ADDITIONAL DEVELOPMENTS—COPYRIGHT

SYBERSOUND RECORDS, INC. V. UAV CORP.

517 F.3d 1137 (9th Cir. 2008)

The Ninth Circuit held that a transfer of a co-owner's divisible copyright interest, if unaccompanied by a like transfer from the other co-owners of the interest, confers upon the transferee only a non-exclusive right, and that the transferee therefore lacks standing under 17 U.S.C. § 501(b) to sue on it. The court also ruled that, absent such standing, any claims depending on the underlying copyright claim necessarily fail.

Plaintiff Sybersound Records, Inc. (Sybersound), a company that produces and sells karaoke records, contracted with the third-party co-owner of at least nine copyrighted songs to become the "exclusive assignee and licensee of [the co-owner's] copyrighted interests for purposes of karaoke use, and also the exclusive assignee of the right to sue to enforce the assigned copyright interest" in the songs. Based on this agreement, Sybersound sued several of its karaoke record-maker competitors for selling records which included songs Sybersound believed it had the exclusive right to use for karaoke-related purposes under its agreement with the co-owner of the various songs. The court, however, held that the third party co-owner of the nine referenced copyrights lacked the exclusive karaoke right to grant to Sybersound in the first place. The court reasoned that, as a mere co-owner along with various other music publishers and record companies, the third-party co-owner did not have an exclusive right, as required for a valid transfer of copyright ownership under section 201(d).

The Ninth Circuit also affirmed the district court's dismissal of Sybersound's non-copyright claims. Sybersound alleged that the defendants violated the Lanham Act and various California laws by misrepresenting to customers their right to sell karaoke records of the songs by labeling the records "fully licensed," and as claiming its licenses to be "current, valid and paid in full." Citing *Dastar v. Twentieth Century Fox*, the court rejected the Lanham Act claims to avoid "overlap between the Lanham and Copyright Acts," noting that it would be inappropriate to use the Lanham Act to litigate underlying copyright infringement when the non-exclusive copyright holders have no legal standing to do so under the Copyright Act. In addition, the court held that the Copyright Act, and Sybersound's lack of standing under it, preempted Sybersound's state law claims based on the defendant's alleged misrepresentations of the records' copyright licensing status.

GREENBERG V. NATIONAL GEOGRAPHIC SOCIETY

533 F.3d 1244 (11th Cir. 2008), cert. denied, 129 S. Ct. 727 (2008)

The United States Court of Appeals for the Eleventh Circuit held that National Geographic's CD-ROM collection, which contains every magazine issue in digital form, is a privileged "revision" of the original printed magazine under 17 U.S.C. § 201(c).

Jerry Greenberg contributed photographs to four issues of National Geographic Magazine. Greenberg retained the copyright to his individual contributions, but National Geographic owned the copyright for the magazines as collective works. When National Geographic produced the CD-ROM collection, which included Greenberg's photographs, Greenberg brought an infringement claim. The district court granted summary judgment for National Geographic, but Greenberg appealed successfully and on remand was awarded $400,000 in damages. National Geographic then appealed in light of *New York Times Co. v. Tasini*, 533 U.S. 483 (2001). Section 201(c) provides:

> In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.

The court of appeals relied on *Tasini* for the proposition that aggregation of multiple magazine issues "is permissible if the original context of the individual contribution is preserved." Because the CD-ROM collection "uses the identical selection, coordination, and arrangement of the underlying individual contributions," similar to a microfilm or microfiche, users perceive the photographs in their original context and National Geographic does not infringe. The court distinguished an infringing searchable database in *Tasini* that displayed articles individually, preventing users from "flipping" digital pages to other articles in the periodical as originally issued. In response to a dissenting argument that such "contextual fidelity" is merely a threshold inquiry, the court explained that the test requires a determination of whether newly added material "so alters the collective work as to destroy its original context." The court then determined that the new elements of the CD-ROM collection, including a brief opening montage and a computer program with search and zoom functions, do not destroy the original context.

MDY INDUSTRIES, LLC V. BLIZZARD ENTERTAINMENT, INC.

2008 WL 2757357 (D.Ariz. 2008)

The United States District Court for the District of Arizona granted summary judgment in favor of Blizzard Entertainment, Inc. and Vivendi Games, Inc. (collectively, Blizzard) in their suit against MDY Industries (MDY) for contributory and vicarious infringement of Blizzard's copyright in World of Warcraft (WoW) software.

Blizzard is the creator and operator of the multiplayer online role-playing game WoW and Blizzard owns the copyright in the WoW software. MDY developed WowGlider, a bot that plays WoW for users while they are away from their computers, enabling the users to advance in the game more quickly than they would otherwise. Blizzard contended that WoW users were licensees permitted to copy the client software to RAM only in conformance with the End User License Agreement (EULA) and Terms of Use Agreement (TOU), both of which prohibited the licensee from using bots such as WowGlider. Thus, Blizzard asserted that when users launched WoW using WowGlider, they exceeded the scope of the rights granted in the license and created infringing copies of the client software. Blizzard alleged that MDY was therefore liable for contributory copyright infringement because it materially contributed to WowGlider users' direct infringement, and vicarious copyright infringement because MDY had the ability to stop the users' direct infringement and derived a financial benefit from it. MDY did not dispute that it promoted the use of WowGlider in connection with WoW or that it controlled and profited from WowGlider. Rather, MDY contended that prohibiting use of bots was a term of the contract, not a limitation on the scope of the license. Therefore, according to MDY, there may have been a breach of contract, but there was no copyright infringement. Additionally, MDY asserted a copyright misuse defense and an ownership defense under 17 U.S.C. § 117.

The Ninth Circuit has held that "[g]enerally, a copyright owner who grants a nonexclusive license to use his copyrighted material waives his right to sue the licensee for copyright infringement and can sue only for breach of contract. If, however, a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement." Therefore, to prevail on its copyright infringement claim, Blizzard needed to establish that: (1) its EULA and TOU were limited in scope, (2) the provisions WowGlider violated were limitations on the scope of the license and not separate contractual covenants, and (3) WowGlider users acted outside the scope of the license.

The court addressed each of these issues in turn. First, the court found that the language of the EULA and TOU, specifically the references to a "Grant of Limited Use License" and a "limited, non-exclusive license," explicitly indicated that the license was limited. Moreover, the court found that the provisions of section 4 of the TOU, which established that users may not exercise Blizzard's exclusive rights under § 106 of the Copyright Act to copy, distribute, or modify the WoW software, were limits on the scope of Blizzard's user license. Finally, the court concluded that WowGlider users acted outside the scope of the license provisions in section 4 of the TOU, which prohibited the use of bots. Consequently, the court held that when users copied the client software to RAM while using the WowGlider bot, they infringed Blizzard's copyright.

The court held that MDY was not entitled to a copyright misuse defense because the WowGlider infringed Blizzard's copyright, and Blizzard was therefore not controlling areas outside of its limited monopoly. The court also held that MDY was not entitled to a defense under 17 U.S.C. § 117, which permits the owner of a copy of a computer program to copy it to RAM if the copy "is created as an essential step in the utilization of the computer program. . . ." The Ninth Circuit has held that licensees of a computer program do not own their copy of the program and therefore do not fall under the provisions of § 117. In *Wall Data Inc. v. Los Angeles County Sheriff's Dept.*, 447 F.3d 769 (Fed. Cir. 2006), the Ninth Circuit provided a two-part test for determining whether a purchaser of a computer program is a licensee or an owner: "if the copyright holder (1) makes clear that it is granting a license to the copy of the software, and (2) imposes significant restrictions on the use or transfer of the copy, then the transaction is a license, not a sale, and the purchaser of the copy is a licensee, not an 'owner' within the meaning of section 117." In granting Blizzard summary judgment on its copyright infringement claim, the court found that Blizzard made it clear that it was granting a license and imposed restrictions on the transfer and use of its client software that were "at least as severe as the restrictions in *Wall Data*." Therefore, the court found that users of WoW "are licensees of the copies of the game client software and are not entitled to a section 117 defense."

TICKETMASTER L.L.C. V. RMG TECHNOLOGIES, INC.

507 F. Supp. 2d 1096 (C.D. Cal 2007)

A California district court granted Ticketmaster's motion for a preliminary injunction against RMG Technologies for copyright infringement, violation of the Digital Millennium Copyright Act (DMCA), and breach of contract. Plaintiff Ticketmaster sells tickets to the public for entertainment and sporting events through its copyrighted website, ticketmaster.com. Defendant RMG developed and marketed a software application that enabled its customers to purchase highly sought after tickets on ticketmaster.com before other buyers, allowing them to resell these tickets at a premium.

The court held that Ticketmaster was likely to prove that RMG infringed by using the ticketmaster.com website "in excess of the authorization . . . grant[ed] through the website's Terms of Use." Specifically, the court found that RMG violated the Terms of Use provisions that "prohibit commercial use, prohibit the use of bots and automated devices, limit the frequency with which users can make requests of the website, and require the user to agree not to interfere with the proper working of the website."

In finding RMG directly liable for infringement, the court concluded that each time RMG accessed ticketmaster.com it necessarily made a copy within the definition of 17 U.S.C. §101 in the form of a cached download in a computer's temporary random-access memory. The court further determined that RMG had received notice of Ticketmaster's nonexclusive license under the Terms of Use each time RMG accessed ticketmaster.com. The website's browser-wrap Terms of Use agreement appears on the homepage and with every ticket purchase.

The court also found that Ticketmaster was likely to succeed on its indirect copyright infringement claim. The court concluded that RMG, which marketed itself as "stealth technology [that] lets you hide your IP address, so you never got blocked by Ticketmaster," intended to allow third parties to infringe on ticketmaster.com.

The court determined that Ticketmaster was likely to prove that RMG violated the DMCA by "trafficking in devices designed to circumvent 'technological measure[s] that effectively control[] access'" to a copyrighted work. In doing so, the court concluded that Ticketmaster's CAPTCHA image, which "presents a box with stylized random characters partially obscured behind hash marks," qualified as a technological measure that controlled access and protected the rights of the copyrighted works under the DMCA.

This decision raises several issues. Is website browsing always defined as copying under the Copyright Act? If so, how is RMG's application distinguished from search engine robots that make webpage copies and display search results? How visible does a browser-wrap Terms of Use agreement have to be to put users on notice? In what other situations will helping to block IP identification be enough to find contributory infringement? Will CAPTCHA and password-protection barriers qualify as sufficient technological measures to protect copyrighted websites under the DMCA? One commentator notes that these issues are left unanswered by the court.

IO GROUP, INC. V. VEOH NETWORKS, INC.

586 F. Supp. 2d 1132 (N.D. Cal. 2008)

A Northern California federal district court issued a significant ruling, finding that Veoh Networks Inc. (Veoh), a video-hosting website, qualified for the 17 U.S.C. § 512(c) safe harbor of the Digital Millennium Copyright Act (DMCA). Although copyright holders have sued user-generated content sites before, this is the first case to reach a final ruling.

Io Group, Inc. (Io), an adult entertainment distributor, brought a copyright infringement suit against Veoh, a hosting service that allows users to upload streaming video, after finding ten clips of its adult films hosted on veoh.com. The suit was the first notice Io provided to Veoh of the claimed copyright infringement. Io argued that Veoh should not qualify for the DMCA safe harbor because it does not meet the threshold requirement of having a reasonable repeat-infringer policy.

Veoh has a repeat-infringer policy, under which a user's account is terminated if there are repeat DMCA-compliant notices of infringement based on content uploaded by the user. Io argued that this procedure is ineffective—a user could easily create another Veoh account using a different email address—and as such Veoh should not qualify for the DMCA safe harbor because it had not complied with the section 512(i) condition for safe-harbor eligibility that requires the service provider to have a policy for account termination of repeat infringers. The court disagreed, noting that section 512(i) does not require a particular type of policy, only that the service provider respond to complaints. The DMCA does not require service providers to track users in a particular way or to affirmatively police users for evidence of repeat infringement. Veoh satisfied the threshold requirement to qualify for safe harbor by implementing its repeat infringer policy in a reasonable manner.

17 U.S.C. § 512(c)(1) limits a service provider's liability "for 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." A service provider is eligible for the safe harbor as long as it (A) has no knowledge of infringing material or reason to suspect infringement, (B) does not benefit financially from infringing material where the provider could have controlled the material, and (C) "responds expeditiously to remove" the material when it is made aware of infringement by take-down notice or otherwise.

Veoh fell within the section 512(c) safe harbor because it established a system whereby software automatically processes user-submitted content. Veoh was not required to prescreen every submission before it was published, even if it received direct financial benefit from the alleged infringing activity, in order to be eligible for safe harbor. The court held that Veoh's right and ability to control its system and its central index did not equate to the right and ability to control infringing activity. Veoh had neither encouraged copyright infringement on its system nor could control what content its users chose to upload before it was uploaded.

The court found that Veoh had policed its system to the fullest extent permitted by its architecture by removing blatantly infringing content, responding promptly to infringement notices, terminating infringing content on its system and users' hard drives, preventing the same infringing content from being uploaded again, and by terminating the accounts of repeat offenders. According to the court, the DMCA was never intended to require service providers like Veoh to shoulder the entire burden of policing third party copyright infringements at the cost of losing their business upon failure to do so. The essential question was whether Veoh took appropriate steps to deal with copyright infringements that occurred. The court found that Veoh did, and granted Veoh summary judgment.

Bloggers and commentators mostly postulate that *Veoh* bodes well for YouTube in its ongoing billion-dollar dispute with Viacom. On *Veoh*, the Chief Counsel for YouTube wrote, "It is great to see the Court confirm that the DMCA protects services like YouTube that follow the law and respect copyrights."

VERNOR V. AUTODESK, INC.

555 F. Supp. 2d 1164 (W.D. Wash. 2008)

The United States District Court for the Western District of Washington held that a transfer of copies of software was a "sale with restrictions on use" rather than a license. This sale triggered the first sale doctrine, codified at 17 U.S.C. § 109(a), allowing the copies to be resold without the author's permission.

Timothy S. Vernor listed for sale on eBay several authentic, used copies of Autodesk's AutoCAD software that he acquired from a third party architecture firm (CTA). Autodesk issued DMCA takedown notices for each auction. eBay initially suspended all the auctions but later reinstated them upon receipt of Vernor's counter notices, resulting in delay of the auctions and suspension of Vernor's eBay account for one month. Vernor sued for declaratory relief and claimed that Autodesk had engaged in unfair competition. Autodesk moved for dismissal for failure to state a claim or, alternatively, for summary judgment. Vernor had standing under the Declaratory Judgment Act because delay of his auctions, suspension of his account, his intention to sell more copies of AutoCAD, and threats of further legal action by Autodesk created a controversy of sufficient immediacy to warrant declaratory relief.

The court held that because Autodesk's transfer of copies of AutoCAD to CTA was a sale, subsequent resale of those copies did not constitute copyright infringement. Under section 109(a), the owner of a lawfully-made copy "is entitled, without the authority of the copyright owner, to sell . . . that copy . . . ." Under this first sale rule, Autodesk exhausted its exclusive right to distribute the copies of its software that it sold to CTA. Citing *United States v. Wise*, the court stated that merely labeling an agreement a "license" does not necessarily make it so. Licenses transfer "only limited rights . . . for a limited purpose and for a limited period of time." The "critical factor" in distinguishing a sale from a license is whether the transferor required the transferee to return the copy. Because Autodesk's contract did not require CTA to return its copies, the transaction was a sale. Therefore neither CTA nor Vernor was guilty of copyright infringement, and Autodesk could only claim that CTA breached its contract.

Autodesk further argued that by reselling copies of AutoCAD, Vernor would commit contributory copyright infringement by knowingly inducing his customers to make further copies when they ran the program on their computers. Stating that the phrase "owner of a copy" in 17 U.S.C. § 117 has the same meaning as "owner of a particular copy" in section

109(a), the court held that section 117 permits Vernor's customers to copy AutoCAD where the copying is essential to use the software. The court dismissed Autodesk's theory of contributory infringement because Autodesk did not allege that Vernor's customers would copy the software outside the scope of section 117.

COPYRIGHT ENFORCEMENT

Record companies continue to bring suits against users of peer-to-peer (P2P) networks alleging infringement of their exclusive right to distribute copyrighted works under 17 U.S.C. § 106(3).

In *Capitol Records, Inc. v. Thomas*, 2008 U.S. Dist. LEXIS 106255 (D. Minn. Dec. 23, 2008), a Minnesota District Court granted a motion for a new trial partly on the grounds of erroneous jury instructions, reversing the jury's $222,000 award of damages against Jammie Thomas for sharing twenty-four unauthorized music files on KaZaa, a P2P service.

The court followed the decisions in *London-Sire Records, Inc. v. Doe 1* and *Atlantic Recording Corp. v. Howell*, to rule that merely making an unauthorized copy of a copyrighted work available to the public via P2P does not violate section 106(3). In *London-Sire Records*, the court held that, although the defendant "completed all the steps necessary for distribution," he had not necessarily made a distribution under the statute. Similarly, the owner of a shared folder on a P2P network in *Atlantic Recording* did not make or distribute an unauthorized copy of the work simply because he gave the public access to and the means to make unauthorized copies. Because the copy in the shared folder never left the defendant's hard drive, the *Atlantic* defendant did not make a distribution. However, third-party P2P users did make unauthorized copies when they downloaded it to their computers from the defendant's shared folder. As such, the owner of a shared folder is not liable as a primary infringer of the distribution right, but may be liable as a secondary infringer of the reproduction right.

The court in *Elektra Entm't Group, Inc. v. Barker*, 551 F. Supp. 2d. 234 (S.D.N.Y. 2008) reached the opposite conclusion, holding that an offer to distribute a file through a P2P file-sharing service infringes the copyright owner's distribution right under section 106(3). However, the court may have reached its conclusion by treating "distribution" as synonymous with "publication." Thus, the *Elektra* decision presents a different interpretation of the Copyright Act's distribution right.

Although the Copyright Act does not explicitly define the distribution right, it does define "publication" as either a distribution or an offer to distribute for purposes of further distribution. A distribution of a copyrighted work does not violate section 106(3) unless it involves a "'sale or other transfer of ownership' or a 'rental, lease, or lending'" of an unauthorized copy of the work.

Also, the Department of Justice is criminally prosecuting P2P users for piracy of copyrighted works. June 2008 marks the first time in U.S. history that a jury convicted a P2P user, a former administrator of EliteTorrents.org, for criminal distribution of copyrighted works.

INTERNATIONAL COPYRIGHT ENFORCEMENT

Across the Atlantic, France is on the verge of passing *Loi Olivennes*, a "graduated response" (or "three strikes" rule) bill that would require Internet service providers (ISPs) to monitor and police subscriber traffic for copyright infringement. Under *Loi Olivennes*, ISPs would send suspected copyright infringers warnings for their first offense, suspend their service for the second offense, and finally ban them from service for a year if they persist in infringing.

In response to the three-strikes proposals, the European Parliament (EP) passed a non-binding resolution in April 2008 condemning member states' plans to authorize banning suspected unauthorized file-sharers from Internet activity. EP suggested that depriving citizens' Internet access conflicts with "civil liberties and human rights and with the principles of proportionality, effectiveness and dissuasiveness." In September 2008, the EP again voted in favor of an amendment that will prevent member states from implementing the "three strikes" rule.

Despite EP's efforts to protect Internet users, *Promusicae v. Telefónica de España SAU*, a January 2008 decision of the European Court of Justice (ECJ), strengthened states' abilities to enforce digital copyrights. The ECJ ruled that, although member states are not required to order ISPs to give up users' identities, they are free to order ISPs to disclose such data in civil copyright infringement proceedings. Member states thus retain discretion to require ISPs to disclose subscriber data in copyright infringement suits.

In an analogous effort to combat illegal file-sharing, the New Zealand government passed its own three strikes law. However, the implementation of the law has been delayed while the internet community negotiates a voluntary code of practice. If an agreement is reached, the law would be put into effect for six months, during which its effectiveness will be monitored by the government. The New Zealand enactment of the law has evoked outcry among internet users who organized a protest to blackout their web pages.

Inspired by their New Zealand counterparts, Irish internet users mounted a similar protest in response to an initiative by the Irish Recorded Music Association (IRMA) demanding ISPs to block certain websites. The protest followed a settlement between the IRMA and Eircom, an Irish ISP, in which Eircom agreed to block certain websites.

Although the British government previously had a "serious legislative intent" to compel ISPs to implement similar policing activities to disconnect repeat copyright infringers, it has since ruled out any proposals to enforce a three strikes policy.

On April 1 2009, Sweden passed its own anti-piracy law based on the European Union's Intellectual Property Rights Enforcement Directive (IPRED) allowing copyright owners to obtain a court order to obtain the IP addresses of computers illegally sharing copyrighted material. The day after the law took effect, Swedish Internet traffic dropped by more than 30 percent.

Closer to home, the Recording Industry Association of America has embraced the three strikes approach instead of engaging in mass lawsuits. Despite the controversy it has engendered, the "three strikes" approach to unauthorized file-sharing has continued to receive worldwide appeal, with countries such as Japan, South Korea, and Australia considering its adoption.