

Copyright Alert: *UMG v. Shelter Capital/Veoh* Video Website and Its Investors Win Another Round As Ninth Circuit Rejects DMCA Safe Harbor Challenges

BY MITCHELL ZIMMERMAN*

Fenwick
FENWICK & WEST LLP

In an important decision upholding the application of the safe harbors of the Digital Millennium Copyright Act and addressing claims against investors for secondary copyright infringement, the Ninth Circuit Court of Appeals on Tuesday upheld summary judgment and a Rule 12(b)(6) dismissal in favor of Veoh Networks Inc. and its investors. *UMG Recordings, Inc. v. Shelter Capital Partners LLC* (No. 09-55902); *UMG Recordings, Inc. v. Veoh Networks, Inc.* (Nos. 09-56777, 10-55732) (9th Cir. Dec. 20, 2011).

Defendant Veoh operates a website that allows users to upload and share video content that they have created; Veoh's site also allows users to view authorized video content from major copyright holders such as SonyBMG, ABC and ESPN. Plaintiff UMG is one of the world's largest recorded music and music publishing companies. It also produces music videos.

Veoh had implemented what appeared to be an energetic program to block infringing content, observing the take-down protocols of the DMCA and also implementing content filtering using Audible Magic fingerprinting. Nonetheless, UMG sued for direct and secondary copyright infringement, decrying Veoh's efforts as "too little too late." UMG also asserted Veoh's investors bore secondarily liability on account of their control of the company. In 2008, the District Court granted summary judgment to Veoh and dismissed the claims against its investors. *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081 (C.D. Cal. 2008). The Ninth Circuit has now affirmed that judgment.

Safe Harbor Rulings

The central issue was whether Veoh was protected against copyright liability by virtue of the system storage safe harbor of the DMCA (17 U.S.C. § 512(c)). A unanimous Ninth Circuit panel comprised of Circuit Judges Pregerson, Fisher and Berzon rejected UMG's three arguments that Veoh was ineligible for the safe harbor.

The "Storage at the Direction of a User" Requirement

As a threshold matter, UMG asserted that the safe harbor did not apply because UMG's infringement claims arose out of actions by Veoh other than storage, and that these actions meant that the infringements charged were not (as the safe harbor specifies) "by reason of storage at the direction of a user."

Whenever a video was uploaded, Veoh's software automatically broke the file into smaller 256-kilobyte "chunks"; it automatically transcoded video files into Flash 7 format; and (for some users) Veoh's software also automatically converted the uploaded video into Flash 8 and MPEG-4 formats. Further, Veoh's technology allowed users to stream the video content for viewing and also to download videos. UMG contended that these automatic processes to facilitate public access to user-uploaded videos went beyond mere "storage" and were not at the direction of users.

Reasoning that the "by reason of" language of the statute embraced a broader scope of infringement causation than proximate cause, the Ninth Circuit held that "§ 512(c) encompasses the access-facilitating processes that automatically occur when a user uploads a video to Veoh," as well as the transmission of videos to Internet users.

Actual Knowledge and "Red Flag" Test

Under § 512(c)(1)(A), a service provider cannot receive safe harbor protection if has actual knowledge that material on its system is infringing or if it is aware of facts or circumstances from which infringing activity is apparent (the "red flag" test).

UMG asserted that Veoh had disqualifying knowledge of its hosting of infringing content given its general knowledge that its services could be used to post infringing matter, its tagging of videos as "music videos," its purchase of Google AdWords that included the names of UMG artists to drive search traffic to Veoh's site, its removal of content in response to

UMG notices, its receipt of notices from users other than rights holders, and its concession that infringing content could be found on its website. The Ninth Circuit rejected all of these contentions.

Consistent with earlier decisions on the DMCA and knowledge issues, the Ninth Circuit 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” or the red flag test;
- That “specific knowledge of particular infringing activity” is required in order to block the safe harbor on the knowledge criterion;
- That the burden of policing copyright infringement rests on the copyright owners, not the website operator, which has no duty to monitor;
- That notices from copyright owners or their representatives that did not comply with the DMCA’s requirement must be excluded from the analysis; and
- That online service providers have no investigative duties in order to comply with the DMCA.

The court observed that it was “possible” that notices from end-users which did not satisfy the notice requirements imposed on copyright holders might constitute red flags, but that in any event UMG had failed to allege that Veoh did not remove allegedly infringing matter identified by users or that UMG owned that content. (We note that at least one court has held that non-DMCA-compliant notices from third parties are insufficient to establish knowledge of infringement. *Corbis Corp. v. Amazon.com, Inc.*, 351 F.Supp.2d 1090, 1108-09 (W.D. Wash. 2004).)

Right and Ability to Control Infringing Activity and Vicarious Liability

In language seemingly echoing the requirements for vicarious copyright liability, the DMCA provides that an online service provider is ineligible for the safe harbor if it receives a direct financial benefit from infringing activity it has the right and ability to control. § 512(c)(1)(B). UMG contended this ability made Veoh ineligible.

The Ninth Circuit rejected that contention, in part based on its view that, as a practical matter, a service provider could not exercise control over infringing activity until it became aware of particular infringements.

“[W]e hold that the ‘right and ability to control’ under § 512(c) requires control over specific infringing activity the provider knows about. A service provider’s general right and ability to remove materials from its services is, alone, insufficient. Of course, a service provider cannot willfully bury its head in the sand to avoid obtaining such specific knowledge.”

The panel’s linking of control and knowledge was similar to the holding in *Viacom International v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010), which the court cited.

The Ninth Circuit held in this case that notwithstanding the similarity between the DMCA’s language concerning financial benefit and formulations of common law vicarious copyright liability, they had different meanings and – importantly – the safe harbor does encompass protection against claims of vicarious liability. The panel distinguished *A&M Records, Inc. v. Napster, Inc.*, 239 F. 3d at 1024 (9th Cir. 2001), as a case that involved common law vicarious liability, not the DMCA safe harbor, holding that “something more” than common law vicarious liability must be shown in order to vitiate the safe harbor.

UMG's Claims Against Investor Defendants

UMG alleged that three of Veoh's investors were liable for Veoh's alleged infringements. The court of appeal affirmed the District Court's dismissal of these claims under Rule 12(b)(6).

On its contributory liability theory, UMG acknowledged that funding of an alleged infringer alone was insufficient to satisfy the "material assistance" element of contributory infringement. But UMG contended that the investors went beyond that by directing Veoh's spending on operations that formed the "site and facilities" of Veoh's alleged direct infringement, likening this case to *UMG Recordings, Inc. v. Bertelsmann AG*, 222 F.R.D. 408 (N.D. Cal. 2004). In *Bertelsmann*, the District Court denied a Napster investor's motion to dismiss claims of contributory infringement.

The Ninth Circuit distinguished *Bertelsmann* on the basis that the investor there was Napster's "only available source of funding," and thus "held significant power and control over Napster's operations." Here, by contrast, there were multiple investors. And while it was true that the three investor defendants together controlled a majority of the seats on Veoh's board, UMG failed to allege that the investor defendants had agreed to act in concert. This "lynchpin" omission, the court held, also doomed UMG's claims of inducement and vicarious liability against the investors.

Relationship to the *Viacom v. YouTube* Case

Another closely watched case concerning application of the DMCA safe harbors, now awaiting a decision after oral argument in the United States Court of Appeals for the Second Circuit, is *Viacom International Inc. v. YouTube, Inc.*, Case No. 10-3270-cv. The District Court in that case granted summary judgment in favor of YouTube, citing *inter alia* the District Court's decision in *UMG Recordings v. Veoh* as precedent. The Second Circuit is considering many of the same issues that the Ninth Circuit has resolved in favor of the online service provider, and the question is whether the Second Circuit will continue in the line of recent decisions or will instead strike out in a different direction.

**Mitchell Zimmerman is Chair of the Copyright Group at Fenwick & West LLP*

For more information about this article, please contact: Mitchell Zimmerman (mzimmerman@fenwick.com) of Fenwick & West LLP.

©2011 Fenwick & West LLP. All Rights Reserved.

THE VIEWS EXPRESSED IN THIS PUBLICATION ARE SOLELY THOSE OF THE AUTHOR, AND DO NOT NECESSARILY REFLECT THE VIEWS OF FENWICK & WEST LLP OR ITS CLIENTS. THE CONTENT OF THE PUBLICATION ("CONTENT") IS NOT OFFERED AS LEGAL SHOULD NOT BE REGARDED AS ADVERTISING, SOLICITATION, LEGAL ADVICE OR ANY OTHER ADVICE ON ANY PARTICULAR MATTER. THE PUBLICATION OF ANY CONTENT IS NOT INTENDED TO CREATE AND DOES NOT CONSTITUTE AN ATTORNEY-CLIENT RELATIONSHIP BETWEEN YOU AND FENWICK & WEST LLP. YOU SHOULD NOT ACT OR REFRAIN FROM ACTING ON THE BASIS OF ANY CONTENT INCLUDED IN THE PUBLICATION WITHOUT SEEKING THE APPROPRIATE LEGAL OR PROFESSIONAL ADVICE ON THE PARTICULAR FACTS AND CIRCUMSTANCES AT ISSUE.