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Intellectual Property/Media

Second Circuit Extends *Cablevision* Ruling to Internet-based Subscription Television Service

By Jonathan Bloom and Olivia Greer

On April 1, 2013, the US Court of Appeals for the Second Circuit ruled 2-1 in *WNET, Thirteen, et al. v. Aereo, Inc.*¹ that the Internet transmission of television programs to individual subscribers does not constitute public performance of those programs when streamed from unique copies. The case tested the limits of the court's 2008 *Cablevision* ruling that performances of programs transmitted by a centralized DVR system to individual subscribers from personally recorded copies were private, rather than public, despite the fact that the subscribers recorded and viewed the same underlying broadcast. In holding that Aereo's practices did not infringe the plaintiffs' public performance rights, the Second Circuit endorsed a broad reading of *Cablevision* and set up a potential circuit split with the Ninth Circuit, which will rule on the legality of a similar service, Aereokiller, later this year.

Background

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Aereo is a video delivery service that allows its subscribers to view television programs broadcast by various New York City stations on any device that connects to the Internet. Aereo operates by assigning tiny, individual antennas (kept on its "antenna farm" on the roof of a building in Brooklyn) to each of its subscribers. A subscriber who wishes to watch a New York station on his computer or mobile device first selects the desired program. Aereo's system then tunes the subscriber's assigned antenna to the correct channel and begins recording a copy of the program to the subscriber's personal directory on an Aereo server. The user has the option of viewing the copy immediately (even while later parts of the program are still recording) or watching at some other time.

In March 2012, before Aereo had officially made its public debut, two groups of broadcasters, including ABC, CBS, NBC, FOX, and PBS, along with certain of their affiliated local stations, sued Aereo for copyright infringement, alleging that Aereo would violate the broadcasters' public performance rights by retransmitting television broadcast programming without a license – effectively acting as an unlicensed cable television operator.² The broadcasters moved for a preliminary injunction on the public performance claim. Aereo, for its part, contended that its unlicensed service was lawful under the Second Circuit's 2008 *Cablevision* decision, which had held that a Remote Storage Digital Video Recorder ("RS-DVR") system that allowed users to record and store television programs on a centralized *Cablevision*

server for later viewing did not infringe the copyright owners' public performance rights.³ That conclusion was based on the Second Circuit's reading of the "transmit" clause of the statutory definition of public performance as requiring an examination of "the potential audience for a given transmission by an alleged infringer to determine whether *that transmission* is 'to the public.'"⁴ Because the potential audience of each transmission by the RS-DVR system was limited to the individual subscriber who recorded the program, the court held that Cablevision was not making public performances.⁵ Aereo argued that its service was noninfringing because, no differently than the defendant in *Cablevision*, it was creating "unique, user-requested copies that are transmitted only to the particular user that created them" and thereby providing only "non-public" performances.⁶

The Southern District's Aereo Decision

In a July 2012 opinion, Judge Alison J. Nathan denied the networks' motion for a preliminary injunction on the ground that the copies created by the Aereo system were "not materially distinguishable from those in *Cablevision*."⁷ Like Cablevision's RS-DVR system, Judge Nathan observed, Aereo creates a unique copy of each work that is saved to the subscriber's individual directory; each transmission is made from the user's personal copy rather than from the "incoming stream of data" and thus is available solely to the subscriber who caused it to be copied.⁸

The district court rejected the plaintiffs' contention that *Cablevision* had addressed only copies used for time-shifting, whereas Aereo allows its users to view programs close in time to their initial broadcast – indeed, even while the broadcast is still occurring. The district court declined to "read volumes into *Cablevision*'s silence" on that issue,⁹ noting that the Second Circuit "never even mentioned time-shifting."¹⁰ The district court reiterated the Second Circuit's statement in *Cablevision* that "the mere fact that a content provider is making a given work available to all of its subscribers" does not automatically result in a public performance under the Copyright Act.¹¹

The plaintiffs pursued an interlocutory appeal of the denial of their preliminary injunction motion

while continuing to litigate their reproduction right (and associated secondary liability) claims in the district court. They argued on appeal that Aereo's transmissions provided a "quintessential public performance" and that without the protection of a preliminary injunction Aereo would continue to cause irreparable harm to the broadcasters.¹² Aereo contended that its activities complied with *Cablevision* and that it was Aereo that would suffer substantial irreparable harm if an injunction were to issue.¹³

The Second Circuit Ruling

On April 1, 2013, in a 2-1 decision, a panel of the Second Circuit, over a dissent by Judge Denny Chin, affirmed, agreeing with the district court that *Cablevision* was controlling.¹⁴ The majority, in an opinion by Judge Christopher F. Droney, explained that *Cablevision* had established four "guideposts" to the interpretation of the Copyright Act's "transmit" clause. First, the transmit clause requires courts to consider the potential audience of an individual transmission: if the transmission is "capable of being received" by the public, it is a public performance; if the potential audience is "only one subscriber," the transmission is not a public performance. Second, private transmissions "should not be aggregated," and it is "irrelevant" that the public may receive the same underlying work by means of multiple transmissions. Third, private transmissions made from the same copy of a work are an exception to the "no-aggregation rule"; if a service allows the public to view a single copy through a series of separate private transmissions from that copy – as in a typical video-on-demand system – the service is making a public performance of the work. Finally, "any factor that limits the *potential* audience of a transmission," such as viewing from a personal copy, "is relevant to the Transmit Clause analysis."¹⁵

The court held that the two features that had made Cablevision's RS-DVR transmissions private performances also were present in Aereo's system: (1) it creates unique copies of each program that a subscriber records, and (2) its transmission of a recorded program to an individual subscriber is generated from that subscriber's unique copy. The

court went so far as to suggest that even *without* utilizing unique copies, Aereo's transmissions still might be considered private performances based on the assignment of personal antennas to each user, but the court concluded that it did not need to answer that question given the presence of the personal copies.

Like the district court, the majority opinion rejected the networks' claim that discrete transmissions of the same underlying performance or work should be aggregated to determine whether they are public performances. *Cablevision* made clear, the court stated, that the relevant inquiry under the transmit clause is the potential audience for a *particular* transmission, not the potential audience for the underlying work or for the original broadcast performance of the work prior to being copied and retransmitted by Aereo.

Addressing the broadcasters' argument that Aereo's system "was designed around the *Cablevision* holding," the court stated that the contention that Aereo "was able to design a system based on *Cablevision*'s holding to provide its users with nearly live television over the internet is an argument that *Cablevision* was wrongly decided," not a basis for distinguishing *Cablevision*. The court also noted that Aereo was not the first to design a system to avoid copyright liability; the same, it pointed out was "likely true of *Cablevision*."¹⁶

Judge Chin – who as a district court judge issued the ruling reversed by the Second Circuit in *Cablevision* – dissented. Judge Chin described Aereo's system as "a sham" and concluded that by transmitting (or retransmitting) copyrighted programming to the public without authorization, Aereo is "engaging in copyright infringement in clear violation of the Copyright Act."¹⁷ Judge Chin argued that the use of thousands of individual antennas has no "technologically sound" justification – i.e., Aereo could use one central antenna but for its need to circumvent copyright infringement liability. Judge Chin distinguished Aereo's system from the *Cablevision* RS-DVR system on the ground that *Cablevision* had initially paid licensing fees for the programs it provided and that *Cablevision* subscribers therefore already had the

(legal) means to view television programs in real time through their authorized cable subscriptions. The RS-DVR system, according to Judge Chin, was merely a "supplemental service" to *Cablevision*'s fully licensed retransmissions. By contrast, he noted, "no part of Aereo's system is authorized."

In Judge Chin's view, even assuming each Aereo subscriber receives a unique copy of each work, Aereo's system "fits squarely within the plain meaning of the statute," which makes clear that the use of a device or process to transmit copyrighted images or sounds to the public is a public performance "whether members of the public receive the performance in the same place or in different places, whether at the same time or at different times."¹⁸ Judge Chin warned that the court's decision provided "a blueprint for others to avoid the Copyright Act's licensing regime altogether."

Possible Circuit Split

The Second Circuit's ruling has opened the door to a possible circuit split on the issue of whether Internet transmissions of copies of television shows are public or private – and perhaps even to a reevaluation of *Cablevision*. In December 2012, Judge George H. Wu of the US District Court for the Central District of California preliminarily enjoined Aereokiller, an Aereo copycat and competitor.¹⁹ Judge Wu rejected not only Judge Nathan's analysis in *Aereo* but also the Second Circuit's analysis in *Cablevision*, on which Judge Nathan relied.²⁰ He argued that the court in *Cablevision* wrongly emphasized the particular transmission provided to the subscriber rather than whether each subscriber was viewing a transmission of the same underlying *work*. Like Judge Chin in his *Aereo* dissent, Judge Wu reasoned that "transmitting a performance to the public is a public performance" regardless of whether the transmission derives from a copy or whether the viewing is private.²¹

Conclusion

In *Aereo* the Second Circuit has endorsed a reading of *Cablevision* that eliminates the likelihood of public performance liability (in this circuit, at least) for services whose technology – even if not their functionality – hews to the "user-specific transmission" model found to

be lawful in *Cablevision*. The ruling will no doubt give confidence to would-be Aereo rivals wishing to make television programming available to subscribers over the Internet, and it will provide further support to cloud-based services that rely on *Cablevision* to allow users to stream content from private copies stored remotely in online lockers.

The district court still must rule on the broadcasters' reproduction right and associated secondary liability claims. Aereo therefore is not yet out of the woods. And because the Ninth Circuit has not yet ruled in the Aereokiller case, it remains to be seen whether *Cablevision's* sweep will extend to other circuits or whether services will confront a circuit split that limits their ability to operate nationwide. For now, Aereo can continue to sell its services to New Yorkers, while Aereokiller, despite its claim of being "more legal" than Aereo, finds itself switched off in the Ninth Circuit.

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- 1 *WNET, et al. v. Aereo, Inc.*, Nos. 12-2768 & 12-2807, slip op. (2d Cir. Apr. 1, 2013).
 - 2 Complaint, *American Broadcasting Companies, Inc., et al., v. Aereo, Inc.*, 874 F. Supp. 2d 373 (S.D.N.Y. 2012) (No. 12-1540).
 - 3 *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008) ("*Cablevision*").
 - 4 *Cablevision*, 536 F.3d at 137 (emphasis added).
 - 5 *Id.* at 137, 139.
 - 6 *Aereo*, 874 F. Supp. 2d at 385.
 - 7 *Id.*
 - 8 *Id.* at 387.
 - 9 *Id.* at 388.
 - 10 *Id.*
 - 11 *Id.* at 393.
 - 12 Brief for Plaintiffs–Counter-Defendants–Appellants, *American Broadcasting Companies, Inc., et al., v. Aereo, Inc.* (No. 12-1540) (2d Cir. Nov. 30, 2012).
 - 13 Consolidated Brief of Defendant–Counter-Claimant–Appellee Aereo, Inc., *Aereo, Inc.* (No. 12-1540).
 - 14 *Aereo, Inc.*, Nos. 12-2768 & 12-2807, slip op. at 5.
 - 15 *Id.* at 22.
 - 16 *Id.* at 31.

- 17 *Id.*, slip op at 1-2 (Chin, J., dissenting).
- 18 *Id.* at 6-8.
- 19 *NBC Universal Media, LLC, et al. v. Barry Driller, Inc., et al.*, No. 12-cv-6950-GW(Ex), slip op. (C.D. Cal. Dec. 27, 2012).
- 20 *NBC Universal Media*, No. 12-cv-6950-GW(Ex), at 5.
- 21 *Id.*

District Court Rejects Digital Music Reseller's First Sale Defense

By Jonathan Bloom

Judge Richard J. Sullivan of the US District Court for the Southern District of New York held on March 30 in *Capitol Records, LLC v. ReDigi Inc.*¹ that the first sale doctrine does not protect a reseller of "used" digital music files because its "virtual" marketplace for "pre-owned" digital music involves the creation and distribution of new copies of the plaintiff's sound recordings, thus taking it outside the scope of section 109(a) of the Copyright Act, which protects the transfer of a "particular" owned copy of a work. The court, accordingly, granted Capitol's motion for summary judgment on its claims of direct, contributory, and vicarious infringement of its reproduction and distribution rights and denied ReDigi's cross-motion for summary judgment.

Background

ReDigi, which was launched in October 2011, claims to be the first online marketplace for "used" digital music. To sell music on ReDigi's website (www.religi.com), ReDigi users download a "Media Manager," which creates a list of digital music files on the user's computer that are eligible for sale to other users. Only files purchased on iTunes or from another ReDigi user are eligible for sale. Files selected by the user can be uploaded to ReDigi's server (its "Cloud Locker"). When selected files are uploaded, the Media Manager deletes any additional copies of the file it detects

on the user's computer or on a connected device. Once uploaded, the user can either stream the song files for personal use or offer them for resale. ReDigi prices digital music files at 59 to 79 cents each (less than iTunes), of which 20 percent goes to the seller, 20 percent to an "escrow" fund for the artist, and 60 percent to ReDigi. ReDigi encourages users to sell music files by giving them credits that can be used to purchase songs through the service.

Capitol sued ReDigi in January 2012, alleging direct infringement, inducement, contributory and vicarious infringement, and common law copyright infringement (i.e., infringement of pre-1972 sound recordings). In February 2012, the court denied Capitol's motion for a preliminary injunction, finding that Capitol had failed to establish irreparable harm. In July 2012, Capitol moved for partial summary judgment on its claims that ReDigi directly and secondarily infringed its reproduction and distribution rights. ReDigi cross-moved for summary judgment, including as to its alleged infringement of Capitol's performance and display rights.

District Court's Summary Judgment Ruling

The court had little trouble finding ReDigi violated Capitol's reproduction and distribution rights. As to the former, it found that the reproduction right (section 106(1) of the Copyright Act) is "necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet... the embodiment of a digital music file on a new hard disk is reproduction within the meaning of the Copyright Act."² The court rejected as irrelevant ReDigi's argument that it "migrated" files from the user's computer to ReDigi's server by deleting the original file, finding that it is "the creation of a *new* material object and not an *additional* material object that defines the reproduction right."³ As for the section 106(3) distribution right, the court noted that ReDigi did not contest that distribution occurs on its website but claimed such distribution was protected by the fair use and first sale defenses.

After quickly disposing of ReDigi's fair use defense based on its finding that all four of the factors set forth in section 107 weighed against ReDigi, the court turned to the first sale defense. As a threshold matter, the court pointed out that the first sale defense, as codified in section 109(a), only applies to the section 106(3) distribution right, not to the section 106(1) reproduction right. The first sale defense thus does not protect ReDigi against liability for violating section 106(1). Moreover, section 109(a) only protects "the owner of a *particular copy or phonorecord lawfully made under this title*".⁴ The court held that because the copies made by ReDigi violated Capitol's reproduction right, they are not "lawfully made" and thus are not covered by section 109(a).⁵ In addition, section 109(a) applies only to the transfer of "a particular copy," whereas sales on ReDigi involve the creation of new copies – both when a music file is uploaded to ReDigi's servers and when it is downloaded by the purchaser. "Because it is... impossible for the user to sell her 'particular' phonorecord on ReDigi," the court concluded, "the first sale doctrine cannot provide a defense."⁶

Having rejected ReDigi's defenses, the court went on to find ReDigi liable for direct, contributory, and vicarious infringement of Capitol's reproduction and distribution rights, although it found genuine issues of material fact as to violation of Capitol's performance and display rights. The court ordered the parties to submit a joint letter by April 12, 2013 addressing next steps in the litigation.

ReDigi has indicated it intends to appeal, and it has noted that the decision expressly does not address the legality of its updated ReDigi 2.0.⁷

Conclusion

ReDigi exemplifies the legal challenges faced by digital services that seek to replicate in the digital realm conduct that copyright law allows in the offline world. Because ReDigi's service involved the creation of new unauthorized copies of digital music files, the court concluded it was constrained by the plain language of the statute – the limitation of section 109(a) to "particular" copies "lawfully made" – to

reject ReDigi's first sale defense. The court noted that although technological change "may render Section 109(a) unsatisfactory to many contemporary observers and consumers," it was not ambiguous, and amending it to accommodate ReDigi was "a legislative prerogative that courts are unauthorized and ill suited to attempt."⁸

In the wake of the US Supreme Court's March 19 ruling in *Kirtsaeng v. John Wiley & Sons, Inc.*⁹ that the first sale doctrine protects the unauthorized importation into the United States of books lawfully made and purchased abroad, coupled with the increasing reliance of content owners on digital products, it will be interesting to see if the court's reasoning in the ReDigi case ultimately enables content owners to blunt some of the impact of *Kirtsaeng*. Likely further activity in both the judicial and legislative arenas on this issue will bear watching closely.

1 No. 12 Civ. 95 (RJS), 2013 WL 1286134 (S.D.N.Y. Mar. 30, 2013).

2 *Id.* at *5.

3 *Id.* (emphasis in original).

4 17 USC §109(a) (emphasis added).

5 *Id.* at *10.

6 *Id.*

7 See Ben Sisario, "A Setback for Resellers of Digital Products," N.Y. TIMES, Apr. 2, 2013, at B3, *Capitol Records*, 2013 WL 1286134, *14.

8 2013 WL 1286134, *10.

9 568 U.S. ____ (2013)

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