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Intellectual Property/Media

Ninth Circuit Issues New Opinion in Veoh Litigation, Moves Toward Harmonizing Its Interpretation of the DMCA with That of the Second Circuit

By Jonathan Bloom, Todd Larson, and Elisabeth Sperle

On March 14, a Ninth Circuit panel ruled in *UMG Recordings, Inc. v. Shelter Capital Partners LLC*¹ that Veoh Networks, the operator of a peer-to-peer video-sharing service, is protected against infringement claims asserted by Universal Music Group (UMG) by the section 512(c) DMCA safe harbor, which limits Internet service provider copyright infringement liability “by reason of material stored at the direction of a user.” The panel originally ruled in favor of the Veoh defendants in December 2011, but after the Second Circuit handed down an opinion in *Viacom Int'l, Inc. v. YouTube, Inc.*² in April 2012 that differed in some respects from the Ninth Circuit’s interpretation of section 512(c), the panel agreed to rehear the case.

In its superseding opinion issued last week, the Ninth Circuit cited *Viacom* approvingly and modified its analysis to bring the Ninth and Second Circuits into close alignment on the scope of this important statute. Although the Ninth Circuit has moved toward the Second Circuit’s more plaintiff-friendly interpretation of the statute’s “right and ability to control” provision, both circuits have set a high evidentiary bar for plaintiffs to surmount in order to deprive a service provider of safe-harbor protection.

In This Issue

- 1 Ninth Circuit Issues New Opinion in Veoh Litigation, Moves Toward Harmonizing Its Interpretation of the DMCA with That of the Second Circuit
- 4 Supreme Court Adopts ‘Non-Geographical’ Interpretation of Section 109(a), Extends First Sale Doctrine to Works Made and First Sold Abroad

Background

Even though Veoh had implemented a number of measures designed to weed out infringing material from its system, including the use of Audible Magic filters, Veoh users still were able to download unauthorized videos containing performances of copyrighted songs. As a result, in September 2007, UMG sued Veoh in the Central District of California for direct and secondary copyright infringement. The district court granted summary judgment for Veoh after finding that section 512(c) of the DMCA, 17 U.S.C. § 512(c), applied. In December 2011, the Ninth Circuit, in an opinion by Judge Raymond C. Fisher, affirmed. The court held that (1) Veoh’s conduct involving the manipulation and presentation of stored video files fell within the meaning of “by reason of the storage [of material] at the direction of a user” and thus was within the scope of section 512(c); (2) UMG had failed to raise a genuine issue of material fact regarding whether Veoh had actual knowledge of the infringement or was “aware of facts or circumstances from which infringing activity [wa]s apparent” (either of which could have cost Veoh the safe harbor); and (3) the district court correctly found that Veoh lacked the

right and ability to control the infringing activity, which also could have cost it the protections of 512(c). The UMG plaintiffs filed a petition for rehearing.

In April 2012, the Second Circuit issued its eagerly awaited ruling in *Viacom*, which addressed the applicability of section 512(c) to YouTube. The Second Circuit held that “actual knowledge or awareness of facts or circumstances that indicate *specific and identifiable* instances of infringement will disqualify a service provider from the safe harbor.”³ It stated that the difference between actual knowledge and “awareness of facts or circumstances” (so-called red flag knowledge) was between a subjective and an objective standard of knowledge, and not between knowledge of specific infringing files and generalized knowledge that infringing activity is occurring, as the plaintiffs had urged. The court also held that the district court was wrong to conclude that the “right and ability to control” language of section 512(c) required item-specific knowledge of infringement. On the basis of several damning internal emails, the court remanded with instructions for the district court to consider whether YouTube’s knowledge corresponded to any of the video clips in the suit and whether YouTube had willfully blinded itself to infringing activity on its site.

Two months after *Viacom* was handed down, the Ninth Circuit requested supplemental briefing from the UMG parties on two issues: first, whether the Second Circuit was correct to distinguish actual from red flag knowledge in section 512(c)(1)(A) as the difference between a subjective and an objective standard and, if so, whether that distinction affected the outcome in *UMG*; and second, whether a service provider must be aware of specific infringing material before it can be said to have the “right and ability to control” that material under section 512(c)(1)(B), as the court held in its 2011 opinion.

In its March 14 opinion, which vacated its earlier ruling, the Ninth Circuit adhered to its conclusion that Veoh qualified for the 512(c) safe harbor. But the court adopted the Second Circuit’s characterization of the distinction between actual and red flag knowledge and revised its analysis of the DMCA’s “right and ability to control” test in a way that brings the Ninth Circuit’s

interpretation of section 512(c) in line with that of the Second Circuit.

Actual knowledge and red flag awareness of infringement

The section 512(c)(1)(A) analog to the contributory infringement doctrine provides that a service provider is eligible for the safe harbor if it “does not have actual knowledge that the material or an activity using the material on the system or network is infringing” and, “in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent” – the latter often referred to as “red flag” awareness. If an entity has sufficient knowledge or awareness of infringement, it can retain safe-harbor protection only if it “acts expeditiously to remove, or disable access to, the material.”

The Ninth Circuit, like the Second, held that “general knowledge that [a service] host[s] copyrightable material and that its services could be used for infringement is insufficient” to satisfy either the “actual knowledge” or “red flag awareness” of infringement tests.⁴ The court thus rejected UMG’s argument that the district court erroneously conflated actual knowledge and red flag awareness by interpreting the latter to require awareness of specific infringements rather than widespread infringing activity more generally. In its revised opinion the Ninth Circuit quoted the Second Circuit’s explanation in *Viacom* of the distinction between the two forms of knowledge:

The difference between actual and red flag knowledge is ... between a subjective and an objective standard. In other words, the actual knowledge provision turns on whether the provider actually or “subjectively” knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement “objectively” obvious to a reasonable person. The red flag provision, because it incorporates an objective standard, is not swallowed up by the actual knowledge provision under our construction of the § 512(c) safe harbor. Both provisions do independent work, *and both apply only to specific instances of infringement.*⁵

Requiring proof of the defendant's knowledge of specific instances of infringement clearly makes the standard more difficult for copyright holders to meet as compared with simply demonstrating knowledge that some level of infringing activity is taking place. Applying the more stringent "specific infringement" knowledge standard, the Ninth Circuit concluded that UMG's "purported evidence of Veoh's actual or apparent knowledge of infringement" did not create a genuine issue of material fact that warranted trial. Citing *Viacom*, the court noted that a service provider "cannot willfully bury its head in the sand to avoid obtaining specific knowledge," but it found no record evidence of such behavior on the part of Veoh. "Rather," the court stated, "Veoh promptly removed infringing material when it became aware of specific instances of infringement."⁶

The right and ability to control

The vicarious infringement analog in section 512(c) requires that the service provider not receive a financial benefit directly attributable to infringing activity and possess "the right and ability to control" the infringement to be eligible for the safe harbor. In its 2011 opinion, the Ninth Circuit held that the right and ability to control provision "requires control over specific infringing activity the provider knows about." In *Viacom*, the Second Circuit explicitly disagreed with this formulation of the standard:

[I]mporting a specific knowledge requirement into § 512(c)(1)(B) renders the control provision duplicative of § 512(c)(1)(A). Any service provider that has item-specific knowledge of infringing activity and thereby obtains financial benefit would already be excluded from the safe harbor under § 512(c)(1)(A) for having specific knowledge of infringing material and failing to effect expeditious removal. No additional service provider would be excluded by § 512(c)(1)(B) that was not already excluded by § 512(c)(1)(A).⁷

In its revised opinion the Ninth Circuit adopted the Second Circuit's view that the right and ability to control requires something less than item-specific knowledge but "something more" than the general ability to locate infringing material and terminate

access; a service provider must, the Ninth Circuit agreed, exert "substantial influence" on users' activities. In discussing the circumstances that could fulfill this standard, the Ninth Circuit cited the Second Circuit's reference to *Perfect 10, Inc. v. Cybernet Ventures, Inc.*,⁸ in which the service provider exerted a high degree of control over user activity by instituting a monitoring program that provided participating sites with detailed instructions concerning layout, appearance, and content. In addition to forbidding certain types of content, the provider refused access to users who did not follow its instructions. The Ninth Circuit, like the Second, also indicated that purposeful conduct such as the inducement found in *MGM Studios, Inc. v. Grokster, Ltd.*⁹ might give rise to a level of control that would run afoul of section 512(c)(1)(B).

Applying this standard, the Ninth Circuit agreed with the district court that "(a) the allegedly infringing material resided on Veoh's system; (b) Veoh had the ability to remove such material; (c) Veoh could have implemented, and did implement, filtering systems; and (d) Veoh could have searched for potentially infringing content." The court concluded, however, that these facts did not amount to the substantial influence present in *Cybernet* or *Grokster*.¹⁰

Having thus found that Veoh met all the requirements of section 512(c), the court affirmed the grant of summary judgment for Veoh. The court also ruled that the Veoh investor defendants, who could not claim DMCA protection, could not be liable as secondary infringers (even if Veoh were found to be liable) in the absence of evidence that they controlled Veoh's operations.

Conclusion

The Ninth Circuit's ruling on rehearing in UMG largely harmonizes the Ninth Circuit with the Second Circuit's ruling in *Viacom* with respect to the definition of actual and red flag knowledge and the right and ability to control for purpose of the DMCA section 512(c) safe harbor. Internet service providers and copyright owners will benefit from the clarity that comes with having a more consistent approach to these key

statutory terms. Although the Ninth Circuit has now moved to a “right and ability to control” standard that should make it somewhat easier for copyright owners to defeat claims of safe-harbor protection, the Ninth and Second Circuits have coalesced around an evidentiary standard that places a heavy burden on copyright owners to establish safe-harbor-disqualifying wrongdoing by service providers. To be sure, any remaining doubt that either generalized knowledge of infringement or the mere ability to search for and terminate infringing users would deprive a service provider of the 512(c) safe harbor has now been eliminated.

Having said that, it remains to be seen whether the application of these standards at the district court level will be consistent. The Ninth Circuit offered little guidance as to the conduct that would meet the standards it articulated. The outcome of the remand proceedings and possible second appeal in *Viacom* may well have a bearing on how the law develops in the Second Circuit.

1 No. 09-55902, 2013 WL 1092793 (9th Cir. Mar. 14, 2013).

2 676 F.3d 19 (2d Cir. 2012).

3 *Viacom*, 676 F.3d at 32 (emphasis added).

4 See *UMG*, 2013 WL 1092793 at *10-12; *Viacom*, 676 F.3d at 30-32.

5 *UMG*, 2013 WL 1092793, at *15 (quoting *Viacom*, 676 F.3d at 31) (emphasis added). The Ninth Circuit also cited legislative history characterizing the “red flag” test as having both a subjective and objective element.

6 *Id.* at *12.

7 *Viacom*, 676 F.3d at 36.

8 213 F. Supp. 2d 1146 (C.D. Cal. 2002).

9 545 U.S. 913 (2005).

10 *UMG*, 2013 WL 1092793, at *19.

Supreme Court Adopts ‘Non-Geographical’ Interpretation of Section 109(a), Extends First Sale Doctrine to Works Made and First Sold Abroad

By Jonathan Bloom and Olivia Greer

On March 19, the US Supreme Court handed publishers a defeat when it reversed the Second Circuit and ruled 6-3 in *Kirtsaeng v. John Wiley & Sons, Inc.*¹ that the first sale doctrine – under which the copyright holder loses the ability to control the disposition of a copyrighted item after its first sale – applies to copies lawfully manufactured and first sold abroad. The case hinged on the meaning of section 109(a) of the Copyright Act, in particular whether the phrase “lawfully made under this title” refers only to works made in the United States, as the Second Circuit had held. In granting certiorari, the Court again took up an issue that had come before it in *Costco Wholesale Corp. v. Omega, S.A.*, in which the Court divided 4-4 (with Justice Kagan not participating), thereby affirming without opinion the Ninth Circuit’s ruling that the first sale doctrine did not apply to Omega watches made outside the United States.²

Kirtsaeng will allay the concerns of libraries, museums, used books dealers, importers, and others, but it presents publishers and other copyright owners with the prospect of no longer being able to segregate the domestic and foreign markets for their goods.³ Whether the first sale doctrine should so significantly curtail the ability of copyright owners to restrict unauthorized importation under section 602(a)(1) of the Copyright Act is an issue Congress now will surely be asked to address.

Background

Supap Kirtsaeng, a Thai national, came to the United States to study at Cornell University and the University of Southern California. To help finance his education, he asked his family in Thailand to purchase lower-priced textbooks in Thailand and send them to him in the United States, where Kirtsaeng resold them, ultimately netting profits of roughly

\$100,000. Many of the textbooks included statements that the books were “authorized for sale in Europe, Asia, Africa and the Middle East only.” Publisher John Wiley & Sons, Inc. sued Kirtsaeng for copyright infringement in the Southern District of New York, and Kirtsaeng asserted a first sale defense.

The district court held that the first sale doctrine did not apply. Because the books at issue were published outside the United States by a subsidiary of Wiley that had rights to print, publish, and sell the textbooks only in specific territories, the court held that Kirtsaeng could not rely on the first sale doctrine.⁴ A jury ultimately awarded Wiley \$600,000 in statutory damages.

The Second Circuit, in an opinion by Judge Jose A. Cabranes over a dissent by Judge J. Garvan Murtha of the District of Vermont, sitting by designation, affirmed, holding that the first sale doctrine does not apply to copies manufactured outside of the United States.⁵ The court found section 109(a) unclear, but it ultimately agreed with Wiley that the phrase “lawfully made under this title” connotes “lawfully made in the United States.” This reading, the court held, most closely conformed with section 602(a) (1) of the Act, which prohibits the importation of items acquired abroad without the permission of the copyright holder, and with the Supreme Court’s ruling in *Quality King v. L’anza Research*, where the Court held unanimously that the first sale doctrine applied to items manufactured in the United States for the purpose of foreign export and sale and that were later resold in the United States. The Court suggested in *Quality King* that section 109(a) would not apply to copies made outside the United States.⁶

The Supreme Court granted certiorari. More than 20 amicus briefs were filed. Kirtsaeng supporters included the American Library Association, booksellers, museums and museum trade groups, computer dealers, Internet companies such as eBay and Google, and the Electronic Frontier Foundation. Wiley supporters included software companies and industry organizations, the Association of American Publishers, the Motion Picture Association of America, the Recording Industry Association of America, and the United States.

The Supreme Court Ruling

Justice Breyer, in an opinion for the Court joined by Justices Thomas, Alito, Kagan, and Sotomayor and Chief Justice Roberts, reversed, finding that the plain language of section 109(a) favored a “non-geographical interpretation” of the term “lawfully made under this title.”⁷ The Court noted that section 109(a) “says nothing about geography” and that the word “under” can mean “in accordance with.”⁸ The “nongeographical reading,” Justice Breyer wrote, “makes word-by-word linguistic sense.”⁹ By contrast, the Court found that the geographical interpretation urged by Wiley, i.e., that section 109(a) is limited to copies made in the United States, “bristles with linguistic difficulties.”¹⁰ The Court noted that the geographic interpretation required two linguistic steps – first, that “under this title” means “in conformance with the Copyright Act *where the Copyright Act is applicable*,” and second, that the Act “is applicable” only in the United States.¹¹ The Court rejected this interpretation on the grounds that nothing in the statutory language expressly denotes location and that Wiley had failed to read a geographical limitation into the word “applicable” or its equivalent.¹²

Turning to the legislative history, the Court found that the common-law roots of the first sale doctrine supported Kirtsaeng’s non-geographical interpretation. The Court cited the centuries-long history of the first sale doctrine and its purpose of preventing restraints on trade, noting that American law “has generally thought that competition, including freedom to resell, can work to the advantage of the consumer.”¹³ The Court found that nothing in Congress’s amendment of the first sale provision in 1976 introduced a geographic limitation and that interpreting “lawfully made under this title” as geographically limited would produce incongruous results if applied to provisions of the Act relating to performance and display of copyrighted works in which the same language appears (sections 109(c) and (e) and 110(1)).

The Court gave significant weight to the practical concerns raised by Kirtsaeng’s amici. These concerns related to the ability of libraries to circulate any of the 200 million books published abroad that currently are part of American library collections; the ability of

American museums to display the works of foreign artists borrowed from foreign museums; the ability of used book dealers to continue selling books printed abroad; and the ability of consumers to resell items such as cars, cell phones, and personal computers that contain copyrighted parts manufactured abroad. In response to Wiley's assertion that none of these scenarios had or was likely to trigger lawsuits, the Court observed that "a copyright law that can work in practice only if unenforced is not a sound copyright law."¹⁴ Instead, the Court found the practical problems identified by *Kirtsaeng* and his amici to be "too serious, too extensive, and too likely to come about for us to dismiss them as insignificant – particularly in light of the ever-growing importance of foreign trade to America."¹⁵

Finally, in response to Wiley's contention that application of the first sale doctrine to works made abroad would prevent copyright holders from setting different prices in foreign and domestic markets, the Court stated that there was "no basic principle" in copyright law that publishers are entitled to such rights and that it was for Congress to determine whether copyright owners "should, or should not, have more than ordinary commercial power to divide international markets."¹⁶

In her brief concurring opinion Justice Kagan (joined by Justice Alito) focused on the interplay between section 109(a) and section 602(a)(1). She wrote that the narrowing of the section 602(a)(1) ban on unauthorized importation of copies acquired outside the United States resulted primarily from the Court's holding in *Quality King* that section 602(a)(1) is qualified by section 109(a). Justice Kagan agreed with Wiley that section 602(a)(1) was intended to enable copyright holders to "segment international markets," and she expressed concern that *Quality King* limits that protection.¹⁷ But, in her view, the Court correctly refrained from resolving any problems stemming from *Quality King* by misinterpreting section 109(a), which "would swap one (possible) mistake for a much worse one."¹⁸

Justice Ginsburg (joined by Justice Kennedy and, in part, by Justice Scalia) dissented. Justice Ginsburg

argued that the majority's interpretation of section 109(a) was a "stunning" departure from Congress's design to "protect copyright owners against the unauthorized importation of low-priced, foreign made copies of their copyrighted works."¹⁹ Justice Ginsburg characterized section 602(a)(1) – the importation ban – as the "last, but most critical, of the three copyright provisions bearing on this case" and argued that *Quality King* precluded application of section 109(a) to the foreign-made copies at issue in *Kirtsaeng*.²⁰ She found the "parade of horrors" presented by *Kirtsaeng* and his amici to be "largely imaginary,"²¹ suggesting, among other things, that implied license and fair use defenses would be available in many cases. Justice Ginsburg also criticized the majority for placing the United States "at the vanguard of the movement for 'international exhaustion' of copyrights" – a movement, she wrote, that the United States has "steadfastly resisted on the world stage."²²

Conclusion

In *Kirtsaeng* the Supreme Court rejected a "US"-only reading of section 109(a) of the Copyright Act and held that the first sale doctrine applies to any authorized copy of a copyrighted work, regardless of where it was manufactured and where the first sale took place.²³ It remains to be seen, of course, how application of the first sale doctrine to goods manufactured abroad will impact American trade, including the pricing and distribution practices of US publishers. It further remains to be seen whether Congress will be persuaded to reverse the narrowing of section 602(a)(1) brought about by the Court's reading of section 109(a).

1 568 U.S. ___, No. 11–697 (Mar. 19, 2013).

2 131 S.Ct. 565, 178 L.Ed.2d 470 (2010).

3 *Kirtsaeng*, slip op. at 31 ("Wiley and the dissent claim that a nongeographical interpretation will make it difficult, perhaps impossible, for publishers (and other copyright holders) to divide foreign and domestic markets. We concede that is so.")

4 *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834(DCP), 2009 WL 3364037 (S.D.N.Y. Oct. 19, 2009), *aff'd*, 654 F.3d 210 (2d Cir. 2011).

- 5 *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 224 (2d Cir. 2011), *cert. granted*, 132 S. Ct. 1905 (2012).
- 6 *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998).
- 7 *Kirtsaeng*, slip op. at 8 (emphasis in original).
- 8 *Id.* at 9.
- 9 *Id.*
- 10 *Id.*
- 11 *Id.* (emphasis in original).
- 12 *Id.* at 9.
- 13 *Id.* at 17.
- 14 *Id.* at 24.
- 15 *Id.*
- 16 *Id.* at 31, 32.
- 17 *Kirtsaeng*, slip op. at 3 (Kagan, J., concurring).
- 18 *Id.* at 4.
- 19 *Kirtsaeng*, slip op. at 1 (Ginsburg, J., dissenting).
- 20 *Id.* at 4-5.
- 21 *Id.* at 1.
- 22 *Id.* at 1.
- 23 *Kirtsaeng*, slip op. at 3.

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