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SPECIAL BULLETIN

Ninth Circuit Rules in *UMG Recordings, Inc. v. Shelter Capital Partners LLC*

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Introduction

On March 14, 2013, the United States Court of Appeals, Ninth Circuit issued its decision in *UMG Recordings, Inc. v. Shelter Capital Partners LLC* (Case No. 10-55732), affirming the trial court's granting of the defendant's motion for summary judgment. The Ninth Circuit found that one of the "safe harbor" provisions in the Digital Millennium Copyright Act (the "DMCA") protected the defendant from all of the plaintiffs' direct and secondary infringement claims. In particular, the Court found that the defendant qualified for protection under 17 U.S.C. Section 512(c), which protects a service provider¹ from liability based upon content that has been placed on its systems or networks at the direction of its users, as opposed to by the service provider itself. The Court agreed with the district court in finding that the defendant had met all the requirements under Section 512(c), and therefore affirmed the entry of summary judgment in the defendant's favor.² This decision establishes the Ninth Circuit's current position that the DMCA's "safe harbor" provisions

should be viewed broadly in order to maintain a free flow of information on the Internet.

The Lawsuit

In September 2007, the plaintiffs, members of Universal Music Group (collectively "UMG") filed a lawsuit against defendant Veoh Networks, Inc. ("Veoh"), alleging causes of action for direct, vicarious and contributory copyright infringement, as well as inducement of infringement. Veoh operates a website that allows users to upload and share videos with other users free of charge. UMG contended that Veoh had "taken mass infringement on the Internet to a new and dangerous level by supplying the public with an integrated combination of services and tools that make infringement free, easy, and profitable for Veoh." (First Amended Complaint, 2008 WL 4194216, at ¶ 14.)

The DMCA

Veoh moved for summary judgment on the grounds that it was protected by the safe harbor provision of Section 512(c). This section protects service providers from copyright infringement

liability in certain situations. Specifically, the DMCA provides that a service provider is *not* liable for copyright infringement “by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by the service provider if the service provider”:

- (1) does not have “actual knowledge” of infringing material;
- (2) is unaware of “facts or circumstances from which infringing activity is apparent;” *or*
- (3) acts expeditiously to remove or disable access to infringing material upon gaining such knowledge or awareness.³

In addition, Section 512(c) requires that, if a service provider has the right and ability to control infringing activity, that service provider cannot receive any financial benefits directly attributable to the infringing activity.⁴ Finally, upon notification of claimed infringement pursuant to the DMCA’s detailed “takedown” request procedures, Section 512(c) requires a service provider to respond expeditiously to remove or disable access to the allegedly infringing material.⁵ The district court granted Veoh’s motion for summary judgment, holding that it met all the requirements of Section 512(c), and thus qualified for safe harbor protection.

UMG’s Bases for Appeal

UMG appealed the entry of summary judgment in Veoh’s favor. In particular, UMG contended that Veoh did not qualify for the safe harbor protection of Section 512(c) because: (1) the alleged infringing activities did not fall within the meaning of “infringement of copyright by reason of the storage [of material] at the direction of a user;” (2) genuine issues of fact remained as to whether Veoh had actual knowledge of infringement or was aware of “facts or circumstances from which infringing activity [was] apparent;” and (3) sufficient evidence had established

that Veoh received a financial benefit from the infringing activity and had the right and ability to control it.

The Ninth Circuit’s Analysis

“By Reason of” Language

In order for Section 512(c) to apply, the alleged infringing activity must constitute “infringement of copyright *by reason of* the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.”⁶ UMG argued on appeal that the “by reason of” language found in Section 512(c) means that, in order to qualify for the DMCA’s safe harbor protection, infringing activity must be proximately caused by the mere storage of infringing content. Thus, according to UMG, because Veoh’s software automatically facilitated public access to the user-uploaded videos where they were stored, the infringing activity was more than mere storage, and Veoh’s conduct fell outside the scope of Section 512(c).

However, the Court rejected this argument on the basis that it was inconsistent with the language and intent of the DMCA. In particular, the Court noted that the DMCA “presupposes that service providers will provide access to user’s stored material,” as evidenced by its detailed “notice and takedown” procedures, which require service providers to “disable access to” infringing materials. In other words, the safe harbor takedown procedures would be rendered superfluous if Section 512(c) did not protect service providers who facilitate “access” to infringing works. Moreover, the Court noted that, because it is unlikely for infringement to occur merely by the storage of materials that no one can access, the DMCA’s safe harbor provision must necessarily apply to a broader range of activity (lest it

be rendered useless). Thus, the Court held that Veoh's "automatic process" for making stored files accessible to its users placed it squarely within the purview of Section 512(c).

Notice Requirements

Section 512(c)(1)(A) requires that in order for a service provider to obtain safe harbor protection, it must either: (1) not have "actual knowledge" of infringing material; (2) be unaware of "facts or circumstances from which infringing activity is apparent;" or (3) act expeditiously to remove or disable access to infringing material upon gaining such knowledge or awareness.⁷ On appeal, UMG argued that the district court had improperly applied an over-narrow interpretation of both the circumstances in which a service provider has "actual knowledge" of infringement and the circumstances under which a service provider has constructive knowledge of infringement (referred to by the Court as "red flag" awareness).

Although UMG did not identify to Veoh any specific infringing video prior to filing its suit, UMG contended that, given Veoh's general knowledge that its service could be used to post infringing materials, Veoh *must have known* that some of the content on its site was unauthorized. UMG argued that this general knowledge was sufficient to exclude Veoh from the safe harbor provision. However, the Court rejected this argument for several reasons.

First, the Court noted that Veoh had reached agreements with major copyright holders, such as SonyBMG, and thus there were many music videos that could legally appear on Veoh. Second, the Court noted that Congress expressly intended that the DMCA allow "movies, music, software, and literary works" to be made easily available over the Internet. Finally, if merely hosting material that falls within a category of content capable of copyright

protection, along with a generalized knowledge that services could be used to share unauthorized copies of copyrighted materials, was sufficient to impute knowledge, the safe harbor provision would be rendered meaningless. In particular, because Section 512(c) applies only to claims of copyright infringement, the fact that a service provider's website could contain copyrightable material would prevent the service provider from receiving the benefits of Section 512(c). Thus, the Court held that "merely hosting a category of copyrightable content, such as music videos, with the general knowledge that one's services could be used to share infringing material, is insufficient to meet the actual knowledge requirement under § 512(c)(1)(A)(i)."

The Court held the same is true with regard to Veoh's alleged "red flag" awareness under Section 512(c)(1)(A)(ii). Citing its decision in *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007), the Court noted that service providers are not responsible for investigating whether material is infringing, but rather that the burden of demonstrating such infringement rests with the copyright holder. Although the Court did recognize that "a service provider cannot bury its head in the sand" to avoid obtaining knowledge of infringement, it found no evidence that Veoh had acted in such a manner. To the contrary, the evidence established that Veoh had promptly removed infringing materials as soon as it became aware of specific instances of infringement.

Lastly, the Court rejected UMG's attempt to introduce evidence of Veoh's actual or apparent knowledge of infringing material. More specifically, the Court rejected UMG's attempt to rely on the fact that Veoh tagged videos as "music videos" as evidence that Veoh knew it hosted infringing material. The Court noted that the fact that Veoh purchased certain search terms that also happened to be the names of UMG artists (such as "50 Cent,"

“Avril Lavigne” and “Britney Spears”) was also insufficient to establish actual or apparent knowledge. The Court noted that artists sometimes have relationships with more than one music company. UMG also argued that when Veoh received notice from the Recording Industry Association of America of specific infringing content (which Veoh promptly removed), Veoh should have used the information provided by the notices to find other infringing material from the same artists. The Court found that to require Veoh to act in this manner would contravene Section 512(m), which provides that a service provider does not have to “affirmatively seek[] facts indicating infringing activity[.]”⁸ The Court found UMG’s reliance on news articles that discussed the availability of copyrighted material on Veoh was also insufficient.

In dicta, the Court noted that UMG had “come[] closer” to demonstrating Veoh’s knowledge of infringement through evidence of emails sent to Veoh executives and investors by copyright holders and users identifying infringing content. In particular, the Court pointed to evidence that the CEO of Disney – a copyright holder – had sent an email to Veoh stating that the movie *Cinderella III* and various episodes of the television show *Lost* were available on Veoh without Disney’s authorization. The Court noted that, had this email come from a third party – such as a Veoh user – rather than Disney (*i.e.* the copyright holder), it might have met the red flag test. However, because Disney is a copyright holder, it was required to comply with the notification requirements of Section 512(c)(3), which the informal email failed to do. In any event, the Court noted that Veoh’s response to Disney indicated that the infringing content would be taken down immediately, and that UMG had not alleged that the offending material was not immediately removed. Thus, even if the email had constituted sufficient

notice, Veoh would have been protected by the safe harbor provision because it “act[ed] expeditiously to remove, or disable access to, the material.”

Ability to Control

In order to be eligible for the Section 512(c) safe harbor provision, a service provider that has the “right and ability to control” infringing activity must not receive a financial benefit directly attributable to such infringing activity.⁹ Relying on this provision, UMG argued that Veoh had the “right and ability to control infringing activity” and therefore did not qualify for the DMCA’s safe harbor. In making this argument, UMG relied on the Ninth Circuit’s holding in *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), in which the court had found that, for the purpose of finding vicarious liability, a defendant “has the right and ability to supervise” infringing activity where that defendant can locate infringing content and terminate users’ access to the content. (Emphasis added.) However, the Court rejected this argument for several reasons.

First, the Court noted that because Section 512(c) does not mention the term “vicarious liability,” UMG’s reliance on *Napster’s* analysis (which applied to vicarious liability) was inapplicable. The Court further noted that the meaning of the phrase “right and ability to supervise” (as used in *Napster*) is significantly different than the meaning of the phrase “right and ability to control” (as used in Section 512(c)). In particular, the word “control” connotes more of an “ability to command” than does the word “supervise.”

Second, the Court noted that Section 512(c) already assumes that a service provider has the ability to locate infringing content and terminate users’ access. In particular, in order to qualify for safe harbor protection, service providers must “remove[] or disable access” to infringing material when they

became aware of it.¹⁰ Thus, under UMG’s interpretation of Section 512(c), any service provider who had the ability to remove or disable access to content (*i.e.* a prerequisite for safe harbor protection) would also necessarily have the “right and ability to control” infringing conduct (a disqualifier from safe harbor protection according to UMG). Such an interpretation would lead to the bizarre result that service providers who engaged in the specific acts required to obtain the protection of Section 512(c) would lose that protection. The Court noted that Congress surely could not have intended for the DMCA to have such an internally inconsistent application.

Third, the Court looked to statements by Congress wherein it explicitly stated that it intended to protect qualifying service providers who would otherwise be subject to vicarious liability. The Court noted it would be nonsensical for Congress to exclude vicarious liability claims from the Section 512(c) safe harbor protections after stating its intention to protect qualifying service providers against such vicarious liability claims.

The Court held that, in order to establish that a service provider has the right and ability to control infringing material in the Ninth Circuit, Section 512(c) requires “something more” than the mere ability to locate infringing material and terminate users’ access. In particular, the service provider must “exert[] *substantial influence* on the activities of users.” *Viacom Int’l v. YouTube, Inc.*, 676 F.3d 19, 38 (2d Cir. 2012). Although the Court did not provide a specific definition of “substantial influence,” it noted that such “substantial influence may include high level of control over activities of users, as suggested by the Second Circuit and as illustrated by [*Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D.Cal 2002)], or may include purposeful conduct as in [*Metro-Goldwyn-Mayer Studios Inc. v. Grokster,*

Ltd., 545 U.S. 912 (2005)].” In any event, the Court found that Veoh’s interactions with and conduct toward its users did not rise to such a level. Thus, the Court found that UMG had not created a triable issue regarding Veoh’s right and ability to control.

Implications of UMG

This decision has positive implications for content providers in the Ninth Circuit. In particular, although the Second Circuit previously had found in *Viacom* that such providers are entitled to broad protection under the DMCA’s safe harbor provision, this issue had not yet been addressed by the Ninth Circuit. Through this decision (and citing to *Viacom*), the Ninth Circuit similarly found that the scope of the safe harbor provisions is necessarily broad. In particular, the Ninth Circuit effectively indicated that service providers are entitled to broad protection against copyright infringement liability so long as they diligently remove infringing material upon notice of infringement.

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1. Under the DMCA, “service provider” means “a provider of online services or network access, or the operator of facilities therefor,” and includes “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing,

- without modification to the content of the material as sent or received.” 17 U.S.C. § 512(k)(1).
2. The Court also: (1) affirmed the district court’s granting of a motion to dismiss brought by three individual investor defendants, finding that the plaintiffs had failed to state a claim for vicarious infringement, contributory infringement and inducement of infringement against these investors; (2) affirmed the district court’s ruling that the defendant was not entitled to its attorney’s fees under Federal Rule of Civil Procedure 68; and (3) remanded to the district court the issue of whether the defendant was entitled to its costs under Rule 68.
 3. 17 U.S.C. § 512(c)(1)(A).
 4. 17 U.S.C. § 512(c)(1)(B).
 5. 17 U.S.C. § 512(c)(1)(C). The DMCA also requires that the service provider designate an agent to receive notifications of claimed infringement. 17 U.S.C. § 512(c)(2).
 6. 17 U.S.C. § 512(c)(1) (emphasis added).
 7. 17 U.S.C. § 512(c)(1)(A).
 8. 17 U.S.C. § 512(m).
 9. 17 U.S.C. § 512(c)(1)(B).
 10. 17 U.S.C. § 512(c)(1)(A)(iii), (C).

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