Circuit law).

The “historical facts” of a case are the “recital of external events.” *Thompson v. Keohane*, 516 U.S. 99, 110 (1995). What a case’s historical facts are is a factual question; the jury’s implied findings of historical facts that support the verdict are reviewed for substantial evidence. *Oracle*, 886 F.3d at 1192 & n. 4.

“[A]ssessing whether the historical facts satisfy the legal test governing the question to be answered” is a “mixed question.” *Id.* at 1192. “[T]he standard of review for a mixed question all depends . . . on whether answering it entails primarily legal or factual work.” *U.S. Bank Nat’l Ass’n ex rel. CWC Capital Asset Mgmt. LLC v. Village at Lakeridge, LLC*, 138 S.Ct. 960, 967 (2018).

The fair use question entails “a primarily legal exercise.” *Oracle*, 886 F.3d at 1193. Accordingly, courts reviewing a factfinder’s fair use determination apply a de novo standard to assess whether the historical facts in an action qualify a challenged use of a copyrighted work as a fair

use. *See Harper & Row*, 471 U.S. at 560 (“Where the district court has found facts sufficient to evaluate each of the statutory factors, an appellate court ‘need not remand for further factfinding ... [but] may conclude as a matter of law that [the challenged use] do[es] not qualify as a fair use of the copyrighted work.”); *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164, 1170 (9th Cir. 2012) (“We review de novo the district court’s finding of fair use, a mixed question of law and fact.”).

An appellate court’s de novo review of a factfinder’s fair use determination includes reweighing the inferences and conclusions to be drawn from the factual record. *Mattel, Inc. v. Walking Mountain Productions*, 353 F.3d 792, 800 (9th Cir. 2003); *Oracle*, 886 F.3d at 1193; *Fisher v. Dees*, 794 F.2d 432, 436 (9th Cir. 1986).

3. The district court did not make a de novo determination of what inferences and inclusions to draw from historical facts.

The jury found that Defendant “ma[de] fair use of Plaintiffs’ copyrighted works.” (4 ER 667.) With respect to anything beyond the implied finding of historical facts, at most the district court should have viewed this fair use finding “as advisory only,” and independently

determined what inferences and conclusions to draw from the historical facts. *Oracle*, 886 F.3d at 1196.

Instead, the district court cited the general standard of review applicable to motions for judgment as a matter of law, and concluded that it was required to “draw all reasonable inferences in Defendant’s favor” and grant Plaintiffs’ motion for a judgment as a matter of law on the fair use issue only if “the evidence permits only one reasonable conclusion and the conclusion is contrary to that reached by the jury.” (1 ER 5.) The court then applied this deferential standard to make its fair use ruling, assessing whether “the jury could have reasonably found” that certain factors weighed against applying the fair use defense, and ultimately concluding that “the jury was reasonably within the record in finding fair use.” (1 ER 13.)¹

¹ Although elsewhere in its order the district court acknowledged that it should assess the inferences and conclusions to draw from the historical facts (1 ER 6) and weigh the fair use factors in light of the purposes of copyright law (1 ER 12), this Court should review the standard the district court *actually* applied rather than accept without further inquiry what standard it purported to apply. *See Rodriguez v. Holder*, 683 F.3d 1164, 1169-70 (9th Cir. 2012) (assessing what standard of review lower court actually applied rather than what it purported to apply).

As explained above in Section I.A., the district court was required to make an *independent* determination about what inferences and conclusions to draw from the historical facts, and determine de novo whether those inferences and conclusions qualified Defendant's use of the plaintiff's copyrighted painting as a fair use. The district court erred because it did not make the required de novo fair use determination, and instead assessed only whether fair use was within the realm of reasonable possibilities for the jury to find.

B. Applying the proper standard of review, this Court should conclude that Defendant did not establish that its copying was fair use.

1. Factor 1: The purpose and character of Defendant's use to promote a competing center weighs against fair use.

a. Defendant's using the work for the same purposes as Plaintiffs was not transformative.

The first fair use factor—the nature and purpose of the use—is central to the fair use inquiry. An influential article on the fair use doctrine, quoted approvingly by this Court, has asserted that “there can be no fair use” absent justification under the first factor. Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1124 (1990),

quoted by *Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d 1110, 1120 (9th Cir. 2000).

The “central purpose” of the inquiry into the first factor is to determine “whether and to what extent the new work is ‘transformative’” i.e., “whether the new work “merely ‘supersede[s] the objects’ of the original creation [citations omitted] or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.” *Campbell*, 510 U.S. at 579; see *Dr. Seuss Enterps., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1400 (9th Cir. 1997) (“Under [the first] factor, the inquiry is whether [defendant’s work] merely supersedes the [plaintiff’s] creations.”). To be transformative, “[t]here must be real, substantial condensation of the materials, and intellectual labor and judgment bestowed thereon; and not merely the facile use of the scissors; or extracts of the essential parts, constituting the chief value of the original work.” *Worldwide Church of God*, 227 F.3d at 1117. Although a transformative use is not *absolutely* necessary to find fair use, if a use is “for the same intrinsic purpose” as the copyright holder’s, it “seriously weakens a claimed fair use.” *Id.*

Here, the district court correctly concluded that Defendant's use was not transformative, even going so far as to opine that "[t]he jury could not have reasonably found that Defendant's use was transformative." (1 ER 7.) Although this statement evidences that the district court applied the incorrect standard of review, *see* Part I.A, the court's conclusion shows that it should be beyond dispute just how far Defendant's use was from being transformative.

Defendant used the copyrighted works in the same way as Plaintiffs do. Both Defendant and Plaintiffs display the painting in their meditation centers on the wall over their altars, and reproduce the image when promoting their respective centers. (2 ER 7, 18-30, 191-198, 203-204; 3 ER 482, 483; 4 ER 593, 598-599 d, 610, 623-633.) Accordingly, Defendant's use is not transformative at all, so the first fair use factor weighs strongly against a determination that Defendant's use was fair. *See Worldwide Church of God*, 227 F.3d at 1117 (holding that a church's copying a book for use in religious observance was not transformative); *Society of Holy Transfiguration Monastery, Inc. v. Gregory*, 689 F.3d 29, 60 (1st Cir. 2012) (holding that a monastery's copying of another

monastery's translation of ancient religious texts was not transformative).

b. Defendant profited from using Plaintiffs' work to solicit donations and grow its own organization.

"While the fact that a publication is commercial tends to weigh against fair use, the absence of a commercial use merely eliminates the presumption of unfairness." *Worldwide Church of God*, 227 F.3d at 1117.

"The mere fact that a use is educational and not for profit does not insulate it from a finding of infringement." *Campbell*, 510 U.S. at 584.

"The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price." *Harper & Row*, 471 U.S. at 462. In weighing whether a purpose of a use is for "profit," [m]onetary gain is not the sole criterion . . . [p]articularly in [a] . . . setting [where] profit is ill-measured in dollars." *Worldwide Church*, 227 F.3d at 1117; see *Weissmann v. Freeman*, 868 F.2d 1313, 1324 (2d Cir. 1989) (holding that the fact a professor "stood to gain recognition" without paying the "usual price" in

academia—“the sweat of his brow”—weighed against a conclusion of fair use).

Accordingly, this Court has viewed the concept of “profit” when assessing the nature of Defendant’s use as not limited to economic profit, but rather as including the receipt of any “advantage” or “benefit.” *Worldwide Church of God*, 227 F.3d at 1118; see 17 U.S.C. § 101 (defining “financial gain” to include expectation of receiving anything of value). In the context of a religious ministry, this concept of profit includes “attracting . . . new members” who then donate to the ministry, and also “enabling the ministry’s growth.” *Worldwide Church of God*, 227 F.3d at 1118; see *Society of Holy Transfiguration Monastery*, 689 F.3d at 61 (holding that monastery profited from copying translated religious texts by “standing to gain at least some recognition” for providing access to the texts).

Here, Defendant profited from the use of Plaintiffs’ copyrighted painting by attracting new members who donate, and by promoting the growth of Defendant’s organization just like the defendant in *Worldwide Church of God*. (See 2 ER 191-92 (Defendant uses work to promote and grow its center); 4 ER 623, 630, 633 (Defendant solicits donations to

amplify its message, with a copy of the work at the offering table).) Defendant's use of the image was not merely incidental to its enterprise, but permeated every aspect of it from the honorific use of the infringing work at an altar of dedication of central focus in the meeting room, to multiple visual impressions from the many posters used as wall hangings, to advertising, to illustration in textual manuals about meditation, to many You Tube videos. (2 ER 191-98.) Thus, the commercialism/profit aspect of the first fair use factor weighs against a finding of fair use.

The district court erred by assessing only whether “[s]ubstantial evidence would have supported a reasonable jury’s finding that Defendant’s use of the copyright work was not commercial,” rather than assessing the profit/commercialism question de novo as a legal inquiry about what conclusion to draw from the facts. (1 ER 8.) As explained above in Part I.A.2, that was error. The district court may have been misled by the Federal Circuit’s opinion in *Oracle* (see 1 ER 9), because the parties there apparently *agreed* that, in their case, the commerciality inquiry should be viewed as a determination of historical fact. *See Oracle*, 886 F.3d at 1196 (“The parties have identified the following historical

facts . . .”).² Here, by contrast, the historical facts about how Defendant uses Plaintiffs’ work are here undisputed: the primary evidence is the testimony of Defendant’s own representative about how Defendant benefitted from using Plaintiffs’ work in the same manner as Plaintiffs. (See 2 ER 191-192; 4 ER 623, 630, 633.) Concluding that the benefits Defendant admitted to receiving weigh against a finding of fair use is primarily a legal exercise based on the legal principles discussed in this subsection, so the district court (and this Court) should approach the issue de novo.

c. Defendant’s conduct was improper.

Because “[f]air use presupposes ‘good faith’ and ‘fair dealing,’” the “propriety of the defendant’s conduct” is also relevant assessing the character of a defendant’s use. *Harper*, 471 U.S. at 562. If “there was no attempt by defendant to secure plaintiff’s permission” to copy the work

² To the extent that *Oracle* might suggest whether a use was commercial in nature is always an inquiry into historical facts, that suggestion conflicts with binding precedent and should not be followed. See *Worldwide Church of God*, 227 F.3d at 1118 (reversing denial of plaintiff’s motion for summary judgment following de novo determination of the commercialism/profit of defendant’s use); *Marcus v. Rowley*, 695 F.2d 1171, 1175 (9th Cir. 1983) (same).

at issue or to credit the plaintiff, the defendant's conduct in that respect weighs against a finding of fair use. *Marcus*, 695 F.2d at 1176.

Here, it is undisputed that Defendant made no attempt to secure Plaintiffs' permission before copying the work and using it to promote her own meditation center. Although Ms. Lu complied with Plaintiffs' request to return the image that Plaintiffs loaned to her when she resigned from her position as leader of one of Plaintiffs' meditation centers (2 ER 162-164, 214; 4 ER 583), she secretly commissioned a painting copying the image for her own center's continued use (2 ER 179, 191-198, 215). She admitted that she wanted her piratical copy to appear to be the same as Plaintiffs' rather than creating her own image. (2 ER 99, 179, 215; 4 ER 623-633.)

Ms. Lu knew or should have known her use of the work was unauthorized. She did not respond to Plaintiffs' letters demanding that she cease using Plaintiffs' image even though the letters were explicit about what rights were being asserted, what conduct was considered an infringement, and what response from the defendant was expected. (See 4 ER 617-622.) She did not seek counsel for legal advice. And when Ms. Lu eventually registered her newly commissioned painting with the

copyright office, she disclaimed the part of the image depicting Narada with a walking stick (2 ER 289), further evidencing that she knew she had no rights in that image. Accordingly, the impropriety of Defendant's conduct further weighs against fair use.

The district court discounted this factor because it did not believe there was sufficient evidence of Defendant's "malicious intent," and because the jury was not instructed that it could consider whether Defendant acted in bad faith. (1 ER 9.) This was error for three reasons.

First, there is no requirement that a defendant's conduct must be "malicious" for this aspect of the fair use inquiry to weigh against the defendant. In *Harper* and *Marcus*, it was enough that the defendants exploited the plaintiffs' work without attempting to obtain consent for the propriety of their conduct to weigh against fair use. *Harper & Row*, 471 U.S. at 539; *Marcus*, 695 F.2d at 1176.

Second, even if the Court concludes the evidence on the propriety of Defendant's conduct could be more developed, that should weigh against Defendant because fair use is an affirmative defense on which Defendant bears the burden of proof. (See Part 1.A.1.)

Third, the fact that the jury, who was instructed on fair use based on the Ninth Circuit’s model instruction (3 ER 294), was not specifically instructed to consider the propriety of Defendant’s conduct merely confirms that the propriety of Defendant’s conduct is a legal inquiry to be made by the court de novo.

2. Factor 2: The creative nature of the work weighs against fair use.

The second fair use factor—the nature of the copyrighted work—“turns on whether the work is informational or creative.” *Worldwide Church of God*, 227 F.3d at 1118. “This factor 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.” *Campbell*, 510 U.S. at 586.

It is undisputed that the work at issue here is a creative work. No one knows what Narada looked like, so Mr. Nguyen created an image of him from his imagination. (2 ER 56; 4 ER 591, 611, 636, 637.) The district court agreed that the work was not informational (1 ER 9), and correctly concluded this factor weighed against fair use (1 ER 13).

3. Factor 3: That the heart of the work was copied weighs against fair use.

The third fair use factor—the amount and substantiality of the portion used in relation to the copyrighted work as a whole—requires examination of both the quantitative and qualitative aspects of the portion of the copyrighted material taken. *Monge*, 688 F.3d at 1179. Quantitatively, “if the amount used is substantial with respect to the infringing work, it is evidence of the value of the copyrighted work.” *Elvis Presley Enters., Inc. v. Passport Video*, 349 F.3d 622, 630 (9th Cir. 2003), *overruled on other grounds as stated in Flexible Lifeline Sys., Inc. v. Precision Lift, Inc.*, 654 F.3d 989, 995 (9th Cir. 2011) (per curiam). Qualitatively, the court look to see whether “the heart” of the copyrighted work is taken. *Monge*, 688 F.3d at 1178.

Here, Defendant copied most of the copyrighted works, both quantitatively and qualitatively. Mr. Nguyen’s imagined depiction of Narada is central to the works. (2 ER 57, 179, 200, 215, 291; 4 ER 591, 623-633, 636.) Defendant directed an artist to copy Mr. Nguyen’s imagined depiction. (2 ER 215 (Ms. Lu “asked them to draw a painting of the sample that I took over.”).) Plaintiffs identified 24 similarities between Plaintiffs’ work and the Defendant’s copy (including the figure’s

large but not protrusive ears, the arching eyebrows, the shape of the walking stick, the head's crown obscured by bright light, the positioning color of the robe and bag, and the depiction of the folds in the robe) (2 ER 106), many of which were admitted by Ms. Lu and are self-evident by a direct visual comparison of the works. (2 ER 57, 138-162, 179, 182-184, 200, 291.) The jury found that Defendant copied original expression from Plaintiffs' works. (4 ER 667.) Accordingly, the amount the work that was copied weighs against fair use.

The district court concluded that the third factor did not weigh against Defendant because "the jury could have reasonably found that Defendant copied only as much as was reasonably necessary" to depict Narada. (1 ER 13; see 1 ER 10.) This was wrong for four reasons.

First, the district court applied the incorrect standard of review. The jury was not instructed on any "reasonably necessary" theory (*see* 2 ER 275), which is understandable because it is primarily a legal inquiry. Accordingly, the court should have assessed the substantiality of the copying *de novo*. (See Part I.A.)

Second, the principle that the third factor might not weigh against a defendant who "takes no more than is necessary for his intended use,"

Seltzer v. Green Day, Inc., 725 F.3d 1170, 1178 (9th Cir. 2013), does not apply in circumstances like here where the defendant’s use is nontransformative. The principle was developed in light of the fact that “the extent of permissible copying varies with the purpose and character of the use,” and applies in circumstances, unlike here, where that use *is* transformative. *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 820 (9th Cir. 2003) (applying principle where reproducing thumbnail sized versions of plaintiff’s copyrighted images was deemed a “significantly transformative” use); *see Seltzer*, 725 F.3d at 1179 (assessing whether the amount copied was necessary to achieve the defendants’ “*new* expression, meaning or message”) (emphasis added); *Henley v. DeVore*, 733 F. Supp. 2d 1144, 1160 (C.D. Cal. 2010) (assessing whether the “amount borrowed is excessive *in relation to the transformation*”) (emphasis added).

Where the use is not transformative, like here, substantial copying of plaintiff’s work means the third factor weighs against a finding of fair use. *See VHT, Inc. v. Zillow Group, Inc.*, 918 F.3d 723, 744 (9th Cir. 2019) (holding that defendant’s using photographs for their original artistic purpose was not fair use); *Society of Holy Transfiguration Monastery*, 689

F.3d at 63 (holding that third factor weighed against fair use because defendant's use was "for the same intrinsic purpose" as plaintiff's).

Third, even if the "reasonably necessary" principle does apply, the evidence here shows that Defendant *did* copy more than was reasonably necessary to depict Narada. The district court stated that Ms. Lu testified "there were no other ways to depict Narada that would have made him recognizable" (1 ER 11), but that is not what she said. In response to a question why the image could not depict Narada in a different *posture*, Ms. Lu testified that "[e]verybody has a different painting, but it's the same posture." (2 ER 205.) The fact that there may be different paintings of Narada recognizable to Ms. Lu, which share a *posture* with Plaintiffs' depiction but not necessarily other features, does not show there are no other ways to depict Narada without copying the other aspects of Plaintiffs' work.³ Plaintiffs identified many aspects of

³ Defendant presented no evidence of any images created by others of Narada except for Ms. Lu's testimony that she seen them on the internet. (See 2 ER 216.) To the extent that the unidentified images might be substantially similar to Plaintiffs', they could be images placed on the internet by any of Plaintiffs' one hundred world-wide affiliates or by infringers in countries other than the United States. To the extent that they are different, it merely confirms there are infinite ways to depict an Asian mystic/healer or man with a walking stick.

their work that Defendant copied beyond Narada's posture. (*See* 2 ER 106.) And the fact that no one knows what Narada looks like further supports that there must be different ways to depict him. (*See* 4 ER 591, 636.)

Fourth, even if had been proved that substantial copying was necessary for the public to recognize a figure as Narada (though it was not), it would merely confirm that Plaintiffs have created significant goodwill in the image that Defendant seeks to appropriate, and weigh against a finding of fair use. *See Campbell*, 510 U.S. at 580 (holding that using a work "to get attention or to avoid the drudgery in working up something fresh" weighs against fair use). No one knows what Narada looked like (4 ER 591, 611, 636, 637), so everyone is free to create their own imagined version without copying Plaintiffs'. The recognizability of Plaintiffs' image merely means that Plaintiffs have been more successful in spreading their interpretation of Narada's message than others have been in spreading theirs. Copying the image was not necessary to promote Narada's teachings: although Ms. Lu used a copy of the image to promote her organization, she admitted that she did not need the

infringing copy to train others in her version of Narada’s techniques. (4 ER 628 – 638.)

4. Factor 4: The copying’s effect on the value of the work weighs against fair use.

The fourth fair use factor—the effect the potential market for *or value of* the work—“must almost always be judged in conjunction with the other three criteria.” *Marcus*, 695 F.2d at 1177. While most case law deals with works marketed for profit, “[i]t cannot be inferred from that fact that the absence of a conventional market for a work, the copyright to which is held by a nonprofit, effectively deprives the holder of copyright protection.” *Worldwide Church of God*, 227 F.3d at 1119. “If evidence of actual or potential monetary loss were required, copyrights held by nonprofits would be essentially worthless.” *Id.* “Religious, educational and other public interest institutions would suffer if their publications invested with an institution’s reputation and goodwill could be freely appropriated by anyone.” *Id.*

Accordingly, the fourth factor is not limited to market effect, but also includes the effect on the “*value*” of the copyrighted work. *Worldwide Church of God*, 227 F.3d at 1119. The rewards Congress intended for copyright holders “may take a variety of forms.” *Id.*

Here, the value of Plaintiffs’ depiction of Narada—to promote Plaintiffs’ meditation centers, attract membership, solicit donations, and symbolize Plaintiffs’ goodwill in its version of presenting Narada’s teachings—is harmed by Defendant’s using a copy to promote its own Narada meditation center, attract membership, solicit donations, and trade on Plaintiffs’ goodwill. (See 2 ER 191-192; 4 ER 623, 630, 633.) That Plaintiffs demanded Ms. Lu return the painting when she resigned her position as a leader of one of Plaintiffs’ meditation centers demonstrates how Plaintiffs acted to protect the value of the work to the best of their abilities, but that those actions were undermined by Ms. Lu’s copying. (See 2 ER 162-164, 214; 4 ER 583.)

The same type of harm to a work’s value was recognized in *Worldwide Church of God*, 227 F.3d at 1119. This Court held that because the people who responded to the defendant religious organization’s ads were the same people who would be interested in the plaintiff’s religious teachings, the defendant’s distribution of an unauthorized version of plaintiff’s religious text “harms [plaintiff’s] goodwill by diverting potential members and contributions from [plaintiff].” *Id.* Even though the district court had found that the original

and infringing works would not compete in the same market, this Court reversed because the undisputed evidence showed that individuals who received the infringing work “are present or could be potential adherents” to the plaintiff’s organization. *Id.*

Here, the district court concluded that the fourth factor favored a determination of fair use because “the jury could have reasonably found that there was no harm to any actual or potential market for the copyrighted works.” (1 ER 11.) This was wrong for four reasons.

First, the district court applied the incorrect standard of review. The historical facts bearing on the fourth factor are undisputed: Defendant used the copyrighted work to promote its meditation center in much the same way Plaintiffs used the work to promote theirs. Although it is also undisputed that Plaintiff has no direct evidence of “*monetary damages*” (2 ER 110 (emphasis added)) and that its membership has grown over the past five years (3 ER 441-442), the effect of these historical factors on an inquiry into the *value* of a copyrighted work, as that concept has been developed in the case law, is primarily a legal inquiry. *See Harper & Row*, 471 U.S. at 560 (where facts have been found

sufficient to evaluate each factor, an appellate court can conclude as a matter of law that the challenged use is not fair).

Second, the district court inquired into the harm to the “market” for the works, rather than the harm to their *value*. (1 ER 11-12 (analyzing “Effect Upon the Potential Market,” the “harm to any actual or potential market,” “adverse impact in the market,” and evidence of “actual or potential market harm”). The district court’s conclusion that the lack of *market* harm means the fourth factor weighed in favor of fair use is contrary to *Worldwide Church of God*, 227 F.3d at 1119, which holds that evidence of actual or potential monetary loss is not required for nonprofits to protect their copyrights, and that a spiritual work loses its *value* when a competing organization appropriates the work for its own promotion.

Third, the district court erroneously discounted Plaintiffs’ particular interest as a worldwide meditative teaching organization in exercising some amount of control over its licenses because it believed that this argument “would be present in any copyright case.” (1 ER 12; *see* 3 ER 444.) But a “personal interest in creative control” *has* been recognized to weigh against fair use. *Harper & Row*, 471 U.S. at 555.

Plaintiffs’ interest here in exercising control over the goodwill accompanying its particular method of meditative teachings is significantly stronger than the interest in control of many other copyright plaintiffs, e.g., commercial photography companies that primarily seek to preserve the monetary returns from their work. *Cf. VHT, Inc. v. Zillow Group, Inc.*, 918 F.3d 723, 744 (9th Cir. 2019) (explaining market harm to photography company without mentioning interest in control); *Brammer v. Violent Hues Productions, LLC*, 922 F.3d 255 (4th Cir. 2019) (same).

Fourth, the district court overlooked that the burden of proof on this factor (as with the other factors) rests with Defendant. *See Dr. Seuss Entersps*, 109 F.3d at 1403 (holding that absence of evidence in connection with fourth factor “disentitle[s] the proponent of the defense”). The only evidence cited by the district court supporting its analysis—that Plaintiffs’ membership has grown in the last five years (1 ER 12)—falls far short of carrying Defendant’s burden to prove that the value of the copyrighted work was not impacted by its conduct.

5. The factors assessed together weigh against fair use.

In weighing the factors, the district court concluded that “the jury was reasonably within the record of in finding fair use.” (1 ER 13.) Because the assessment and balancing of the fair use factors is primarily a legal inquiry, the district court abdicated its responsibility to assess de novo whether Defendant’s copying was a fair use. (See Part I.A.)

As explained above, all four fair use factors favor the conclusion that Defendant’s use was not a fair use. Defendant wishes to use Plaintiffs’ copyrighted works to completely supplant Plaintiffs’ position in the world as the creator and patron of this version of Narada’s teachings, regardless of whether Defendant’s teachings resemble Plaintiffs’ version. The district court cited no authority, and we are aware of none, holding that a competitor’s copying substantial amounts of a plaintiff’s creative work, to use for the same purposes as the plaintiff and to attract the same potential audience, was a fair use. Such uses are not fair, and the district court should have so concluded here. See *Worldwide Church of God*, 227 F.3d at 1120 (holding that a competing denomination’s copying a religious text was not fair); *Society of Holy Transfiguration Monastery*, 689 F.3d at 65 (same); *Marcus*, 695 F.2d at

(holding that a public school teacher's copying portions of another teacher's cake decorating booklet was not fair).

II. This Court should reverse the judgment and remand for a trial on damages. If it does not, this Court should remand for the district court to consider in equity whether the fair use defense was established.

As explained above, this Court should conclude that Defendant's use of Plaintiffs' works was not fair as a matter of law, and therefore reverse and remand for a trial on damages. *See* 17 U.S.C. § 504 (providing for statutory damages).

Should this Court decline to do so, it should at least remand for the district court to independently consider in the first instance in equity whether the fair use defense was established. Fair use has been described as an "equitable defense." *Fisher v. Dees*, 794 F.2d 432, 436 (9th Cir. 1986). Equitable defenses are generally tried to the court, not a jury. *See Granite State Ins. Co. v. Smart Modular Techs., Inc.*, 76 F.3d 1023, 1027 (9th Cir. 1996). Although one published Ninth Circuit authority has reviewed a fair use jury verdict, it noted that the propriety of instructing the jury based on the statutory factors (as was done here) may have been a close question had it not been acquiesced to. *Jartech*,

Inc. v. Clancy, 666 F.2d 403, 407 (9th Cir. 1982).⁴ If this Court believes that additional facts are required to make a determination about fair use, the district court should have the opportunity to make those determinations sitting as a court in equity. *See Harper & Row*, 471 U.S. at 560 (describing fair use doctrine as “an equitable rule of reason”).

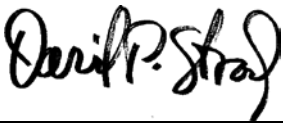
⁴ Although *Jartech* reviewed the jury verdict for substantial evidence, 666 F.2d at 407, that was before the Supreme Court clarified fair use is a mixed question of law and fact, *Harper & Row*, 471 U.S. at 560.

CONCLUSION

For the foregoing reasons, the Court should reverse the judgment and remand for a trial on damages because Defendant's use was not fair as a matter of law. In the alternative, this Court should remand to reconsider the fair use defense in equity.

October 4, 2019

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