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Content Owners' Pursuit of Secondary Infringement Claims

By Alan R. Friedman

Part Two of a Two-Part Article

Eliminating an Internet service provider's right to safe harbor protection is merely a first step in establishing its liability as a secondary copyright infringer. The plaintiff still must demonstrate that the elements for secondary infringement are present. As illustrated in the *Hotfile*, *Columbia Industries* and *Lime Group* cases discussed in Part One of this article last month, meeting this burden at the summary judgment stage is an achievable but, even with a strong factual record, not an assured outcome.

Secondary liability can be imposed on an ISP or distributor of a product used to commit infringement based upon claims of contributory infringement, inducement infringement or vicarious infringement. The contributory and inducement claims both focus on a defendant's contribution to the infringement and require that the defendant knows that direct infringement is occurring. These related claims, which provide independent ways to attack secondary infringement, differ in important respects.

'Materially Contribute'

For contributory infringement to exist, the defendant must cause or materially contribute to the direct infringement, and the challenged product or Internet service must be incapable of substantial non-infringing uses. The second element was established in the Supreme Court's seminal decision, *Sony Corp. of America v. Universal City Studios Inc.*, 464 U.S. 417 (1984) (popularly known as the Betamax case). In *Sony Corp.*, which involved time-shifting of television programs using Sony's Betamax recording device (a precursor to today's DVR), the court ruled that contributory infringement liability could not be imposed because the Betamax was "capable of commercially significant non-infringing uses." In reaching this decision, the Supreme Court analogized to the "staple article of commerce" doctrine applicable in patent cases, which permits third-party use of a component part of a patented device if the use is capable of substantial non-infringing purposes. Significantly, the Supreme Court found that there was no evidence that Sony had sought to encourage copyright infringement through use of the Betamax or had taken steps to profit from unlawful taping.

The inducement infringement claim has been an important weapon for content owners since the U.S. Supreme Court's decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005). In *Grokster*, as in *Sony Corp.*, the Supreme Court considered secondary infringement claims in the context of a defendant's distribution of a product that was capable of substantial non-infringing uses. (Grokster distributed software that permitted peer-to-peer sharing of copyrighted and public domain content. While the software could be used to make unauthorized copies of copyrighted works, it also could be used to distribute such works with permission and to share other files for which copyright infringement issues did not arise.) However, the Supreme Court distinguished *Sony Corp.*, in which Sony was not shown to have encouraged infringement, with Grokster's conduct of which the evidence established that such encouragement was "unmistakeable."

The *Grokster* court ruled that the "staple article of commerce" defense recognized in *Sony Corp.* did not apply to "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement …." Accordingly, the Supreme Court held that a defendant who knows that direct infringement is occurring through the use of its products or Internet site, and promotes infringing activity, is liable for inducement liability even if its product or site is capable of substantial non-infringing uses.

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The third secondary liability claim, for vicarious infringement, does not focus on the defendant's contribution to the direct infringement, but rather on the defendant's failure to stop third parties from committing direct infringements. To establish vicarious liability, the plaintiff must show that the defendant profited from direct infringement committed by third parties, and had the ability to control such third party conduct but declined to do so.

The plaintiffs won summary judgment against the defendants on claims of second-

Alan R. Friedman is a partner in Katten Muchin Rosenman LLP and is part of its Entertainment and Media and Litigation practice groups. He handles many contract, copyright, trademark and participation/royalty claims in the motion picture, music and television industries. He can be reached at alan.friedman@kattenlaw.com, or 212-940-8516.

ary infringement liability in each of the *Hotfile*, *Lime Group* and *Columbia Pictures* case. An examination of these cases shows that the availability of multiple, independent theories of secondary liability was important to the plaintiffs' success.

Elements for Inducing Infringement

In *Columbia Pictures Industries Inc. v. Fung*, 710 F.3d 1020 (9th Cir. 2013), *cert. dismissed* by U.S Sup. Ct. 2013, the U.S. Court of Appeals for the Ninth Circuit reviewed the lower court's grant of summary judgment on an inducement infringement liability claim. (The plaintiffs also asserted claims for contributory infringement and vicarious infringement in *Columbia Pictures*; however, the district court did not reach those claims after granting summary judgment on the inducement claim.)

The appeals court, citing *Grokster*, identified the following elements as necessary to establish inducement infringement: 1) did the defendant distribute a product or offer a service; 2) were there acts of direct infringement; 3) did the defendant promote use of the product or service to commit infringement; and 4) did third parties use the defendant's product or service to commit their acts of infringement? Because the court answered all four of these questions in the affirmative in its evaluation of the peer-to-peer file sharing occurring on the defendant's websites, it affirmed the district court's grant of summary judgment. In doing so, with respect to the third element — whether the defendant promoted its service to commit infringement — which the court characterized as the "usually dispositive" factor in seeking to establish inducement infringement, the Ninth Circuit cited, among other things, the following conduct:

- The defendant actively encouraged the uploading of files concerning copyrighted content by, *e.g.*, prominently featuring a list of "Box Office Movies" of the 20 highest-grossing movies then playing in U.S. theaters;
- The defendant posted numerous messages explicitly "designed to stimulate others to commit [copyright] violations"; and
- The defendant provided links to files for copyrighted movies, urged users to download them and responded affirmatively to requests for help locating and downloading copyrighted materials.

The appeals court also cited two additional factors which, while insufficient in themselves to establish intent to encourage infringement, corroborated the court's finding: the defendant took no steps "to develop filtering tools or other mechanisms to diminish the infringing activity" of its users; and the defendant generated revenue almost exclusively by selling advertising on his websites, which revenue increased because more users were attracted to the websites because of the availability of copyrighted content.

In *Arista Records LLC v. Lime Group LLC*, 784 F.Supp. 2d 398 (S.D.N.Y. 2011), after finding that the defendants had actual knowledge of infringing activities, the U.S. District Court for the Southern District of New York separately considered whether summary judgment could be granted to the plaintiff content owners based upon LimeWire's "inducement liability" arising from its intent to foster direct copyright infringement, and based upon its "contributory infringement liability." With respect to the inducement claim, the district court found, among other evidence of the defendants' intent to encourage infringement, that the defendants had: developed business strategies to target users of shuttered networks, including Napster (which the court, citing *Grokster*, termed "a population well-known for committing copyright infringement"); utilized advertisements that intimated illegal uses; and designed its challenged software to suggest searches of popular copyrighted recordings for users to download.

Based on this and other evidence, the New York federal court ruled that the LimeWire defendants had the same "unmistakeable intent" to encourage infringement present in *Grokster* and that the entry of summary judgment against them was warranted. In reaching this decision, the district court, following *Grokster*, did not apply the "staple article of commerce" defense recognized in *Sony Corp.*

In contrast to its inducement infringement ruling, the *Lime Group* court denied summary judgment on the "contributory liability" claim. The court first found that the evidence was sufficient to show that the defendants knew of and materially contributed to the direct infringements committed by users of the LimeWire software. Nevertheless, the court ruled that summary judgment could not be granted because, notwithstanding these findings, the "staple of commerce" defense applied to this claim and the plaintiff record companies failed to establish that LimeWire was incapable of substantial non-infringing uses.

In *Disney Enterprises Inc. v. Hotfile Corp.*, 11-20427 (S.D.Fla. 2013), even after overcoming Hotfile's safe harbor defense, the Motion Picture Association of America (MPAA) still did not succeed on its motion for summary judgment on its inducement and contributory infringement claims. This even though the U.S. District Court for the Southern District of Florida found that "an enormous amount of infringement" was occurring on Hotfile's system and that Hotfile was aware of the general fact of infringement prior to the filing of the lawsuit. The heavy burden facing content owners in prevailing on these two claims at the summary judgment stage is reflected by the factual record the MPAA developed that, nonetheless, fell short of success.

The Florida federal court found that "some evidence" did suggest that Hotfile intended to promote infringement, including that Hotfile: intentionally modeled its system after networks that were subsequently sued for infringement; created an incentive system through its "affiliates" payment program that increased the number of registrants and downloads of files stored on its system; provided technical assistance to users, including answering questions about downloading and providing tutorials that referred to copyrighted works; and failed to implement counter-piracy technologies despite having the means to do so.

Despite these facts, the *Hotfile* court contrasted *Grokster* and *Lime Group*, in which inducement infringement liability was found, with the record before it. The defendants in *Grokster* and *Lime Group* targeted former users of Napster — the peer-to-peer file sharing service that was notorious for copyright infringement. In contrast, although users of a site known as RapidShare began migrating to Hotfile after RapidShare was sued for infringement, not only did the evidence fail to show that Hotfile targeted these users, but also the court cited an email from a Hotfile's senior executives as reflecting that "Hotfile apparently viewed the migration . . . as a 'bad thing.'" Moreover, RapidShare, unlike Napster, had not been shown to be a "pirate network." In addition, the *Hotfile* court found that the following facts mitigated against summary judgment on the MPAA's inducement and contributory infringement claims:

- Hotfile did not directly promote files for downloading or set up a file search function;
- Hotfile's system had substantial non-infringing uses;
- Over time, Hotfile implemented technology to combat infringing users and developed a meaningful notice and takedown system;
- There was no evidence that Hotfile had made express statements of its intent to foster copyright infringement or of its having a business plan that contemplated infringing uses of its system;
- There was a lack of evidence that Hotfile provided technical assistance to any

user who it knew was committing infringing activity;

- Unlike *Lime Group*, there was no evidence of any consideration (and rejection) of counter-piracy software or proposals to legitimize user activity; and
- Unlike *Grokster*, the intent to infringe was not "unmistakeable" such that it could be said to be central to Hotfile's business model and ingrained in its system's design.

Although the *Hotfile* court's assessment of the record may be viewed as generous to Hotfile relative to the analysis of comparable facts in *Lime Group* and *Columbia Pictures*, this may reflect the different level of rigor that different judges apply in determining whether material disputed facts exist at the summary judgment stage. In any event, the *Hotfile* court found that the evidence left open material questions of fact. These included: whether Hotfile knew when it supported user activity or communicated with affiliates that the files contained the copyrighted material they were named for and, if they did, whether the users lacked permission to download such works; and whether Hotfile was actually designed to be used, not as a storage locker, but rather for distribution and, if it was, whether Hotfile intended for it to be used to share copyrighted content or encouraged such sharing. Because the district court found that these and other questions could not be resolved on the basis of undisputed facts, summary judgment could not be awarded for inducement infringement or contributory infringement.

Vicarious Liability

As discussed above, a defendant is vicariously liable for a third party's copyright infringement if the defendant profits from the direct infringement, and has the means to stop the infringement but fails to do so. After denying summary judgment on the MPAA's inducement and contributory infringement claims, the *Hotfile* court turned to whether the factual record supported a finding of vicarious liability.

With respect to the first prong, Hotfile argued it received no "direct financial benefit" from its users' infringements because they paid a fixed subscription fee that was not dependent upon whether they engaged in infringement. The district court had little difficulty rejecting this argument and ruling that the increased subscription fee revenue Hotfile received — because the number of subscribers drawn to the site increased due to the quantity and quality of copyrighted files on the system available for download — constituted a sufficient financial benefit. The court supported this finding by citing, among other things, the "dramatic drop in Hotfile's income after the Complaint was filed and after Hotfile implemented its three-strikes policy and technologies to ferret out infringers."

With respect to the second prong, the district court cited prior cases as establishing that the ability to control user conduct and failure to do so prong should be read expansively. Thus, the court was not persuaded by Hotfile's argument that because it could not determine which files on its system were infringing it could not control the infringement. The court ruled that Hotfile could control the ability of its users to infringe because: it mandated subscriber registration; it hosted the infringing materials; it had an express policy permitting it to control user activity and exclude users; it eventually adopted technology that it claimed was effective in filtering infringing works; and prior to the lawsuit, Hotfile failed to exercise its ability to control infringement as evidenced by the thousands of repeat infringers using the system who were terminated after Hotfile adopted its three strike policy.

Most notably, while the *Hotfile* court declined to deny safe harbor protection to Hotfile based upon the MPAA's argument that Hotfile had actual or red flag knowledge of specific infringements, its lack of such knowledge did not enable Hotfile to avoid vicarious infringement liability because such knowledge is not an element of the claim. (In *Lime Group*, only the defendants moved for summary judgment on the vicarious liability claim. The court denied this motion, applying the two elements of the claim consistently with the application in *Hotfile*. In addition, the court rejected Lime Group's argument that summary judgment was appropriate because its software was capable of substantial non-infringing uses, ruling that the *Sony Corp.* principle had not previously been applied in the vicarious liability context and declining to extend it.)

'Something More'

While the substantial settlements that content owners reportedly won in *Hotfile* and *Columbia Pictures*, totaling a reported $190 million, will presumably deter ISPs and software distributors from engaging in secondary infringements, the fact that content owners have also suffered well-publicized losses presages that ISPs and software designers will continue to introduce products and operate websites that enable users to access copyrighted content. The rules established in *Viacom Int'l Inc. v. YouTube Inc.*, 676 F.3d 19 (2d Cir. 2012), and *UMG Recordings Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006, 1013 (9th Cir. 2013) — that service providers must have actual or red flag knowledge of specific infringements and that "something more" than the mere ability to control direct infringing liability is required to forfeit safe harbor protection under 17 U.S.C. §512(c)(1)(B) — establishes a high burden of proof for content owners, even when users of the challenged site are committing a large degree of direct infringement. (Note in the Viacom remand decision, to establish "right and ability to control" infringing conduct under §512(c)(1)(B), an ISP "must influence or participate in the infringement." Merely knowing of prevalent infringing activity "and welcoming it" is not enough).

The recent cases in which content owners have succeeded make clear that owners should be flexible in their challenges and develop facts through discovery and private investigation that arm them with an opportunity to pursue all three secondary liability claims. The cases also suggest that the vicarious infringement claim may be the most fruitful way to challenge at the summary judgment stage the actions of a defendant service provider or product distributor.

While each case presents its own opportunities to develop proof to support the three types of secondary infringement claims, it may be more difficult to establish an absence of material disputed facts for the inducement and contributory infringement claims — which require, respectively, either proof of *Grokster*-type intent to encourage infringement or proof that the challenged conduct is incapable of substantial non-infringing uses. For vicarious infringement claims, the two elements of the claim have been construed repeatedly in a content owner-friendly and expansive manner, and actual or red flag knowledge of specific infringements is not required.