

NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION

HOT TOPICS IN INTELLECTUAL PROPERTY

HOSTED BY THE TRADEMARK LAW & PRACTICE COMMITTEE
EARN 3.5 NY/NJ CLE CREDITS FOR BOTH NEWLY ADMITTED & EXPERIENCED ATTORNEYS
TUESDAY, JULY 17, 2018, PRINCETON CLUB OF NEW YORK

AGENDA

MATERIALS AVAILABLE ON: [HTTPS://WWW.NYIPLA.ORG/ASSNFE/EV.ASP?ID=241](https://www.nyipla.org/assnfe/ev.asp?id=241)

- 12:00 - 12:45 Registration and Lunch
- 12:45 - 1:00 Welcome Remarks
- 1:00 - 1:30 **Keynote Address Honorable Gerard Rogers**
Chief Administrative Trademark Judge, Trademark Trial and Appeal Board
- 1:30 - 2:00 **Breaking the Internet?: What Unresolved Issues of "Secondary" Liability May Mean for Copyright Owners, Publishers & ISPs**
Moderator **Nicholas Bartelt**, Fordham IP Institute
- **Caleb Donaldson**, Senior Copyright Counsel, Google
 - **Lauren Emerson**, Counsel, Leason Ellis LLP
- 2:00 - 2:30 **Opening The Virtual Door to All: Online Accessibility Standards**
Moderator **John Egan**, Partner, Seyfarth Shaw LLP
- **Nancy Del Pizzo**, Partner, Rivkin Radler LLP
 - **Thomas Logan**, CEO, Equal Entry LLC
- 2:30 - 2:45 Refreshments
- 2:45 - 3:15 **Blockchain: Deconstructing Trademarks** **Martin Schwimmer**, Partner, Leason Ellis LLP
- 3:15 - 3:45 **What Keeps In-House Counsel Up at Night**
Moderator **Dyan Finguerra-DuCharme**, Partner, Pryor Cashman LLP
- **Lisa Gigliotti**, Vice President and Chief Trademark Counsel, L'Oréal USA
 - **John Maltbie**, Director of Intellectual Property, Civil Enforcement, Louis Vuitton Americas
 - **Brian McCloskey**, Chief Patent Counsel, Avon Products, Inc.
- 3:45 - 4:15 **Brexit - Should Trademark Owners Care?** **Simon Tracey**, Founding Partner, Bear & Wolf
- 4:15 - 4:45 **Litigation Finance: The Basics, The Details, and The Ethics**
Moderator **David Herrington**, Partner, Cleary Gottlieb Steen & Hamilton LLP
- **Boaz Weinstein**, Co-Founder, Lake Whillans Litigation Finance
 - **Marla Decker**, Managing Director, Lake Whillans Litigation Finance
- 4:45 - 4:55 Closing Remarks

HON. GERARD F. ROGERS



Gerard Rogers is a member of the Senior Executive Service and serves as Chief Administrative Trademark Judge of the USPTO Trademark Trial and Appeal Board. As chief judge, he has management responsibility for the processing of trademark appeals, oppositions, and cancellation proceedings; the preparation and issuance of precedential decisions of the Board; and collaboration with stakeholders to enhance Board processes and procedures.

He joined the Patent and Trademark Office as a trademark examining attorney in 1987. From 1990 to 1992, he worked as a staff attorney for the Assistant Commissioner for Trademarks.

Mr. Rogers joined the Trademark Trial and Appeal Board in 1992 as an interlocutory attorney and held that position until he was appointed to the position of administrative trademark judge in 1999. In 2009 he accepted an appointment as Acting Chief Administrative Trademark Judge, and in 2010 the word Acting was removed from the title.

Mr. Rogers is a graduate of New England School of Law and the University of Massachusetts/Amherst.

**UNITED STATES
PATENT AND TRADEMARK OFFICE**



Adding Value at the TTAB

NYIPLA July 17, 2018

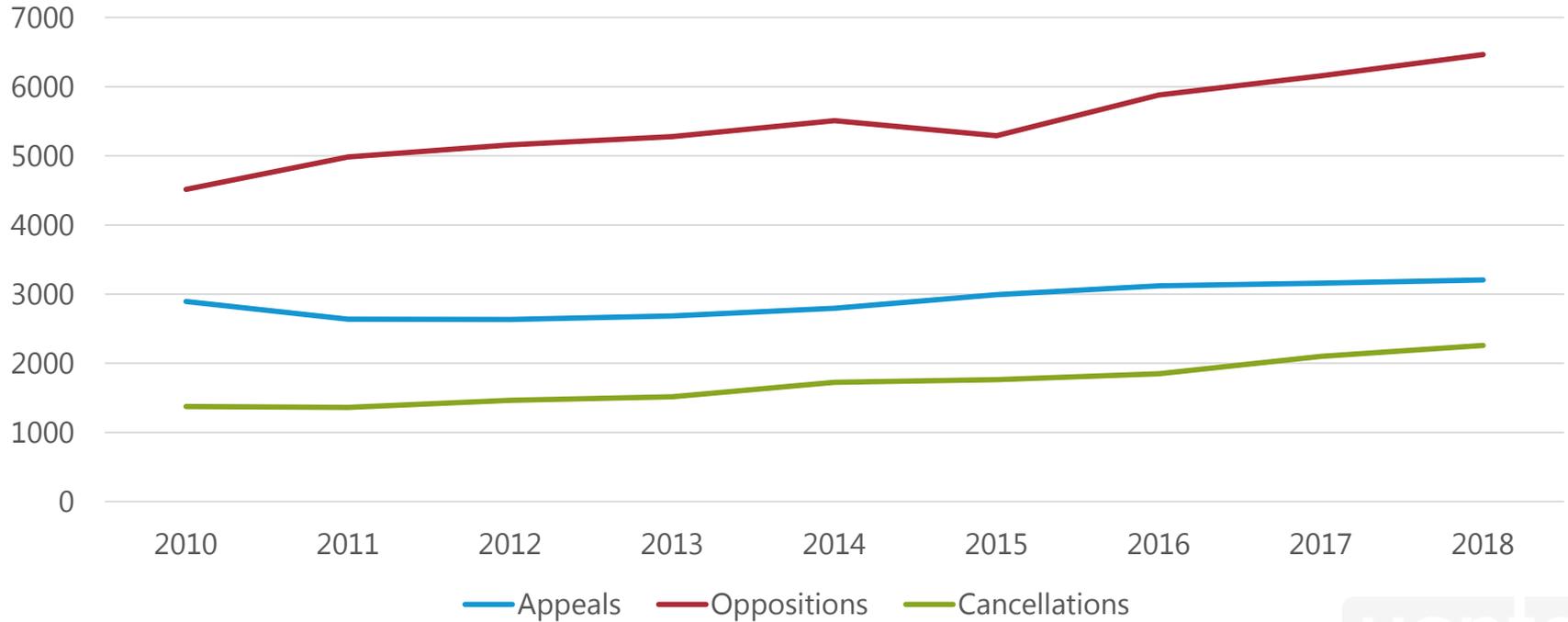
Chief Administrative Trademark Judge Gerard Rogers
gerard.rogers@uspto.gov

UNITED STATES
PATENT AND TRADEMARK OFFICE



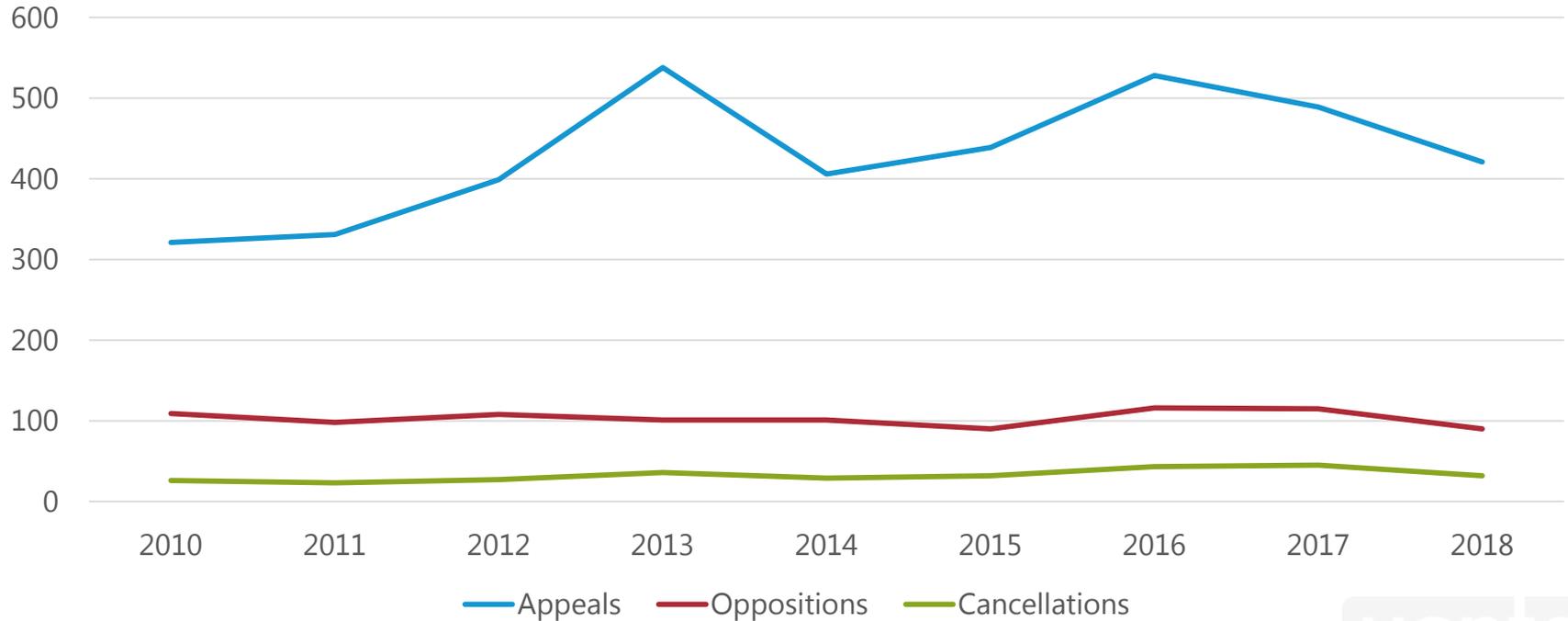
New Case Filings on the Rise

New Cases Commenced



Trial v. Appeal Decisions

Cases Decided on Merits



Calls For Change

- Managing the Board's Increasing Workload: The Creative Use of Sanctions Alan S. Cooper (Trademark Reporter 1998).
- A Legal Strategist's Guide to Trademark Trial and Appeal Board Practice (Ethics, Rule 11 and Other Sanctions Motions) Cooper (2010 ABA IP Section).

Calls For Change

- Playing the Numbers: A Quantitative Look At Section 2(d) Cases Before The Trademark Trial and Appeal Board John M. Murphy 94 *Trademark Reporter* 800 (July-August 2004).
- TTAB Delay: A 'Qualitative' View Anthony Fletcher 95 *Trademark Reporter* 583 (May-June 2005).
- <http://thettablog.blogspot.com/2005/06/recommended-reading-two-tmr-articles.html>

Calls For Change

- Too many extensions?
- Too much discovery?
- Not enough value?

Calls For Change

- A more recent view from the INTA Bulletin (March 1, 2013): The Value Equation of Trademark Oppositions: A Multinational Comparison of Costs and Perceived Benefits, by Paul F. Kilmer.
- Admitted “small scale” of study and wide “divide” of opinions on whether U.S. oppositions are a “preferred” forum, author says, warrants more study/analysis.

Pick up the Phone!

- August 1998 institution of pilot program to broaden use of phone conferences in trial cases; permanent expansion in May 2000.
- <http://www.uspto.gov/web/offices/com/sol/og/1998/week33/patphon.htm>
- <http://www.uspto.gov/trademarks/process/appeal/pattele.jsp>

Create a Protective Order

- May 2000 release of standard protective order, for adoption by parties or deployment by Board, as needed.
- <http://www.uspto.gov/web/offices/com/sol/og/2000/week25/patagre.htm>
- <https://www.uspto.gov/trademarks-application-process/appealing-trademark-decisions/standard-documents-and-guidelines-0>



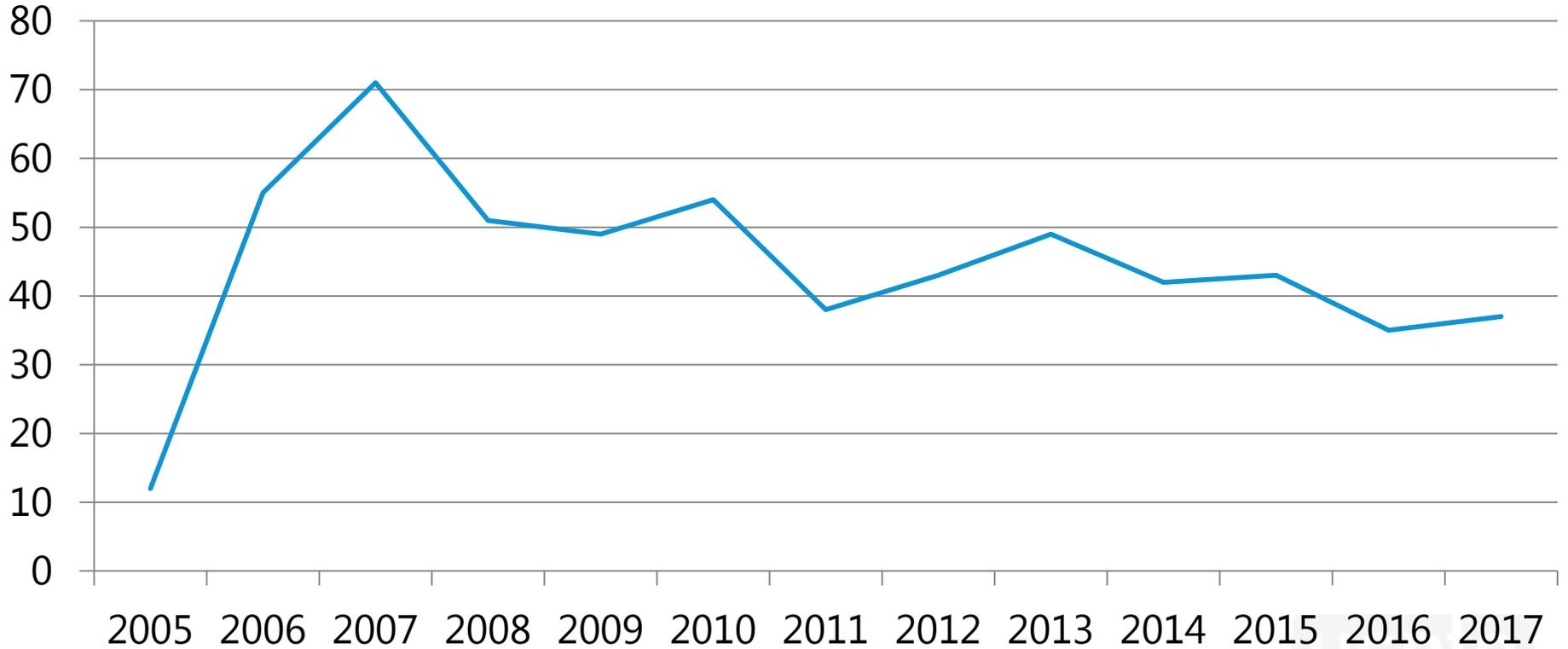
Leverage the Internet

- November 2002 deployment of ESTTA for electronic filing of documents with the Board.
- <http://www.uspto.gov/news/pr/2002/02-72.jsp>
- <https://estta.uspto.gov/>
- https://www.uspto.gov/sites/default/files/documents/ESTTA_TIPS.pdf

Leverage the Internet

- Board promoted use of email for communications between parties. 37 CFR §2.119(b)(6) (as of 2007); Default process since January 2017.
- Board adapted Notice of Reliance procedure to allow easier introduction of material from Internet. *Safer, Inc. v. OMS Investments, Inc.*, 94 USPQ2d 1031(TTAB 2010); codified in rules, January 2017.

Issue More Precedents



Revise TBMP—Frequently!

- First edition September 1995, second March 2004.
- Since May 2011 Board has issued annual revisions and two revisions in 2017: in January to coincide with rules changes and in June.
- Board created Senior Counsel/Editor post to ensure annual revision.

Rulemaking – Trial Cases

- Outreach to stakeholders when amending TTAB rules in 2007.
- The rules overall are a sweeping change to current practice before the Board and could adversely impact rights of both current trademark owners and applicants.

--Law Firm Comment

Rulemaking – Trial Cases

- From my perspective, they have worked quite well. Service is easy... the automatic protective order eliminated a great deal of stonewalling... the mandatory early conference forces the parties to talk about settlement... the mandatory initial disclosures are not too onerous... and the expert disclosure date doesn't impact too many cases.

--Lawyer's E-Mail



Outreach Can Be Productive

- November 2011 Roundtable on processing times and performance measures.
- Intended to determine what information helps clients and counsel understand likely path of Board proceedings.
- Led to new TTAB web page postings and dashboards.

Outreach Can Be Productive

- November 2012 Roundtable on Accelerated Case Resolution (ACR) best practices.
- Board has been marketing ACR; but it was useful to hear feedback from customers.
- ACR benefits leveraged into January 2017 rules changes; ACR remains an attractive option.

Sometimes the Answer is No

- Will more parties agree to ACR if there are set schedules to choose from (avoids the “too many” choices problem)?
- Answer: Not really.
- http://www.uspto.gov/trademarks/process/appeal/TTAB_ACR_Options.jsp

Sometimes the Answer is No

- April 2011 Request for Comments: Should the Board be more directly and/or more frequently involved in parties' settlement discussions?
- Answer: Not really, thank you.
- Spoiler Alert: New pilot program on non-use cancellation proceedings may ramp up discussions of settlement with TTAB attorneys/judges.

TTAB Call for Change

- December 2013 Roundtable on reducing overall processing times in appeal and trial cases.
- Some resistance to significant changes, especially in trial cases.
- A useful first step down path toward determining what makes for a value-added opposition; and, along with guidance of *B&B v. Hargis*, and ACR experience, contributed to 2017 rules changes.



TTAB Call for Change – SPO

- TTAB sought comments and suggestions through IdeaScale (link to external site on TTAB web page) on Standard Protective Order (SPO) that went into effect June 24, 2016.
- Comments were due by January 31, 2018.
- Four entities provided comments.

Access by In-House Counsel

- SPO allows access by in-house counsel to AEO information or documents only upon an appropriate showing and approval of the Board.
- Commenters seeking presumptive access to AEO material in-house rely on *U.S. Steel Corp. v. U.S.*, 730 F.2d 1465 (Fed. Cir. 1984).

Access by In-House Counsel

- Commenters taking contrary position stress unfair risks to companies producing AEO material, and favor retention of category of AEO not presumptively available to in-house counsel.
- Support for this position can be found *Akzo N.V. v. U.S. Int'l Trade Commission*, 808 F.2d 1471 (Fed. Cir. 1986).

Access by In-House Counsel

- The four commenters disagreed on whether to change the presumption in the SPO that precludes routine access by in-house counsel to Attorneys' Eyes Only (AEO) information or documents.
- In the absence of consensus, and in view of the limited number of comments, TTAB will seek further comment.

New Cancellation Proceeding?

- The Board is considering establishing a streamlined version of a cancellation proceeding, for handling abandonment and nonuse claims.
- The goal is to improve accuracy of the use-based register in response to stakeholder requests for an option to clear deadwood, consistent with parties' due process rights.

New Cancellation Proceeding?

- **Request for Comments published May 16, 2017 at 82 FR 22517 (link on TTAB web page).**
- **Comments received from 13 individuals, firms and stakeholder organizations.**
- **Public Meeting held September 25, 2017 to review comments and take further comments.**
- **Summary of comments, meeting agenda and transcript of meeting on TTAB website.**



Significant Customer Concerns

- Safeguarding due process, presumptions for registrants.
- Creating a fast, efficient proceeding, but still allowing for possible settlement talks.
- Determining the right types of cases (e.g., no need if default judgment likely; cases in need of detailed fact-finding unsuitable).

Pilot Program - Objectives

- Identify (1) type of cases most suitable for some sort of expedited proceeding; and (2) type of procedures (ACR procedures or new ones) that could be used most effectively in such proceedings.
- Involves Board attorney and judge participating in discovery conferences for cases Board identifies as suitable candidates.

Pilot Program – Future Results?

- Identify (1) possible changes to Trademark Rules to create a new streamlined cancellation proceeding, (2) possible expansion of early intervention pilot into cases involving other issues, and (3) possible adaptation of current ACR procedures.
- Stay tuned for updates as data are accumulated from the pilot and from Board compilation of default rates of abandonment and nonuse cases, relative to other types of cases.





Nicholas Bartelt

Nick is the Assistant Director of the Fordham IP Institute where his work focuses on researching IP law and policy, with a focus on copyright. In this role, he assists in organizing the annual Fordham Intellectual Property Law & Policy Conference, in which he has participated as a moderator of copyright sessions addressing fair use and U.S. developments. In addition, Nick contributes research and editorial work to amicus briefs and a number of academic publications. As a teaching assistant, he develops curriculum for and teaches EU IP and Advanced Copyright courses. A JD graduate of Fordham Law, Nick served as Symposium Editor of the Fordham International Law Journal and as an Associate Editor on the Fordham Moot Court Board. Nick holds a BA in English from Roosevelt University where he was a Presidential Scholar.

In addition to his work at the Fordham IP Institute, Nick counsels individual creatives and small businesses, including a boutique advertising firm, in transactional and disputed IP matters. His work includes advising on and drafting international advertising agreements, work-for-hire agreements, partnership agreements, cease-and-desist letters, and licensing negotiations.

Contact:

p: (212) 636-7177

c: (646) 942-8828

e: bartelt@hansenipinstitute.com

e: nbartelt@gmail.com



FOR PUBLICATION

**UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

VENTURA CONTENT, LTD., an
Anguilla corporation,
*Plaintiff-Appellant/
Cross-Appellee,*

v.

MOTHERLESS, INC., a New York
corporation; JOSHUA LANGE, an
individual,
*Defendants-Appellees/
Cross-Appellants.*

Nos. 13-56332
13-56970

D.C. No.
2:11-cv-05912-
SVW-FMO

OPINION

Appeal from the United States District Court
for the Central District of California
Stephen V. Wilson, District Judge, Presiding

Argued and Submitted October 19, 2015
Pasadena, California

Filed March 14, 2018

Before: Andrew J. Kleinfeld, Johnnie B. Rawlinson,
and Jacqueline H. Nguyen, Circuit Judges.

Opinion by Judge Kleinfeld;
Dissent by Judge Rawlinson

SUMMARY*

Copyright

The panel affirmed the district court's summary judgment in favor of the defendants and its order denying attorneys' fees in a copyright case.

The plaintiff, a creator and distributor of pornographic movies, alleged that infringing clips were stored and displayed on defendants' website.

The panel held that the defendants qualified for the safe harbor defense set forth in the Digital Millennium Copyright Act. The material on the website was stored at the direction of users, who decided what to post. The defendants did not have actual or apparent knowledge that the clips were infringing, and they expeditiously removed the infringing material once they received actual or red flag notice of the infringement. The defendants also did not receive a financial benefit directly attributable to infringing activity that they had the right and ability to control. In addition, the defendants had a policy of excluding repeat infringers from the website.

The panel held that the district court did not abuse its discretion in not exercising supplemental jurisdiction over a California state law claim. The district court also did not abuse its discretion in denying an award of attorneys' fees to defendants.

* This summary constitutes no part of the opinion of the court. It has been prepared by court staff for the convenience of the reader.

Dissenting, Judge Rawlinson wrote that there were triable issues of material fact as to whether the defendants qualified for the safe harbor. Specifically, there were disputed issues regarding defendants' compliance with the requirement that they adopt, implement, and inform subscribers and account holders of a policy providing for termination of repeat offenders.

COUNSEL

Peter R. Afraisabi (argued), Christopher Arledge, and John Tehranian, One LLP, Newport Beach, California, for Plaintiff-Appellant/Cross-Appellee.

David S. Richman (argued), Theodora Oringer PC, Los Angeles, California, for Defendants-Appellees/Cross-Appellants.

OPINION

KLEINFELD, Senior Circuit Judge:

We address the safe harbor provision in the Digital Millennium Copyright Act¹ and conclude that the defendants are entitled to safe harbor.

FACTS

This case was decided on summary judgment. Joshua Lange, the named defendant, owns, operates, and is the sole employee of his internet site, Motherless.com. The site contains over 12.6 million mostly pornographic pictures and video clips. The content generally has been uploaded by the site's users, and the uploaders may or may not have created the material. Motherless stores the content on servers that Lange owns. In 2011, the website had nearly 750,000 active users and about 611,000 visits daily.

No one has to pay Motherless or Lange anything to look at the pictures or watch the videos on his site. A "premium" subscription is available for viewers willing to pay in exchange for avoiding advertisements and enabling downloading, but only two in a thousand active users buy premium subscriptions. Motherless makes about 15% of its income from subscriptions, T-shirts, coffee mugs, and the like. The remaining 85% comes from advertisements.

When Lange started Motherless, he uploaded around 700,000 pictures and videos that users had uploaded to a site

¹ Pub. L. No. 105-304, § 202, 112 Stat. 2860, 2877–86 (1998) (codified at 17 U.S.C. § 512(a)–(d)).

he previously owned, Hidebehind.com. Since that initial upload, Motherless has gotten all of its pictures and videos from its users. It does not have any licensing deals with content producers. Motherless does not pay users for the pictures and clips they upload. Early on, members and premium members who uploaded a great deal of material got “credits” which they could exchange for premium subscriptions, T-shirts, and such. Motherless later expanded its award system so that members could also exchange credits for money, with each credit worth a nickel. One of the biggest uploaders, who uploaded over 300,000 videos and pictures, testified at his deposition that he made about \$200 after Motherless allowed him to exchange credits for money. A user forfeits all his credits if he uploads a picture or video that violates the website’s Terms of Use.

Users can upload up to 999 pictures and videos at a time. Each time that a user uploads a file, he receives a warning on his computer screen that says “Anyone uploading illegal images/videos will be reported to the authorities. Your IP address . . . has been recorded. Any images/videos violating our Terms of Use will be deleted.” After the user has uploaded content, he can add a title and tag to it. Tags are words for which Motherless’s search software will look when a user searches for particular content. Motherless does not edit, review, or approve file names, titles, or tags. It does maintain links to certain classes of content, such as “Most Viewed” and “Most Popular.”

The Terms of Use posted on the site provide a “partial list of content that is illegal or prohibited,” such as child pornography, bestiality, and copyright-infringing material. The Terms prohibit posting copyrighted material without the prior written consent of the copyright owner, and they invite

takedown notices for infringing material. The website gives directions for emailing takedown notices. Motherless also uses a software program that provides copyright owners with a link and password so that they can directly delete infringing material themselves, without having to send a takedown notice to Lange.

Lange explained at his deposition that he and an independent contractor review all the pictures and videos before they are displayed on the site. Lange uses software that generates a thumbnail of each picture, and five thumbnails of each video clip at the 20%, 40%, 60%, 80%, and 100% time points in the clip (*e.g.*, for a two minute clip, at 24, 48, 72, 96, and 120 seconds into the clip). Lange or his contractor look at each thumbnail for “obvious signs of child pornography, copyright notices, watermarks, and any other information that would indicate that the [material] contains illegal content or violates” the Terms of Use. Lange spends three to six hours a day, seven days a week, looking at the uploads, and he estimates that he reviews between 30,000 to 40,000 images per day. He looks at about 80 thumbnails per minute to keep up with the volume of uploads. He deletes any violating material that he or his contractor spot. Whenever he finds child pornography, he contacts the National Organization of Missing and Exploited Children so that criminal action can be instigated against the uploader.

Lange personally examines all copyright infringement notices, whether DMCA-compliant or not, and deletes any infringing content that he can find. He locates infringing content using the URL, that is, the web address that appears at the top of the screen when an image or clip is on the screen. The complainant identifies the material by the URL and Lange deletes it as quickly as he can, ordinarily within a

day or two. He also sends an email to the user who uploaded the video or picture, notifying him that the uploaded material has been deleted. Motherless uses software to prevent users from re-uploading previously deleted material. Since 2008, Motherless has received over 3,500 takedown notices. Lange has deleted over 4.5 million pictures and videos for violating Motherless's Terms of Use and estimates that 4% to 6% of the deleted files were for copyright infringement.

Motherless does not have a written policy instructing its employees on when to expel repeat infringers; there are no employees to instruct. Lange personally terminates repeat infringers; the independent contractor does not terminate repeat infringers. Termination is a matter of Lange's judgment. He considers the following factors in deciding whether to terminate a repeat infringer: (1) the volume of complaints; (2) the amount of linked content in the complaints; (3) the timespan between notices; (4) the length of time the alleged infringer's account had been active; (5) the amount of total content the account has; (6) whether the user is maliciously and intentionally uploading infringing content or uploading content without knowing the source; and (7) whether the takedown notices were DMCA-compliant. Between 2008 and 2011, Lange terminated over 33,000 user accounts for violating the website's Terms of Use. Lange estimated that he terminated about 4% to 6% of these users for possible copyright infringement, which would be between 1,320 and 1,980 users.

Ventura Content, the plaintiff, creates and distributes pornographic movies. Ventura found 33 clips on Motherless from movies it had created and had not licensed to Motherless. The infringing clips were anywhere from 20

seconds to 46 minutes long, mostly 15 minutes or longer. It is undisputed that the clips infringed on Ventura's copyright.

All the infringing clips were segments of Ventura movies, not merely pictures, and not the full movie. None of the clips contained anything to indicate that Ventura owned the copyright. A few had watermarks naming other websites, which appear to be other pornography aggregators, but there were no Ventura watermarks, credits, or other pieces of information suggesting in any way that Ventura owned the copyright. These clips were visited 31,400 times during the 20 months they were posted on Motherless. During this time, Motherless received about 600,000 visits per day, so the views of the Ventura clips were a minuscule proportion of the total views on Motherless.

Eight users uploaded the 33 infringing clips. Lange terminated two of these users by 2012 (after this litigation began), one for repeat copyright infringement. There is no evidence to show that whoever uploaded the Ventura material got any credits or other compensation for these uploads. Lange does not remember reviewing any of these videos. Ventura did not send DMCA notices or any other sort of takedown notice for the infringing material. Nor did Ventura remove the material itself, as Motherless's software link enabled it to do. Ventura's first notice of infringement to Motherless was this lawsuit.

After Lange was served with the complaint in this case, he asked Ventura to send him the URLs for the infringing clips so that he could delete them. Ventura did not respond the first time Lange asked for the URLs, so Lange asked again. Ventura answered his follow-up request. On the day

that Ventura gave Lange the URLs, Lange deleted the infringing clips.

Ventura sued Motherless and Lange for copyright infringement under federal law² and for unfair business practices under California law.³ Ventura sought damages and an injunction, but the injunction claim became moot when Lange deleted all the infringing clips. The district court granted summary judgment in favor of Motherless and Lange on the federal copyright claim. It dismissed the state law claim without prejudice, declining to exercise supplemental jurisdiction over it. Motherless then moved for attorney's fees under 17 U.S.C. § 505, but the district court denied Motherless's motion.

ANALYSIS

The Digital Millennium Copyright Act contains several "safe harbor" provisions that protect certain categories of copyright infringers if they meet the statutory conditions.⁴ The short title for this statutory portion is the "Online Copyright Infringement Liability Limitation Act."⁵ The central issue in this case is whether Motherless met the safe harbor conditions.

² 17 U.S.C. § 501 *et seq.*

³ Cal. Bus. & Prof. Code § 17200 *et seq.*

⁴ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001); *see* 17 U.S.C. § 512(a)–(d).

⁵ Pub. L. No. 105-304, § 202, 112 Stat. 2860, 2877 (1998).

Ventura contends that (1) the district court erred in granting partial summary judgment to Motherless on its safe harbor defense and (2) abused its discretion by declining to exercise supplemental jurisdiction over its state-law claim. Motherless (1) cross-appeals the district court’s determination that it directly infringed on Ventura’s copyrights and (2) separately appeals the district court’s denial of attorney’s fees. All but the first issue may be addressed summarily. With regard to the summary judgment on safe harbor, we review *de novo*, taking the evidence in the light most favorable to the non-moving party, Ventura.⁶ Most of the material facts are undisputed. We assume without deciding that Ventura established direct infringement, because it is unnecessary to reach that issue. We review for abuse of discretion the district court’s decisions not to exercise supplemental jurisdiction over Ventura’s state-law claim and to deny Motherless attorney’s fees under the Copyright Act.⁷

Much of Ventura’s briefing draws our attention to the lurid sexual material on Motherless. And Ventura is suing to protect its own pornographic creations from infringement. But federal copyright law does not distinguish between pornographic and non-pornographic works, so the nature of the sexual material that Ventura creates and Motherless hosts is irrelevant.

⁶ *Kennedy v. Allied Mut. Ins. Co.*, 952 F.2d 262, 265 (9th Cir. 1991).

⁷ *Brown v. Lucky Stores, Inc.*, 246 F.3d 1182, 1187 (9th Cir. 2001) (supplemental jurisdiction); *Seltzer v. Green Day, Inc.*, 725 F.3d 1170, 1180 (9th Cir. 2013) (attorney’s fees); *see also* 17 U.S.C. § 505 (allowing the court “in its discretion” to award attorney’s fees as part of costs).

I. Safe Harbor

The Digital Millennium Copyright Act places the burden of policing copyright infringement on the copyright owner, not on the person or firm storing and hosting the material.⁸ It is undisputed that Ventura owned the copyrights to the 33 clips that were stored and displayed by Motherless.

The safe harbor clause at issue in this case, 17 U.S.C. § 512(c), provides as follows:

(1) IN GENERAL.—A service provider shall not be liable for monetary relief . . . 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, if the service provider—

- (A) (i) does not have *actual knowledge* that the material or an activity using the material on the system or network is infringing;
- (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is *apparent*; or
- (iii) upon obtaining such knowledge or awareness, *acts expeditiously to*

⁸ See *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1114 (9th Cir. 2007).

remove, or disable access to, the material;

(B) *does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and*

(C) *upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.*⁹

Thus for a service provider to get safe harbor protection despite its infringement, it must not know of the infringement, and the infringement cannot be apparent. It must also take down or prevent access to the infringing material as soon as it learns about it or receives a DMCA notice. And it must not directly benefit financially from the infringement in situations when it can control the activity.

There is an additional condition on safe harbor eligibility: the service provider must have a policy to terminate users who repeatedly infringe on copyrights, and it must implement that policy reasonably. The statute setting this condition, 17 U.S.C. § 512(i), reads as follows:

⁹ 17 U.S.C. § 512(c)(1) (emphasis added). The added emphasis is to highlight language that Ventura has put at issue.

CONDITIONS FOR ELIGIBILITY.—

(1) ACCOMMODATION OF TECHNOLOGY.—The limitations on liability established by this section shall apply to a service provider only if the service provider—

(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers; and

(B) accommodates and does not interfere with standard technical measures.

The overall scheme is plain enough at a superficial level. A service provider must delete or disable access to known or apparent infringing material, as well as material for which he receives a statutorily compliant takedown notice. He must also terminate repeat infringers when appropriate. The copyright owner, not the service provider, has the burden of policing infringement. But the service provider, to maintain its shield, must respond expeditiously and effectively to the policing. If these conditions are met, the service provider will not be financially liable for infringing material on his website. The details, of course, get complicated, and we must address those complications.

A. “By reason of the storage at the direction of a user”

Section 512(c) says that, subject to additional conditions discussed below, a service provider will not be liable “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.”¹⁰ Ventura points out that Lange uploaded 700,000 files from his old site, screens uploads for illegal material before putting them on the site, and has his software categorize material into classes (such as “Most Popular”). Ventura would therefore have us conclude that the Motherless material was stored and made available “at the direction of” Motherless, not the users. We do not agree.

Lange did upload thousands of pictures and videos from his old site, Hidebehind.com, when he first established Motherless in 2008. However, those uploads amount to only 6% of what the site now carries. He has not uploaded any material to the site since he started it with his old material. Lange and his contractors did not upload any of the 33 clips over which Ventura claims copyright ownership. There is no evidence that any of the Hidebehind.com tranche infringed on anyone’s copyright. That material therefore does not establish liability here.

Ventura also argues that Lange is not entirely passive because he screens out child pornography, bestiality, and copyright infringement that he spots. The argument is that by screening out this material, Motherless effectively directs what is posted instead of enabling posting “at the direction of

¹⁰ 17 U.S.C. § 512(c)(1).

a user.” But Ventura cites no authority for the unlikely proposition that screening out illegal material eliminates the safe harbor shield. Indeed, section 512(m) says that the law should not be construed to eliminate the safe harbor because a service provider monitors for infringement or disables access to material where the conduct depicted is prohibited by law.¹¹ Motherless screens out child pornography because it is prohibited by law. It screens out bestiality because a few European countries prohibit bestiality pornography by law, and some of Lange’s European advertisers voiced concerns about this content. We find it counterintuitive, to put it mildly, to imagine that Congress intended to deprive a website of the safe harbor because it screened out child pornography and bestiality rather than displaying it. Instead, we read section 512(m) to say that Congress expressly provided that such screening does not deprive a website of safe harbor protection.

Finally, Ventura argues that because Motherless groups together the tagged videos and pictures so that users can find

¹¹ 17 U.S.C. § 512(m) reads as follows:

(m) PROTECTION OF PRIVACY.—Nothing in this section shall be construed to condition the applicability of subsections (a) through (d) on—

(1) a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i); or

(2) a service provider gaining access to, removing, or disabling access to material in cases in which such conduct is prohibited by law.

what they want, it is Motherless, rather than the user, who directs the “storage.” But Lange testified, and Ventura does not dispute, that his editorial principle is as announced on the site: “anything legal stays.” Ventura merely argues that this case can be distinguished from opinions which applied the safe harbor to sites that screen and alter content.

Our controlling case is *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*.¹² There, we addressed whether a website that enabled sharing music videos, some of which turned out to be infringing, was entitled to safe harbor.¹³ The videos in *UMG* were not just stored, as one might store family photographs on a “cloud” service such as iCloud, Dropbox, or Google Drive. Users uploaded material and watched and listened to videos and songs.¹⁴ Some of the music was infringing.¹⁵ We held in *UMG* that the phrase “by reason of the storage at the direction of a user” covers more than “mere electronic storage lockers.”¹⁶ It allows service providers to perform access-facilitating processes such as breaking up the files for faster viewing and converting them to a Flash format.¹⁷

¹² 718 F.3d 1006 (9th Cir. 2013).

¹³ *Id.* at 1011–12.

¹⁴ *Id.*

¹⁵ *Id.* at 1013.

¹⁶ *Id.* at 1016 (quoting *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081, 1088 (C.D. Cal. 2008)).

¹⁷ *See id.*

As in *UMG*, Motherless's users, not the website, decide what to upload and what file names and tags to use.¹⁸ Our holding in *UMG* disposes of the argument that altering the file format to make it accessible before posting, and enabling users to apply search tags to uploads, takes the posting of the content out of the "at the direction of a user" definition. It also disposes of the argument that being anything more than an electronic storage locker, such as by facilitating user access to files that other users posted, deprives the website of safe harbor protection.

Ventura argues that by using software to highlight the "Most Popular" material, and by giving credits to users who post the most popular material, Motherless is posting at its own direction rather than hosting material posted at the direction of the user. This argument is inconsistent with our holding in *UMG*.¹⁹ It is also inconsistent with the meaning of the words "at the direction of the user." The users post what they post, popular or not. Motherless does not screen out material for relatively low popularity, and of course most postings do not fall within the "Most Popular" category. Yet there they are, up on the site, because the users put them there. We do not see how the Motherless incentive program, which makes credits usable to buy coffee mugs and T-shirts and such for high volume uploaders, makes "storage" at the direction of Motherless rather than "at the direction of a user." Whether the uploader does so for the glory of the thing (Motherless's biggest uploader testified that he wanted his name on the leaderboard for big uploaders) or for a coffee mug, his craving for such fame and fortune as was available

¹⁸ See *id.* at 1012.

¹⁹ See *id.* at 1016, 1019 & n.10.

does not mean that the specific content he uploaded was directed by Motherless, rather than “by the user.”

We recently addressed the phrase “by reason of storage at the direction of the user” in *Mavrix Photographs, LLC v. LiveJournal, Inc.*²⁰ The website in *Mavrix* was not entitled to summary judgment on the safe harbor issue because there was a genuine issue of fact as to whether the storage of material on the site was at the direction of the site or at the direction of its users.²¹ The *Mavrix* website used moderators to review user submissions for substance. It published only those submissions that, in the moderators’ judgment, were “relevant to new and exciting celebrity news.”²² We remanded because genuine issues of material fact remained as to “whether the moderators were LiveJournal’s agents.”²³ We restated in *Mavrix* what we had held in *UMG*: “Infringing material is stored at the direction of the user if the service provider played no role in making that infringing material accessible on its site or if the service provider carried out activities that were ‘narrowly directed’ towards enhancing the accessibility of the posts.”²⁴ And we further noted that section 512(m) of the statute expressly provided that deleting

²⁰ 873 F.3d 1045, 1052–57 (9th Cir. 2017).

²¹ *Id.* at 1056–57.

²² *Id.* at 1050.

²³ *Id.* at 1057.

²⁴ *Id.* at 1056 (quoting *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081, 1088 (C.D. Cal. 2008)) (citing *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006, 1018 (9th Cir. 2013)).

unlawful material did not deprive the site of safe harbor protection.²⁵

The case before us falls within *UMG*, not *Mavrix*. The moderators in *Mavrix* directed posting only if they thought the user-submitted material was “new and exciting celebrity news.”²⁶ Lange and his contractor do not review whether the pornography submitted by users is “new and exciting” or meets any other discretionary standards. The Motherless rule is “anything legal stays.” Lange does not exercise judgment in what to host. His editing is limited to the kind protected by section 512(m), screening out illegal material.

Perhaps if Lange’s site were flooded with pictures and videos of kittens playing with yarn, he would change his rule and exercise judgment about whether the material was pornographic enough to host, but that is speculation. We have been directed to nothing in the record that establishes a factual dispute about whether Lange actually exercises judgment about what to host beyond his screening out child pornography, bestiality, and infringing material. Though Motherless has groups, posts need not be placed into a group to be stored on the website. None of Ventura’s infringing clips were selected or listed under any of Motherless’s groups, but all of them were posted anyway.

Although *UMG* compels our holding, we also note that our sister circuits agree with the critical point that “storage at the direction of a user” affords safe harbor protection to sites where users can look at other users’ uploads, not just to what

²⁵ *Id.*

²⁶ *Id.* at 1050.

UMG called “electronic storage lockers.”²⁷ The Second Circuit ruled in *Viacom International, Inc. v. YouTube, Inc.*²⁸ that YouTube was entitled to safe harbor—even though it converted user-submitted videos into a standard display format and used an algorithm to suggest related videos—because “to exclude these automated functions from the safe harbor would eviscerate the protection afforded to service providers by § 512(c).” Likewise, the Fourth Circuit held in *CoStar Group, Inc. v. LoopNet, Inc.*²⁹ that a real estate listing website that allowed subscribers to post listings was not liable for copyright infringement even though an employee cursorily reviewed the photographs for infringing material. The *CoStar* majority analogized the service provider to an owner of a traditional copy machine “who has stationed a guard by the door to turn away customers who are attempting to duplicate clearly copyrighted works.”³⁰ And the Tenth Circuit held in *BWP Media USA, Inc. v. Clarity Digital Group, LLC*³¹ that a news site that relied on user-generated content was entitled to safe harbor even though it instructed users on topics to write about and suggested that users include pictures or slide shows with their articles. Citing to *UMG*, the Tenth Circuit explained that “if the infringing content has merely gone through a screening or

²⁷ *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*, 718 F.3d 1006, 1016 (9th Cir. 2013).

²⁸ 676 F.3d 19, 39 (2d Cir. 2012).

²⁹ 373 F.3d 544, 546–47 (4th Cir. 2004).

³⁰ *Id.* at 556.

³¹ 820 F.3d 1175, 1181 (10th Cir. 2016).

automated process, the [service provider] will generally benefit from the safe harbor’s protection.”³²

Because the users, not Motherless, decided what to post—except for Lange’s exclusion of illegal material and his original upload when he created the website—the material, including Ventura’s, was “posted at the direction of users.”

B. Knowledge and Expedient Takedown

Though the statutory scheme places the burden of policing infringement on the copyright owner, the scheme does not allow a website owner to avoid responsibility for knowingly selling pirated material by deleting a particular posting only when he gets caught. Instead, the statute excludes blatant pirates from the safe harbor by requiring that a service provider:

- (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;
- (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
- (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material.³³

³² *Id.* (citing *UMG*, 718 F.3d at 1020).

³³ 17 U.S.C. § 512(c)(1)(A).

If the website provider actually knows that the material for which relief is sought is infringing, or if the infringement is “apparent,” he remains liable if he does not expeditiously remove the material upon gaining knowledge.

i. Actual Knowledge

Ventura and its expert argue that Lange must have had actual knowledge that the Ventura clips infringed on its copyright because they appeared to be professionally produced and because a few had watermarks. That argument is unavailing.

According to Ventura, because Lange reviewed all of the material that users submitted, he would have seen that four of the 33 clips had watermarks. But none of the watermarks establish actual knowledge of infringement because Ventura did not watermark its clips. The watermarks on the four clips said “videosz.com” and “monstercockbabes.com,” suggesting the clips came from pornography aggregators rather than copyright owners. The watermarks gave no hint that Ventura owned the material, and they do not establish a genuine issue of fact about whether Motherless knew the material was infringing.

Ventura also argues that Motherless had to know the clips were infringing because, it claims, the high quality of the videos showed professional production. But the conclusion does not follow from the premise. Professionally created work often is posted online to publicize and attract business for the creator. Amateurs often do professional quality work in artistic endeavors, and amateurs are no less entitled to copyright protection than professionals, so it is not apparent why professionalism matters. And digital cameras have

become so good and so easy to use that even home movies of children's birthday parties can look professionally done.

Nor do we see what on the Ventura videos distinguishes them from amateur creations. Many of the clips include shaky camera footage and poor lighting. One starts with a camera bouncing around taking pictures of the interior of a car, has a voiceover saying "figured out how to finally turn this thing [the camera] on," and so forth. We have no idea how it would be possible to recognize "professionals" from amateurs on the videos, and Ventura has not provided any factual information to help us. It is hard to see what distinguishes Ventura's videos from homemade work uploaded to the internet by the rightful owner, and it is even harder to see why it would be obvious that the Ventura videos were infringing. An ordinary person who had not studied movie-making and personally made movies would likely be oblivious to the professionalism that the expert report identifies. This is not to criticize the quality of Ventura's videos. The apparent amateurism may be a skilled professional means of giving them an appearance of authenticity. But nothing about their professionalism would inform Motherless that they were infringing or would make infringement apparent.

Ventura could have indicated its ownership by watermarking its videos as copyrighted, but it did not. And Ventura could have notified Motherless that the clips infringed on its copyright when it discovered them on Motherless's site, but it did not. Ventura's "decision to forgo the DMCA notice protocol 'stripped it of the most powerful evidence of a service provider's knowledge—actual notice of

infringement from the copyright holder.”³⁴ If Ventura had notified Motherless about these 33 infringing videos before filing this lawsuit and Motherless had not taken them down, then Motherless would have lost its safe harbor. On the facts of this record, however, Ventura did not establish a genuine issue of fact as to actual knowledge. The statutory phrase “actual knowledge” means what it says: knowledge that is actual, not merely a possible inference from ambiguous circumstances.

ii. Apparent Knowledge

Actual knowledge is not necessary to deprive an infringer of safe harbor. Motherless would also lose its safe harbor if it was “aware of facts or circumstances from which infringing activity is apparent” and did not “act[] expeditiously to remove, or disable access to, the material.”³⁵ This is different from actual knowledge because instead of looking at subjective thoughts, we look at objective facts and circumstances from which the specific infringement would be obvious to a reasonable person.³⁶ The statutory term “apparent” is often described, in the cases and secondary

³⁴ *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*, 718 F.3d 1006, 1020 (9th Cir. 2013) (quoting *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1107 (W.D. Wash. 2004)) (citing *Io Grp., Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1148 (N.D. Cal. 2008)); see also 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12B.04[A][3], at 12B-94 (rev. ed. 2017) (“NIMMER”).

³⁵ 17 U.S.C. § 512(c)(1)(A)(ii)–(iii).

³⁶ *UMG*, 718 F.3d at 1025–26; *Io Grp.*, 586 F. Supp. 2d at 1148.

literature, as “red flag” knowledge.³⁷ The sports metaphor is no more helpful than the statutory word “apparent,” and we use the words interchangeably.

Ventura’s arguments for “apparent” awareness are similar to its arguments for actual knowledge. And the same reasons for absence of knowledge apply. There is nothing about the Ventura clips that would make infringement apparent. That is not to say that Motherless did not know that infringement was probably occurring on its website. It is hard to imagine that a site with 12.6 million pictures and video clips uploaded by users would not contain some material that users had uploaded without authorization. It is also hard to imagine that Lange and his contractor would have spotted all the infringing videos with the few seconds of viewing they gave to each one.

Nevertheless, we held in *UMG* that hosting material capable of copyright protection, with the general knowledge that the site could be used to share infringing material, is not enough to impute knowledge.³⁸ The material in *UMG* was much more likely to arouse awareness of infringement than the material in this case, because it included music videos by well-known celebrities like 50 Cent, Avril Lavigne, and Britney Spears.³⁹ We held that this sort of knowledge was not enough to amount to red flag knowledge.⁴⁰

³⁷ See, e.g., NIMMER § 12B.04[A][1][b], at 12B-52 (explaining that this form of knowledge can be best described as a red flag test).

³⁸ *UMG*, 718 F.3d at 1022.

³⁹ *Id.* at 1023.

⁴⁰ *Id.*

Similarly, in *Capitol Records, LLC v. Vimeo, LLC*,⁴¹ the Second Circuit addressed whether a service provider may be found to have apparent knowledge because it relies on mass uploading by users. Its reasoning is instructive. The service provider in *Capitol Records* was Vimeo, which operates a website that enables members to post videos that they created.⁴² As of 2012, Vimeo had more than 31 million videos and 12.3 million registered users.⁴³ Nearly 43,000 videos were uploaded to Vimeo daily.⁴⁴ Capitol Records sued Vimeo for copyright infringement because 199 videos on the website contained recordings to which Capitol Records held the copyright.⁴⁵ The Second Circuit explained that the copyright holder must demonstrate that the service provider had actual knowledge of facts “that would make the *specific infringement claimed* objectively obvious to a reasonable person.”⁴⁶ *Capitol Records* further explained that “suspicion of infringement” is not the same as “facts making infringement obvious.”⁴⁷ Requiring service providers to investigate potential copyright infringement whenever they

⁴¹ 826 F.3d 78 (2d Cir. 2016).

⁴² *Id.* at 81.

⁴³ *Id.* at 84.

⁴⁴ *Id.*

⁴⁵ *Id.* at 86.

⁴⁶ *Id.* at 93 (emphasis added) (citing *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 31 (2d Cir. 2012)).

⁴⁷ *Id.* at 98.

were suspicious would undermine “an important part of the compromise embodied in the safe harbor.”⁴⁸

We agree. The copyright owner must show knowledge, actual or red flag, for the videos that infringed its copyright and are the subject of its claim. And for red flag knowledge, infringement must be apparent, not merely suspicious. Congress used the word “apparent,” not “suspicious” or some equivalent. Ventura, not Lange, is in charge of policing Motherless for its copyrighted material. Congress could have put the burden of policing infringement in suspicious circumstances on the provider, but it instead put it on the copyright holder.

Because the facts and circumstances from which a reasonable person might suspect infringement were much more substantial in *UMG* than in this case, and because there we held that the infringement was not “apparent,” we must reach the same conclusion here. As *UMG* implies,⁴⁹ and as the Second Circuit in *Capitol Records* expressly stated,⁵⁰ even if it were obvious to a reasonable person that some of the material on the site must be infringing, that is not enough to lose the safe harbor. It must be obvious that the particular material that is the subject of the claim is infringing. Here, it would not be obvious to a reasonable person that the clips excerpted from Ventura movies were infringing.

⁴⁸ *Id.*

⁴⁹ See *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*, 718 F.3d 1006, 1022 (9th Cir. 2013); see also *Mavrix Photographs, LLC v. LiveJournal, Inc.*, 873 F.3d 1045, 1057 (9th Cir. 2017).

⁵⁰ 826 F.3d at 93 (citing *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 30–31 (2d Cir. 2012)).

Ventura argues that we should infer apparent knowledge under *Columbia Pictures Industries, Inc. v. Fung*.⁵¹ Fung’s website used a peer-to-peer file sharing protocol.⁵² That means the content was not on the website’s server, but rather on the hard drives of the users. Clicking on a URL on the website enabled the user to get into the shared material on another user’s hard drive. Fung’s website enabled users to download popular movies and television shows, not just clips but entire movies.⁵³ For example, users downloaded over 1.5 million copies of the James Bond movie *Casino Royale*.⁵⁴ The website included categories such as “Top 20 TV Shows” and “Top 20 Movies,”⁵⁵ so it was obvious that using it would enable the user to get this obviously infringing content in its entirety. Fung solicited users to upload and download copyrighted material and assisted those seeking to watch copyrighted material, including helping downloaders burn DVDs of the infringing material.⁵⁶ We held that Fung had apparent knowledge, because “[t]he material in question was sufficiently current and well-known that it would have been objectively obvious to a reasonable person that the material

⁵¹ 710 F.3d 1020 (9th Cir. 2013).

⁵² *Id.* at 1024.

⁵³ *Id.* at 1028–29.

⁵⁴ *Id.* at 1029.

⁵⁵ *Id.*

⁵⁶ *Id.* at 1043.

solicited and assisted was both copyrighted and not licensed to random members of the public.”⁵⁷

This case is very much like *UMG* and not at all similar to *Fung*. In *Fung*, the site marketed itself as a pirate site for free access to feature movies and top television shows, and no one could mistake the material on it for anything but infringing material. *Fung* had complete, long movies, but *Motherless* limited uploads to 500 megabytes, which would be around half or three-quarters of an hour at standard density, and much less at high density. The Ventura clips had no indication that Ventura owned the copyright—or was associated with the videos at all. *Fung* had “current and well-known” material, like *Casino Royale*.⁵⁸ Whoever the actors in the Ventura material may have been, they are not as famous as the actors who have played James Bond. No one could mistake *Casino Royale* for a couple of amateurs filming their own activities and purposely posting them for exhibition, but an ordinary person could mistake the Ventura clips for just that.

In *Fung*, we noted that “the record is replete with instances of *Fung* actively encouraging infringement, by urging his users to both upload and download particular copyrighted works.”⁵⁹ *Lange* did not do that. His posted Terms of Use prohibited posting copyrighted material without prior written consent from the copyright owner, and he invited takedown notices for infringing material. While such

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

posted notices language could be merely for appearances sake if it were not followed by action, Lange estimates that he has deleted over 180,000 videos and pictures for copyright infringement. He has removed an estimated 1,320 to 1,980 users from the site for repeated copyrighted infringement. His software stops users from re-uploading previously deleted material. Fung’s was fairly explicitly a pirate website. Motherless, though, appears to be managing the website to make money while avoiding legal trouble from users posting child pornography, bestiality, or copyright infringing material.

Lastly, Ventura makes the policy argument that “[i]t is exceedingly difficult for [Ventura]—or any adult Web site, for that matter—to convince customers to pay for content that is readily available for free on the adult tube sites” such as Motherless. That may be so, but Congress, not judges, makes the policy decision on whether to offer a safe harbor from suit.

iii. Expeditious Takedown

An additional requirement for the accidental infringer’s safe harbor relief is expeditious removal of the infringing material once there is actual or red flag notice of the infringement. The statutory wording is that “upon obtaining such knowledge or awareness,” the service provider must “act[] expeditiously to remove, or disable access to, the material.”⁶⁰ To trigger the expeditious removal requirement, a copyright owner’s notification must substantially comply with the requirements of subsection (c)(3)(A) of the safe

⁶⁰ 17 U.S.C. § 512(c)(1)(A)(iii).

harbor statute.⁶¹ Among other things, the notification must identify the infringing material with “information reasonably sufficient to permit the service provider to locate the material.”⁶²

In this case, the infringing videos had no Ventura identification, and the site had more than a half-million videos, so as a practical matter what Motherless needed to remove them was a URL for each. Ventura did not send Motherless a statutory notification before filing suit. When Lange was served with Ventura’s complaint, he asked Ventura to provide him with the URLs to the infringing clips so that he could delete them. Ventura did not initially respond. Subsequently, Ventura provided the URLs after Lange followed up on his initial request. Lange deleted the 33 infringing clips the same day. That satisfied the “responds expeditiously to remove” requirement.

C. Right and Ability to Control

Even if subsection (c)(1)(A) is satisfied (no actual or red flag knowledge, expeditious removal), a service provider still loses its safe harbor under subsection (c)(1)(B) if it receives “a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right

⁶¹ *Id.* § 512(c)(3)(B).

⁶² *Id.* § 512(c)(3)(A)(iii). This part of the statute provides that notice is effective only if it includes: “Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.”

and ability to control such activity.”⁶³ This raises two questions: did Motherless have “the right and ability to control” the infringing activity, and if so, did it receive a financial benefit “directly attributable to the infringing activity”?

Motherless certainly had the physical ability to control any and all infringing activity. Lange could take down all of Motherless’s content, infringing or not, and bar any uploads, infringing or not. We have held, however, that the “[r]ight and ability to control” involves “something more than the ability to remove or block access to materials posted on a service provider’s website.”⁶⁴ To have the right and ability to control, a service provider must be able to exert “substantial influence” on its users’ activities.⁶⁵

We held in *UMG* that the service provider did not have the “ability to control.”⁶⁶ In *Fung*, it did.⁶⁷ This case is like *UMG* and not like *Fung*. Nothing in the record suggests that Motherless told its users what to upload. Its homepage welcomed users to “a moral free zone where anything legal

⁶³ *Id.* § 512(c)(1)(B).

⁶⁴ *Mavrix Photographs, LLC v. LiveJournal, Inc.*, 873 F.3d 1045, 1058 (9th Cir. 2017) (quoting *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*, 718 F.3d 1006, 1030 (9th Cir. 2013)).

⁶⁵ *UMG*, 718 F.3d at 1030 (quoting *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 38 (2d Cir. 2012)).

⁶⁶ *Id.*

⁶⁷ *Columbia Pictures Indus., Inc. v. Fung*, 710 F.3d 1020, 1046 (9th Cir. 2013).

stays.” It did not curate uploaded content in any meaningful way, nor did it reject unpopular groups or content. Motherless deleted only user-created groups that contained little or no content, and it started deleting bestiality content due to legality issues raised by European advertisers.

Motherless rewarded uploaders of the most popular content with points redeemable for items of negligible value, such as coffee mugs and t-shirts, but that does not amount to encouraging uploads of infringing material. Even after Motherless started letting users exchange points for cash, the payouts were nominal. One of the most prolific Motherless users (he uploaded over 300,000 files) testified that he made just \$200. Except for Motherless’s screening out of child pornography, bestiality pornography, and apparent infringing material, the uploaders, not Motherless, controlled what was uploaded. Such censoring by Motherless could not enable it to control uploads of non-obvious infringing material,⁶⁸ and there was nothing in the uploaded video clips to identify their infringing nature.

Nor was there any evidence that Motherless received “a financial benefit directly attributable to the infringing activity.” Unlike the site in *Fung*, Motherless did not advertise itself as a place to get pirated materials. Of course, the more pornography Motherless had, the more users it would attract, and more views would lead to more advertising revenue. The words “the” and “directly” in the statute, though, must mean that some revenue has to be distinctly attributable to the infringing material at issue. There is no

⁶⁸ See *UMG*, 718 F.3d at 1027–28; *Io Grp., Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1151 (N.D. Cal. 2008).

evidence that Motherless made any money directly from the Ventura clips.

D. Repeat Infringer Termination

So far, we have examined the specifics of the safe harbor as applied to Ventura’s movie clips. Ventura did not submit cognizable evidence establishing a genuine issue of fact as to whether Motherless was entitled to safe harbor.⁶⁹ The evidence is uncontradicted that Motherless did not know, nor was it apparent, that its site included infringing Ventura clips. Motherless immediately removed them on the day that Ventura gave Motherless enough information to do so. And Motherless did not control what users uploaded. These conditions are necessary to enjoy the safe harbor. However, they are not sufficient.

Basically, subsection (c) of the safe harbor provision aims at individual infringements, not the service as a whole. It uses the phrase “the material”—that is, the material for which an infringement remedy is sought—in the context of setting out what a service provider needs to do to avoid liability for the infringement of the copyrighted material at issue. Our sister circuit and we both read it this way.⁷⁰ If subsection (c) were read to apply to all the material on the website, instead of the material for which a remedy was sought by the victim of infringement, then no large site would be protected by the

⁶⁹ See Fed. R. Civ. P. 56(c).

⁷⁰ See *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006, 1021–22 (9th Cir. 2013); *Capitol Records, LLC v. Vimeo, LLC*, 826 F.3d 78, 93 (2d Cir. 2016); *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 31 (2d Cir. 2012).

safe harbor. It is unimaginable that any website with hundreds of thousands or millions of user uploads could successfully screen out all of the copyright infringing uploads, or even all of the uploads where infringement was apparent.

But Congress promulgated subsection (i) to limit the eligibility for safe harbor treatment. Even if a website deletes infringing material as soon as it learns about it, the safe harbor is unavailable unless the site has a policy of excluding repeat infringers. This ineligibility provision “is a prophylactic against future acts of infringement by actors whose past conduct renders them suspect.”⁷¹

This repeat infringer policy requirement does not focus on the particular infringement at issue. Instead, subsection (i) bars use of the subsection (c) safe harbor unless the service provider adopts and “reasonably” implements a policy of terminating repeat infringers in “appropriate” circumstances:

(1) ACCOMMODATION OF TECHNOLOGY.—The limitations on liability established by this section shall apply to a service provider only if the service provider—

(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account

⁷¹ NIMMER § 12B.10[A][2], at 12B-168.7.

holders of the service provider’s system or network who are repeat infringers; and

(B) accommodates and does not interfere with standard technical measures.

Unlike subsection (c), subsection (i) addresses how the site is generally managed, not just how the site responds to notice of a particular infringement. Without subsection (i), an unscrupulous website might take down infringing material as soon as it received a proper takedown notice identifying it, yet still operate as a pirate site. Subsection (i) obliges the provider to exclude repeat infringers, subject to its qualifications: “reasonably” and “in appropriate circumstances.” In this case, subsection (i) means that if Motherless did not reasonably implement a policy of terminating in appropriate circumstances users who were repeat infringers, then innocence in hosting Ventura’s works and promptness in removing them once notified would not shield Motherless from infringement remedies.

The “standard technical measures” referenced in subsection (i)(1)(B) enable copyright owners to establish some technical means so that service providers can spot and exclude infringing material without substantial expense.⁷²

⁷² “Standard technical measures” is defined in 17 U.S.C. § 512(i)(2), which states:

DEFINITION.—As used in this subsection, the term “standard technical measures” means technical measures that are used by copyright owners to identify or protect copyrighted works and—

(A) have been developed pursuant to a broad consensus

One can imagine a digital version of the old c in a circle (©) automatically triggering the uploading software to exclude material so marked by the copyright owner. But subsection (i)(1)(B) is not at issue in this case. The evidence establishes, without any genuine issue of fact, that Ventura did not in any way mark its material so that infringement could be spotted and the material excluded by some standard technical measure.

However, the inapplicability of subsection (B) to this case does not free Motherless from the burden of subsection (A). The service provider must satisfy both. Motherless has a written policy of excluding infringing material, stated on its membership sign-up page:

- In connection with User-Submitted Content, you affirm, represent, and/or warrant that: you own or have the necessary licenses, rights, consents and permissions to use and authorize [Motherless] to use all . . . copyright . . . rights in and to any and all User-Submitted Content to enable inclusion and use of the User-Submitted Content in the manner contemplated by the [Motherless] website and these Terms of Use.

of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process;

(B) are available to any person on reasonable and nondiscriminatory terms; and

(C) do not impose substantial costs on service providers or substantial burdens on their systems or networks.

- [Motherless] and its administrators reserve the right (but not the obligation) in their sole discretion to refuse, delete, move or edit any and all Content that it deems is in violation of the law (including . . . copyright law)
- A partial list of content that is illegal or prohibited includes content that . . . Promotes an illegal or unauthorized copy of another’s copyrighted work, such as pirated computer programs or links to them, or providing information to circumvent manufacturer-installed copy-protect devices, or providing pirated music or links to pirated music files
- You agree that you will not post, or otherwise distribute or facilitate distribution of any Content that . . . infringes on any . . . copyright . . . of any party
- You may not post, distribute, or reproduce in any way, any copyrighted material . . . without obtaining the prior written consent of the owner of such proprietary rights or otherwise have a valid basis under the law, including “fair use.”

And Motherless has a written policy of terminating repeat infringers. On its page entitled “DMCA Notice & Takedown Policy and Procedures,” Motherless said that “[it] is the firm

policy of the [site] to terminate the account of repeat copyright infringers, when appropriate.”

The details of the termination policy are not written down. However, the statute does not say that the policy details must be written, just that the site must inform subscribers of “a policy” of terminating repeat infringers in appropriate circumstances. Motherless consists only of Lange and a few independent contractors, and Lange alone determines when to terminate repeat infringers.⁷³ A company might need a written policy to tell its employees or independent contractors what to do if there were a significant number of them, but Motherless is not such a firm. Small operations in many industries often do not have written policies because the owners who would formulate the policies are also the ones who execute it. There might not have been a need for anything in writing. So the lack of a detailed written policy is not by itself fatal to safe harbor eligibility. Neither is the fact that Motherless did not publicize its internal criteria.⁷⁴

Lange described how he applies Motherless’s repeat infringer policy in his deposition testimony. He testified that he excludes infringing material by looking for an identifying watermark in the corner, the usual way owners identify their copyrighted material. If he receives a DMCA takedown

⁷³ The dissent conflates Lange’s screening of content for child pornography and bestiality before it is made available on the website, and his implementation of Motherless’s policy to terminate repeat infringers. Lange does only the former with the assistance of contractors.

⁷⁴ See *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1102 (W.D. Wash. 2004), *overruled on other grounds*, *Cosmetic Ideas, Inc. v. IAC/Interactivecorp*, 606 F.3d 612 (9th Cir. 2010); NIMMER § 12B.10[F], at 12B-195 n.195.

notice (the form designated in subsection (c)(3)(A)),⁷⁵ he

⁷⁵ 17 U.S.C. § 512(c)(3)(A) lists out the requirements for a notice of infringement. The subsection reads as follows:

ELEMENTS OF NOTIFICATION.—

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:

(i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a representative list of such works at that site.

(iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.

(iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.

(v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.

also uses “hashing” software so that copies of the image or clip will be removed and will be screened out if anyone tries to post them again. Ordinarily, he will not terminate a user because of one takedown notice, but he will if there are two or more, which is to say, “repeated” instances of infringement. He might make a “gut decision” to terminate a user after the first DMCA notice (that is, a user who is not a repeat infringer) if there are multiple infringing pictures or videos identified in the notice, though that is not his usual practice. Motherless has received over 3,000 DMCA takedown notices. Lange does not keep a written list of subscribers whose submissions generated DMCA notices, but he saves each of the takedown notices and can track the number of times each user’s content has been deleted in response, as well as the date of and reason (e.g., copyright infringement, child pornography) for each deletion. In deciding to terminate a user, he considers the account’s history, as well as his memory and judgment. He is especially careful to look for and screen out material from one producer who threatened to sue him for infringement.

Before removing a user, Lange considers multiple factors, as detailed above, including the number of complaints arising from the user’s uploads, the amount of infringing content in the complaint he received, and whether he thinks the user had maliciously or intentionally uploaded infringing content. Lange testified at one point that Motherless had an automated system for removing repeat infringers, but he subsequently admitted that Motherless did not have such a system and may

(vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

have confused it with Motherless’s automatic removal of content when two or more people report it for violating the Terms of Use within a 24-hour period. Lange uses his judgment, not a mechanical test, to terminate infringers based on the volume, history, severity, and intentions behind a user’s infringing content uploads. Ventura does not dispute this.

*Perfect 10, Inc. v. CCBill LLC*⁷⁶ holds that “a service provider ‘implements’ a policy if it has a working notification system, a procedure for dealing with DMCA-compliant notifications, and if it does not actively prevent copyright owners from collecting information needed to issue such notifications.” The “implementation is reasonable if, under ‘appropriate circumstances,’ the service provider terminates users who repeatedly or blatantly infringe copyright.”⁷⁷ A “substantial failure” to record alleged infringers may raise a genuine issue of material fact, but the maintenance of a DMCA log is adequate even if the log is not perfect.⁷⁸ (One page of the log was not fully filled out in *CCBill*, but the log was still adequate.⁷⁹) DMCA-compliant notices put the provider on notice of infringement, but unsworn, non-compliant complaints do not.⁸⁰ The service provider’s responses to DMCA notices from copyright holders other

⁷⁶ 488 F.3d 1102, 1109 (9th Cir. 2007).

⁷⁷ *Id.*

⁷⁸ *Id.* at 1110.

⁷⁹ *Id.*

⁸⁰ *Id.* at 1112–13.

than the parties to the case are relevant to assessing the provider's policy.⁸¹

Various factors may bear on whether a service provider has “adopted and reasonably implemented” its policy for terminating, “in appropriate circumstances,” repeat infringers. Certain factors work in favor of the service provider, including: a DMCA log, as discussed in *CCBill*; blocking a subscriber's name and email address from uploads;⁸² putting email addresses from terminated accounts on a banned list;⁸³ and prohibiting a banned user from reopening a terminated account.⁸⁴ Other factors cut against the service provider, including: changing the email address to which takedown notices are sent without providing notice of the change;⁸⁵ participating in copyright infringement;⁸⁶ allowing terminated users to rejoin the site;⁸⁷ and refusing to terminate known

⁸¹ *Id.* at 1113.

⁸² See *Io Grp., Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1143–44 (N.D. Cal. 2008).

⁸³ See *Capitol Records, LLC v. Vimeo, LLC*, 972 F. Supp. 2d 500, 514–16 (S.D.N.Y. 2013), *overruled in part on other grounds*, 826 F.3d 78 (2d Cir. 2012).

⁸⁴ *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1103–04 (W.D. Wash. 2004).

⁸⁵ See *Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004).

⁸⁶ See *EMI Christian Music Grp., Inc. v. MP3tunes, LLC*, 844 F.3d 79, 90 (2d Cir. 2016).

⁸⁷ See *BMG Rights Mgmt. (US) LLC v. Cox Commc'ns, Inc.*, 149 F. Supp. 3d 634, 656–58 (E.D. Va. 2015).

repeat infringers.⁸⁸ Congress did not require that, to be eligible for safe harbor, a provider must maintain a logbook of infringers which it consults whenever it receives a DMCA notice. Congress required that the provider reasonably implement a policy of terminating repeat infringers, and the use of such a logbook and procedure would be good evidence that it did.

We conclude that on this record, there was no triable issue of fact as to whether Motherless, when it infringed on Ventura’s copyrighted material, had “adopted and reasonably implemented” its policy of terminating repeat infringers “in appropriate circumstances.” No trier of fact could conclude from the evidence in the record that Motherless had failed to reasonably implement a repeat infringer policy.

As the district court pointed out, there is a paucity of proven failures to terminate. Safe harbor eligibility does not require perfection, just “reasonable” implementation of the policy “in appropriate circumstances.” Eligibility for the safe harbor is not lost just because some repeat infringers may have slipped through the provider’s net for screening them out and terminating their access. The evidence in the record shows that Motherless terminated between 1,320 and 1,980 users for alleged copyright infringement and that only nine alleged repeat infringers had slipped through. Of those nine, only six were before Ventura filed its lawsuit, and only four of the six had been the subject of more than one DMCA notice.⁸⁹ That suggests that less than one repeat infringer in

⁸⁸ *See id.* at 659–62.

⁸⁹ *See* NIMMER § 12B.10[C][1], at 12B-178 (defining “repeat infringer”).

100,000 active users was missed. If that is the extent of failure, there could be no genuine issue of material fact as to whether Motherless “reasonably implemented” its termination policy. Congress used the word “reasonable” to modify “implemented,” so the phrase cannot be construed to require perfect implementation.⁹⁰

Ventura points out that one of Motherless’s biggest uploaders, Kristy7187, was not terminated until Motherless had received a fourth DMCA-compliant notice on a Kristy7187 upload. It may be hard to imagine how a site with so many subscribers and uploads could have so few repeat infringers, and how it could screen so effectively. Motherless does not even have an automated log of subscribers whose uploads generated DMCA notices. And since the policy is little more than Lange’s multifactor judgment based largely on his recollection of DMCA notices, it may be hard to imagine how it could work so well. It is tempting, perhaps, to say that a policy is not “reasonably” implemented if it does not include both a database of users whose uploads have generated DMCA notices and some automated means of catching them if they do it again. But the statute does not require that. It modifies the termination requirement with the phrase “appropriate circumstances” in addition to the word “reasonable.” And as the district court held, the evidence in the record allows for only one conclusion: that Motherless succeeded in reasonably implementing its policy of terminating repeated infringers. Although the dissent points out that anonymous users could also upload files, 85% of the uploads came from members, and the Ventura clips were not

⁹⁰ See *Io Grp., Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1144 (N.D. Cal. 2008); *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1104 (W.D. Wash. 2004).

uploaded by anonymous users. The number of repeat infringers who escaped termination, at least as the record shows, is a tiny number and a minuscule percentage of users.

Doubt that Motherless really does have a “policy” of terminating repeat infringers that is “reasonably implemented” is unavoidable in light of unsystematic and casual implementation. But doubt is not evidence. Ventura has presented no evidence to establish a genuine issue of fact as to whether Motherless failed to reasonably implement its policy. Motherless, however, has met its burden.⁹¹ The absence of any significant number of repeat infringers who escaped termination compels the conclusion that a trier of fact could not conclude, on the record before us, that Motherless failed to meet the repeat infringer eligibility requirement for safe harbor. Motherless and Lange are therefore entitled to claim the protection of the safe harbor.

II. Remaining Issues

Ventura Content argues that the district court abused its discretion in not exercising supplemental jurisdiction over its California state law claim for violation of California Business and Professional Code § 17200. The district court did not abuse its discretion.

Federal courts may exercise supplemental jurisdiction over a state law claim if it shares a “common nucleus of operative fact” with a federal claim and if “the state and

⁹¹ See *Columbia Pictures Indus., Inc. v. Fung*, 710 F.3d 1020, 1039 (9th Cir. 2013).

federal claims would normally be tried together.”⁹² Ventura’s state law claim is for unlawful business practices, a cause of action that “borrows violations of other laws” and makes them “independently actionable.”⁹³ Specifically, Ventura alleges that Motherless is violating federal law by not creating and maintaining records of the performers on its site.⁹⁴ The district court held that this claim did not share a “common nucleus of operative fact” with the copyright infringement claim. That was not an abuse of discretion for the very reason that the district court gave: Motherless’s “failure to keep records has little, if anything, to do with the copyrighted material that appears on their system.”

Likewise, the district court did not abuse its discretion by denying an award of attorney’s fees to Motherless. Among the factors bearing on the exercise of discretion are “(1) the degree of success obtained; (2) frivolousness; (3) motivation; (4) the objective unreasonableness of the losing party’s legal and factual arguments; and (5) the need, in particular circumstances, to advance considerations of compensation and deterrence.”⁹⁵

⁹² *Bahrampour v. Lampert*, 356 F.3d 969, 978 (9th Cir. 2004).

⁹³ *Davis v. HSBC Bank Nev., N.A.*, 691 F.3d 1152, 1168 (9th Cir. 2012) (quoting *Cel-Tech Commc’ns, Inc. v. L.A. Cellular Tel. Co.*, 973 P.2d 527, 539–40 (Cal. 1999)).

⁹⁴ See 18 U.S.C. § 2257(a) (requiring producers of media depicting sexually explicit conduct to “create and maintain individually identifiable records pertaining to every performer”).

⁹⁵ *Seltzer v. Green Day, Inc.*, 725 F.3d 1170, 1180–81 (9th Cir. 2013) (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)).

The district court noted that Ventura's claim was neither objectively unreasonable nor frivolous because prior Ninth Circuit precedent had not directly addressed several arguments that Ventura raised. Ventura's motivation was not improper, nor was there a need to deter the claims that Ventura made. It had, after all, been the victim of copyright infringement and sued parties that played a role in the infringement. It was thwarted only because of the complexities of the safe harbor rules that had not yet been fully explicated in the case law.

CONCLUSION

The record and the law support the district court's decisions (1) granting summary judgment in favor of Motherless; (2) declining to exercise supplemental jurisdiction over Ventura Content's state-law claim; and (3) denying Motherless's motion for attorney's fees.

AFFIRMED.

RAWLINSON, Circuit Judge, dissenting:

I respectfully dissent from my colleagues' conclusion that Motherless, Inc. and Joshua Lange qualified for the safe harbor provided for in the Digital Millennium Copyright Act (the Act).

It is important to remember that this case was resolved on summary judgment. Therefore, if a material issue of fact was raised by Ventura Content, Ltd. (Ventura), entry of summary judgment in favor of Motherless, Inc. and Lange was in error. *See Zetwick v. County of Yolo*, 850 F.3d 436, 441 (9th Cir. 2017) (“[W]here evidence is genuinely disputed . . . that issue is inappropriate for resolution on summary judgment. The district court erred in granting summary judgment to the defendants . . .”) (citations, alteration, and internal quotation marks omitted). Moreover, all evidence is to be construed in the light most favorable to Ventura. *See id.* at 440.

From my reading of the record, a gargantuan issue of fact was raised by Ventura regarding Motherless'/Lange's compliance with the requirement that the service provider adopt, implement, and inform subscribers and account holders of the policy providing for termination of repeat infringers to merit safe harbor protection from copyright infringement.

It is important to set forth the obligations imposed upon the service provider Motherless/Lange under the Act. The Act provides that the safe harbor is available to a service provider “only if the service provider” “*has adopted and reasonably implemented and informs subscribers and account holders* of the service provider's system or network of, a policy that provides for the termination in appropriate

circumstances . . . of repeat infringers.” 17 U.S.C. § 512(i)(1)(A) (emphasis added). The Act requires not only that the service provider have a policy, but that the policy be adopted and reasonably implemented. *See id.* The subscribers and account holders of the system must also be informed of the policy.

The majority concedes that Motherless/Lange has adopted no written or publicized policy that may be used to instruct regarding the expulsion of repeat infringers. *See Majority Opinion*, pp. 7, 38–39. The majority excuses this deficiency by noting that “there are no employees to instruct.” *Id.*, p. 7. However, there is at least one independent contractor who, together with Lange, reviews all the photographs and videos before they are uploaded to the website. *See Majority Opinion*, p. 6. If, as the majority concedes, there is no written policy to instruct the independent contractor regarding repeat infringers, at a minimum a material issue of fact is raised regarding compliance with that requirement of the safe harbor provision.

The majority accuses me of “conflat[ing] Lange’s screening of content . . . and his implementation of Motherless’s policy to terminate repeat infringers.” *Majority Opinion*, p. 39 n.73. I beg to differ. I readily acknowledge that the screening precedes the implementation of the “policy” to terminate repeat infringers. But how would Lange know whom to terminate if the repeat offenders are not first identified by Lange or to Lange by the contractor? That question brings us back to the lack of guidance regarding the “appropriate circumstances” for terminating repeat infringers. 17 U.S.C. § 512(a)(1)(A). If the independent contractor has no guidance for determining when to refer screened material as from a potential repeat infringer, and Lange is the only one

who actually terminates repeat offenders, a material issue of fact looms regarding the reasonableness of the Motherless/Lange system of identifying and terminating repeat infringers. *See id.*

Further supporting the existence of a material issue of fact regarding the establishment of a policy is the failure of Lange to articulate a consistent approach to the termination of repeat infringers. At one point Lange stated the repeat infringer policy as: “If we receive more than one takedown notice, we terminate the account.” Lange even went so far as to describe this approach as “a written policy of Motherless.” At a different point, Lange described an “automated system for removing people” that he later acknowledged did not actually exist.

The majority has apparently settled on the third approach articulated by Lange, the “I delete any infringing content I can find” approach. *Majority Opinion*, p. 6. Lange described this approach as “look[ing] at about 80 thumbnails per minute” to weed out repeat infringers. What Lange is really saying is that he looks at each thumbnail for a fraction of a second to identify repeat infringers. Lange uses his “judgment” rather than a policy to make this determination. *Majority Opinion*, p. 7. And Lange never explains how, without a written policy, his “judgment” is transferred to the independent contractor who is also responsible for identifying repeat infringers. For instance, Lange might make a “gut decision” to terminate a user after the first takedown notice. *Majority Opinion*, p. 41. Who can say with a straight fact that a “gut decisionmaking process” constitutes a policy? I certainly can’t.

At a minimum, Lange's inconsistent and inadequate articulation and application of the Motherless/Lange policy, such as it is, governing termination of repeat infringers precluded entry of summary judgment in favor of Motherless/Lange. *See Zetwick*, 850 F.3d at 441.

The majority relies on "the paucity of proven failures to terminate" as evidence supporting satisfaction of the safe harbor requirements. *Majority Opinion*, p. 44. But this "evidence," or more precisely, lack of evidence is singularly unpersuasive because it relies completely on the less than stellar, unautomated recordkeeping system utilized by Motherless. The missing link is how many repeat infringers slipped through the massive cracks in the Motherless/Lange casual monitoring system. And as the majority concedes, there is evidence in the record that repeat infringers slipped through these cracks. *See id.* One of the biggest uploaders to the website was not terminated until after Motherless received a fourth takedown notice under the Act. *See id.*, p. 45. This circumstance raises a material issue of fact regarding the lack of implementation of one of Lange's self-described policies of terminating an account "if [Motherless] receive[s] more than one takedown notice." The failure to terminate the account of this admittedly repeat infringer certainly raised a material issue of fact regarding whether Motherless had "a policy that provides for the termination [of repeat infringers] in appropriate circumstances." 17 U.S.C. § 512(i)(1)(A); *see also Perfect 10 v. CC Bill LLC*, 488 F.3d 1102, 1113 (9th Cir. 2007) ("A policy is unreasonable . . . if the service provider failed to respond when it had knowledge of the infringement. . . .").

The majority admits that "it may be hard to imagine how a site with so many subscribers and uploads could have so

few repeat infringers, and how it could screen so effectively.” *Majority Opinion*, p. 45. But the majority can only reach the conclusion that there are few repeat infringers, and that Motherless screens effectively, by impermissibly viewing the evidence in the light most favorable to Motherless rather than to Ventura. *See Zetwick*, 850 F.3d at 440. In addition to raising material issues of fact regarding the existence and implementation of the required policy, Ventura presented evidence that Motherless is completely unable to capture anonymous infringers. So how can the majority have confidence in the number of infringers who purportedly escaped termination if there is no way of knowing the actual number of infringers? This is a classic example of “garbage in, garbage out” evidence and should not permit Motherless to escape accountability under the Act for failing to adopt, disseminate, and reasonably implement a policy to terminate repeat infringers.

The safe harbor provision is basically an exception to the liability that otherwise applies under copyright law for those who harbor repeat copyright infringers. As with any other exception, its parameters should be construed narrowly. *See, e.g., Federal Bureau of Investigation v. Abramson*, 465 U.S. 615, 636 n.5 (1982) (noting that exceptions to the Freedom of Information Act are to be narrowly construed). The majority concedes that Motherless’ policy is comprised primarily of “little more than Lange’s [unwritten] multifactor judgment based largely on his recollection of DMCA notices” and his glances at the uploads. *Majority Opinion*, p. 45. I am not prepared to say as a matter of law that a “policy” that is unwritten, uncommunicated, and often unimplemented falls within the safe harbor provisions of the Act.

I agree with the majority that the district court acted within its discretion when it declined to exercise jurisdiction over Ventura's California state law claim and when it denied an award of attorney's fees to Motherless. However, I seriously disagree with the majority that the district court properly awarded summary judgment in favor of Motherless/Lange. Viewing the evidence in the light most favorable to Ventura, material issues of fact remain regarding the existence of a policy as defined in the Act, and the reasonableness of actions taken by Motherless/Lange to terminate repeat infringers. I would reverse that portion of the district court's ruling, and I respectfully dissent from the majority's contrary ruling.

FOR PUBLICATION

**UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

ROBERT STEVENS; STEVEN VANDEL,
individually and on behalf of all
others similarly situated,

Plaintiffs-Appellants,

v.

CORELOGIC, INC., a Delaware
Corporation,

Defendant-Appellee.

No. 16-56089

D.C. No.
3:14-cv-01158-
BAS-JLB

OPINION

Appeal from the United States District Court
for the Southern District of California
Cynthia A. Bashant, District Judge, Presiding

Argued and Submitted November 6, 2017
Pasadena, California

Filed June 20, 2018

Before: A. Wallace Tashima and Marsha S. Berzon,
Circuit Judges, and Robert E. Payne,* District Judge.

Opinion by Judge Berzon

* The Honorable Robert E. Payne, United States District Judge for the Eastern District of Virginia, sitting by designation.

SUMMARY**

Copyright Law

The panel affirmed the district court’s grant of summary judgment in favor of CoreLogic, Inc., on professional real estate photographers’ claims that CoreLogic removed copyright management information from their photographs and distributed their photographs with the copyright management information removed, in violation of 17 U.S.C. § 1202(b)(1)-(3), a part of the Digital Millennium Copyright Act.

The photographers alleged that CoreLogic’s Multiple Listing Services software removed copyright management information metadata from their photographs. The panel held that § 1202(b) requires a showing that the defendant knew the prohibited act would “induce, enable, facilitate, or conceal” infringement. The panel concluded that the photographers did not offer evidence to satisfy this mental state requirement because they did not provide evidence from which one could infer that future infringement was likely, albeit not certain, to occur as a result of the removal or alteration of copyright management information.

The panel affirmed the district court’s rulings regarding discovery and costs.

** This summary constitutes no part of the opinion of the court. It has been prepared by court staff for the convenience of the reader.

COUNSEL

Darren Quinn (argued), Law Offices of Darren J. Quinn, Del Mar, California; Kirk B. Hulett, Hulett Harper Stewart LLP, San Diego, California; Joel B. Rothman, Schneider Intellectual Property Law Group PLLC, Boca Raton, Florida; for Plaintiffs-Appellants.

Daralyn Jeannine Durie (argued), Joseph C. Gratz, and Michael A. Feldman, Durie Tangri LLP, San Francisco, California; for Defendant-Appellee.

OPINION

BERZON, Circuit Judge:

Residential real estate sales today depend largely on online sites displaying properties for sale. Plaintiffs Robert Stevens and Steven Vandel (“the Photographers”) are professional real estate photographers who take photographs of listed properties and license them to real estate agents. The real estate agents, in turn, upload such photographs to Multiple Listing Services (“MLS”) — computerized databases of listed properties — using Defendant CoreLogic’s software.

In this action against CoreLogic, the Photographers allege that CoreLogic removed copyright management information from their photographs and distributed their photographs with the copyright management information removed, in violation of 17 U.S.C. § 1202(b)(1)–(3). We affirm the grant of summary judgment in favor of CoreLogic.

FACTS AND PROCEEDINGS BELOW

A. Metadata

Stevens and Vandel are hired by real estate agents to take digital photographs of houses for sale. The Photographers retain the copyright in those photographs and license them to the agents. Like most digital photographs, at least some of Stevens' and Vandel's photographs contain metadata — *i.e.*, data about the image file itself. Metadata is not visible on the face of the image. Rather, it is either embedded in the digital file or stored outside the image file, such as in a “sidecar” file, and can be viewed using computer programs.

Some metadata is generated automatically by cameras. The Exchangeable Image File Format (“EXIF”) is used by virtually all digital cameras to store information about the settings used to capture a digital image. EXIF information can include the make, model, and serial number of the camera taking the photograph; the shutter speed; the aperture settings; light sensitivity; the focal length of the lens; and even, in some cases, the location at which the photo was captured. Essentially, EXIF metadata provides information about when the image was taken and under what technical conditions.

Other metadata may be added manually, either by programming the camera or by adding information after taking the picture, using photo editing software. Such metadata is often stored in IPTC format, named for the International Press Telecommunications Council, which developed metadata standards to facilitate the exchange of news. IPTC metadata can include, for example, the title of the image, a caption or description, keywords, information

about the photographer, and copyright restrictions. It may be used to check copyright information, to sort images, and to provide accurate search results in an image database or search engine. A small number of fields such as Author/Creator, Copyright, and Caption/Description exist in both EXIF and IPTC formats.

Copyright law restricts the removal or alteration of copyright management information (“CMI”) — information such as the title, the author, the copyright owner, the terms and conditions for use of the work, and other identifying information set forth in a copyright notice or conveyed in connection with the work. *See* 17 U.S.C. § 1202(b)–(c). Both EXIF and IPTC metadata can contain “copyright management information.”

B. CoreLogic Software

CoreLogic is a California-based corporation that develops and provides software to Multiple Listing Services. Known as one of the “Big 3” real estate software vendors nationally, CoreLogic currently markets, or has previously marketed, several MLS software platforms, including Matrix, InnoVia, Fusion, MLXchange, Tempo 4, and Tempo 5. The Photographers allege that CoreLogic’s software removed CMI metadata from their photographs, in violation of 17 U.S.C. § 1202(b).

Because image files can be very large, CoreLogic’s MLS software resizes or “downsamples” images. Downsampling entails creating and saving a copy of an uploaded image in a smaller number of pixels and deleting the original image; the process reduces storage size, facilitates computer display, and helps images load faster on web pages.

The image processing aspect of CoreLogic’s software was not developed by CoreLogic entirely on its own. Like virtually all software, CoreLogic’s software incorporated “libraries” — pre-written code that can be used by a computer program and that enables software to develop in a modular fashion. These libraries are unable to read EXIF data from image files or to write EXIF data to image files. Thus, when images are copied or resized using the code from these pre-existing libraries, metadata attached to those images is not retained.¹

The Photographers² filed this action in May 2014. Significantly, the dispute is limited to metadata. The Photographers do not allege that CoreLogic’s software removed *visible* CMI, such as digital watermarks, from their

¹ It is not uncommon for image processing software to fail to preserve metadata. Tests conducted by the Embedded Metadata Group in 2015 revealed that, of fifteen social media websites studied, eight preserved EXIF metadata and seven, including, Facebook, Instagram, and Twitter, did not. Some image-processing libraries, however, such as “ImageMagick,” do read and write EXIF data, and thus transfer EXIF metadata to the new image file when resizing.

² Stevens’ company, Affordable Aerial Photography, was named as an additional plaintiff in the amended complaint. Affordable Aerial Photograph did not, however, file a timely notice of appeal from the district court’s July 5, 2016 judgment: The Notice of Appeal filed on July 29, 2016 identified only Stevens and Vandel as appellants. An amended notice of appeal was filed several months later, on January 26, 2017, and included Affordable Aerial Photography. That notice of appeal was untimely as to the July 5, 2016 judgment. *See* Fed. R. App. P. 4(a)(1). We therefore lack jurisdiction to consider the appeal by Affordable Aerial Photography as it relates to the July 5, 2016 judgment. The amended notice of appeal was, however, timely as to the January 11, 2017 order denying the Photographers’ motion to re-tax costs, and Affordable Aerial Photography is therefore properly a party as to that portion of the appeal.

photographs, and indeed, CoreLogic’s software does not detect, recognize, or remove visible CMI. *Cf. Murphy v. Millennium Radio Grp. LLC*, 650 F.3d 295, 305 (3d Cir. 2011) (imposing liability on a defendant who cropped out the photographer’s name from the “gutter” copyright credit before posting a photograph online).

After receiving the Photographers’ initial complaint, CoreLogic modified its software to ensure that EXIF metadata is copied and restored to images processed by CoreLogic’s MLS software. These modifications were made within a few months of receiving the initial complaint, although testing and installation of the revised version on all MLSs using CoreLogic software took several more months. The Photographers contend that, even after these changes, CoreLogic software continues to remove IPTC metadata.

In addition to providing MLS software — which, again, real estate agents use to share information about properties with other agents — CoreLogic also operates the Partner InfoNet program, which allows MLSs to license their aggregated real estate listing data to mortgage lenders and servicers, in exchange for a share of the licensees’ revenue. CoreLogic used photographs taken and owned by the Photographers on Partner InfoNet products.

After the discovery deadline, but before all discovery disputes were resolved, Core Logic filed a motion for summary judgment. The district court granted summary judgment in favor of CoreLogic and denied as moot the Photographers’ motion to compel the production of additional documents.

After entry of judgment, CoreLogic filed a Bill of Costs, to which the Photographers objected. The district court denied the Photographers' motion to re-tax costs with respect to witness fees for CoreLogic corporate employees. This timely appeal followed.

DISCUSSION

A. Violation of 17 U.S.C. § 1202(b)

The Photographers allege that CoreLogic's software removed CMI metadata, in violation of 17 U.S.C. § 1202(b)(1), and that CoreLogic distributed images knowing that copyright management information was removed, in violation of 17 U.S.C. § 1202(b)(3). Reviewing de novo the district court's decision to grant summary judgment to CoreLogic, *see Perfect 10, Inc. v. Giganews, Inc.*, 847 F.3d 657, 665 (9th Cir. 2017), we affirm the grant of summary judgment.

1. Section 1202(b) Requires an Affirmative Showing That the Defendant Knew the Prohibited Act Would "Induce, Enable, Facilitate, or Conceal" Infringement

Section 1202(b)(1) provides: "No person shall, without the authority of the copyright owner or the law . . . intentionally remove or alter any copyright management information . . . knowing, or . . . having reasonable grounds to know, that it will induce, enable, facilitate, or conceal an infringement of any" copyright. 17 U.S.C. § 1202(b)(1). Section 1202(b)(3) provides: "No person shall, without the authority of the copyright owner or the law . . . distribute, import for distribution, or publicly perform works, copies of

works, or phonorecords, knowing that copyright management information has been removed or altered without authority of the copyright owner or the law, knowing, or . . . having reasonable grounds to know, that it will induce, enable, facilitate, or conceal an infringement of any” copyright. *Id.* § 1202(b)(3).³ Both provisions thus require the defendant to possess the mental state of knowing, or having a reasonable basis to know, that his actions “will induce, enable, facilitate, or conceal” infringement.

The Photographers have not offered any evidence to satisfy that mental state requirement.⁴ Their primary argument is that, because one method of identifying an

³ The Photographers’ complaint also alleges a violation of 17 U.S.C. § 1202(b)(2). Section 1202(b)(2) refers to the “distribut[ion] or import for distribution [of] *copyright management information* knowing that the copyright management information has been removed or altered without authority of the copyright owner or the law.” 17 U.S.C. § 1202(b)(2) (emphasis added). The Photographers do not specifically allege any instances involving the distribution of altered CMI separate from the distribution of the copyrighted photographs. As the elements of the two statutory provisions are otherwise indistinguishable, the Photographers have not plausibly stated a claim under Section 1202(b)(2) different from their claim under Section 1202(b)(3). We therefore discuss in the text only the Section 1202(b)(3) claim.

⁴ As this reason is a sufficient basis for concluding that the Photographers’ claims fail, we do not consider whether CoreLogic “intentionally” removed CMI, whether the Photographers presented sufficient evidence that the photographs contained CMI at the time they were uploaded, whether the Photographers impliedly licensed the removal of CMI, or whether CoreLogic, as a software developer, can be liable for third parties’ use of its software.

infringing photograph has been impaired,⁵ someone *might* be able to use their photographs undetected. That assertion rests on no affirmative evidence at all; it simply identifies a general possibility that exists whenever CMI is removed.

As we interpret Section 1202(b), this generic approach won't wash. It is a fundamental principle of statutory interpretation that we must "give effect, if possible, to every clause and word of a statute," *Montclair v. Ramsdell*, 107 U.S. 147, 152 (1883), "so that no part will be inoperative or superfluous, void or insignificant," *Corley v. United States*, 556 U.S. 303, 314 (2009); *see also Hibbs v. Winn*, 542 U.S. 88, 101 (2004); *Astoria Fed. Savs. & Loan Ass'n v. Solimino*, 501 U.S. 104, 112 (1991). To avoid superfluity, the mental state requirement in Section 1202(b) must have a more specific application than the universal possibility of encouraging infringement; specific allegations as to how identifiable infringements "will" be affected are necessary.

At the same time, as the statute is written in the future tense, the Photographers need not show that any specific infringement has already occurred. Also, recognizing that "nothing is completely stable, no plan is beyond alteration,"

⁵ As noted, CoreLogic's software does preserve visible watermarks, which Stevens and Vandel testified they sometimes use to identify their photographs. Experts advise that watermarks offer a more reliable way of indicating copyright protection than metadata. *See Bert P. Krages, Legal Handbook for Photographers: The Rights and Liabilities of Making and Selling Images* 85 (4th ed. 2017) (recommending that photographers "put the copyright management information on the face of the image, such as in a watermark, rather than rely solely on information contained in metadata" because the use of image editing software to clone over a watermark is more likely to be seen as intentional than the removal of metadata).

we have previously observed that statutes requiring knowledge that a future action “will” occur do not “require knowledge in the sense of certainty as to a future act.” *United States v. Todd*, 627 F.3d 329, 334 (9th Cir. 2010). Rather, knowledge in the context of such statutes signifies “a state of mind in which the knower is familiar with a pattern of conduct” or “aware of an established modus operandi that will in the future cause a person to engage in” a certain act. *Id.* Applying that concept here, we hold that a plaintiff bringing a Section 1202(b) claim must make an affirmative showing, such as by demonstrating a past “pattern of conduct” or “modus operandi”, that the defendant was aware of the probable future impact of its actions.

Our conclusion about the import of the “induce[d], enable[d], facilitate[d], or conceal[ed]” prong is supported by the legislative history of Section 1202. That provision was enacted to implement obligations of parties to the WIPO Copyright Treaty (“WCT”) and the WIPO Performances and Phonograms Treaty. *See* S. Rep. No. 105-190, at 5, 9 (1998). The initial draft of the WCT provision regarding CMI provided:

Contracting parties shall make it unlawful for any person knowingly . . . (i) to remove or alter any electronic rights management information without authority; [or] (ii) to distribute, import for distribution or communicate to the public, without authority, copies of works from which electronic rights management information has been removed or altered without authority.

World Intellectual Property Organization [WIPO], *Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works to Be Considered by the Diplomatic Conference*, art. 14(1), WIPO Doc. CRNR/DC/4 (Aug. 30, 1996).

In response to requests from delegates that the provision be modified to require a connection to an infringing purpose, the provision was redrafted as follows:

Contracting Parties shall provide adequate and effective legal remedies against any person knowingly performing any of the following acts *knowing or, with respect to civil remedies having reasonable grounds to know, that it will induce, enable, facilitate or conceal an infringement of any right covered by this Treaty or the Berne Convention*: (i) to remove or alter any electronic rights management information without authority; (ii) to distribute, import for distribution, broadcast or communicate to the public, without authority, works or copies of works knowing that electronic rights management information has been removed or altered without authority.

WIPO Copyright Treaty art. 12, Dec. 20 1996 (emphasis added). The revision thus makes clear that the “induce, enable, facilitate or conceal” requirement is intended to limit liability in some fashion — specifically, to instances in which the defendant knows or has a reasonable basis to know that the removal or alteration of CMI or the distribution of works with CMI removed *will* aid infringement.

When Congress was considering the WIPO Copyright Treaties Implementation Act — a part of the Digital Millennium Copyright Act (“DMCA”) that included the new Section 1202 — the Register of Copyrights emphasized that Section 1202’s provisions “do not apply to those who act innocently. . . . Liability for the removal or alteration of information requires the actor to know or have reason to know that his acts ‘will induce, enable, facilitate or conceal’ infringement.” *WIPO Copyright Treaties Implementation Act, and Online Copyright Liability Limitation Act: Hearing Before the H. Subcomm. on Courts and Intellectual Property of the H. Comm. on the Judiciary*, 105th Cong. 51 (1997) (statement of Marybeth Peters, Register of Copyrights, Copyright Office of the United States).

In short, to satisfy the knowledge requirement, a plaintiff bringing a Section 1202(b)(1) claim must offer more than a bare assertion that “when CMI metadata is removed, copyright infringement plaintiffs . . . lose an important method of identifying a photo as infringing.” Instead, the plaintiff must provide evidence from which one can infer that future infringement is likely, albeit not certain, to occur as a result of the removal or alteration of CMI.

2. The Photographers Have Failed to Make the Required Affirmative Showing

The Photographers have not offered *any* specific evidence that removal of CMI metadata from their real estate photographs will impair their policing of infringement. There are no allegations, for example, of a “pattern of conduct” or “modus operandi” involving policing infringement by tracking metadata. *Todd*, 627 F.3d at 334. Indeed, the evidence presented cuts against any inference that CMI

metadata is of any practical significance to the Photographers in policing copyright infringement of their images.

The Photographers have not, for example, averred that they have ever used CMI metadata to prevent or detect copyright infringement, much less how they would do so. Vandel testified that, before this lawsuit began, he had never “looked at any metadata information on any photograph in an MLS system.” On the only two occasions Vandel became aware of unauthorized use of his photographs, he learned about the unauthorized use from the real estate agent who commissioned the photographs. The agent saw the image elsewhere and contacted Vandel to ask if he had permitted the use. Stevens similarly testified that he had “[n]ever tried to download a photo off an MLS listing . . . and look at its properties, its metadata,” that he “d[id]n’t think you can pull up metadata off of an MLS listing,” and that he “didn’t even realize you could click on a picture off the Internet, right-click it, and get metadata off of it.” The testimony of both Stevens and Vandel undermines any ostensible relationship between the removal of CMI metadata and their policing of infringement.

Nor have the Photographers brought forward any evidence indicating that CoreLogic’s *distribution* of real estate photographs ever “induce[d], enable[d], facilitate[d], or conceal[ed]” any particular act of infringement by anyone, let alone a pattern of such infringement likely to recur in the future. They identify *no* instance in which the removal of CMI metadata from any photograph “induce[d], enable[d],

facilitate[d] or conceal[ed] an infringement.”⁶ Moreover, a party intent on using a copyrighted photograph undetected can itself remove any CMI metadata, precluding detection through a search for the metadata. So on the record here, one cannot plausibly say that removal by a third party “will” make it easier to use a copyrighted photograph undetected, using “will” in the predictive sense we have indicated.

Because the Photographers have not put forward *any* evidence that CoreLogic knew its software carried even a substantial risk of inducing, enabling, facilitating, or concealing infringement, let alone a pattern or probability of such a connection to infringement, CoreLogic is not liable for violating 17 U.S.C. § 1202(b).

B. Discovery Rulings

The Photographers also appeal the district court’s denial as moot of their motion to compel the production of documents, as well as the court’s related failure to address their Rule 56(d) request. *See* Fed. R. Civ. P. 56(d).⁷ We treat

⁶ In the time it has operated its MLS software, CoreLogic has only once received a DMCA takedown notice from a real estate photographer. 17 U.S.C. § 512(c). CoreLogic promptly responded by removing the allegedly unauthorized and infringing copies. There is no evidence that that photographer used metadata to identify the allegedly infringing copies, that her photograph even contained metadata, or that the infringement identified had anything to do with removal or alteration of metadata.

⁷ Federal Rule of Civil Procedure 56(d) provides: “If a nonmovant shows by affidavit or declaration that, for specified reasons, it cannot present facts essential to justify its opposition [to a motion for summary judgment], the court may: (1) defer considering the motion or deny it;

the district court's failure specifically to address the Rule 56(d) request as an implicit denial. *See Kennedy v. Applause, Inc.*, 90 F.3d 1477, 1482 (9th Cir. 1996).⁸

Before discovery closed in September 2015, the Photographers filed motions to compel the production of certain documents and certain supplemental responses to interrogatories. The district court granted in part and denied in part those motions, ordering CoreLogic to identify in a privilege log any responsive documents it claimed were privileged. CoreLogic complied, serving an initial privilege log consisting of 1,049 entries, and later a revised privilege log.

CoreLogic filed a motion for summary judgment before the district court ruled on the privilege claims. In addition to a memorandum of points and authorities opposing CoreLogic's motion for summary judgment on the merits, counsel for the Photographers filed a Rule 56(d) declaration opposing summary judgment on the ground that the Photographers planned to move to compel the production of documents relevant to their claims that they believed not privileged. The declaration asserted that the documents were "likely to be directly relevant to each of the elements in 17 U.S.C. § 1202, especially the mental state requirement of 'knowing,'" and requested that the court defer consideration

(2) allow time to obtain affidavits or declarations or to take discovery; or
(3) issue any other appropriate order."

⁸ *Kennedy* characterizes as an implicit denial a failure expressly to address a Rule 56(f) motion. Federal Rule of Civil Procedure 56(d) was, until December 1, 2010, codified as Federal Rule of Civil Procedure 56(f).

of the summary judgment motion or extend the time for discovery.

The photographers subsequently moved to compel the production of 603 e-mails and instant messages identified in the revised privilege log. The district court, however, granted summary judgment to CoreLogic before ruling on the motion to compel, and then, in the summary judgment order, denied the discovery motion as moot.

District court discovery rulings denying a motion to compel discovery are ordinarily reviewed for abuse of discretion. *See Hallett v. Morgan*, 296 F.3d 732, 751 (9th Cir. 2002); *see also Morton v. Hall*, 599 F.3d 942, 945 (9th Cir. 2010); *Qualls ex rel. Qualls v. Blue Cross of Cal., Inc.*, 22 F.3d 839, 844 (9th Cir. 1994). When the district court denies a motion to compel additional discovery as moot without considering its merits, however, the district court does not exercise any substantive discretion about the scope of discovery, so we review the denial of discovery de novo. *Clark v. Capital Credit & Collection Servs., Inc.*, 460 F.3d 1162, 1178 (9th Cir. 2006); *Garrett v. City & Cty. of San Francisco*, 818 F.2d 1515, 1518 n.3, 1519 (9th Cir. 1987).

Similarly, if a district court implicitly denies a Rule 56(d) motion by granting summary judgment without expressly addressing the motion, that omission constitutes a failure “to exercise its discretion with respect to the discovery motion,” and the denial is reviewed de novo. *Garrett*, 818 F.2d at 1518 n.3, 1519; *see also Margolis v. Ryan*, 140 F.3d 850, 853 (9th Cir. 1998); *Kennedy*, 90 F.3d at 1482; *Qualls*, 22 F.3d at 844. We have previously allowed that explanations for denials of Rule 56(d) request “need not be explicitly stated” when “the information sought . . . would not have shed light

on any of the issues upon which the summary judgment decision was based.” *Qualls*, 22 F.3d at 844. But when the plaintiff requests additional discovery pursuant to Rule 56(d) and the materials that a “motion to compel sought to elicit” are relevant to the basis for the summary judgment ruling, district courts should provide reasons for denying the discovery motion and the Rule 56(d) request. *See Garrett*, 818 F.2d at 1519. In this case, the communications that the Photographers sought could have “shed light” on whether, for example, CoreLogic intentionally removed CMI or knew CMI was removed without authorization — issues relevant to the district court’s summary judgment ruling, although not to our basis for affirming that ruling — and should have been addressed.

Nonetheless, reviewing *de novo* the denials of the motion to compel and of the Rule 56(d) request, we affirm. As to the motion to compel, there is no indication that any of the documents sought are “relevant,” as required under Rule 26(b)(1),⁹ to what we have held to be the dispositive issue — whether CoreLogic knew its actions would “induce, enable, facilitate, or conceal infringement.”¹⁰ The district court

⁹ Rule 26(b)(1) provides: “Unless otherwise limited by court order, . . . [p]arties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.” Fed. R. Civ. P. 26(b)(1).

¹⁰ According to the Photographers’ motion to compel, the documents at issue fell into three categories: (1) “Product Development and Modification” documents regarding CoreLogic’s development and modification of the CoreLogic software at issue; (2) “Sales Pitches and

directed that the motion to compel include “[a] statement as to why the discovery is needed.” The sole explanation offered for why the documents were needed was that they would show CoreLogic knew its software removed EXIF metadata before the litigation began, and knew its software continues to remove IPTC metadata, even after the software was modified to preserve EXIF metadata after this lawsuit was filed. As the Photographers have not made any showing that the documents listed in the privilege log are relevant to the dispositive question — whether CoreLogic’s software will “induce, enable, facilitate, or conceal” any act of infringement — we affirm the denial of the motion to compel.

The denial of the Rule 56(d) request was proper for similar reasons. Rule 56(d) provides “a device for litigants to avoid summary judgment when they have not had sufficient time to develop affirmative evidence.” *United States v. Kitsap Physicians Serv.*, 314 F.3d 995, 1000 (9th Cir. 2002). A party seeking additional discovery under Rule 56(d) must “explain what further discovery would reveal that is ‘essential to justify [its] opposition’ to the motion[] for summary judgment.” *Program Eng’g, Inc. v. Triangle Publ’ns, Inc.*, 634 F.2d 1188, 1194 (9th Cir. 1980) (first alteration in original).

This showing cannot, of course, predict with accuracy precisely what further discovery *will* reveal; the whole point of discovery is to learn what a party does not know or, without further information, cannot prove. *See, e.g., Pac.*

Internal Discussions” emails and instant messages regarding this lawsuit; and (3) “Business Matters” emails and instant messages between non-attorneys regarding “images incorporated into a product” and “contract language.”

Fisheries Inc. v. United States, 484 F.3d 1103, 1111 (9th Cir. 2007) (“[T]he purpose of discovery is to aid a party in the preparation of its case”); Fed. R. Civ. P. 26(b) advisory committee’s note to 1946 amendment) (“The purpose of discovery is to allow a broad search for facts . . . or any other matters which may aid a party in the preparation or presentation of his case.”). But for purposes of a Rule 56(d) request, the evidence sought must be more than “the object of pure speculation.” *California v. Campbell*, 138 F.3d 772, 779–80 (9th Cir. 1998) (citation omitted). A party seeking to delay summary judgment for further discovery must state “what other *specific* evidence it hopes to discover [and] the relevance of that evidence to its claims.” *Program Eng’g*, 634 F.2d at 1194 (emphasis added). In particular, “[t]he requesting party must show [that]: (1) it has set forth in affidavit form *the specific facts* it hopes to elicit from further discovery; (2) the facts sought exist; and (3) the sought-after facts are essential to oppose summary judgment.” *Family Home & Fin. Ctr., Inc. v. Fed. Home Loan Mortg. Corp.*, 525 F.3d 822, 827 (9th Cir. 2008) (emphasis added).¹¹

The Photographers did not comply with those requirements here. Extensive discovery had taken place before the district court ruled on CoreLogic’s motion for summary judgment. The Photographers had taken depositions of 16 CoreLogic employees, served and received responses to 42 interrogatories, and served 114 requests for production of documents. The additional information sought was a general request for *all* allegedly privileged documents

¹¹ *Garrett*, on which the Photographers rely, is not to the contrary. *Garrett* emphasized that the plaintiff there “made clear the information sought, did not seek broad additional discovery, . . . and indicated the purpose for which this information was sought.” 818 F.2d at 1518–19.

where no attorney was listed as an author or recipient, coupled with a bare assertion that the “documents are likely to be directly relevant to each of the elements in 17 U.S.C. § 1202, especially the mental state requirement of ‘knowing.’”

A request at that level of generality is insufficient for Rule 56(d) purposes. The Photographers did not in their Rule 56(d) declaration enumerate any “specific facts” they hoped to elicit from further discovery, *Family Home & Fin. Ctr.*, 525 F.3d at 827, or “provide any basis or factual support for [their] assertions that further discovery would lead” to those facts, *Margolis*, 140 F.3d at 854. And, as we have explained, the only specific explanation in the record — which appeared in the motion to compel, not in the Rule 56(d) declaration — indicates that the information sought would *not* illuminate the determinative inquiry, whether CoreLogic’s software will “induce, enable, facilitate, or conceal an infringement.”

We therefore affirm the denial of the Photographers’ request to the district court to delay a decision on summary judgment and permit additional discovery.

C. Motion to Retax Costs

Finally, the district court did not err in awarding fees for corporate witnesses as costs and denying the Photographers’ motion to retax costs.

Rule 54 permits prevailing parties to recover costs other than attorney’s fees, unless otherwise provided. Fed. R. Civ. P. 54(d)(1). The Photographers urge that corporate directors

or officers may not recover the witness fees set by 28 U.S.C. § 1821 when appearing in support of the corporate party.¹²

As a general rule, parties may not recover witness fees for their own attendance. *See, e.g., Barber v. Ruth*, 7 F.3d 636, 646 (7th Cir. 1993), *superseded on other grounds by amendment to Federal Rules of Civil Procedure, as recognized in Little v. Mitsubishi Motors N. Am., Inc.*, 514 F.3d 699, 701–02 (7th Cir. 2008). The expenses of corporate directors or officers may, however, be taxable, even when those individuals are testifying on behalf of a corporate party to the suit, provided “[n]o recovery . . . [is] sought from [the officers] individually.” *See Kemart Corp. v. Printing Arts Research Labs., Inc.*, 232 F.2d 897, 901 (9th Cir. 1956) (citation omitted); 10 Charles A. Wright & Arthur R. Miller, *Federal Practice and Procedure* § 2678 (3d ed. 1998) (“The expenses of witnesses who are themselves parties normally are not taxable. For example, real parties in interest or parties suing in a representative capacity are not entitled to fees or allowances as witnesses. The expenses of a director or officer of a corporation who is not personally involved in the litigation may be taxable, however, even if that individual is testifying on behalf of the organization and the latter is a party to the suit.”). “The allowance or disallowance of items of costs is determined by statute, rule, order, usage, and practice of the instant court.” *Kemart*, 232 F.2d at 899.

Southern District of California Local Rule 54.1(b)(4)(c) specifically provides that “[w]itness fees for officers and employees of a corporation” may be recoverable as costs “if they are not parties in their individual capacities.” S.D. Cal. Civ. R. 54.1(b)(4)(c). During the course of this litigation, the

¹² Section 1821 governs the attendance fees for witnesses.

Photographers took one Rule 30(b)(6) deposition of CoreLogic as a corporate entity, at which nine employees designated by CoreLogic testified,¹³ and seven depositions of CoreLogic officers or managing agents. Thus, sixteen CoreLogic employees testified and were paid \$40 per day, in accordance with 28 U.S.C. § 1821, for a total of \$640 in witness fees. The district court did not abuse its discretion in relying upon Local Rule 54.1 to allow and tax as costs the witness fees for CoreLogic's corporate officers.

AFFIRMED.

¹³ A Rule 30(b)(6) deposition is “treated as a single deposition even though more than one person may be designated to testify.” Fed. R. Civ. P. 30(a) advisory committee’s note to 1993 amendment.



Brussels, 14.9.2016
COM(2016) 593 final

2016/0280 (COD)

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on copyright in the Digital Single Market

(Text with EEA relevance)

{SWD(2016) 301}

{SWD(2016) 302}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

The evolution of digital technologies has changed the way works and other protected subject-matter are created, produced, distributed and exploited. New uses have emerged as well as new actors and new business models. In the digital environment, cross-border uses have also intensified and new opportunities for consumers to access copyright-protected content have materialised. Even though the objectives and principles laid down by the EU copyright framework remain sound, there is a need to adapt it to these new realities. Intervention at EU level is also needed to avoid fragmentation in the internal market. Against this background, the Digital Single Market Strategy¹ adopted in May 2015 identified the need “to reduce the differences between national copyright regimes and allow for wider online access to works by users across the EU”. This Communication highlighted the importance to enhance cross-border access to copyright-protected content services, facilitate new uses in the fields of research and education, and clarify the role of online services in the distribution of works and other subject-matter. In December 2015, the Commission issued a Communication ‘Towards a modern, more European copyright framework’². This Communication outlined targeted actions and a long-term vision to modernise EU copyright rules. This proposal is one of the measures aiming at addressing specific issues identified in that Communication.

Exceptions and limitations to copyright and neighbouring rights are harmonised at EU level. Some of these exceptions aim at achieving public policy objectives, such as research or education. However, as new types of uses have recently emerged, it remains uncertain whether these exceptions are still adapted to achieve a fair balance between the rights and interests of authors and other rightholders on the one hand, and of users on the other. In addition, these exceptions remain national and legal certainty around cross-border uses is not guaranteed. In this context, the Commission has identified three areas of intervention: digital and cross-border uses in the field of education, text and data mining in the field of scientific research, and preservation of cultural heritage. The objective is to guarantee the legality of certain types of uses in these fields, including across borders. As a result of a modernised framework of exceptions and limitations, researchers will benefit from a clearer legal space to use innovative text and data mining research tools, teachers and students will be able to take full advantage of digital technologies at all levels of education and cultural heritage institutions (i.e. publicly accessible libraries or museums, archives or film or audio heritage institutions) will be supported in their efforts to preserve the cultural heritage, to the ultimate advantage of EU citizens.

Despite the fact that digital technologies should facilitate cross-border access to works and other subject-matter, obstacles remain, in particular for uses and works where clearance of rights is complex. This is the case for cultural heritage institutions wanting to provide online access, including across borders, to out-of-commerce works contained in their catalogues. As a consequence of these obstacles European citizens miss opportunities to access cultural heritage. The proposal addresses these problems by introducing a specific mechanism to facilitate the conclusion of licences for the dissemination of out-of-commerce works by cultural heritage institutions. As regards audiovisual works, despite the growing importance of video-on-demand platforms, EU audiovisual works only constitute one third of works

¹ COM(2015) 192 final.

² COM(2015) 626 final.

available to consumers on those platforms. Again, this lack of availability partly derives from a complex clearance process. This proposal provides for measures aiming at facilitating the licensing and clearance of rights process. This would ultimately facilitate consumers' cross-border access to copyright-protected content.

Evolution of digital technologies has led to the emergence of new business models and reinforced the role of the Internet as the main marketplace for the distribution and access to copyright-protected content. In this new framework, rightholders face difficulties when seeking to license their rights and be remunerated for the online distribution of their works. This could put at risk the development of European creativity and production of creative content. It is therefore necessary to guarantee that authors and rightholders receive a fair share of the value that is generated by the use of their works and other subject-matter. Against this background, this proposal provides for measures aiming at improving the position of rightholders to negotiate and be remunerated for the exploitation of their content by online services giving access to user-uploaded content. A fair sharing of value is also necessary to ensure the sustainability of the press publications sector. Press publishers are facing difficulties in licensing their publications online and obtaining a fair share of the value they generate. This could ultimately affect citizens' access to information. This proposal provides for a new right for press publishers aiming at facilitating online licensing of their publications, the recoupment of their investment and the enforcement of their rights. It also addresses existing legal uncertainty as regards the possibility for all publishers to receive a share in the compensation for uses of works under an exception. Finally, authors and performers often have a weak bargaining position in their contractual relationships, when licensing their rights. In addition, transparency on the revenues generated by the use of their works or performances often remains limited. This ultimately affects the remuneration of the authors and performers. This proposal includes measures to improve transparency and better balanced contractual relationships between authors and performers and those to whom they assign their rights. Overall, the measures proposed in title IV of the proposal aiming at achieving a well-functioning market place for copyright are expected to have in the medium term a positive impact on the production and availability of content and on media pluralism, to the ultimate benefit of consumers.

- **Consistency with existing policy provisions in the policy area**

The Digital Single Market Strategy puts forward a range of initiatives with the objective of creating an internal market for digital content and services. In December 2015, a first step has been undertaken by the adoption by the Commission of a proposal for a Regulation of the European Parliament and of the Council on ensuring the cross-border portability of online content services in the internal market³.

The present proposal aims at addressing several of the targeted actions identified in the Communication 'Towards a modern, more European copyright framework'. Other actions identified in this Communication are covered by the 'Proposal for a Regulation of the European Parliament and of the Council laying down rules on the exercise of copyright and related rights applicable to certain online transmissions of broadcasting organisations and retransmissions of television and radio programmes'⁴, the 'Proposal for a Regulation of the European Parliament and of the Council on the cross-border exchange between the Union and third countries of accessible format copies of certain works and other subject-matter protected by copyright and related rights for the benefit of persons who are blind, visually impaired or

³ COM(2015) 627 final.

⁴ [Reference to be included]

otherwise print disabled'⁵ and the 'Proposal for a Directive of the European Parliament and of the Council on certain permitted uses of works and other subject-matter protected by copyright and related rights for the benefit of persons who are blind, visually impaired or otherwise print disabled and amending Directive 2001/29/EC on the harmonisation of certain aspects of copyright and related rights in the information society'⁶, adopted on the same date of this proposal for a Directive.

This proposal is consistent with the existing EU copyright legal framework. This proposal is based upon, and complements the rules laid down in Directive 96/9/EC⁷, Directive 2001/29/EC⁸, Directive 2006/115/EC⁹, Directive 2009/24/EC¹⁰, Directive 2012/28/EU¹¹ and Directive 2014/26/EU¹². Those Directives, as well as this proposal, contribute to the functioning of the internal market, ensure a high level of protection for right holders and facilitate the clearance of rights.

This proposal complements Directive 2010/13/EU¹³ and the proposal¹⁴ amending it.

- **Consistency with other Union policies**

This proposal would facilitate education and research, improve dissemination of European cultures and positively impact cultural diversity. This Directive is therefore consistent with Articles 165, 167 and 179 of the Treaty on the Functioning of the European Union (TFEU). Furthermore, this proposal contributes to promoting the interests of consumers, in accordance with the EU policies in the field of consumer protection and Article 169 TFEU, by allowing a wider access to and use of copyright-protected content.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The proposal is based on Article 114 TFEU. This Article confers on the EU the power to adopt measures which have as their object the establishment and functioning of the internal market.

⁵ [Reference to be included]

⁶ [Reference to be included]

⁷ Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases (OJ L 077, 27.03.1996, p. 20-28).

⁸ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (OJ L 167, 22.6.2001, p. 10-19).

⁹ Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (OJ L 376, 27.12.2006, p. 28-35).

¹⁰ Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (OJ L 111, 5.5.2009, p. 16-22).

¹¹ Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works (OJ L 299, 27.10.2012, p. 5-12).

¹² Directive 2014/26/EU of the European Parliament and of the Council of 26 February 2014 on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market (OJ L 84, 20.3.2014, p. 72-98).

¹³ Directive 2010/13/EU of the European Parliament and of the Council of 10 March 2010 on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services (Audiovisual Media Services Directive) (OJ L 95, 15.4.2010, p. 1-24).

¹⁴ COM(2016) 287 final.

- **Subsidiarity (for non-exclusive competence)**

Since exceptions and limitations to copyright and related rights are harmonised at EU level, the margin of manoeuvre of Member States in creating or adapting them is limited. In addition, intervention at national level would not be sufficient in view of the cross-border nature of the identified issues. EU intervention is therefore needed to achieve full legal certainty as regards cross-border uses in the fields of research, education and cultural heritage.

Some national initiatives have already been developed to facilitate dissemination of and access to out-of-commerce works. However, these initiatives only exist in some Member States and are only applicable on the national territory. EU intervention is therefore necessary to ensure that licensing mechanisms for the access and dissemination of out-of-commerce works are in place in all Member States and to ensure their cross-border effect. As regards online exploitation of audiovisual works, to foster the availability of European works on video-on-demand platforms across the EU, there is a need to facilitate negotiations of licensing agreements in all Member States.

Online distribution of copyright-protected content is by essence cross-border. Only mechanisms decided at European level could ensure a well-functioning marketplace for the distribution of works and other subject-matter and to ensure the sustainability of the publishing sector in the face of the challenges of the digital environment. Finally, authors and performers should enjoy in all Member States the high level of protection established by EU legislation. In order to do so and to prevent discrepancies across Member States, it is necessary to set an EU common approach to transparency requirements and mechanisms allowing for the adjustment of contracts in certain cases as well as for the resolution of disputes.

- **Proportionality**

The proposal provides for mandatory exceptions for Member States to implement. These exceptions target key public policy objectives and uses with a cross-border dimension. Exceptions also contain conditions that ensure the preservation of functioning markets and rightholders' interests and incentives to create and invest. When relevant, and while ensuring that the objectives of the Directive are met, room for national decision has been preserved.

The proposal requires Member States to establish mechanisms aiming at facilitating the clearance of copyright and related rights in the fields of out-of-commerce works and online exploitation of audiovisual works. Whereas the proposal aims at ensuring a wider access and dissemination of content, it does so while preserving the rights of authors and other rightholders. Several safeguards are put in place to that effect (e.g. opt-out possibilities, preservation of licensing possibilities, participation in the negotiation forum on a voluntary basis). The proposal does not go further than what is necessary to achieve the intended aim while leaving sufficient room for Member States to make decisions as regards the specifics of these mechanisms and does not impose disproportionate costs.

The proposal imposes obligations on some information society services. However, these obligations remain reasonable in view of the nature of the services covered, the significant impact of these services on the online content market and the large amounts of copyright-protected content stored by these services. The introduction of a related right for press publishers would improve legal certainty and their bargaining position, which is the pursued objective. The proposal is proportionate as it only covers press publications and digital uses. Furthermore, the proposal will not affect retroactively any acts undertaken or rights acquired before the date of transposition. The transparency obligation contained in the proposal only

aims at rebalancing contractual relationships between creators and their contractual counterparts while respecting contractual freedom.

- **Choice of the instrument**

The proposal relates to, and in some instances modifies, existing Directives. It also leaves, when appropriate and taking into account the aim to be achieved, margin of manoeuvre for Member States while ensuring that the objective of a functioning internal market is met. The choice of a Directive is therefore adequate.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Ex-post evaluations/fitness checks of existing legislation**

The Commission carried out a review of the existing copyright rules between 2013 and 2016 with the objective to “ensure that copyright and copyright-related practices stay fit for purpose in the new digital context”¹⁵. Even if it started before the adoption of the Commission's Better Regulation Agenda in May 2015¹⁶, this review process was carried out in the spirit of the Better Regulation guidelines. The review process highlighted, in particular, problems with the implementation of certain exceptions and their lack of cross-border effect¹⁷ and pointed out to difficulties in the use of copyright-protected content, notably in the digital and cross-border context that have emerged in recent years.

- **Stakeholder consultations**

Several public consultations were held by the Commission. The consultation on the review of the EU copyright rules carried out between 5 December 2013 and 5 March 2014¹⁸ provided the Commission with an overview of stakeholders' views on the review of the EU copyright rules, including on exceptions and limitations and on the remuneration of authors and performers. The public consultation carried out between 24 September 2015 and 6 January 2016 on the regulatory environment for platforms, online intermediaries, data and cloud computing and the collaborative economy¹⁹ provided evidence and views from all stakeholders on the role of intermediaries in the online distribution of works and other subject-matter. Finally, a public consultation was held between the 23 March 2016 and 15 June 2016 on the role of publishers in the copyright value chain and on the 'panorama exception'. This consultation allowed collecting views notably on the possible introduction in EU law of a new related right for publishers.

In addition, between 2014 and 2016, the Commission had discussions with the relevant stakeholders on the different topics addressed by the proposal.

¹⁵ COM(2012) 789 final.

¹⁶ COM(2015) 215 final.

¹⁷ Covering, respectively, the exception on illustration for teaching and research (as it relates to text and data mining) and on specific acts of reproduction (as it relates to preservation).

¹⁸ Reports on the responses to the consultation available on:

http://ec.europa.eu/internal_market/consultations/2013/copyright-rules/docs/contributions/consultation-report_en.pdf

¹⁹ First results available on <https://ec.europa.eu/digital-single-market/news/first-brief-results-public-consultation-regulatory-environment-platforms-online-intermediaries>

- **Collection and use of expertise**

Legal²⁰ and economic²¹ studies have been conducted on the application of Directive 2001/29/EC, on the economic impacts of adapting some exceptions and limitations, on the legal framework of text and data mining and on the remuneration of authors and performers.

- **Impact assessment**

An impact assessment was carried out for this proposal²². On 22 July 2016, the Regulatory Scrutiny Board gave a positive opinion on the understanding that the impact assessment will be further improved.²³ The final Impact Assessment takes into account comments contained in that opinion.

The Impact Assessment examines the baseline scenarios, policy options and their impacts for eight topics regrouped under three chapters, namely (i) ensuring wider access to content, (ii) adapting exceptions to digital and cross-border environment and (iii) achieving a well-functioning marketplace for copyright. The impact on the different stakeholders was analysed for each policy option; taking in particular into account the predominance of SMEs in the creative industries the analysis concludes that introducing a special regime would not be appropriate as it would defeat the purpose of the intervention. The policy options of each topic are shortly presented below.

Access and availability of audiovisual works on video-on-demand platforms: A non-legislative option (Option 1), consisting in the organisation of a stakeholder dialogue on licensing issues, was not retained as it was deemed insufficient to address individual cases of blockages. The chosen option (Option 2) combines the organisation of a stakeholder dialogue with the obligation for Member States to set up a negotiation mechanism.

Out-of-commerce works: Option 1 required Member States to put in place legal mechanisms, with cross-border effect, to facilitate licensing agreements for out-of-commerce books and learned journals and to organise a stakeholder dialogue at national level to facilitate the implementation of that mechanism. Option 2 went further since it applied to all types of out-of-commerce works. This extension was deemed necessary to address the licensing of out-of-commerce works in all sectors. Option 2 was therefore chosen.

²⁰ Study on the application of Directive 2001/29/EC on copyright and related rights in the information society: http://ec.europa.eu/internal_market/copyright/studies/index_en.htm; Study on the legal framework of text and data mining: http://ec.europa.eu/internal_market/copyright/docs/studies/1403_study2_en.pdf; Study on the making available right and its relationship with the reproduction right in cross-border digital transmissions: http://ec.europa.eu/internal_market/copyright/docs/studies/141219-study_en.pdf; Study on the remuneration of authors and performers for the use of their works and the fixation of their performances: <https://ec.europa.eu/digital-single-market/en/news/commission-gathers-evidence-remuneration-authors-and-performers-use-their-works-and-fixations>; Study on the remuneration of authors of books and scientific journals, translators, journalists and visual artists for the use of their works: [hyperlink to be included – publication pending]

²¹ Study “Assessing the economic impacts of adapting certain limitations and exceptions to copyright and related rights in the EU”: http://ec.europa.eu/internal_market/copyright/docs/studies/131001-study_en.pdf and “Assessing the economic impacts of adapting certain limitations and exceptions to copyright and related rights in the EU – Analysis of specific policy options”: http://ec.europa.eu/internal_market/copyright/docs/studies/140623-limitations-economic-impacts-study_en.pdf

²² Add link to IA and Executive Summary.

²³ Add link to RSB opinion.

Use of works and other subject-matter in digital and cross-border teaching activities: Option 1 consisted in providing guidance to Member States on the application of the existing teaching exception in the digital environment and the organisation of a stakeholder dialogue. This was considered not sufficient to ensure legal certainty, in particular as regards cross-border uses. Option 2 required the introduction of a mandatory exception with a cross-border effect covering digital uses. Option 3 is similar to Option 2 but leaves some flexibility to Member States that can decide to apply the exception depending on the availability of licences. This option was deemed to be the most proportionate one.

Text and data mining: Option 1 consisted in self-regulation initiatives from the industry. Other options consisted in the introduction of a mandatory exception covering text and data mining. In Option 2, the exception only covered uses pursuing a non-commercial scientific research purpose. Option 3 allowed uses for commercial scientific research purpose but limited the benefit of the exception to some beneficiaries. Option 4 went further as it did not restrict beneficiaries. Option 3 was deemed to be the most proportionate one.

Preservation of cultural heritage: Option 1 consisted in the provision of guidance to Member States on the implementation of the exception on specific acts of reproduction for preservation purposes. This Option was rejected as it was deemed insufficient to achieve legal certainty in the field. Option 2, consisting in a mandatory exception for preservation purposes by cultural heritage institutions, was chosen.

Use of copyright-protected content by information society services storing and giving access to large amounts of works and other subject-matter uploaded by their users: Option 1 consisted in the organisation of a stakeholder dialogue. This approach was rejected as it would have a limited impact on the possibility for rightholders to determine the conditions of use of their works and other subject-matter. The chosen option (Option 2) goes further and provides for an obligation for certain service providers to put in place appropriate technologies and fosters the conclusion of agreements with rightholders.

Rights in publications: Option 1 consisted in the organisation of a stakeholder dialogue to find solutions for the dissemination of press publishers' content. This option was deemed insufficient to ensure legal certainty across the EU. Option 2 consisted in the introduction of a related right covering digital uses of press publications. In addition to this, Option 3 leaves the option for Member States to enable publishers, to which rights have been transferred or licensed by an author, to claim a share in the compensation for uses under an exception. This last option was the one retained as it addressed all relevant problems.

Fair remuneration in contracts of authors and performers: Option 1 consisted in providing a recommendation to Member States and organising a stakeholder dialogue. This option was rejected since it would not be efficient enough. Option 2 foresaw the introduction of transparency obligations on the contractual counterparts of creators. On top of that, Option 3 proposed the introduction of a remuneration adjustment mechanism and a dispute resolution mechanism. This option was the one retained since Option 2 would not have provided enforcement means to creators to support the transparency obligation.

- **Regulatory fitness and simplification**

For the uses covered by the exceptions, the proposal will allow educational establishments, public-interest research institutions and cultural heritage institutions to reduce transaction costs. This reduction of transaction costs does not necessarily mean that rightholders would suffer a loss of income or licensing revenues: the scope and conditions of the exceptions

ensure that rightholders would suffer minimal harm. The impact on SMEs in these fields (in particular scientific and educational publishers) and on their business models should therefore be limited.

Mechanisms aiming to improve licensing practices are likely to reduce transaction costs and increase licensing revenues for rightholders. SMEs in the fields (producers, distributors, publishers, etc.) would be positively affected. Other stakeholders, such as VoD platforms, would also be positively affected. The proposal also includes several measures (transparency obligation on rightholders' counterparts, introduction of a new right for press publishers and obligation on some online services) that would improve the bargaining position of rightholders and the control they have on the use of their works and other subject-matter. It is expected to have a positive impact on rightholders' revenues.

The proposal includes new obligations on some online services and on those to which authors and performers transfer their rights. These obligations may impose additional costs. However, the proposal ensures that the costs will remain proportionate and that, when necessary, some actors would not be subject to the obligation. For instance, the transparency obligation will not apply when the administrative costs it implies are disproportionate in view of the generated revenues. As for the obligation on online services, it only applies to information society services storing and giving access to large amounts of copyright-protected content uploaded by their users.

The proposal foresees the obligation for Member States to implement negotiation and dispute resolution mechanisms. This implies compliance costs for Member States. However, they could rely in most cases on existing structures, which would limit the costs. The teaching exception can also entail some costs for Member States linked to the measures ensuring the availability and visibility of licences for educational establishments.

New technological developments have been carefully examined. The proposal includes several exceptions that aim at facilitating the use of copyright-protected content via new technologies. This proposal also includes measures to facilitate access to content, including via digital networks. Finally, it ensures a balanced bargaining position between all actors in the digital environment.

- **Fundamental rights**

By improving the bargaining position of authors and performers and the control rightholders have on the use of their copyright-protected content, the proposal will have a positive impact on copyright as a property right, protected under Article 17 of the Charter of Fundamental Rights of the European Union ('the Charter'). This positive impact will be reinforced by the measures to improve licensing practices, and ultimately rightholders' revenues. New exceptions that reduce to some extent the rightholders' monopoly are justified by other public interest objectives. These exceptions are likely to have a positive impact on the right to education and on cultural diversity. Finally, the Directive has a limited impact on the freedom to conduct a business and on the freedom of expression and information, as recognised respectively by Articles 16 and 11 of the Charter, due to the mitigation measures put in place and a balanced approach to the obligations set on the relevant stakeholders.

4. BUDGETARY IMPLICATIONS

The proposal has no impact on the European Union budget.

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

In accordance with Article 22 the Commission shall carry out a review of the Directive no sooner than [five] years after the date of [transposition].

- **Explanatory documents**

In compliance with recital 48 of the proposal, Member States will notify the Commission of their transposition measures with explanatory documents. This is necessary given the complexity of rules laid down by the proposal and the importance to keep a harmonised approach of rules applicable to the digital and cross-border environment.

- **Detailed explanation of the specific provisions of the proposal**

The first title contains general provisions which (i) specify the subject-matter and the scope of the Directive and (ii) provide definitions that will need to be interpreted in a uniform manner in the Union.

The second title concerns measures to adapt exceptions and limitations to the digital and cross-border environment. This title includes three articles which require Member States to provide for mandatory exceptions or a limitation allowing (i) text and data mining carried out by research organisations for the purposes of scientific research (Article 3); (ii) digital uses of works and other subject-matter for the sole purpose of illustration for teaching (Article 4) and (iii) cultural heritage institutions to make copies of works and other subject-matter that are permanently in their collections to the extent necessary for their preservation (Article 5). Article 6 provides for common provisions to the title on exceptions and limitations.

The third title concerns measures to improve licensing practices and ensure wider access to content. Article 7 requires Member States to put in place a legal mechanism to facilitate licensing agreements of out-of-commerce works and other subject-matter. Article 8 guarantees the cross-border effect of such licensing agreements. Article 9 requires Member States to put in place a stakeholder dialogue on issues relating to Articles 7 and 8. Article 10 creates an obligation for Member States to put in place a negotiation mechanism to facilitate negotiations on the online exploitation of audiovisual works.

The fourth title concerns measures to achieve a well-functioning marketplace for copyright. Articles 11 and 12 (i) extend the rights provided for in Articles 2 and 3(2) of Directive 2001/29/EC to publishers of press publications for the digital use of their publications and (ii) provide for the option for Member States to provide all publishers with the possibility to claim a share in the compensation for uses made under an exception. Article 13 creates an obligation on information society service providers storing and giving access to large amounts of works and other subject-matter uploaded by their users to take appropriate and proportionate measures to ensure the functioning of agreements concluded with rightholders and to prevent the availability on their services of content identified by rightholders in cooperation with the service providers. Article 14 requires Member States to include transparency obligations to the benefit of authors and performers. Article 15 requires Member States to establish a contract adjustment mechanism, in support of the obligation provided for in Article 14. Article 16 requires Member States to set up a dispute resolution mechanism for issues arising from the application of Articles 14 and 15.

The fifth title contains final provisions on amendments to other directives, the application in time, transitional provisions, the protection of personal data, the transposition, the review and the entry into force.

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on copyright in the Digital Single Market

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee²⁴,

Having regard to the opinion of the Committee of the Regions²⁵,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The Treaty provides for the establishment of an internal market and the institution of a system ensuring that competition in the internal market is not distorted. Harmonisation of the laws of the Member States on copyright and related rights should contribute further to the achievement of those objectives.
- (2) The directives which have been adopted in the area of copyright and related rights provide for a high level of protection for rightholders and create a framework wherein the exploitation of works and other protected subject-matter can take place. This harmonised legal framework contributes to the good functioning of the internal market; it stimulates innovation, creativity, investment and production of new content, also in the digital environment. The protection provided by this legal framework also contributes to the Union's objective of respecting and promoting cultural diversity while at the same time bringing the European common cultural heritage to the fore. Article 167(4) of the Treaty on the Functioning of the European Union requires the Union to take cultural aspects into account in its action.
- (3) Rapid technological developments continue to transform the way works and other subject-matter are created, produced, distributed and exploited. New business models and new actors continue to emerge. The objectives and the principles laid down by the Union copyright framework remain sound. However, legal uncertainty remains, for both rightholders and users, as regards certain uses, including cross-border uses, of works and other subject-matter in the digital environment. As set out in the Communication of the Commission entitled 'Towards a modern, more European

²⁴ OJ C , , p. .

²⁵ OJ C , , p. .

copyright framework²⁶, in some areas it is necessary to adapt and supplement the current Union copyright framework. This Directive provides for rules to adapt certain exceptions and limitations to digital and cross-border environments, as well as measures to facilitate certain licensing practices as regards the dissemination of out-of-commerce works and the online availability of audiovisual works on video-on-demand platforms with a view to ensuring wider access to content. In order to achieve a well-functioning marketplace for copyright, there should also be rules on rights in publications, on the use of works and other subject-matter by online service providers storing and giving access to user uploaded content and on the transparency of authors' and performers' contracts.

- (4) This Directive is based upon, and complements, the rules laid down in the Directives currently in force in this area, in particular Directive 96/9/EC of the European Parliament and of the Council²⁷, Directive 2001/29/EC of the European Parliament and of the Council²⁸, Directive 2006/115/EC of the European Parliament and of the Council²⁹, Directive 2009/24/EC of the European Parliament and of the Council³⁰, Directive 2012/28/EU of the European Parliament and of the Council³¹ and Directive 2014/26/EU of the European Parliament and of the Council³².
- (5) In the fields of research, education and preservation of cultural heritage, digital technologies permit new types of uses that are not clearly covered by the current Union rules on exceptions and limitations. In addition, the optional nature of exceptions and limitations provided for in Directives 2001/29/EC, 96/9/EC and 2009/24/EC in these fields may negatively impact the functioning of the internal market. This is particularly relevant as regards cross-border uses, which are becoming increasingly important in the digital environment. Therefore, the existing exceptions and limitations in Union law that are relevant for scientific research, teaching and preservation of cultural heritage should be reassessed in the light of those new uses. Mandatory exceptions or limitations for uses of text and data mining technologies in the field of scientific research, illustration for teaching in the digital environment and for preservation of cultural heritage should be introduced. For uses not covered by the exceptions or the limitation provided for in this Directive, the exceptions and limitations existing in Union law should continue to apply. Directives 96/9/EC and 2001/29/EC should be adapted.
- (6) The exceptions and the limitation set out in this Directive seek to achieve a fair balance between the rights and interests of authors and other rightholders on the one hand, and of users on the other. They can be applied only in certain special cases

²⁶ COM(2015) 626 final.

²⁷ Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases (OJ L 77, 27.3.1996, p. 20–28).

²⁸ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (OJ L 167, 22.6.2001, p. 10–19).

²⁹ Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (OJ L 376, 27.12.2006, p. 28–35).

³⁰ Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (OJ L 111, 5.5.2009, p. 16–22).

³¹ Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works (OJ L 299, 27.10.2012, p. 5–12).

³² Directive 2014/26/EU of the European Parliament and of the Council of 26 February 2014 on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online use in the internal market (OJ L 84, 20.3.2014, p. 72–98).

which do not conflict with the normal exploitation of the works or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholders.

- (7) The protection of technological measures established in Directive 2001/29/EC remains essential to ensure the protection and the effective exercise of the rights granted to authors and to other rightholders under Union law. This protection should be maintained while ensuring that the use of technological measures does not prevent the enjoyment of the exceptions and the limitation established in this Directive, which are particularly relevant in the online environment. Rightholders should have the opportunity to ensure this through voluntary measures. They should remain free to choose the format and the modalities to provide the beneficiaries of the exceptions and the limitation established in this Directive with the means to benefit from them provided that such means are appropriate. In the absence of voluntary measures, Member States should take appropriate measures in accordance with the first subparagraph of Article 6(4) of Directive 2001/29/EC.
- (8) New technologies enable the automated computational analysis of information in digital form, such as text, sounds, images or data, generally known as text and data mining. Those technologies allow researchers to process large amounts of information to gain new knowledge and discover new trends. Whilst text and data mining technologies are prevalent across the digital economy, there is widespread acknowledgment that text and data mining can in particular benefit the research community and in so doing encourage innovation. However, in the Union, research organisations such as universities and research institutes are confronted with legal uncertainty as to the extent to which they can perform text and data mining of content. In certain instances, text and data mining may involve acts protected by copyright and/or by the *sui generis* database right, notably the reproduction of works or other subject-matter and/or the extraction of contents from a database. Where there is no exception or limitation which applies, an authorisation to undertake such acts would be required from rightholders. Text and data mining may also be carried out in relation to mere facts or data which are not protected by copyright and in such instances no authorisation would be required.
- (9) Union law already provides certain exceptions and limitations covering uses for scientific research purposes which may apply to acts of text and data mining. However, those exceptions and limitations are optional and not fully adapted to the use of technologies in scientific research. Moreover, where researchers have lawful access to content, for example through subscriptions to publications or open access licences, the terms of the licences may exclude text and data mining. As research is increasingly carried out with the assistance of digital technology, there is a risk that the Union's competitive position as a research area will suffer unless steps are taken to address the legal uncertainty for text and data mining.
- (10) This legal uncertainty should be addressed by providing for a mandatory exception to the right of reproduction and also to the right to prevent extraction from a database. The new exception should be without prejudice to the existing mandatory exception on temporary acts of reproduction laid down in Article 5(1) of Directive 2001/29, which should continue to apply to text and data mining techniques which do not involve the making of copies going beyond the scope of that exception. Research organisations should also benefit from the exception when they engage into public-private partnerships.

- (11) Research organisations across the Union encompass a wide variety of entities the primary goal of which is to conduct scientific research or to do so together with the provision of educational services. Due to the diversity of such entities, it is important to have a common understanding of the beneficiaries of the exception. Despite different legal forms and structures, research organisations across Member States generally have in common that they act either on a not for profit basis or in the context of a public-interest mission recognised by the State. Such a public-interest mission may, for example, be reflected through public funding or through provisions in national laws or public contracts. At the same time, organisations upon which commercial undertakings have a decisive influence allowing them to exercise control because of structural situations such as their quality of shareholders or members, which may result in preferential access to the results of the research, should not be considered research organisations for the purposes of this Directive.
- (12) In view of a potentially high number of access requests to and downloads of their works or other subject-matter, rightholders should be allowed to apply measures where there is risk that the security and integrity of the system or databases where the works or other subject-matter are hosted would be jeopardised. Those measures should not exceed what is necessary to pursue the objective of ensuring the security and integrity of the system and should not undermine the effective application of the exception.
- (13) There is no need to provide for compensation for rightholders as regards uses under the text and data mining exception introduced by this Directive given that in view of the nature and scope of the exception the harm should be minimal.
- (14) Article 5(3)(a) of Directive 2001/29/EC allows Member States to introduce an exception or limitation to the rights of reproduction, communication to the public and making available to the public for the sole purpose of, among others, illustration for teaching. In addition, Articles 6(2)(b) and 9(b) of Directive 96/9/EC permit the use of a database and the extraction or re-utilization of a substantial part of its contents for the purpose of illustration for teaching. The scope of those exceptions or limitations as they apply to digital uses is unclear. In addition, there is a lack of clarity as to whether those exceptions or limitations would apply where teaching is provided online and thereby at a distance. Moreover, the existing framework does not provide for a cross-border effect. This situation may hamper the development of digitally-supported teaching activities and distance learning. Therefore, the introduction of a new mandatory exception or limitation is necessary to ensure that educational establishments benefit from full legal certainty when using works or other subject-matter in digital teaching activities, including online and across borders.
- (15) While distance learning and cross-border education programmes are mostly developed at higher education level, digital tools and resources are increasingly used at all education levels, in particular to improve and enrich the learning experience. The exception or limitation provided for in this Directive should therefore benefit all educational establishments in primary, secondary, vocational and higher education to the extent they pursue their educational activity for a non-commercial purpose. The organisational structure and the means of funding of an educational establishment are not the decisive factors to determine the non-commercial nature of the activity.
- (16) The exception or limitation should cover digital uses of works and other subject-matter such as the use of parts or extracts of works to support, enrich or complement the teaching, including the related learning activities. The use of the works or other subject-matter under the exception or limitation should be only in the context of

teaching and learning activities carried out under the responsibility of educational establishments, including during examinations, and be limited to what is necessary for the purpose of such activities. The exception or limitation should cover both uses through digital means in the classroom and online uses through the educational establishment's secure electronic network, the access to which should be protected, notably by authentication procedures. The exception or limitation should be understood as covering the specific accessibility needs of persons with a disability in the context of illustration for teaching.

- (17) Different arrangements, based on the implementation of the exception provided for in Directive 2001/29/EC or on licensing agreements covering further uses, are in place in a number of Member States in order to facilitate educational uses of works and other subject-matter. Such arrangements have usually been developed taking account of the needs of educational establishments and different levels of education. Whereas it is essential to harmonise the scope of the new mandatory exception or limitation in relation to digital uses and cross-border teaching activities, the modalities of implementation may differ from a Member State to another, to the extent they do not hamper the effective application of the exception or limitation or cross-border uses. This should allow Member States to build on the existing arrangements concluded at national level. In particular, Member States could decide to subject the application of the exception or limitation, fully or partially, to the availability of adequate licences, covering at least the same uses as those allowed under the exception. This mechanism would, for example, allow giving precedence to licences for materials which are primarily intended for the educational market. In order to avoid that such mechanism results in legal uncertainty or administrative burden for educational establishments, Member States adopting this approach should take concrete measures to ensure that licensing schemes allowing digital uses of works or other subject-matter for the purpose of illustration for teaching are easily available and that educational establishments are aware of the existence of such licensing schemes.
- (18) An act of preservation may require a reproduction of a work or other subject-matter in the collection of a cultural heritage institution and consequently the authorisation of the relevant rightholders. Cultural heritage institutions are engaged in the preservation of their collections for future generations. Digital technologies offer new ways to preserve the heritage contained in those collections but they also create new challenges. In view of these new challenges, it is necessary to adapt the current legal framework by providing a mandatory exception to the right of reproduction in order to allow those acts of preservation.
- (19) Different approaches in the Member States for acts of preservation by cultural heritage institutions hamper cross-border cooperation and the sharing of means of preservation by cultural heritage institutions in the internal market, leading to an inefficient use of resources.
- (20) Member States should therefore be required to provide for an exception to permit cultural heritage institutions to reproduce works and other subject-matter permanently in their collections for preservation purposes, for example to address technological obsolescence or the degradation of original supports. Such an exception should allow for the making of copies by the appropriate preservation tool, means or technology, in the required number and at any point in the life of a work or other subject-matter to the extent required in order to produce a copy for preservation purposes only.

- (21) For the purposes of this Directive, works and other subject-matter should be considered to be permanently in the collection of a cultural heritage institution when copies are owned or permanently held by the cultural heritage institution, for example as a result of a transfer of ownership or licence agreements.
- (22) Cultural heritage institutions should benefit from a clear framework for the digitisation and dissemination, including across borders, of out-of-commerce works or other subject-matter. However, the particular characteristics of the collections of out-of-commerce works mean that obtaining the prior consent of the individual rightholders may be very difficult. This can be due, for example, to the age of the works or other subject-matter, their limited commercial value or the fact that they were never intended for commercial use. It is therefore necessary to provide for measures to facilitate the licensing of rights in out-of-commerce works that are in the collections of cultural heritage institutions and thereby to allow the conclusion of agreements with cross-border effect in the internal market.
- (23) Member States should, within the framework provided for in this Directive, have flexibility in choosing the specific type of mechanism allowing for licences for out-of-commerce works to extend to the rights of rightholders that are not represented by the collective management organisation, in accordance to their legal traditions, practices or circumstances. Such mechanisms can include extended collective licensing and presumptions of representation.
- (24) For the purpose of those licensing mechanisms, a rigorous and well-functioning collective management system is important. That system includes in particular rules of good governance, transparency and reporting, as well as the regular, diligent and accurate distribution and payment of amounts due to individual rightholders, as provided for by Directive 2014/26/EU. Additional appropriate safeguards should be available for all rightholders, who should be given the opportunity to exclude the application of such mechanisms to their works or other subject-matter. Conditions attached to those mechanisms should not affect their practical relevance for cultural heritage institutions.
- (25) Considering the variety of works and other subject-matter in the collections of cultural heritage institutions, it is important that the licensing mechanisms introduced by this Directive are available and can be used in practice for different types of works and other subject-matter, including photographs, sound recordings and audiovisual works. In order to reflect the specificities of different categories of works and other subject-matter as regards modes of publication and distribution and to facilitate the usability of those mechanisms, specific requirements and procedures may have to be established by Member States for the practical application of those licensing mechanisms. It is appropriate that Member States consult rightholders, users and collective management organisations when doing so.
- (26) For reasons of international comity, the licensing mechanisms for the digitisation and dissemination of out-of-commerce works provided for in this Directive should not apply to works or other subject-matter that are first published or, in the absence of publication, first broadcast in a third country or, in the case of cinematographic or audiovisual works, to works the producer of which has his headquarters or habitual residence in a third country. Those mechanisms should also not apply to works or other subject-matter of third country nationals except when they are first published or, in the absence of publication, first broadcast in the territory of a Member State or, in

the case of cinematographic or audiovisual works, to works of which the producer's headquarters or habitual residence is in a Member State.

- (27) As mass digitisation projects can entail significant investments by cultural heritage institutions, any licences granted under the mechanisms provided for in this Directive should not prevent them from generating reasonable revenues in order to cover the costs of the licence and the costs of digitising and disseminating the works and other subject-matter covered by the licence.
- (28) Information regarding the future and ongoing use of out-of-commerce works and other subject-matter by cultural heritage institutions on the basis of the licensing mechanisms provided for in this Directive and the arrangements in place for all rightholders to exclude the application of licences to their works or other subject-matter should be adequately publicised. This is particularly important when uses take place across borders in the internal market. It is therefore appropriate to make provision for the creation of a single publicly accessible online portal for the Union to make such information available to the public for a reasonable period of time before the cross-border use takes place. Under Regulation (EU) No 386/2012 of the European Parliament and of the Council³³, the European Union Intellectual Property Office is entrusted with certain tasks and activities, financed by making use of its own budgetary measures, aiming at facilitating and supporting the activities of national authorities, the private sector and Union institutions in the fight against, including the prevention of, infringement of intellectual property rights. It is therefore appropriate to rely on that Office to establish and manage the European portal making such information available.
- (29) On-demand services have the potential to play a decisive role in the dissemination of European works across the European Union. However, agreements on the online exploitation of such works may face difficulties related to the licensing of rights. Such issues may, for instance, appear when the holder of the rights for a given territory is not interested in the online exploitation of the work or where there are issues linked to the windows of exploitation.
- (30) To facilitate the licensing of rights in audiovisual works to video-on-demand platforms, this Directive requires Member States to set up a negotiation mechanism allowing parties willing to conclude an agreement to rely on the assistance of an impartial body. The body should meet with the parties and help with the negotiations by providing professional and external advice. Against that background, Member States should decide on the conditions of the functioning of the negotiation mechanism, including the timing and duration of the assistance to negotiations and the bearing of the costs. Member States should ensure that administrative and financial burdens remain proportionate to guarantee the efficiency of the negotiation forum.
- (31) A free and pluralist press is essential to ensure quality journalism and citizens' access to information. It provides a fundamental contribution to public debate and the proper functioning of a democratic society. In the transition from print to digital, publishers of press publications are facing problems in licensing the online use of their publications and recouping their investments. In the absence of recognition of

³³ Regulation (EU) No 386/2012 of the European Parliament and of the Council of 19 April 2012 on entrusting the Office for Harmonization in the Internal Market (Trade Marks and Designs) with tasks related to the enforcement of intellectual property rights, including the assembling of public and private-sector representatives as a European Observatory on Infringements of Intellectual Property Rights (OJ L 129, 16.5.2012, p. 1–6).

publishers of press publications as rightholders, licensing and enforcement in the digital environment is often complex and inefficient.

- (32) The organisational and financial contribution of publishers in producing press publications needs to be recognised and further encouraged to ensure the sustainability of the publishing industry. It is therefore necessary to provide at Union level a harmonised legal protection for press publications in respect of digital uses. Such protection should be effectively guaranteed through the introduction, in Union law, of rights related to copyright for the reproduction and making available to the public of press publications in respect of digital uses.
- (33) For the purposes of this Directive, it is necessary to define the concept of press publication in a way that embraces only journalistic publications, published by a service provider, periodically or regularly updated in any media, for the purpose of informing or entertaining. Such publications would include, for instance, daily newspapers, weekly or monthly magazines of general or special interest and news websites. Periodical publications which are published for scientific or academic purposes, such as scientific journals, should not be covered by the protection granted to press publications under this Directive. This protection does not extend to acts of hyperlinking which do not constitute communication to the public.
- (34) The rights granted to the publishers of press publications under this Directive should have the same scope as the rights of reproduction and making available to the public provided for in Directive 2001/29/EC, insofar as digital uses are concerned. They should also be subject to the same provisions on exceptions and limitations as those applicable to the rights provided for in Directive 2001/29/EC including the exception on quotation for purposes such as criticism or review laid down in Article 5(3)(d) of that Directive.
- (35) The protection granted to publishers of press publications under this Directive should not affect the rights of the authors and other rightholders in the works and other subject-matter incorporated therein, including as regards the extent to which authors and other rightholders can exploit their works or other subject-matter independently from the press publication in which they are incorporated. Therefore, publishers of press publications should not be able to invoke the protection granted to them against authors and other rightholders. This is without prejudice to contractual arrangements concluded between the publishers of press publications, on the one side, and authors and other rightholders, on the other side.
- (36) Publishers, including those of press publications, books or scientific publications, often operate on the basis of the transfer of authors' rights by means of contractual agreements or statutory provisions. In this context, publishers make an investment with a view to the exploitation of the works contained in their publications and may in some instances be deprived of revenues where such works are used under exceptions or limitations such as the ones for private copying and reprography. In a number of Member States compensation for uses under those exceptions is shared between authors and publishers. In order to take account of this situation and improve legal certainty for all concerned parties, Member States should be allowed to determine that, when an author has transferred or licensed his rights to a publisher or otherwise contributes with his works to a publication and there are systems in place to compensate for the harm caused by an exception or limitation, publishers are entitled to claim a share of such compensation, whereas the burden on the publisher to substantiate his claim should not exceed what is required under the system in place.

(37) Over the last years, the functioning of the online content marketplace has gained in complexity. Online services providing access to copyright protected content uploaded by their users without the involvement of right holders have flourished and have become main sources of access to content online. This affects rightholders' possibilities to determine whether, and under which conditions, their work and other subject-matter are used as well as their possibilities to get an appropriate remuneration for it.

(38) Where information society service providers store and provide access to the public to copyright protected works or other subject-matter uploaded by their users, thereby going beyond the mere provision of physical facilities and performing an act of communication to the public, they are obliged to conclude licensing agreements with rightholders, unless they are eligible for the liability exemption provided in Article 14 of Directive 2000/31/EC of the European Parliament and of the Council³⁴.

In respect of Article 14, it is necessary to verify whether the service provider plays an active role, including by optimising the presentation of the uploaded works or subject-matter or promoting them, irrespective of the nature of the means used therefor.

In order to ensure the functioning of any licensing agreement, information society service providers storing and providing access to the public to large amounts of copyright protected works or other subject-matter uploaded by their users should take appropriate and proportionate measures to ensure protection of works or other subject-matter, such as implementing effective technologies. This obligation should also apply when the information society service providers are eligible for the liability exemption provided in Article 14 of Directive 2000/31/EC.

(39) Collaboration between information society service providers storing and providing access to the public to large amounts of copyright protected works or other subject-matter uploaded by their users and rightholders is essential for the functioning of technologies, such as content recognition technologies. In such cases, rightholders should provide the necessary data to allow the services to identify their content and the services should be transparent towards rightholders with regard to the deployed technologies, to allow the assessment of their appropriateness. The services should in particular provide rightholders with information on the type of technologies used, the way they are operated and their success rate for the recognition of rightholders' content. Those technologies should also allow rightholders to get information from the information society service providers on the use of their content covered by an agreement.

(40) Certain rightholders such as authors and performers need information to assess the economic value of their rights which are harmonised under Union law. This is especially the case where such rightholders grant a licence or a transfer of rights in return for remuneration. As authors and performers tend to be in a weaker contractual position when they grant licences or transfer their rights, they need information to assess the continued economic value of their rights, compared to the remuneration received for their licence or transfer, but they often face a lack of transparency. Therefore, the sharing of adequate information by their contractual counterparts or their successors in title is important for the transparency and balance in the system that governs the remuneration of authors and performers.

³⁴ Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (OJ L 178, 17.7.2000, p. 1–16).

- (41) When implementing transparency obligations, the specificities of different content sectors and of the rights of the authors and performers in each sector should be considered. Member States should consult all relevant stakeholders as that should help determine sector-specific requirements. Collective bargaining should be considered as an option to reach an agreement between the relevant stakeholders regarding transparency. To enable the adaptation of current reporting practices to the transparency obligations, a transitional period should be provided for. The transparency obligations do not need to apply to agreements concluded with collective management organisations as those are already subject to transparency obligations under Directive 2014/26/EU.
- (42) Certain contracts for the exploitation of rights harmonised at Union level are of long duration, offering few possibilities for authors and performers to renegotiate them with their contractual counterparts or their successors in title. Therefore, without prejudice to the law applicable to contracts in Member States, there should be a remuneration adjustment mechanism for cases where the remuneration originally agreed under a licence or a transfer of rights is disproportionately low compared to the relevant revenues and the benefits derived from the exploitation of the work or the fixation of the performance, including in light of the transparency ensured by this Directive. The assessment of the situation should take account of the specific circumstances of each case as well as of the specificities and practices of the different content sectors. Where the parties do not agree on the adjustment of the remuneration, the author or performer should be entitled to bring a claim before a court or other competent authority.
- (43) Authors and performers are often reluctant to enforce their rights against their contractual partners before a court or tribunal. Member States should therefore provide for an alternative dispute resolution procedure that addresses claims related to obligations of transparency and the contract adjustment mechanism.
- (44) The objectives of this Directive, namely the modernisation of certain aspects of the Union copyright framework to take account of technological developments and new channels of distribution of protected content in the internal market, cannot be sufficiently achieved by Member States but can rather, by reason of their scale, effects and cross-border dimension, be better achieved at Union level. Therefore, the Union may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives.
- (45) This Directive respects the fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union. Accordingly, this Directive should be interpreted and applied in accordance with those rights and principles.
- (46) Any processing of personal data under this Directive should respect fundamental rights, including the right to respect for private and family life and the right to protection of personal data under Articles 7 and 8 of the Charter of Fundamental Rights of the European Union and must be in compliance with Directive 95/46/EC of the European Parliament and of the Council³⁵ and Directive 2002/58/EC of the European Parliament and of the Council³⁶.

³⁵ Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of

- (47) In accordance with the Joint Political Declaration of 28 September 2011 of Member States and the Commission on explanatory documents³⁷, Member States have undertaken to accompany, in justified cases, the notification of their transposition measures with one or more documents explaining the relationship between the components of a directive and the corresponding parts of national transposition instruments. With regard to this Directive, the legislator considers the transmission of such documents to be justified,

HAVE ADOPTED THIS DIRECTIVE:

such data (OJ L 281, 23.11.1995, p. 31–50). This Directive is repealed with effect from 25 May 2018 and shall be replaced by Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1–88).

³⁶ Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications) (OJ L 201, 31.7.2002, p. 37–47), called, as amended by Directives 2006/24/EC and 2009/136/EC, the “e-Privacy Directive”.

³⁷ OJ C 369, 17.12.2011, p. 14.

TITLE I GENERAL PROVISIONS

Article 1

Subject matter and scope

1. This Directive lays down rules which aim at further harmonising the Union law applicable to copyright and related rights in the framework of the internal market, taking into account in particular digital and cross-border uses of protected content. It also lays down rules on exceptions and limitations, on the facilitation of licences as well as rules aiming at ensuring a well-functioning marketplace for the exploitation of works and other subject-matter.
2. Except in the cases referred to in Article 6, this Directive shall leave intact and shall in no way affect existing rules laid down in the Directives currently in force in this area, in particular Directives 96/9/EC, 2001/29/EC, 2006/115/EC, 2009/24/EC, 2012/28/EU and 2014/26/EU.

Article 2

Definitions

For the purposes of this Directive, the following definitions shall apply:

- (1) ‘research organisation’ means a university, a research institute or any other organisation the primary goal of which is to conduct scientific research or to conduct scientific research and provide educational services:
 - (a) on a non-for-profit basis or by reinvesting all the profits in its scientific research; or
 - (b) pursuant to a public interest mission recognised by a Member State;
in such a way that the access to the results generated by the scientific research cannot be enjoyed on a preferential basis by an undertaking exercising a decisive influence upon such organisation;
- (2) ‘text and data mining’ means any automated analytical technique aiming to analyse text and data in digital form in order to generate information such as patterns, trends and correlations;
- (3) ‘cultural heritage institution’ means a publicly accessible library or museum, an archive or a film or audio heritage institution;
- (4) ‘press publication’ means a fixation of a collection of literary works of a journalistic nature, which may also comprise other works or subject-matter and constitutes an individual item within a periodical or regularly-updated publication under a single title, such as a newspaper or a general or special interest magazine, having the purpose of providing information related to news or other topics and published in any media under the initiative, editorial responsibility and control of a service provider.

TITLE II

MEASURES TO ADAPT EXCEPTIONS AND LIMITATIONS TO THE DIGITAL AND CROSS-BORDER ENVIRONMENT

Article 3 *Text and data mining*

1. Member States shall provide for an exception to the rights provided for in Article 2 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC and Article 11(1) of this Directive for reproductions and extractions made by research organisations in order to carry out text and data mining of works or other subject-matter to which they have lawful access for the purposes of scientific research.
2. Any contractual provision contrary to the exception provided for in paragraph 1 shall be unenforceable.
3. Rightholders shall be allowed to apply measures to ensure the security and integrity of the networks and databases where the works or other subject-matter are hosted. Such measures shall not go beyond what is necessary to achieve that objective.
4. Member States shall encourage rightholders and research organisations to define commonly-agreed best practices concerning the application of the measures referred to in paragraph 3.

Article 4 *Use of works and other subject-matter in digital and cross-border teaching activities*

1. Member States shall provide for an exception or limitation to the rights provided for in Articles 2 and 3 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC, Article 4(1) of Directive 2009/24/EC and Article 11(1) of this Directive in order to allow for the digital use of works and other subject-matter for the sole purpose of illustration for teaching, to the extent justified by the non-commercial purpose to be achieved, provided that the use:
 - (a) takes place on the premises of an educational establishment or through a secure electronic network accessible only by the educational establishment's pupils or students and teaching staff;
 - (b) is accompanied by the indication of the source, including the author's name, unless this turns out to be impossible.
2. Member States may provide that the exception adopted pursuant to paragraph 1 does not apply generally or as regards specific types of works or other subject-matter, to the extent that adequate licences authorising the acts described in paragraph 1 are easily available in the market.

Member States availing themselves of the provision of the first subparagraph shall take the necessary measures to ensure appropriate availability and visibility of the licences authorising the acts described in paragraph 1 for educational establishments.
3. The use of works and other subject-matter for the sole purpose of illustration for teaching through secure electronic networks undertaken in compliance with the provisions of national law adopted pursuant to this Article shall be deemed to occur solely in the Member State where the educational establishment is established.

4. Member States may provide for fair compensation for the harm incurred by the rightholders due to the use of their works or other subject-matter pursuant to paragraph 1.

Article 5

Preservation of cultural heritage

Member States shall provide for an exception to the rights provided for in Article 2 of Directive 2001/29/EC, Articles 5(a) and 7(1) of Directive 96/9/EC, Article 4(1)(a) of Directive 2009/24/EC and Article 11(1) of this Directive, permitting cultural heritage institutions, to make copies of any works or other subject-matter that are permanently in their collections, in any format or medium, for the sole purpose of the preservation of such works or other subject-matter and to the extent necessary for such preservation.

Article 6

Common provisions

Article 5(5) and the first, third and fifth subparagraphs of Article 6(4) of Directive 2001/29/EC shall apply to the exceptions and the limitation provided for under this Title.

TITLE III
MEASURES TO IMPROVE LICENSING PRACTICES AND ENSURE
WIDER ACCESS TO CONTENT

CHAPTER 1
Out-of-commerce works

Article 7

Use of out-of-commerce works by cultural heritage institutions

1. Member States shall provide that when a collective management organisation, on behalf of its members, concludes a non-exclusive licence for non-commercial purposes with a cultural heritage institution for the digitisation, distribution, communication to the public or making available of out-of-commerce works or other subject-matter permanently in the collection of the institution, such a non-exclusive licence may be extended or presumed to apply to rightholders of the same category as those covered by the licence who are not represented by the collective management organisation, provided that:
 - (a) the collective management organisation is, on the basis of mandates from rightholders, broadly representative of rightholders in the category of works or other subject-matter and of the rights which are the subject of the licence;
 - (b) equal treatment is guaranteed to all rightholders in relation to the terms of the licence;
 - (c) all rightholders may at any time object to their works or other subject-matter being deemed to be out of commerce and exclude the application of the licence to their works or other subject-matter.
2. A work or other subject-matter shall be deemed to be out of commerce when the whole work or other subject-matter, in all its translations, versions and manifestations, is not available to the public through customary channels of commerce and cannot be reasonably expected to become so.

Member States shall, in consultation with rightholders, collective management organisations and cultural heritage institutions, ensure that the requirements used to determine whether works and other subject-matter can be licensed in accordance with paragraph 1 do not extend beyond what is necessary and reasonable and do not preclude the possibility to determine the out-of-commerce status of a collection as a whole, when it is reasonable to presume that all works or other subject-matter in the collection are out of commerce.
3. Member States shall provide that appropriate publicity measures are taken regarding:
 - (a) the deeming of works or other subject-matter as out of commerce;
 - (b) the licence, and in particular its application to unrepresented rightholders;
 - (c) the possibility of rightholders to object, referred to in point (c) of paragraph 1; including during a reasonable period of time before the works or other subject-matter are digitised, distributed, communicated to the public or made available.

4. Member States shall ensure that the licences referred to in paragraph 1 are sought from a collective management organisation that is representative for the Member State where:
 - (a) the works or phonograms were first published or, in the absence of publication, where they were first broadcast, except for cinematographic and audiovisual works;
 - (b) the producers of the works have their headquarters or habitual residence, for cinematographic and audiovisual works; or
 - (c) the cultural heritage institution is established, when a Member State or a third country could not be determined, after reasonable efforts, according to points (a) and (b).
5. Paragraphs 1, 2 and 3 shall not apply to the works or other subject-matter of third country nationals except where points (a) and (b) of paragraph 4 apply.

Article 8
Cross-border uses

1. Works or other subject-matter covered by a licence granted in accordance with Article 7 may be used by the cultural heritage institution in accordance with the terms of the licence in all Member States.
2. Member States shall ensure that information that allows the identification of the works or other subject-matter covered by a licence granted in accordance with Article 7 and information about the possibility of rightholders to object referred to in Article 7(1)(c) are made publicly accessible in a single online portal for at least six months before the works or other subject-matter are digitised, distributed, communicated to the public or made available in Member States other than the one where the licence is granted, and for the whole duration of the licence.
3. The portal referred to in paragraph 2 shall be established and managed by the European Union Intellectual Property Office in accordance with Regulation (EU) No 386/2012.

Article 9
Stakeholder dialogue

Member States shall ensure a regular dialogue between representative users' and rightholders' organisations, and any other relevant stakeholder organisations, to, on a sector-specific basis, foster the relevance and usability of the licensing mechanisms referred to in Article 7(1), ensure the effectiveness of the safeguards for rightholders referred to in this Chapter, notably as regards publicity measures, and, where applicable, assist in the establishment of the requirements referred to in the second subparagraph of Article 7(2).

CHAPTER 2
Access to and availability of audiovisual works on video-on-demand platforms

Article 10
Negotiation mechanism

Member States shall ensure that where parties wishing to conclude an agreement for the purpose of making available audiovisual works on video-on-demand platforms face difficulties relating to the licensing of rights, they may rely on the assistance of an impartial

body with relevant experience. That body shall provide assistance with negotiation and help reach agreements.

No later than [date mentioned in Article 21(1)] Member States shall notify to the Commission the body referred to in paragraph 1.

TITLE IV

MEASURES TO ACHIEVE A WELL-FUNCTIONING MARKETPLACE FOR COPYRIGHT

CHAPTER 1

Rights in publications

Article 11

Protection of press publications concerning digital uses

1. Member States shall provide publishers of press publications with the rights provided for in Article 2 and Article 3(2) of Directive 2001/29/EC for the digital use of their press publications.
2. The rights referred to in paragraph 1 shall leave intact and shall in no way affect any rights provided for in Union law to authors and other rightholders, in respect of the works and other subject-matter incorporated in a press publication. Such rights may not be invoked against those authors and other rightholders and, in particular, may not deprive them of their right to exploit their works and other subject-matter independently from the press publication in which they are incorporated.
3. Articles 5 to 8 of Directive 2001/29/EC and Directive 2012/28/EU shall apply *mutatis mutandis* in respect of the rights referred to in paragraph 1.
4. The rights referred to in paragraph 1 shall expire 20 years after the publication of the press publication. This term shall be calculated from the first day of January of the year following the date of publication.

Article 12

Claims to fair compensation

Member States may provide that where an author has transferred or licensed a right to a publisher, such a transfer or a licence constitutes a sufficient legal basis for the publisher to claim a share of the compensation for the uses of the work made under an exception or limitation to the transferred or licensed right.

CHAPTER 2

Certain uses of protected content by online services

Article 13

Use of protected content by information society service providers storing and giving access to large amounts of works and other subject-matter uploaded by their users

1. Information society service providers that store and provide to the public access to large amounts of works or other subject-matter uploaded by their users shall, in cooperation with rightholders, take measures to ensure the functioning of agreements concluded with rightholders for the use of their works or other subject-matter or to prevent the availability on their services of works or other subject-matter identified by rightholders through the cooperation with the service providers. Those measures, such as the use of effective content recognition technologies, shall be appropriate and proportionate. The service providers shall provide rightholders with adequate information on the functioning and the deployment of the measures, as well as, when

relevant, adequate reporting on the recognition and use of the works and other subject-matter.

2. Member States shall ensure that the service providers referred to in paragraph 1 put in place complaints and redress mechanisms that are available to users in case of disputes over the application of the measures referred to in paragraph 1.
3. Member States shall facilitate, where appropriate, the cooperation between the information society service providers and rightholders through stakeholder dialogues to define best practices, such as appropriate and proportionate content recognition technologies, taking into account, among others, the nature of the services, the availability of the technologies and their effectiveness in light of technological developments.

CHAPTER 3

Fair remuneration in contracts of authors and performers

Article 14

Transparency obligation

1. Member States shall ensure that authors and performers receive on a regular basis and taking into account the specificities of each sector, timely, adequate and sufficient information on the exploitation of their works and performances from those to whom they have licensed or transferred their rights, notably as regards modes of exploitation, revenues generated and remuneration due.
2. The obligation in paragraph 1 shall be proportionate and effective and shall ensure an appropriate level of transparency in every sector. However, in those cases where the administrative burden resulting from the obligation would be disproportionate in view of the revenues generated by the exploitation of the work or performance, Member States may adjust the obligation in paragraph 1, provided that the obligation remains effective and ensures an appropriate level of transparency.
3. Member States may decide that the obligation in paragraph 1 does not apply when the contribution of the author or performer is not significant having regard to the overall work or performance.
4. Paragraph 1 shall not be applicable to entities subject to the transparency obligations established by Directive 2014/26/EU.

Article 15

Contract adjustment mechanism

Member States shall ensure that authors and performers are entitled to request additional, appropriate remuneration from the party with whom they entered into a contract for the exploitation of the rights when the remuneration originally agreed is disproportionately low compared to the subsequent relevant revenues and benefits derived from the exploitation of the works or performances.

Article 16

Dispute resolution mechanism

Member States shall provide that disputes concerning the transparency obligation under Article 14 and the contract adjustment mechanism under Article 15 may be submitted to a voluntary, alternative dispute resolution procedure.

TITLE V

FINAL PROVISIONS

Article 17

Amendments to other directives

1. Directive 96/9/EC is amended as follows:
 - (a) In Article 6(2), point (b) is replaced by the following:

"(b) where there is use for the sole purpose of illustration for teaching or scientific research, as long as the source is indicated and to the extent justified by the non-commercial purpose to be achieved, without prejudice to the exceptions and the limitation provided for in Directive [this Directive];"
 - (b) In Article 9, point (b) is replaced by the following:

"(b) in the case of extraction for the purposes of illustration for teaching or scientific research, as long as the source is indicated and to the extent justified by the non-commercial purpose to be achieved, without prejudice to the exceptions and the limitation provided for in Directive [this Directive];"
2. Directive 2001/29/EC is amended as follows:
 - (a) In Article 5(2), point (c) is replaced by the following:

"(c) in respect of specific acts of reproduction made by publicly accessible libraries, educational establishments or museums, or by archives, which are not for direct or indirect economic or commercial advantage, without prejudice to the exceptions and the limitation provided for in Directive [this Directive];"
 - (b) In Article 5(3), point (a) is replaced by the following:

"(a) use for the sole purpose of illustration for teaching or scientific research, as long as the source, including the author's name, is indicated, unless this turns out to be impossible and to the extent justified by the non-commercial purpose to be achieved, without prejudice to the exceptions and the limitation provided for in Directive [this Directive];"
 - (c) In Article 12(4), the following points are added:

"(e) to examine the impact of the transposition of Directive [this Directive] on the functioning of the internal market and to highlight any transposition difficulties;

(f) to facilitate the exchange of information on the relevant developments in legislation and case law as well as on the practical application of the measures taken by Member States to implement Directive [this Directive];

(g) to discuss any other questions arising from the application of Directive [this Directive]."

Article 18

Application in time

1. This Directive shall apply in respect of all works and other subject-matter which are protected by the Member States' legislation in the field of copyright on or after [the date mentioned in Article 21(1)].

2. The provisions of Article 11 shall also apply to press publications published before [the date mentioned in Article 21(1)].
3. This Directive shall apply without prejudice to any acts concluded and rights acquired before [the date mentioned in Article 21(1)].

Article 19
Transitional provision

Agreements for the licence or transfer of rights of authors and performers shall be subject to the transparency obligation in Article 14 as from [one year after the date mentioned in Article 21(1)].

Article 20
Protection of personal data

The processing of personal data carried out within the framework of this Directive shall be carried out in compliance with Directives 95/46/EC and 2002/58/EC.

Article 21
Transposition

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by [12 months after entry into force] at the latest. They shall forthwith communicate to the Commission the text of those provisions.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

Article 22
Review

1. No sooner than [five years after the date mentioned in Article 21(1)], the Commission shall carry out a review of this Directive and present a report on the main findings to the European Parliament, the Council and the European Economic and Social Committee.
2. Member States shall provide the Commission with the necessary information for the preparation of the report referred to in paragraph 1.

Article 23
Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 24
Addressees

This Directive is addressed to the Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

1 DURIE TANGRI LLP
MARK A. LEMLEY (SBN 155830)
2 mlemley@durietangri.com
JOSEPH C. GRATZ (SBN 240676)
3 jgratz@durietangri.com
217 Leidesdorff Street
4 San Francisco, CA 94111
Telephone: 415-362-6666
5 Facsimile: 415-236-6300

6 ELECTRONIC FRONTIER FOUNDATION
CORYNNE MCSHERRY (SBN 221504)
7 corynne@eff.org
DANIEL NAZER (SBN 257380)
8 daniel@eff.org
815 Eddy Street
9 San Francisco, CA 94109
Telephone: 415-436-9333

10 Attorneys for Defendant
11 HAPPY MUTANTS, LLC

12
13 IN THE UNITED STATES DISTRICT COURT
14 FOR THE CENTRAL DISTRICT OF CALIFORNIA
15 WESTERN DIVISION – LOS ANGELES

16 PLAYBOY ENTERTAINMENT GROUP
17 INC., a Delaware Corporation,

18 Plaintiff,

19 v.

20 HAPPY MUTANTS, LLC, a Delaware
21 limited liability company, and DOES 1
22 through 10,

23 Defendants.

Case No. 2:17-cv-08140 FMO (PLA)

**DEFENDANT HAPPY MUTANTS
LLC’S MEMORANDUM OF POINTS
AND AUTHORITIES IN SUPPORT OF
MOTION TO DISMISS PLAINTIFF
PLAYBOY ENTERTAINMENT
GROUP INC.’S FIRST AMENDED
COMPLAINT**

Date: February 15, 2018
Time: 10:00 a.m.
Ctvm: 6D, W. 1st Street Courthouse
Judge: Honorable Fernando M. Olguin

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1 **I. INTRODUCTION**

2 This lawsuit is frankly mystifying. Playboy’s theory of liability seems to be that it
3 is illegal to link to material posted by others on the web—an act performed daily by
4 hundreds of millions of users of Facebook and Twitter, and by journalists like the ones in
5 Playboy’s crosshairs here.

6 Defendant Happy Mutants, LLC (“Happy Mutants”) is the corporation behind
7 Boing Boing, a blog created and written by five people to share “mostly wonderful
8 things.” For three decades, Boing Boing has reported on social, educational, political,
9 scientific, and artistic developments in popular culture, becoming one of the Internet’s
10 leading sources of news and commentary. Plaintiff Playboy Entertainment Group Inc.
11 (“Playboy”), an entertainment behemoth with a notable history of defending freedom of
12 the press, is suing this much smaller but important news site for reporting on the existence
13 of a collection of Playboy centerfolds and linking to that collection. In other words, rather
14 than pursuing the individual who created the allegedly infringing archive, Playboy is
15 pursuing a news site for pointing out the archive’s value as a historical document.

16 The facts pleaded in Playboy’s First Amended Complaint (“FAC”) do not state a
17 claim for either direct or contributory copyright infringement. With respect to direct
18 infringement, Playboy alleges that third parties—not Boing Boing—posted the collection
19 at issue, and that Boing Boing made reference to that collection with a hyperlink. As for
20 secondary liability, Playboy does not allege facts that could show that Boing Boing
21 induced or materially contributed to direct infringement by any third party. Playboy’s
22 claim fails for these reasons alone.

23 What is more, Playboy’s own allegations show that further amendment would be
24 futile. Boing Boing’s post is a noninfringing fair use, made for the favored and
25 transformative purposes of news reporting, criticism, and commentary so that the reader
26 can, in the words of the post in question, “see how our standards of hotness, and the art of
27 commercial erotic photography, have changed over time.” FAC ¶ 14.

28 The Court should dismiss Playboy’s First Amended Complaint with prejudice.

1 **II. FACTUAL BACKGROUND**

2 Boing Boing is an Internet-based news site owned by Happy Mutants. Playboy
3 alleges that a “third party,” not Boing Boing, “made unauthorized copies of [Playboy’s]
4 Centerfolds and then, without PLAYBOY’s consent, uploaded scans of each of the
5 Centerfolds to the website imgur.com.” FAC ¶ 9. The FAC makes no allegation that
6 Boing Boing played any role in that act. Rather, the FAC arises entirely out of a
7 subsequent post published on the Boing Boing blog. *Id.* ¶ 14.

8 The FAC alleges that nearly two years ago, on February 29, 2016, Boing Boing
9 published a post “featuring and promoting said unauthorized reproductions and touting the
10 availability of ‘Every Playboy Playmate Centerfold Ever’ for viewing or download.” *Id.*
11 The text of the blog post, as reproduced in the FAC, is as follows:

12 Some wonderful person uploaded scans of every Playboy
13 Playmate centerfold to imgur. It’s an amazing collection,
14 whether your interests are prurient or lofty. Kind of amazing to
15 see how our standards of hotness, and the art of commercial
16 erotic photography, have changed over time.

17 FAC ¶ 14. The blog post then contains two links. One, which has the text “Every
18 Playboy Playmate Centerfold,” is a link to an album on the Imgur photo posting site,
19 located at <http://imgur.com/a/Uxug4>. The second is a link to “a video that contains all
20 746 of these incredible shots, created by YouTuber Ryan Powers,” located at
21 <https://www.youtube.com/channel/UCpLZHtj-diLM5uLWuq4tLQg>. The FAC does not
22 allege that Boing Boing posted the images in question on Imgur or on YouTube (and
23 indeed there would be no basis for such an allegation). Nor does the FAC allege that
24 those images are currently available on those sites (they are not, and have not been for
25 some time).

26 **III. LEGAL STANDARD**

27 A motion to dismiss for failure to state a claim should be granted if plaintiff fails to
28 proffer “enough facts to state a claim to relief that is plausible on its face.” *Bell Atl.*

1 *Corp. v. Twombly*, 550 U.S. 544, 570 (2007); *see Ashcroft v. Iqbal*, 556 U.S. 662, 678
 2 (2009). “A claim has facial plausibility when the plaintiff pleads factual content that
 3 allows the court to draw the reasonable inference that the defendant is liable for the
 4 misconduct alleged.” *Iqbal*, 556 U.S. at 678. The plaintiff must provide “more than
 5 labels and conclusions, and a formulaic recitation of the elements of a cause of action will
 6 not do.” *Twombly*, 550 U.S. at 555. “[T]he court is not required to accept legal
 7 conclusions cast in the form of factual allegations if those conclusions cannot reasonably
 8 be drawn from the facts alleged.” *Borkman v. BMW of N. Am., LLC*, No. CV 16-2225
 9 FMO (MRWx), 2017 WL 4082420, at *3 (C.D. Cal. Aug. 28, 2017) (quoting *Clegg v.*
 10 *Cult Awareness Network*, 18 F.3d 752, 754-55 (9th Cir. 1994)).

11 Nor is the court required to accept as true allegations that are “merely conclusory,
 12 unwarranted deductions of fact, or unreasonable inferences.” *Cholla Ready Mix, Inc. v.*
 13 *Civish*, 382 F.3d 969, 973 (9th Cir. 2004) (internal quotation marks omitted) (citations
 14 omitted); *see also Borsotti v. Bray*, No. CV 16-7603 FMO (JCx), 2017 WL 2375705, at
 15 *1 (C.D. Cal. May 31, 2017). And courts are “not required to accept as true conclusory
 16 allegations which are contradicted by documents referred to in the complaint.” *Gonzalez*
 17 *v. Planned Parenthood of Los Angeles*, 759 F.3d 1112, 1115 (9th Cir. 2014) (citation
 18 omitted). This is especially relevant here, where the content of the blog post at issue is
 19 included in the FAC and is not subject to any dispute. The court can therefore evaluate
 20 this motion based on the actual text of the post, rather than paraphrases and descriptions.

21 **IV. ARGUMENT**

22 **A. The FAC does not allege facts that could support a claim for direct** 23 **copyright infringement against Boing Boing.**

24 Playboy’s FAC includes a single claim for copyright infringement. This claim
 25 appears to be intended primarily to allege contributory, rather than direct, infringement.
 26 *See* FAC ¶¶ 18-19. But the FAC does not limit its claim to secondary liability. *See id.* ¶
 27 20 (alleging that Playboy suffered damages caused by Defendants’ “acts of infringement,
 28

1 *including contributory infringement*)” (emphasis added).¹

2 Playboy fails to state a claim for direct copyright infringement because it does not
3 allege that Boing Boing itself copied or displayed any of the works listed in Exhibit A to
4 the FAC. *See* ECF No. 15-1. “To establish a prima facie case of direct infringement, a
5 plaintiff must show ownership of the allegedly infringed material and demonstrate that the
6 alleged infringers violated at least one exclusive right granted to copyright holders under
7 17 U.S.C. § 106.” *Perfect 10, Inc. v. Giganews, Inc.*, 847 F.3d 657, 666 (9th Cir.), *cert.*
8 *denied*, 138 S. Ct. 504 (2017) (internal quotation marks omitted). “In addition, direct
9 infringement requires the plaintiff to show causation (also referred to as ‘volitional
10 conduct’) by the defendant.” *Id.*

11 Playboy alleges only that Boing Boing commented upon and linked to a third-party
12 website containing Playboy’s images. The Ninth Circuit resolved this question a decade
13 ago, squarely holding that linking cannot constitute direct copyright infringement. *Perfect*
14 *10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1161 (9th Cir. 2007). In that case, an image-
15 search service linked to full-size photographs located on third-party servers not operated
16 by the defendant. The defendant’s “computers [did] not store the photographic images” in
17 question, but instead provided links “that direct[ed] a user’s browser to a website
18 publisher’s computer that store[d] the full-size photographic image.” *Id.* at 1160-61.
19 Because the defendant’s computer never transmitted a full-size photographic image it had
20 stored, the Ninth Circuit held that the defendant could not be a direct infringer. *Id.* at
21 1161.

22 The facts alleged in the FAC are the same: Playboy alleges that Boing Boing

23 ¹ When counsel conferred regarding this Motion pursuant to L.R. 7-3, Playboy’s counsel
24 acknowledged that the FAC does not plead facts supporting a claim for direct
25 infringement against Boing Boing, because the FAC alleges that third parties, not Boing
26 Boing, posted the material in question. The FAC, however, implies that Playboy is
27 proceeding on the same theory as to all “defendants,” FAC ¶ 20, and Playboy has declined
28 to amend the FAC to identify the theory of liability on which it is pursuing Boing Boing.
Accordingly, Boing Boing is forced to address direct liability in this Motion.

1 linked to the images on the third-party Imgur and YouTube websites. It does not allege
 2 that Boing Boing stored the images in question. *See* FAC ¶¶ 9, 14.² As a matter of law,
 3 such linking is not direct copyright infringement, and allegations that relate to linking do
 4 not state a claim for direct copyright infringement.

5 Accordingly, the FAC does not support a claim of copyright infringement against
 6 Boing Boing on a theory of direct infringement.

7 **B. The FAC fails to state a claim for contributory copyright infringement.**

8 Since “[s]econdary liability for copyright infringement does not exist in the absence
 9 of direct infringement by a third party,” *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d
 10 1004, 1013 n.2 (9th Cir. 2001), Playboy must allege at least one underlying act of direct
 11 infringement *and* an act by Boing Boing that materially contributed to or induced that
 12 infringement. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d at 1171. The FAC does
 13 neither. The FAC does not say who the alleged direct infringer is, or on what theory
 14 Boing Boing is alleged to have aided that infringer in engaging in the infringing activity.
 15 This problem cannot be fixed: as a matter of law, there is no theory on which Boing
 16 Boing could be liable as a contributory infringer.

17 **1. The FAC does not allege that Boing Boing aided or induced third**
 18 **parties to upload the photos to Imgur and YouTube.**

19 One possible theory on which Plaintiff may be proceeding is that the direct
 20 infringers in question are the individual or individuals³ who uploaded the photos in

21 _____
 22 ² The Boing Boing blog post itself includes, as a header image, a partial reproduction of
 23 the centerfold of Miss February 1954. FAC ¶ 14. The FAC does not make any
 24 allegations with respect to that image, and Playboy does not include Miss February 1954
 25 in the list of images to which it claims ownership. ECF No. 15-1. And rightly so: the
 February 1954 issue of Playboy entered the public domain in 1981, when Playboy did not
 renew its copyright registration.

26 ³ The FAC does not specify whether one individual uploaded the images to Imgur and the
 27 video containing the images to YouTube, referring only to the uploader as “a third party.”
 28 FAC ¶¶ 9-10. For simplicity, we refer to the uploader in the singular.

1 question to Imgur and YouTube. Even assuming *arguendo* that those uploads constituted
 2 direct infringement, that would not support a claim for contributory infringement against
 3 Boing Boing, because—as the FAC alleges—Boing Boing posted only *after* that third
 4 party completed the uploading, and therefore completed the alleged infringement. As
 5 discussed below, that allegation precludes contributory liability on either a material-
 6 contribution theory or an inducement theory.

7 **a. Material Contribution**

8 Playboy alleges that “[b]y undertaking substantial promotional efforts to encourage
 9 visits to the infringing material, MUTANT materially contributed to the infringing
 10 conduct.” FAC ¶ 16. Even taking this allegation as true, it does not suggest that Boing
 11 Boing made any contribution **to anything the uploader did**. By the time any alleged
 12 promotional efforts commenced, the uploader’s activities had concluded. Indeed, there is
 13 no allegation that Boing Boing had any involvement whatsoever until **after** the materials
 14 had already been posted. Thus, based on the FAC itself, it is clear that Boing Boing did
 15 not materially contribute to the uploader’s allegedly infringing acts.

16 **b. Inducement**

17 Playboy also mentions “copyright infringement under the ‘inducement’ theory of
 18 liability.” FAC ¶ 19. On this theory, “‘one who distributes a device with the object of
 19 promoting its use to infringe copyright, *as shown by clear expression or other affirmative*
 20 *steps taken to foster infringement*, is liable for the resulting acts of infringement by third
 21 parties.’” *Metro–Goldwyn–Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936-37
 22 (2005) (emphasis added). This theory of liability “has four elements: (1) the distribution
 23 of a device or product, (2) acts of infringement, (3) an object of promoting its use to
 24 infringe copyright, *and* (4) causation.” *Columbia Pictures Indus., Inc. v. Fung*, 710 F.3d
 25 1020, 1032 (9th Cir. 2013) (emphasis added).

26 Playboy does not and cannot show the fourth element: causation with respect to
 27 acts of direct infringement by the uploader. Playboy simply alleges that “Defendants
 28 clearly expressed their intention to promote the infringement of PLAYBOY’s copyrights,

1 as evidenced by their affirmative communication of praise for the ‘wonderful person’ who
 2 made the Centerfolds freely available on Imgur, and the public acknowledgement of the
 3 YouTuber who created the infringing video.” FAC ¶ 19. But even taking these
 4 allegations as true, praise that comes **after the fact** cannot cause an **earlier** act of direct
 5 infringement. Thus, even if the third parties who uploaded the allegedly infringing
 6 materials to Imgur and YouTube engaged in direct infringement by doing so, those acts
 7 cannot be “resulting acts of infringement” based on anything Boing Boing did.

8 **2. Imgur and YouTube are not alleged to have engaged in any**
 9 **volitional act and are therefore not direct infringers.**

10 Another theory on which Playboy may be proceeding is that the direct infringers in
 11 question are Imgur and YouTube themselves—the intermediaries to whom third parties
 12 uploaded the images and the video. The FAC alleges that there were “infringing materials
 13 on imgur and YouTube” that were “available for download and/or viewing,” FAC ¶ 19,
 14 but does not allege that Imgur or YouTube undertook any volitional acts with respect to
 15 those materials, as opposed to merely operating automated systems to which an unknown
 16 third party uploaded allegedly infringing materials.

17 In order to plausibly allege that a hosting intermediary like Imgur or YouTube has
 18 engaged in an act of direct copyright infringement that could serve as the basis for a claim
 19 of contributory copyright infringement, the law “requires the plaintiff to show causation
 20 (also referred to as ‘volitional conduct’) by” the accused direct infringer. *Perfect 10, Inc.*
 21 *v. Giganews, Inc.*, 847 F.3d at 666. In other words, “*direct* liability must be premised on
 22 conduct that can reasonably be described as the *direct cause* of the infringement.” *Id.*
 23 (quoting opinion below with approval). In *Giganews*, for example, the Ninth Circuit ruled
 24 that “passively storing material at the direction of users in order to make that material
 25 available to other users upon request, or automatically copying, storing, and transmitting
 26 materials upon instigation by others,” did not involve any act by the service provider that
 27 could support a claim for direct infringement. 847 F.3d at 668 (internal quotation marks
 28 omitted) (citation omitted). Similarly, in *BWP Media USA, Inc. v. T & S Software*

1 *Assocs., Inc.*, 852 F.3d 436, 442 (5th Cir.), *cert. denied*, 138 S. Ct. 236 (2017), the Fifth
2 Circuit held that where a party accused of direct infringement “hosts the forum on which
3 infringing content was posted, but its connection to the infringement ends there,” that
4 party has not engaged in direct infringement because that claim of direct infringement
5 does not meet the volitional-conduct requirement. *See also, e.g., CoStar Grp., Inc. v.*
6 *LoopNet, Inc.*, 373 F.3d 544, 551 (4th Cir. 2004) (holding that web host had not engaged
7 in direct copyright infringement by operating an automated hosting system to which third
8 parties uploaded infringing materials).

9 None of the allegations of the FAC suggest that the hosting providers’ role in this
10 case differs in any way from the role of the hosting providers in *Giganews, T&S*, or
11 *CoStar*. For that reason, the FAC does not plausibly allege that Imgur or YouTube
12 engaged in direct copyright infringement, and the FAC cannot state a claim for
13 contributory infringement premised upon any direct infringement by Imgur or YouTube.
14 Without volition, Imgur and YouTube cannot be direct infringers, and engaged in no act
15 of direct infringement for Boing Boing to contribute to.

16 **3. Individual BoingBoing readers who clicked on the link to view the**
17 **Imgur gallery or the YouTube video did not engage in any acts of**
18 **infringement, and the FAC does not allege that any of them**
19 **downloaded the images.**

20 The final possible theory on which Playboy may be proceeding is that the direct
21 infringers in question are Boing Boing readers who clicked on the links to the Imgur
22 album or the YouTube video. But that final theory does not work either. Clicking on a
23 link to view material on the Internet is not direct infringement, and there is no allegation
24 that any Boing Boing reader downloaded, rather than simply viewing, the allegedly
25 infringing materials.

26 It is well-established that controlling the viewing of copyrighted material is not
27 within the exclusive rights of the copyright holder. *Perfect 10, Inc. v. Amazon.com, Inc.*,
28 508 F.3d at 1169; *see also Flava Works, Inc. v. Gunter*, 689 F.3d 754, 757-58 (7th Cir.
2012). Indeed, courts have been rejecting secondary liability claims founded on the

1 alleged viewing of linked-to material for almost twenty years. *See Bernstein v. JC*
2 *Penney, Inc.*, No. 98-2958 R EX, 1998 WL 906644, at *1 (C.D. Cal. Sept. 29, 1998). To
3 the extent users’ computers created temporary copies while browsing, the creation of
4 cached or local copies during Internet browsing is a non-infringing fair use, as a matter of
5 law. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d at 1169-70. Internet users could only
6 commit an act of direct copyright infringement if, once they have visited or viewed the
7 linked-to content, they take the **further** step of downloading a copy of the material. *See*
8 *Flava Works, Inc.*, 689 F.3d at 757-58 (“unless those visitors copy the videos they are
9 viewing on the infringers’ websites, [the defendant] isn’t increasing the amount of
10 infringement.”). The FAC does not allege that any reader did so.

11 Playboy’s copyright claim is strikingly similar to a claim recently rejected in
12 *Tarantino v. Gawker Media, LLC*, No. CV 14-603-JFW (FFMx), 2014 WL 2434647, at
13 *4 (C.D. Cal. Apr. 22, 2014). In that case, director Quentin Tarantino sued the blog
14 Gawker after it published an article that linked to a copy of the script to the then-
15 unproduced movie *The Hateful Eight*. *See id.* at *2. Tarantino alleged that Gawker
16 “contributorily infringed Plaintiff’s screenplay by including links to where the screenplay
17 was posted online in its reporting on the leak of the screenplay.” *Id.* Noting that simply
18 viewing material is not copyright infringement, the court dismissed the secondary liability
19 claim for lack of an underlying act of direct infringement. *See id.* at **4-5.

20 Like the Plaintiff in *Tarantino*, Playboy alleges that Boing Boing reported on the
21 availability of, and linked to, allegedly infringing content but does not allege that any
22 Boing Boing user in fact downloaded—rather than simply viewing—the material in
23 question. *See* FAC ¶ 10. Absent any identifiable underlying act of direct infringement,
24 Playboy’s secondary infringement claim must be dismissed. *Perfect 10, Inc. v.*
25 *Amazon.com, Inc.*, 508 F.3d at 1169; *see also BWP Media USA, Inc.*, 2014 WL 12596429,
26 at *3 (dismissing contributory infringement claim where plaintiff failed to allege specific
27 instance of third-party infringement); *Flava Works, Inc. v. Clavio*, No. 11 C 05100, 2012
28 WL 2459146, at *3 (N.D. Ill. June 27, 2012) (same).

1 Playboy may argue that Playboy can amend the Complaint to allege that some
2 readers must have taken the further step of actually downloading copies of infringing
3 material. That would not save the Complaint from dismissal, for two reasons.

4 First, it would be pure speculation. *See Tarantino*, 2014 WL 2434647, at *4
5 (Tarantino “speculates that some direct infringement must have taken place [but] fails to
6 allege the identity of a single third-party infringer, the date, the time, or the details of a
7 single instance of third-party infringement”); *Perfect 10, Inc. v. Yandex N.V.*, 962 F. Supp.
8 2d 1146, 1159 (N.D. Cal. 2013) (dismissing plaintiff’s speculation that, given volume of
9 traffic, at least some U.S. users must have used Russian search index to download
10 infringing images).

11 Second, even a non-speculative allegation that some Boing Boing visitor read the
12 Boing Boing article in question, clicked on the link in the article, visited the Imgur album
13 web page, *and then* took steps to download images contained on that web page would not
14 support a claim for contributory infringement against Boing Boing. The act of
15 downloading is one step removed from anything Boing Boing did: at most, Boing Boing
16 made it easier for its readers to view the images in the Imgur album, which in turn gave
17 those readers the opportunity to decide to take further steps to download an image, which
18 decision may in turn have resulted in those readers engaging in an act of alleged direct
19 infringement. Where “there is an additional step in the causal chain” between the activity
20 being facilitated by the defendant and an act of direct infringement, the Ninth Circuit has
21 held that there is no material contribution to infringement and therefore no contributory
22 liability. *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 797 (9th Cir. 2007) (no
23 contributory liability where “Defendants make it easier for infringement to be *profitable*,
24 which tends to increase financial incentives to infringe, which in turn tends to increase
25 infringement.”). And there is no allegation that anything in the Boing Boing blog post
26 was directed to intentionally inducing any reader to click on the link to view the images
27 *and then* take further steps to download those images.

28 Finally, even if some Boing Boing reader downloaded the images in question, and

1 if that downloading constituted direct infringement, and if Boing Boing’s article was
 2 regarded as making a material contribution to that direct infringement, the contributory-
 3 infringement claim would *still* fail because the link would then have both infringing uses
 4 and substantial non-infringing uses. Even if a party knows a device—here, the hyperlink
 5 to the Imgur album—could be used for infringing purposes, they cannot be held
 6 contributorily liable if the device is also “capable of substantial noninfringing uses.” *Sony*
 7 *Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984). This doctrine
 8 “limits liability to instances of more acute fault than the mere understanding that some of
 9 one’s products will be misused,” *Metro–Goldwyn–Mayer Studios Inc.*, 545 U.S. at 932-
 10 33. Here, while it is possible that some visitors used the “device” in question for an
 11 infringing rather than a noninfringing purpose, the text of the blog post makes clear that
 12 the intended purpose of the link was a noninfringing one: to view the album in order to
 13 analyze “how our standards of hotness, and the art of commercial erotic photography,
 14 have changed over time.” FAC ¶ 14.

15 Accordingly, the FAC does not state a claim for contributory copyright
 16 infringement, and amendment would be futile because the facts pleaded in the FAC rule
 17 out such infringement. Nor could Playboy allege inducement of unknown third parties.
 18 There is simply no indication that Boing Boing intended to encourage its readers to
 19 download these files rather than view them.

20 **C. Even if there was an act falling within Playboy’s exclusive rights, Boing**
 21 **Boing’s reporting was a noninfringing fair use.**

22 Even if Playboy could state a claim for direct or secondary infringement against
 23 Boing Boing, the Court should still dismiss that claim because Boing Boing’s reporting
 24 and commentary falls squarely within the protections of copyright’s fair use doctrine. *See*
 25 17 U.S.C. § 107 (“the fair use of a copyrighted work, . . . for purposes such as criticism,
 26 comment, [or] news reporting, . . . is not an infringement of copyright.”).

27 Although fair use generally is a mixed question of fact and law, an “assertion of fair
 28 use may be considered on a motion to dismiss.” *Leadsinger, Inc. v. BMG Music Publ’g*,

1 512 F.3d 522, 530 (9th Cir. 2008); *see also Brownmark Films, LLC v. Comedy Partners*,
 2 682 F.3d 687, 690 (7th Cir. 2012); *City of Inglewood v. Teixeira*, No. CV-15-01815-MWF
 3 (MRWx), 2015 WL 5025839, at **6-12 (C.D. Cal. Aug. 20, 2015) (finding fair use on a
 4 Rule 12(b)(6) motion); *Burnett v. Twentieth Century Fox Film Corp.*, 491 F. Supp. 2d
 5 962, 972 (C.D. Cal. 2007) (same); *Shepard v. Miler*, No. CIV. 2:10-1863 WBS JFM, 2010
 6 WL 5205108, at *3 (E.D. Cal. Dec. 15, 2010) (same). The four statutory factors support a
 7 finding of fair use here. *See* 17 U.S.C. § 107(1)-(4).

8 The Copyright Act sets forth four nonexclusive factors to guide the fair-use
 9 determination: “(1) the purpose and character of the use, including whether such use is of
 10 a commercial nature or is for nonprofit educational purposes; (2) the nature of the
 11 copyrighted work; (3) the amount and substantiality of the portion used in relation to the
 12 copyrighted work as a whole; and (4) the effect of the use upon the potential market for or
 13 value of the copyrighted work.” 17 U.S.C. § 107. We discuss each factor in turn.

14 **1. The Purpose and Character of the Use**

15 Factor One supports a finding of fair use because Boing Boing’s use was for the
 16 classic fair use purposes of commentary and reporting. *See Los Angeles News Serv. v.*
 17 *CBS Broad., Inc.*, 305 F.3d 924, 940, *as amended*, 313 F.3d 1093 (9th Cir. 2002). In
 18 *Calkins v. Playboy Enterprises International, Inc.*, 561 F. Supp. 2d 1136, 1141 (E.D. Cal.
 19 2008), the court found Playboy’s publication of a high school photo to be transformative
 20 because its use “served an entirely different function than the original image.” In this
 21 case, Boing Boing’s use was also entirely different from the original images. The Boing
 22 Boing post included links to support its cultural commentary—specifically, that the
 23 images showed “how our standards of hotness, and the art of commercial erotic
 24 photography, have changed over time.” FAC ¶ 14.

25 Boing Boing’s reliance on advertising does not change the analysis; many fair uses
 26 are commercial. *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 584 (1994)
 27 (rejecting the proposition that all commercial uses are presumptively unfair because it
 28 would “swallow nearly all of the illustrative uses listed in the preamble paragraph of

1 § 107”). The fact that a defendant’s purpose was transformative—such as Boing Boing’s
 2 purpose of commentary and reporting—reduces “the significance of other factors that
 3 weigh against fair use, such as use of a commercial nature,” in the analysis. *Calkins*, 561
 4 F. Supp. 2d at 1141 (citing *Campbell*, 510 U.S. at 579); *see also Swatch Grp. Mgmt.*
 5 *Servs. Ltd. v. Bloomberg L.P.*, 756 F.3d 73, 82 (2d Cir. 2014) (noting that any commercial
 6 use is “attenuated” when the transformative purpose is reporting).

7 In *Calkins*, for example, the court noted that the photograph at issue “was used for a
 8 commercial purpose inasmuch as PEI is a for-profit enterprise and the Photograph
 9 appeared in Playboy.” 561 F. Supp. 2d at 1141. The court reasoned that the
 10 “commercial” aspect of the use “was incidental and less exploitative in nature than more
 11 traditional types of commercial use insofar as PEI was neither using the Photograph to
 12 directly promote sales of Playboy, nor trying to profit by selling the Photograph.” *Id.*
 13 Likewise, Boing Boing was not trying to profit by selling the copyrighted works but
 14 simply linked to them in its reporting. Indeed, any commercial use by Boing Boing was
 15 more attenuated and incidental than Playboy’s use in *Calkins*: in that case, Playboy sold
 16 magazines that included the relevant photograph while Boing Boing never even hosted the
 17 copyrighted works on its servers, much less charged money to access the works.

18 **2. The Nature of the Copyrighted Work**

19 Factor Two weighs slightly in favor of fair use or is neutral. Although the works at
 20 issue are creative, “the second factor may be of limited usefulness where the creative
 21 work of art is being used for a transformative purpose.” *Blanch v. Koons*, 467 F.3d 244,
 22 257 (2d Cir. 2006) (citation omitted). Moreover, the photographs at issue were previously
 23 published, and use of published works is “more likely to qualify as fair use because the
 24 first appearance of the artist’s expression has already occurred.” *Kelly v. Arriba Soft*
 25 *Corp.*, 336 F.3d 811, 820 (9th Cir. 2003).

26 **3. The Amount and Substantiality of the Portion Used**

27 Factor Three weighs in favor of fair use. Although the entirety of Playboy works
 28 appeared on external sites, Boing Boing itself made no use at all of any portion of the

1 works because it simply linked to those sites as part of its commentary and reporting. To
 2 the extent the amount displayed on a third-party website to a user who clicked the link is
 3 relevant, the entirety of each of the photographs in question could be viewed. But the use
 4 of the entirety of a work does not weigh against fair use where the use of the entirety
 5 serves a transformative purpose, such as criticism, commentary, or news reporting. *See,*
 6 *e.g., Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 613 (2d Cir. 2006)
 7 (“copying the entirety of a work is sometimes necessary to make a fair use of the
 8 image.”); *Núñez v. Caribbean Int’l News Corp.*, 235 F.3d 18, 24 (1st Cir. 2000) (finding
 9 fair use where the defendant “admittedly copied the entire picture; however, to copy any
 10 less than that would have made the picture useless to the story.”). Seeing the photos in
 11 their entirety and in their full chronological sequence serves the transformative purpose of
 12 observing and analyzing “how our standards of hotness, and the art of commercial erotic
 13 photography, have changed over time.” FAC ¶ 14.

14 **4. Effect on the Value of or Market for the Copyrighted Work**

15 Factor Four also weighs in Boing Boing’s favor. Boing Boing’s use did not harm
 16 the underlying market. Boing Boing provided commentary and links but is not alleged to
 17 have uploaded or hosted the content, but merely linked to externally-hosted websites. In
 18 the context of a news website reporting on the existence of that content on those websites,
 19 this use is highly transformative and does not supplant the market for the original works.
 20 Importantly, Playboy has not, and could not, allege that Boing Boing did anything to
 21 make it more difficult for Playboy to act against the actual uploaders and hosts of the
 22 infringing content. If Playboy wished to send Digital Millennium Copyright Act
 23 (“DMCA”) takedown notices to YouTube or Imgur, it was free to do so.⁴ Similarly,

24 ⁴ Indeed, it appears that Playboy did so. The DMCA allows copyright holders to send
 25 notices requesting that service providers remove infringing content. *See* 17 U.S.C. §
 26 512(c)(3). The allegedly infringing materials no longer appear to be available on
 27 YouTube or Imgur. *See* <https://www.youtube.com/watch?v=rrzltZUGlOc> and
 28 <https://imgur.com/a/Uxug>. In any event, Playboy has not alleged that Boing Boing
 frustrated or slowed the removal of the content in question once Playboy decided to

CERTIFICATE OF SERVICE

I hereby certify that on January 18, 2018 the within document was filed with the Clerk of the Court using CM/ECF which will send notification of such filing to the attorneys of record in this case.

/s/ Joseph C. Gratz

JOSEPH C. GRATZ

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FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PERFECT 10, INC., a California corporation,
Plaintiff-Appellant,
v.
AMAZON.COM, INC., a corporation;
A9.COM INC., a corporation,
Defendants-Appellees.

No. 06-55405
D.C. No.
CV-05-04753-AHM

PERFECT 10, INC., a California corporation,
Plaintiff-Appellant,
v.
GOOGLE INC., a corporation,
Defendant-Appellee.

No. 06-55406
D.C. No.
CV-04-09484-AHM

PERFECT 10, INC., a California corporation,
Plaintiff-Appellee,
v.
GOOGLE INC., a corporation,
Defendant-Appellant.

No. 06-55425
D.C. No.
CV-04-09484-AHM

PERFECT 10, INC., a California
corporation,
Plaintiff-Appellant,
v.
GOOGLE INC., a corporation,
Defendant-Appellee.

No. 06-55759
D.C. No.
CV-04-09484-AHM

PERFECT 10, INC., a California
corporation,
Plaintiff-Appellee,
v.
GOOGLE INC., a corporation,
Defendant-Appellant.

No. 06-55854
D.C. No.
CV-04-09484-AHM

PERFECT 10, INC., a California
corporation,
Plaintiff-Appellee,
v.
GOOGLE INC., a corporation,
Defendant-Appellant.

No. 06-55877
D.C. No.
CV-04-09484-AHM
AMENDED
OPINION

Appeal from the United States District Court
for the Central District of California
A. Howard Matz, District Judge, Presiding

Argued and Submitted
November 15, 2006—Pasadena, California

Filed May 16, 2007
Amended December 3, 2007

Before: Cynthia Holcomb Hall, Michael Daly Hawkins, and
Sandra S. Ikuta, Circuit Judges.

Opinion by Judge Ikuta

COUNSEL

Russell J. Frackman and Jeffrey D. Goldman, Mitchell, Silberberg & Knupp LLP, Los Angeles, California, Jeffrey N. Mausner, Berman, Mausner & Resser, Los Angeles, California, Daniel J. Cooper, Perfect 10, Inc., Beverly Hills, California, for plaintiff-appellant Perfect 10, Inc.

Andrew P. Bridges and Jennifer A. Golinveaux, Winston & Strawn LLP, San Francisco, California, Gene C. Schaerr, Winston & Strawn LLP, Washington, DC, for defendant-appellee and cross-appellant Google Inc.

Mark T. Jansen & Anthony J. Malutta, Townsend and Townsend and Crew LLP, San Francisco, California, for defendants-appellees Amazon.com and A9.com, Inc.

Fred von Lohmann, Electronic Frontier Foundation, San Francisco, California, for amicus curiae Electronic Frontier Foundation, American Library Association, Medical Library Association, American Association of Law Libraries, Association of Research Libraries, and Special Libraries Association in support of Google Inc.

Victor S. Perlman, of counsel, American Society of Media Photographers; Nancy E. Wolff, of counsel, Cowan, DeBaets, Abrahams & Sheppard, LLP; Robert W. Clarida and Jason D. Sanders, Cowan, Liebowitz & Latman, P.C., New York, New York, for amicus curiae American Society of Media Photographers, Inc., Picture Archive Council of America, Inc., British Association of Picture Libraries and Agencies, Inc., Stock Artists Alliance, The Graphic Artists Guild, American Society of Picture Professionals and National Press Photographers, in support of Perfect 10 on issue of Google's liability for the display of full-size images.

Eric J. Schwartz and Steven J. Metalitz, Smith & Metalitz LLP, Washington, DC, for amicus curiae Motion Picture Association of America, Inc. in support of Perfect 10.

Jonathan Band, Jonathan Band PLLC, Washington, DC, for amicus curiae NetCoalition, Computer and Communications Industry Association, U.S. Internet Service Provider Association, Consumer Electronics Association, Home Recording Rights Coalition, Information Technology Association of America, and Internet Commerce Coalition in support of Google Inc.

Kenneth L. Doroshow and Linda J. Zirkelbach, Recording Industry Association of America, Washington, DC; Jacqueline C. Charlesworth, National Music Publishers' Association,

Washington, DC; Robert W. Clarida, Richard S. Mandel and Jonathan Z. King, Cowan, Liebowitz & Latman, P.C., New York, New York, for amicus curiae Recording Industry Association of America and National Music Publishers' Association in support of neither party.

OPINION

IKUTA, Circuit Judge:

In this appeal, we consider a copyright owner's efforts to stop an Internet search engine from facilitating access to infringing images. Perfect 10, Inc. sued Google Inc., for infringing Perfect 10's copyrighted photographs of nude models, among other claims. Perfect 10 brought a similar action against Amazon.com and its subsidiary A9.com (collectively, "Amazon.com"). The district court preliminarily enjoined Google from creating and publicly displaying thumbnail versions of Perfect 10's images, *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006), but did not enjoin Google from linking to third-party websites that display infringing full-size versions of Perfect 10's images. Nor did the district court preliminarily enjoin Amazon.com from giving users access to information provided by Google. Perfect 10 and Google both appeal the district court's order. We have jurisdiction pursuant to 28 U.S.C. § 1292(a)(1).¹

¹Google argues that we lack jurisdiction over the preliminary injunction to the extent it enforces unregistered copyrights. Registration is generally a jurisdictional prerequisite to a suit for copyright infringement. *See* 17 U.S.C. § 411. But section 411 does not limit the remedies a court can grant. Rather, the Copyright Act gives courts broad authority to issue injunctive relief. *See* 17 U.S.C. § 502(a). Once a court has jurisdiction over an action for copyright infringement under section 411, the court may grant injunctive relief to restrain infringement of any copyright, whether registered or unregistered. *See, e.g., Olan Mills, Inc. v. Linn Photo Co.*, 23 F.3d 1345, 1349 (8th Cir. 1994); *Pac. & S. Co., Inc. v. Duncan*, 744 F.2d 1490, 1499 n.17 (11th Cir. 1984). Because at least some of the Perfect 10 images at issue were registered, the district court did not err in determining that it could issue an order that covers unregistered works. Therefore, we have jurisdiction over the district court's decision and order.

The district court handled this complex case in a particularly thoughtful and skillful manner. Nonetheless, the district court erred on certain issues, as we will further explain below. We affirm in part, reverse in part, and remand.

I

Background

Google's computers, along with millions of others, are connected to networks known collectively as the "Internet." "The Internet is a world-wide network of networks . . . all sharing a common communications technology." *Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc.*, 923 F. Supp. 1231, 1238 n.1 (N.D. Cal. 1995). Computer owners can provide information stored on their computers to other users connected to the Internet through a medium called a webpage. A webpage consists of text interspersed with instructions written in Hypertext Markup Language ("HTML") that is stored in a computer. No images are stored on a webpage; rather, the HTML instructions on the webpage provide an address for where the images are stored, whether in the webpage publisher's computer or some other computer. In general, webpages are publicly available and can be accessed by computers connected to the Internet through the use of a web browser.

Google operates a search engine, a software program that automatically accesses thousands of websites (collections of webpages) and indexes them within a database stored on Google's computers. When a Google user accesses the Google website and types in a search query, Google's software searches its database for websites responsive to that search query. Google then sends relevant information from its index of websites to the user's computer. Google's search engines can provide results in the form of text, images, or videos.

The Google search engine that provides responses in the form of images is called "Google Image Search." In response

to a search query, Google Image Search identifies text in its database responsive to the query and then communicates to users the images associated with the relevant text. Google's software cannot recognize and index the images themselves. Google Image Search provides search results as a webpage of small images called "thumbnails," which are stored in Google's servers. The thumbnail images are reduced, lower-resolution versions of full-sized images stored on third-party computers.

When a user clicks on a thumbnail image, the user's browser program interprets HTML instructions on Google's webpage. These HTML instructions direct the user's browser to cause a rectangular area (a "window") to appear on the user's computer screen. The window has two separate areas of information. The browser fills the top section of the screen with information from the Google webpage, including the thumbnail image and text. The HTML instructions also give the user's browser the address of the website publisher's computer that stores the full-size version of the thumbnail.² By following the HTML instructions to access the third-party webpage, the user's browser connects to the website publisher's computer, downloads the full-size image, and makes the image appear at the bottom of the window on the user's screen. Google does not store the images that fill this lower part of the window and does not communicate the images to the user; Google simply provides HTML instructions directing a user's browser to access a third-party website. However, the top part of the window (containing the information from the Google webpage) appears to frame and comment on the bottom part of the window. Thus, the user's window appears

²The website publisher may not actually store the photographic images used on its webpages in its own computer, but may provide HTML instructions directing the user's browser to some further computer that stores the image. Because this distinction does not affect our analysis, for convenience, we will assume that the website publisher stores all images used on its webpages in the website publisher's own computer.

to be filled with a single integrated presentation of the full-size image, but it is actually an image from a third-party website framed by information from Google's website. The process by which the webpage directs a user's browser to incorporate content from different computers into a single window is referred to as "in-line linking." *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 816 (9th Cir. 2003). The term "framing" refers to the process by which information from one computer appears to frame and annotate the in-line linked content from another computer. *Perfect 10*, 416 F. Supp. 2d at 833-34.

Google also stores webpage content in its cache.³ For each cached webpage, Google's cache contains the text of the webpage as it appeared at the time Google indexed the page, but does not store images from the webpage. *Id.* at 833. Google may provide a link to a cached webpage in response to a user's search query. However, Google's cache version of the webpage is not automatically updated when the webpage is revised by its owner. So if the webpage owner updates its webpage to remove the HTML instructions for finding an infringing image, a browser communicating directly with the webpage would not be able to access that image. However, Google's cache copy of the webpage would still have the old HTML instructions for the infringing image. Unless the owner of the computer changed the HTML address of the infringing image, or otherwise rendered the image unavailable, a browser accessing Google's cache copy of the website

³Generally, a "cache" is "a computer memory with very short access time used for storage of frequently or recently used instructions or data." *United States v. Ziegler*, 474 F.3d 1184, 1186 n.3 (9th Cir. 2007) (quoting MERRIAM-WEBSTER'S COLLEGIATE DICTIONARY 171 (11th ed. 2003)). There are two types of caches at issue in this case. A user's personal computer has an internal cache that saves copies of webpages and images that the user has recently viewed so that the user can more rapidly revisit these webpages and images. Google's computers also have a cache which serves a variety of purposes. Among other things, Google's cache saves copies of a large number of webpages so that Google's search engine can efficiently organize and index these webpages.

could still access the image where it is stored on the website publisher's computer. In other words, Google's cache copy could provide a user's browser with valid directions to an infringing image even though the updated webpage no longer includes that infringing image.

In addition to its search engine operations, Google generates revenue through a business program called "AdSense." Under this program, the owner of a website can register with Google to become an AdSense "partner." The website owner then places HTML instructions on its webpages that signal Google's server to place advertising on the webpages that is relevant to the webpages' content. Google's computer program selects the advertising automatically by means of an algorithm. AdSense participants agree to share the revenues that flow from such advertising with Google.

Google also generated revenues through an agreement with Amazon.com that allowed Amazon.com to in-line link to Google's search results. Amazon.com gave its users the impression that Amazon.com was providing search results, but Google communicated the search results directly to Amazon.com's users. Amazon.com routed users' search queries to Google and automatically transmitted Google's responses (i.e., HTML instructions for linking to Google's search results) back to its users.

Perfect 10 markets and sells copyrighted images of nude models. Among other enterprises, it operates a subscription website on the Internet. Subscribers pay a monthly fee to view Perfect 10 images in a "members' area" of the site. Subscribers must use a password to log into the members' area. Google does not include these password-protected images from the members' area in Google's index or database. Perfect 10 has also licensed Fonestarz Media Limited to sell and distribute Perfect 10's reduced-size copyrighted images for download and use on cell phones.

Some website publishers republish Perfect 10's images on the Internet without authorization. Once this occurs, Google's search engine may automatically index the webpages containing these images and provide thumbnail versions of images in response to user inquiries. When a user clicks on the thumbnail image returned by Google's search engine, the user's browser accesses the third-party webpage and in-line links to the full-sized infringing image stored on the website publisher's computer. This image appears, in its original context, on the lower portion of the window on the user's computer screen framed by information from Google's webpage.

Procedural History. In May 2001, Perfect 10 began notifying Google that its thumbnail images and in-line linking to the full-size images infringed Perfect 10's copyright. Perfect 10 continued to send these notices through 2005.

On November 19, 2004, Perfect 10 filed an action against Google that included copyright infringement claims. This was followed by a similar action against Amazon.com on June 29, 2005. On July 1, 2005 and August 24, 2005, Perfect 10 sought a preliminary injunction to prevent Amazon.com and Google, respectively, from "copying, reproducing, distributing, publicly displaying, adapting or otherwise infringing, or contributing to the infringement" of Perfect 10's photographs; linking to websites that provide full-size infringing versions of Perfect 10's photographs; and infringing Perfect 10's username/password combinations.

The district court consolidated the two actions and heard both preliminary injunction motions on November 7, 2005. The district court issued orders granting in part and denying in part the preliminary injunction against Google and denying the preliminary injunction against Amazon.com. Perfect 10 and Google cross-appealed the partial grant and partial denial of the preliminary injunction motion, and Perfect 10 appealed the denial of the preliminary injunction against Amazon.com.

On June 15, 2006, the district court temporarily stayed the preliminary injunction.

II

Standard of Review

We review the district court's grant or denial of a preliminary injunction for an abuse of discretion. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001). The district court must support a preliminary injunction with findings of fact, which we review for clear error. *Earth Island Inst. v. U.S. Forest Serv.*, 442 F.3d 1147, 1156 (9th Cir. 2006). We review the district court's conclusions of law de novo. *Napster*, 239 F.3d at 1013.

[1] Section 502(a) of the Copyright Act authorizes a court to grant injunctive relief "on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502(a). "Preliminary injunctive relief is available to a party who demonstrates either: (1) a combination of probable success on the merits and the possibility of irreparable harm; or (2) that serious questions are raised and the balance of hardships tips in its favor. These two formulations represent two points on a sliding scale in which the required degree of irreparable harm increases as the probability of success decreases." *Napster*, 239 F.3d at 1013 (internal quotation and citation omitted).

[2] Because Perfect 10 has the burden of showing a likelihood of success on the merits, the district court held that Perfect 10 also had the burden of demonstrating a likelihood of overcoming Google's fair use defense under 17 U.S.C. § 107. *Perfect 10*, 416 F. Supp. 2d at 836-37. This ruling was erroneous. At trial, the defendant in an infringement action bears the burden of proving fair use. *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994). Because "the burdens at the preliminary injunction stage track the burdens at trial," once

the moving party has carried its burden of showing a likelihood of success on the merits, the burden shifts to the non-moving party to show a likelihood that its affirmative defense will succeed. *Gonzales v. O Centro Espirita Beneficente Uniao do Vegetal*, 546 U.S. 418, 429 (2006); *see also Abbott Labs. v. Andrx Pharms., Inc.*, 473 F.3d 1196, 1201 (Fed. Cir. 2007) (to defeat a motion for preliminary injunctive relief in a patent infringement case, the non-moving party must establish a likelihood of success in proving its defenses of invalidity or unenforceability); *PHG Techs., LLC v. St. John Cos.*, 469 F.3d 1361, 1365 (Fed. Cir. 2006). Accordingly, once Perfect 10 has shown a likelihood of success on the merits, the burden shifts to Google to show a likelihood that its affirmative defenses will succeed.

[3] In addition to its fair use defense, Google also raises an affirmative defense under title II of the Digital Millennium Copyright Act (“DMCA”), 17 U.S.C. § 512. Congress enacted title II of the DMCA “to provide greater certainty to service providers concerning their legal exposure for infringements that may occur in the course of their activities.” *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004) (internal quotation omitted). Sections 512(a) through (d) limit liability for (respectively): “(1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of users; and (4) information location tools.” *Id.* at 1077. A service provider that qualifies for such protection is not liable for monetary relief and may be subject only to the narrow injunctive relief set forth in section 512(j). 17 U.S.C. § 512(a). If Perfect 10 demonstrates a likelihood of success on the merits, Google must show a likelihood of succeeding in its claim that it qualifies for protection under title II of the DMCA.⁴

⁴Perfect 10 argues that we are bound by the language and structure of title II of the DMCA in determining Google’s liability for copyright infringement. We have noted that the DMCA does not change copyright law; rather, “Congress provided that [the DMCA’s] limitations of liability

III

Direct Infringement

Perfect 10 claims that Google’s search engine program directly infringes two exclusive rights granted to copyright holders: its display rights and its distribution rights.⁵ “Plaintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate

apply if the provider is found to be liable under existing principles of law.” *Ellison*, 357 F.3d at 1077 (emphasis and internal quotation omitted). As a result, “[c]laims against service providers for direct, contributory, or vicarious copyright infringement, therefore, are generally evaluated just as they would be in the non-online world.” *Id.*; see also 17 U.S.C. § 512(l) (“The failure of a service provider’s conduct to qualify for limitation of liability under this section shall not bear adversely upon the consideration of a defense by the service provider that the service provider’s conduct is not infringing under this title or any other defense.”). Therefore, we must consider Google’s potential liability under the Copyright Act without reference to title II of the DMCA.

⁵17 U.S.C. § 106 states, in pertinent part:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

. . . .

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

. . . .

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly

that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106.” *Napster*, 239 F.3d at 1013; *see* 17 U.S.C. § 501(a). Even if a plaintiff satisfies these two requirements and makes a prima facie case of direct infringement, the defendant may avoid liability if it can establish that its use of the images is a “fair use” as set forth in 17 U.S.C. § 107. *See Kelly*, 336 F.3d at 817.

Perfect 10’s ownership of at least some of the images at issue is not disputed. *See Perfect 10*, 416 F. Supp. 2d at 836.

The district court held that Perfect 10 was likely to prevail in its claim that Google violated Perfect 10’s display right with respect to the infringing thumbnails. *Id.* at 844. However, the district court concluded that Perfect 10 was not likely to prevail on its claim that Google violated either Perfect 10’s display or distribution right with respect to its full-size infringing images. *Id.* at 844-45. We review these rulings for an abuse of discretion. *Napster*, 239 F.3d at 1013.

A. *Display Right*

In considering whether Perfect 10 made a prima facie case of violation of its display right, the district court reasoned that a computer owner that stores an image as electronic information and serves that electronic information directly to the user (“i.e., physically sending ones and zeroes over the [I]nternet to the user’s browser,” *Perfect 10*, 416 F. Supp. 2d at 839) is displaying the electronic information in violation of a copyright holder’s exclusive display right. *Id.* at 843-45; *see* 17 U.S.C. § 106(5). Conversely, the owner of a computer that does not store and serve the electronic information to a user is not displaying that information, even if such owner in-line links to or frames the electronic information. *Perfect 10*, 416 F. Supp. 2d at 843-45. The district court referred to this test as the “server test.” *Id.* at 838-39.

Applying the server test, the district court concluded that Perfect 10 was likely to succeed in its claim that Google’s

thumbnails constituted direct infringement but was unlikely to succeed in its claim that Google's in-line linking to full-size infringing images constituted a direct infringement. *Id.* at 843-45. As explained below, because this analysis comports with the language of the Copyright Act, we agree with the district court's resolution of both these issues.

[4] We have not previously addressed the question when a computer displays a copyrighted work for purposes of section 106(5). Section 106(5) states that a copyright owner has the exclusive right "to display the copyrighted work publicly." The Copyright Act explains that "display" means "to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process" 17 U.S.C. § 101. Section 101 defines "copies" as "material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." *Id.* Finally, the Copyright Act provides that "[a] work is 'fixed' in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." *Id.*

[5] We must now apply these definitions to the facts of this case. A photographic image is a work that is "'fixed' in a tangible medium of expression," for purposes of the Copyright Act, when embodied (i.e., stored) in a computer's server (or hard disk, or other storage device). The image stored in the computer is the "copy" of the work for purposes of copyright law. *See MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517-18 (9th Cir. 1993) (a computer makes a "copy" of a software program when it transfers the program from a third party's computer (or other storage device) into its own memory, because the copy of the program recorded in the computer is "fixed" in a manner that is "sufficiently permanent or

stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration” (quoting 17 U.S.C. § 101)). The computer owner shows a copy “by means of a . . . device or process” when the owner uses the computer to fill the computer screen with the photographic image stored on that computer, or by communicating the stored image electronically to another person’s computer. 17 U.S.C. § 101. In sum, based on the plain language of the statute, a person displays a photographic image by using a computer to fill a computer screen with a copy of the photographic image fixed in the computer’s memory. There is no dispute that Google’s computers store thumbnail versions of Perfect 10’s copyrighted images and communicate copies of those thumbnails to Google’s users.⁶ Therefore, Perfect 10 has made a prima facie case that Google’s communication of its stored thumbnail images directly infringes Perfect 10’s display right.

[6] Google does not, however, display a copy of full-size infringing photographic images for purposes of the Copyright Act when Google frames in-line linked images that appear on a user’s computer screen. Because Google’s computers do not store the photographic images, Google does not have a copy of the images for purposes of the Copyright Act. In other words, Google does not have any “material objects . . . in which a work is fixed . . . and from which the work can be perceived, reproduced, or otherwise communicated” and thus cannot communicate a copy. 17 U.S.C. § 101.

[7] Instead of communicating a copy of the image, Google provides HTML instructions that direct a user’s browser to a

⁶Because Google initiates and controls the storage and communication of these thumbnail images, we do not address whether an entity that merely passively owns and manages an Internet bulletin board or similar system violates a copyright owner’s display and distribution rights when the users of the bulletin board or similar system post infringing works. *Cf. CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544 (4th Cir. 2004).

website publisher's computer that stores the full-size photographic image. Providing these HTML instructions is not equivalent to showing a copy. First, the HTML instructions are lines of text, not a photographic image. Second, HTML instructions do not themselves cause infringing images to appear on the user's computer screen. The HTML merely gives the address of the image to the user's browser. The browser then interacts with the computer that stores the infringing image. It is this interaction that causes an infringing image to appear on the user's computer screen. Google may facilitate the user's access to infringing images. However, such assistance raises only contributory liability issues, *see Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 929-30 (2005), *Napster*, 239 F.3d at 1019, and does not constitute direct infringement of the copyright owner's display rights.

Perfect 10 argues that Google displays a copy of the full-size images by framing the full-size images, which gives the impression that Google is showing the image within a single Google webpage. While in-line linking and framing may cause some computer users to believe they are viewing a single Google webpage, the Copyright Act, unlike the Trademark Act, does not protect a copyright holder against acts that cause consumer confusion. *Cf.* 15 U.S.C. § 1114(1) (providing that a person who uses a trademark in a manner likely to cause confusion shall be liable in a civil action to the trademark registrant).⁷

⁷Perfect 10 also argues that Google violates Perfect 10's right to display full-size images because Google's in-line linking meets the Copyright Act's definition of "to perform or display a work 'publicly.'" 17 U.S.C. § 101. This phrase means "to transmit or otherwise communicate a performance or display of the work to . . . the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times." *Id.* Perfect 10 is mistaken. Google's activities do not meet this definition because Google transmits or communicates only an address which directs a user's browser to the location where a copy of the full-size image is displayed. Google does not communicate a display of the work itself.

Nor does our ruling that a computer owner does not display a copy of an image when it communicates only the HTML address of the copy erroneously collapse the display right in section 106(5) into the reproduction right set forth in section 106(1). Nothing in the Copyright Act prevents the various rights protected in section 106 from overlapping. Indeed, under some circumstances, more than one right must be infringed in order for an infringement claim to arise. For example, a “Game Genie” device that allowed a player to alter features of a Nintendo computer game did not infringe Nintendo’s right to prepare derivative works because the Game Genie did not incorporate any portion of the game itself. *See Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965, 967 (9th Cir. 1992). We held that a copyright holder’s right to create derivative works is not infringed unless the alleged derivative work “incorporate[s] a protected work in some concrete or permanent ‘form.’” *Id.* In other words, in some contexts, the claimant must be able to claim infringement of its reproduction right in order to claim infringement of its right to prepare derivative works.

[8] Because Google’s cache merely stores the text of webpages, our analysis of whether Google’s search engine program potentially infringes Perfect 10’s display and distribution rights is equally applicable to Google’s cache. Perfect 10 is not likely to succeed in showing that a cached webpage that in-line links to full-size infringing images violates such rights. For purposes of this analysis, it is irrelevant whether cache copies direct a user’s browser to third-party images that are no longer available on the third party’s website, because it is the website publisher’s computer, rather than Google’s computer, that stores and displays the infringing image.

B. Distribution Right

The district court also concluded that Perfect 10 would not likely prevail on its claim that Google directly infringed Per-

fect 10's right to distribute its full-size images. *Perfect 10*, 416 F. Supp. 2d at 844-45. The district court reasoned that distribution requires an "actual dissemination" of a copy. *Id.* at 844. Because Google did not communicate the full-size images to the user's computer, Google did not distribute these images. *Id.*

Again, the district court's conclusion on this point is consistent with the language of the Copyright Act. Section 106(3) provides that the copyright owner has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3). As noted, "copies" means "material objects . . . in which a work is fixed." 17 U.S.C. § 101. The Supreme Court has indicated that in the electronic context, copies may be distributed electronically. See *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 498 (2001) (a computer database program distributed copies of newspaper articles stored in its computerized database by selling copies of those articles through its database service). Google's search engine communicates HTML instructions that tell a user's browser where to find full-size images on a website publisher's computer, but Google does not itself distribute copies of the infringing photographs. It is the website publisher's computer that distributes copies of the images by transmitting the photographic image electronically to the user's computer. As in *Tasini*, the user can then obtain copies by downloading the photo or printing it.

Perfect 10 incorrectly relies on *Hotaling v. Church of Jesus Christ of Latter-Day Saints* and *Napster* for the proposition that merely making images "available" violates the copyright owner's distribution right. *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199 (4th Cir. 1997); *Napster*, 239 F.3d 1004. *Hotaling* held that the owner of a collection of works who makes them available to the public may be deemed to have distributed copies of the works. *Hotaling*, 118 F.3d at 203. Similarly, the distribution rights of the plaintiff

copyright owners were infringed by Napster *users* (private individuals with collections of music files stored on their home computers) when they used the Napster software to make their collections available to all other Napster users. *Napster*, 239 F.3d at 1011-14.

[9] This “deemed distribution” rule does not apply to Google. Unlike the participants in the Napster system or the library in *Hotaling*, Google does not own a collection of Perfect 10’s full-size images and does not communicate these images to the computers of people using Google’s search engine. Though Google indexes these images, it does not have a collection of stored full-size images it makes available to the public. Google therefore cannot be deemed to distribute copies of these images under the reasoning of *Napster* or *Hotaling*. Accordingly, the district court correctly concluded that Perfect 10 does not have a likelihood of success in proving that Google violates Perfect 10’s distribution rights with respect to full-size images.

C. *Fair Use Defense*

Because Perfect 10 has succeeded in showing it would prevail in its *prima facie* case that Google’s thumbnail images infringe Perfect 10’s display rights, the burden shifts to Google to show that it will likely succeed in establishing an affirmative defense. Google contends that its use of thumbnails is a fair use of the images and therefore does not constitute an infringement of Perfect 10’s copyright. *See* 17 U.S.C. § 107.

The fair use defense permits the use of copyrighted works without the copyright owner’s consent under certain situations. The defense encourages and allows the development of new ideas that build on earlier ones, thus providing a necessary counterbalance to the copyright law’s goal of protecting creators’ work product. “From the infancy of copyright protection, some opportunity for fair use of copyrighted materials

has been thought necessary to fulfill copyright's very purpose" *Campbell*, 510 U.S. at 575. "The fair use doctrine thus 'permits [and requires] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.'" *Id.* at 577 (quoting *Stewart v. Abend*, 495 U.S. 207, 236 (1990)) (alteration in original).

Congress codified the common law of fair use in 17 U.S.C. § 107, which provides:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107.

We must be flexible in applying a fair use analysis; it “is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis. . . . Nor may the four statutory factors be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright.” *Campbell*, 510 U.S. at 577-78; *see also Kelly*, 336 F.3d at 817-18. The purpose of copyright law is “[t]o promote the Progress of Science and useful Arts,” U.S. CONST. art. I, § 8, cl. 8, and to serve “ ‘the welfare of the public.’ ” *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 n.10 (quoting H.R. Rep. No. 2222, 60th Cong., 2d Sess. 7 (1909)).

In applying the fair use analysis in this case, we are guided by *Kelly v. Arriba Soft Corp.*, which considered substantially the same use of copyrighted photographic images as is at issue here. *See* 336 F.3d 811. In *Kelly*, a photographer brought a direct infringement claim against Arriba, the operator of an Internet search engine. The search engine provided thumbnail versions of the photographer’s images in response to search queries. *Id.* at 815-16. We held that Arriba’s use of thumbnail images was a fair use primarily based on the transformative nature of a search engine and its benefit to the public. *Id.* at 818-22. We also concluded that Arriba’s use of the thumbnail images did not harm the photographer’s market for his image. *Id.* at 821-22.

In this case, the district court determined that Google’s use of thumbnails was not a fair use and distinguished *Kelly*. *Perfect 10*, 416 F. Supp. 2d at 845-51. We consider these distinctions in the context of the four-factor fair use analysis.

[10] *Purpose and character of the use.* The first factor, 17 U.S.C. § 107(1), requires a court to consider “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.” The central purpose of this inquiry is to determine whether and to what extent the new work is “transformative.” *Campbell*, 510 U.S. at 579. A work is “transformative” when the new work does not “merely supersede the objects of the original creation” but rather “adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.” *Id.* (internal quotation and alteration omitted). Conversely, if the new work “supersede[s] the use of the original,” the use is likely not a fair use. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 550-51 (1985) (internal quotation omitted) (publishing the “heart” of an unpublished work and thus supplanting the copyright holder’s first publication right was not a fair use); *see also Wall Data Inc. v. L.A. County Sheriff’s Dep’t*, 447 F.3d 769, 778-82 (9th Cir. 2006) (using a copy to save the cost of buying additional copies of a computer program was not a fair use).⁸

⁸We reject at the outset Perfect 10’s argument that providing access to infringing websites cannot be deemed transformative and is inherently not fair use. Perfect 10 relies on *Video Pipeline, Inc. v. Buena Vista Home Entm’t, Inc.*, 342 F.3d 191 (3d Cir. 2003), and *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992). But these cases, in essence, simply apply the general rule that a party claiming fair use must act in a manner generally compatible with principles of good faith and fair dealing. *See Harper & Row*, 471 U.S. at 562-63. For this reason, a company whose business is based on providing scenes from copyrighted movies without authorization could not claim that it provided the same public benefit as the search engine in *Kelly*. *See Video Pipeline*, 342 F.3d at 198-200. Similarly, a company whose overriding desire to replicate a competitor’s computer game led it to obtain a copy of the competitor’s source code from the Copyright Office under false pretenses could not claim fair use with respect to its purloined copy. *Atari Games*, 975 F.2d at 843.

Unlike the alleged infringers in *Video Pipeline* and *Atari Games*, who intentionally misappropriated the copyright owners’ works for the purpose of commercial exploitation, Google is operating a comprehensive search engine that only incidentally indexes infringing websites. This incidental

As noted in *Campbell*, a “transformative work” is one that alters the original work “with new expression, meaning, or message.” *Campbell*, 510 U.S. at 579. “A use is considered transformative only where a defendant changes a plaintiff’s copyrighted work or uses the plaintiff’s copyrighted work in a different context such that the plaintiff’s work is transformed into a new creation.” *Wall Data*, 447 F.3d at 778.

[11] Google’s use of thumbnails is highly transformative. In *Kelly*, we concluded that Arriba’s use of thumbnails was transformative because “Arriba’s use of the images serve[d] a different function than Kelly’s use—improving access to information on the [I]nternet versus artistic expression.” *Kelly*, 336 F.3d at 819. Although an image may have been created originally to serve an entertainment, aesthetic, or informative function, a search engine transforms the image into a pointer directing a user to a source of information. Just as a “parody has an obvious claim to transformative value” because “it can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one,” *Campbell*, 510 U.S. at 579, a search engine provides social benefit by incorporating an original work into a new work, namely, an electronic reference tool. Indeed, a search engine may be more transformative than a parody because a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work. *See, e.g., id.* at 594-96 (holding that 2 Live Crew’s parody of “Oh, Pretty Woman” using the words “hairy woman” or “bald headed woman” was a transformative work, and thus constituted a fair use); *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 796-98, 800-06 (9th Cir. 2003)

impact does not amount to an abuse of the good faith and fair dealing underpinnings of the fair use doctrine. Accordingly, we conclude that Google’s inclusion of thumbnail images derived from infringing websites in its Internet-wide search engine activities does not preclude Google from raising a fair use defense.

(concluding that photos parodying Barbie by depicting “nude Barbie dolls juxtaposed with vintage kitchen appliances” was a fair use). In other words, a search engine puts images “in a different context” so that they are “transformed into a new creation.” *Wall Data*, 447 F.3d at 778.

The fact that Google incorporates the entire Perfect 10 image into the search engine results does not diminish the transformative nature of Google’s use. As the district court correctly noted, *Perfect 10*, 416 F. Supp. 2d at 848-49, we determined in *Kelly* that even making an exact copy of a work may be transformative so long as the copy serves a different function than the original work, *Kelly*, 336 F.3d at 818-19. For example, the First Circuit has held that the republication of photos taken for a modeling portfolio in a newspaper was transformative because the photos served to inform, as well as entertain. *See Nez v. Caribbean Int’l News Corp.*, 235 F.3d 18, 22-23 (1st Cir. 2000). In contrast, duplicating a church’s religious book for use by a different church was not transformative. *See Worldwide Church of God v. Phila. Church of God, Inc.*, 227 F.3d 1110, 1117 (9th Cir. 2000). Nor was a broadcaster’s simple retransmission of a radio broadcast over telephone lines transformative, where the original radio shows were given no “new expression, meaning, or message.” *Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104, 108 (2d Cir. 1998). Here, Google uses Perfect 10’s images in a new context to serve a different purpose.

The district court nevertheless determined that Google’s use of thumbnail images was less transformative than Arriba’s use of thumbnails in *Kelly* because Google’s use of thumbnails superseded Perfect 10’s right to sell its reduced-size images for use on cell phones. *See Perfect 10*, 416 F. Supp. 2d at 849. The district court stated that “mobile users can download and save the thumbnails displayed by Google Image Search onto their phones,” and concluded “to the extent that users may choose to download free images to their

phone rather than purchase [Perfect 10's] reduced-size images, Google's use supersedes [Perfect 10's]." *Id.*

Additionally, the district court determined that the commercial nature of Google's use weighed against its transformative nature. *Id.* Although *Kelly* held that the commercial use of the photographer's images by Arriba's search engine was less exploitative than typical commercial use, and thus weighed only slightly against a finding of fair use, *Kelly*, 336 F.3d at 818-20, the district court here distinguished *Kelly* on the ground that some website owners in the AdSense program had infringing Perfect 10 images on their websites, *Perfect 10*, 416 F. Supp. 2d at 846-47. The district court held that because Google's thumbnails "lead users to sites that directly benefit Google's bottom line," the AdSense program increased the commercial nature of Google's use of Perfect 10's images. *Id.* at 847.

In conducting our case-specific analysis of fair use in light of the purposes of copyright, *Campbell*, 510 U.S. at 581, we must weigh Google's superseding and commercial uses of thumbnail images against Google's significant transformative use, as well as the extent to which Google's search engine promotes the purposes of copyright and serves the interests of the public. Although the district court acknowledged the "truism that search engines such as Google Image Search provide great value to the public," *Perfect 10*, 416 F. Supp. 2d at 848-49, the district court did not expressly consider whether this value outweighed the significance of Google's superseding use or the commercial nature of Google's use. *Id.* at 849. The Supreme Court, however, has directed us to be mindful of the extent to which a use promotes the purposes of copyright and serves the interests of the public. *See Campbell*, 510 U.S. at 579; *Harper & Row*, 471 U.S. at 556-57; *Sony*, 464 U.S. at 431-32.

We note that the superseding use in this case is not significant at present: the district court did not find that any down-

loads for mobile phone use had taken place. *See Perfect 10*, 416 F. Supp. 2d at 849. Moreover, while Google's use of thumbnails to direct users to AdSense partners containing infringing content adds a commercial dimension that did not exist in *Kelly*, the district court did not determine that this commercial element was significant. *See id.* at 848-49. The district court stated that Google's AdSense programs as a whole contributed "\$630 million, or 46% of total revenues" to Google's bottom line, but noted that this figure did not "break down the much smaller amount attributable to websites that contain infringing content." *Id.* at 847 & n.12 (internal quotation omitted).

[12] We conclude that the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweighs Google's superseding and commercial uses of the thumbnails in this case. In reaching this conclusion, we note the importance of analyzing fair use flexibly in light of new circumstances. *Sony*, 464 U.S. at 431-32; *id.* at 448 n.31 (" [Section 107] endorses the purpose and general scope of the judicial doctrine of fair use, but there is no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change.' ") (quoting H.R. Rep. No. 94-1476, p. 65-66 (1976), U.S. Code Cong. & Admin. News 1976, p. 5680)). We are also mindful of the Supreme Court's direction that "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." *Campbell*, 510 U.S. at 579.

Accordingly, we disagree with the district court's conclusion that because Google's use of the thumbnails could supersede Perfect 10's cell phone download use and because the use was more commercial than Arriba's, this fair use factor weighed "slightly" in favor of Perfect 10. *Perfect 10*, 416 F. Supp. 2d at 849. Instead, we conclude that the transformative nature of Google's use is more significant than any incidental superseding use or the minor commercial aspects of Google's

search engine and website. Therefore, this factor weighs heavily in favor of Google.

The nature of the copyrighted work. With respect to the second factor, “the nature of the copyrighted work,” 17 U.S.C. § 107(2), our decision in *Kelly* is directly on point. There we held that the photographer’s images were “creative in nature” and thus “closer to the core of intended copyright protection than are more fact-based works.” *Kelly*, 336 F.3d at 820 (internal quotation omitted). However, because the photos appeared on the Internet before Arriba used thumbnail versions in its search engine results, this factor weighed only slightly in favor of the photographer. *Id.*

[13] Here, the district court found that Perfect 10’s images were creative but also previously published. *Perfect 10*, 416 F. Supp. 2d at 850. The right of first publication is “the author’s right to control the first public appearance of his expression.” *Harper & Row*, 471 U.S. at 564. Because this right encompasses “the choices of when, where, and in what form first to publish a work,” *id.*, an author exercises and exhausts this one-time right by publishing the work in any medium. *See, e.g., Batjac Prods. Inc. v. GoodTimes Home Video Corp.*, 160 F.3d 1223, 1235 (9th Cir. 1998) (noting, in the context of the common law right of first publication, that such a right “does not entail multiple first publication rights in every available medium”). Once Perfect 10 has exploited this commercially valuable right of first publication by putting its images on the Internet for paid subscribers, Perfect 10 is no longer entitled to the enhanced protection available for an unpublished work. Accordingly the district court did not err in holding that this factor weighed only slightly in favor of Perfect 10.⁹ *See Perfect 10*, 416 F. Supp. 2d at 849-50.

⁹Google contends that Perfect 10’s photographic images are less creative and less deserving of protection than the images of the American West in *Kelly* because Perfect 10 boasts of its un-retouched photos showing the natural beauty of its models. Having reviewed the record, we con-

[14] *The amount and substantiality of the portion used.* “The third factor asks whether the amount and substantiality of the portion used in relation to the copyrighted work as a whole . . . are reasonable in relation to the purpose of the copying.” *Campbell*, 510 U.S. at 586 (internal quotation omitted); *see also* 17 U.S.C. § 107(3). In *Kelly*, we held Arriba’s use of the entire photographic image was reasonable in light of the purpose of a search engine. *Kelly*, 336 F.3d at 821. Specifically, we noted, “[i]t was necessary for Arriba to copy the entire image to allow users to recognize the image and decide whether to pursue more information about the image or the originating [website]. If Arriba only copied part of the image, it would be more difficult to identify it, thereby reducing the usefulness of the visual search engine.” *Id.* Accordingly, we concluded that this factor did not weigh in favor of either party. *Id.* Because the same analysis applies to Google’s use of Perfect 10’s image, the district court did not err in finding that this factor favored neither party.

Effect of use on the market. The fourth factor is “the effect of the use upon the potential market for or value of the copyrighted work.” 17 U.S.C. § 107(4). In *Kelly*, we concluded that Arriba’s use of the thumbnail images did not harm the market for the photographer’s full-size images. *See Kelly*, 336 F.3d at 821-22. We reasoned that because thumbnails were not a substitute for the full-sized images, they did not harm the photographer’s ability to sell or license his full-sized images. *Id.* The district court here followed *Kelly*’s reasoning, holding that Google’s use of thumbnails did not hurt Perfect 10’s market for full-size images. *See Perfect 10*, 416 F. Supp. 2d at 850-51. We agree.

clude that the district court’s finding that Perfect 10’s photographs “consistently reflect professional, skillful, and sometimes tasteful artistry” is not clearly erroneous. *Perfect 10*, 416 F. Supp. 2d at 849 n.15. We agree with the district court that there is no basis for concluding that photos of the American West are more deserving of protection than photos of nude models. *See id.*

Perfect 10 argues that the district court erred because the likelihood of market harm may be presumed if the intended use of an image is for commercial gain. However, this presumption does not arise when a work is transformative because “market substitution is at least less certain, and market harm may not be so readily inferred.” *Campbell*, 510 U.S. at 591. As previously discussed, Google’s use of thumbnails for search engine purposes is highly transformative, and so market harm cannot be presumed.

[15] Perfect 10 also has a market for reduced-size images, an issue not considered in *Kelly*. The district court held that “Google’s use of thumbnails likely does harm the potential market for the downloading of [Perfect 10’s] reduced-size images onto cell phones.” *Perfect 10*, 416 F. Supp. 2d at 851 (emphasis omitted). The district court reasoned that persons who can obtain Perfect 10 images free of charge from Google are less likely to pay for a download, and the availability of Google’s thumbnail images would harm Perfect 10’s market for cell phone downloads. *Id.* As we discussed above, the district court did not make a finding that Google users have downloaded thumbnail images for cell phone use. This potential harm to Perfect 10’s market remains hypothetical. We conclude that this factor favors neither party.

[16] Having undertaken a case-specific analysis of all four factors, we now weigh these factors together “in light of the purposes of copyright.” *Campbell*, 510 U.S. at 578; *see also Kelly*, 336 F.3d at 818 (“We must balance [the section 107] factors in light of the objectives of copyright law, rather than view them as definitive or determinative tests.”). In this case, Google has put Perfect 10’s thumbnail images (along with millions of other thumbnail images) to a use fundamentally different than the use intended by Perfect 10. In doing so, Google has provided a significant benefit to the public. Weighing this significant transformative use against the unproven use of Google’s thumbnails for cell phone downloads, and considering the other fair use factors, all in light of

the purpose of copyright, we conclude that Google’s use of Perfect 10’s thumbnails is a fair use. Because the district court here “found facts sufficient to evaluate each of the statutory factors . . . [we] need not remand for further factfinding.” *Harper & Row*, 471 U.S. at 560 (internal quotation omitted). We conclude that Google is likely to succeed in proving its fair use defense and, accordingly, we vacate the preliminary injunction regarding Google’s use of thumbnail images.

IV

Secondary Liability for Copyright Infringement

[17] We now turn to the district court’s ruling that Google is unlikely to be secondarily liable for its in-line linking to infringing full-size images under the doctrines of contributory and vicarious infringement.¹⁰ The district court ruled that Perfect 10 did not have a likelihood of proving success on the merits of either its contributory infringement or vicarious infringement claims with respect to the full-size images. *See Perfect 10*, 416 F. Supp. 2d at 856, 858. In reviewing the district court’s conclusions, we are guided by the Supreme Court’s recent interpretation of secondary liability, namely: “[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.” *Grokster*, 545 U.S. at 930 (internal citations omitted).

Direct Infringement by Third Parties. As a threshold matter, before we examine Perfect 10’s claims that Google is secondarily liable, Perfect 10 must establish that there has been

¹⁰Because the district court concluded that Perfect 10 was likely to prevail on its direct infringement claim with respect to Google’s use of thumbnails, but not with respect to its in-line linking to full-size images, the district court considered Google’s potential secondary liability only on the second issue.

direct infringement by third parties. *See Napster*, 239 F.3d at 1013 n.2 (“Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party.”).

Perfect 10 alleges that third parties directly infringed its images in three ways. First, Perfect 10 claims that third-party websites directly infringed its copyright by reproducing, displaying, and distributing unauthorized copies of Perfect 10’s images. Google does not dispute this claim on appeal.

[18] Second, Perfect 10 claims that individual users of Google’s search engine directly infringed Perfect 10’s copyrights by storing full-size infringing images on their computers. We agree with the district court’s conclusion that Perfect 10 failed to provide sufficient evidence to support this claim. *See Perfect 10*, 416 F. Supp. 2d at 852. There is no evidence in the record directly establishing that users of Google’s search engine have stored infringing images on their computers, and the district court did not err in declining to infer the existence of such evidence.

[19] Finally, Perfect 10 contends that users who link to infringing websites automatically make “cache” copies of full-size images and thereby directly infringe Perfect 10’s reproduction right. The district court rejected this argument, holding that any such reproduction was likely a “fair use.” *Id.* at 852 n.17. The district court reasoned that “[l]ocal caching by the browsers of individual users is noncommercial, transformative, and no more than necessary to achieve the objectives of decreasing network latency and minimizing unnecessary bandwidth usage (essential to the [I]nternet). It has a minimal impact on the potential market for the original work” *Id.* We agree; even assuming such automatic copying could constitute direct infringement, it is a fair use in this context. The copying function performed automatically by a user’s computer to assist in accessing the Internet is a transformative use. Moreover, as noted by the district court,

a cache copies no more than is necessary to assist the user in Internet use. It is designed to enhance an individual's computer use, not to supersede the copyright holders' exploitation of their works. Such automatic background copying has no more than a minimal effect on Perfect 10's rights, but a considerable public benefit. Because the four fair use factors weigh in favor of concluding that cache copying constitutes a fair use, Google has established a likelihood of success on this issue. Accordingly, Perfect 10 has not carried its burden of showing that users' cache copies of Perfect 10's full-size images constitute direct infringement.

Therefore, we must assess Perfect 10's arguments that Google is secondarily liable in light of the direct infringement that is undisputed by the parties: third-party websites' reproducing, displaying, and distributing unauthorized copies of Perfect 10's images on the Internet. *Id.* at 852.

A. *Contributory Infringement*

In order for Perfect 10 to show it will likely succeed in its contributory liability claim against Google, it must establish that Google's activities meet the definition of contributory liability recently enunciated in *Grokster*. Within the general rule that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement," *Grokster*, 545 U.S. at 930, the Court has defined two categories of contributory liability: "Liability under our jurisprudence may be predicated on actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develops) or on distributing a product distributees use to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant' noninfringing uses." *Id.* at 942 (Ginsburg, J., concurring) (quoting *Sony*, 464 U.S. at 442); *see also id.* at 936-37.

Looking at the second category of liability identified by the Supreme Court (distributing products), Google relies on *Sony*, 464 U.S. at 442, to argue that it cannot be held liable for con-

tributory infringement because liability does not arise from the mere sale of a product (even with knowledge that consumers would use the product to infringe) if the product is capable of substantial non-infringing use. Google argues that its search engine service is such a product. Assuming the principle enunciated in *Sony* is applicable to the operation of Google's search engine, then Google cannot be held liable for contributory infringement *solely* because the design of its search engine facilitates such infringement. *Grokster*, 545 U.S. at 931-32 (discussing *Sony*, 464 U.S. 417). Nor can Google be held liable solely because it did not develop technology that would enable its search engine to automatically avoid infringing images. *See id.* at 939 n.12. However, Perfect 10 has not based its claim of infringement on the design of Google's search engine and the *Sony* rule does not immunize Google from other sources of contributory liability. *See id.* at 933-34.

[20] We must next consider whether Google could be held liable under the first category of contributory liability identified by the Supreme Court, that is, the liability that may be imposed for intentionally encouraging infringement through specific acts.¹¹ *Grokster* tells us that contribution to infringement must be intentional for liability to arise. *Grokster*, 545 U.S. at 930. However, *Grokster* also directs us to analyze contributory liability in light of "rules of fault-based liability derived from the common law," *id.* at 934-35, and common law principles establish that intent may be imputed. "Tort law ordinarily imputes to an actor the intention to cause the natural and probable consequences of his conduct." *DeVoto v. Pac. Fid. Life Ins. Co.*, 618 F.2d 1340, 1347 (9th Cir. 1980);

¹¹Google's activities do not meet the "inducement" test explained in *Grokster* because Google has not promoted the use of its search engine specifically to infringe copyrights. *See Grokster*, 545 U.S. at 935-37. However, the Supreme Court in *Grokster* did not suggest that a court must find inducement in order to impose contributory liability under common law principles.

RESTATEMENT (SECOND) OF TORTS § 8A cmt. b (1965) (“If the actor knows that the consequences are certain, or substantially certain, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result.”). When the Supreme Court imported patent law’s “staple article of commerce doctrine” into the copyright context, it also adopted these principles of imputed intent. *Grokster*, 545 U.S. at 932 (“The [staple article of commerce] doctrine was devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another’s patent, and so may justly be held liable for that infringement.”). Therefore, under *Grokster*, an actor may be contributorily liable for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement.

Our tests for contributory liability are consistent with the rule set forth in *Grokster*. We have adopted the general rule set forth in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, namely: “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer,” 443 F.2d 1159, 1162 (2d Cir. 1971). See *Ellison*, 357 F.3d at 1076; *Napster*, 239 F.3d at 1019; *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

[21] We have further refined this test in the context of cyberspace¹² to determine when contributory liability can be imposed on a provider of Internet access or services. See *Napster*, 239 F.3d at 1019-20. In *Napster*, we considered claims that the operator of an electronic file sharing system was contributorily liable for assisting individual users to swap

¹²“Cyberspace is a popular term for the world of electronic communications over computer networks.” *Religious Tech. Ctr. v. Netcom On-Line Commc’n Servs., Inc.*, 907 F. Supp. 1361, 1365 n.1 (N.D. Cal. 1995).

copyrighted music files stored on their home computers with other users of the system. *Napster*, 239 F.3d at 1011-13, 1019-22. We stated that “if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.” *Id.* at 1021. Because Napster knew of the availability of infringing music files, assisted users in accessing such files, and failed to block access to such files, we concluded that Napster materially contributed to infringement. *Id.* at 1022.

The *Napster* test for contributory liability was modeled on the influential district court decision in *Religious Technology Center v. Netcom On-Line Communication Services, Inc. (Netcom)*, 907 F. Supp. 1361, 1365-66 (N.D. Cal. 1995). See *Napster*, 239 F.3d at 1021. In *Netcom*, a disgruntled former Scientology minister posted allegedly infringing copies of Scientological works on an electronic bulletin board service. *Netcom*, 907 F. Supp. at 1365-66. The messages were stored on the bulletin board operator’s computer, then automatically copied onto Netcom’s computer, and from there copied onto other computers comprising “a worldwide community” of electronic bulletin board systems. *Id.* at 1366-67 & n.4 (internal quotation omitted). *Netcom* held that if plaintiffs could prove that Netcom knew or should have known that the minister infringed plaintiffs’ copyrights, “Netcom [would] be liable for contributory infringement since its failure to simply cancel [the former minister’s] infringing message and thereby stop an infringing copy from being distributed worldwide constitute[d] substantial participation in [the former minister’s] public distribution of the message.” *Id.* at 1374.

[22] Although neither *Napster* nor *Netcom* expressly required a finding of intent, those cases are consistent with *Grokster* because both decisions ruled that a service provider’s knowing failure to prevent infringing actions could be the basis for imposing contributory liability. Under such circumstances, intent may be imputed. In addition, *Napster* and *Net-*

com are consistent with the longstanding requirement that an actor's contribution to infringement must be material to warrant the imposition of contributory liability. *Gershwin*, 443 F.2d at 1162. Both *Napster* and *Netcom* acknowledged that services or products that facilitate access to websites throughout the world can significantly magnify the effects of otherwise immaterial infringing activities. See *Napster*, 239 F.3d at 1022; *Netcom*, 907 F. Supp. at 1375. The Supreme Court has acknowledged that "[t]he argument for imposing indirect liability" is particularly "powerful" when individuals using the defendant's software could make a huge number of infringing downloads every day. *Grokster*, 545 U.S. at 929. Moreover, copyright holders cannot protect their rights in a meaningful way unless they can hold providers of such services or products accountable for their actions pursuant to a test such as that enunciated in *Napster*. See *id.* at 929-30 ("When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement."). Accordingly, we hold that a computer system operator can be held contributorily liable if it "has actual knowledge that specific infringing material is available using its system," *Napster*, 239 F.3d at 1022, and can "take simple measures to prevent further damage" to copyrighted works, *Netcom*, 907 F. Supp. at 1375, yet continues to provide access to infringing works.

Here, the district court held that even assuming Google had actual knowledge of infringing material available on its system, Google did not materially contribute to infringing conduct because it did not undertake any substantial promotional or advertising efforts to encourage visits to infringing websites, nor provide a significant revenue stream to the infringing websites. *Perfect 10*, 416 F. Supp. 2d at 854-56. This analysis is erroneous. There is no dispute that Google substantially assists websites to distribute their infringing copies to a

worldwide market and assists a worldwide audience of users to access infringing materials. We cannot discount the effect of such a service on copyright owners, even though Google's assistance is available to all websites, not just infringing ones. Applying our test, Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps.

[23] The district court did not resolve the factual disputes over the adequacy of Perfect 10's notices to Google and Google's responses to these notices. Moreover, there are factual disputes over whether there are reasonable and feasible means for Google to refrain from providing access to infringing images. Therefore, we must remand this claim to the district court for further consideration whether Perfect 10 would likely succeed in establishing that Google was contributorily liable for in-line linking to full-size infringing images under the test enunciated today.¹³

B. Vicarious Infringement

[24] Perfect 10 also challenges the district court's conclusion that it is not likely to prevail on a theory of vicarious liability against Google. *Perfect 10*, 416 F. Supp. 2d at 856-58. *Grokster* states that one "infringes vicariously by profiting

¹³Perfect 10 claims that Google materially contributed to infringement by linking to websites containing unauthorized passwords, which enabled Google users to access Perfect 10's website and make infringing copies of images. However, Perfect 10 points to no evidence that users logging onto the Perfect 10 site with unauthorized passwords infringed Perfect 10's exclusive rights under section 106. In the absence of evidence that Google's actions led to any direct infringement, this argument does not assist Perfect 10 in establishing that it would prevail on the merits of its contributory liability claim. See *Napster*, 239 F.3d at 1013 n.2 ("Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party.").

from direct infringement while declining to exercise a right to stop or limit it.” *Grokster*, 545 U.S. at 930. As this formulation indicates, to succeed in imposing vicarious liability, a plaintiff must establish that the defendant exercises the requisite control over the direct infringer and that the defendant derives a direct financial benefit from the direct infringement. *See id.* *Grokster* further explains the “control” element of the vicarious liability test as the defendant’s “right and ability to supervise the direct infringer.” *Id.* at 930 n.9. Thus, under *Grokster*, a defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so.

We evaluate Perfect 10’s arguments that Google is vicariously liable in light of the direct infringement that is undisputed by the parties, namely, the third-party websites’ reproduction, display, and distribution of unauthorized copies of Perfect 10’s images on the Internet. *Perfect 10*, 416 F. Supp. 2d at 852; *see supra* Section IV.A. In order to prevail at this preliminary injunction stage, Perfect 10 must demonstrate a likelihood of success in establishing that Google has the right and ability to stop or limit the infringing activities of third party websites. In addition, Perfect 10 must establish a likelihood of proving that Google derives a direct financial benefit from such activities. Perfect 10 has not met this burden.

With respect to the “control” element set forth in *Grokster*, Perfect 10 has not demonstrated a likelihood of showing that Google has the legal right to stop or limit the direct infringement of third-party websites. *See Grokster*, 545 U.S. at 930. Unlike *Fonovisa*, where by virtue of a “broad contract” with its vendors the defendant swap meet operators had the right to stop the vendors from selling counterfeit recordings on its premises, *Fonovisa*, 76 F.3d at 263, Perfect 10 has not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies of Perfect 10’s

images on the Internet. Perfect 10 does point to Google's AdSense agreement, which states that Google reserves "the right to monitor and terminate partnerships with entities that violate others' copyright[s]." *Perfect 10*, 416 F. Supp. 2d at 858. However, Google's right to terminate an AdSense partnership does not give Google the right to stop direct infringement by third-party websites. An infringing third-party website can continue to reproduce, display, and distribute its infringing copies of Perfect 10 images after its participation in the AdSense program has ended.

[25] Nor is Google similarly situated to Napster. Napster users infringed the plaintiffs' reproduction and distribution rights through their use of Napster's proprietary music-file sharing system. *Napster*, 239 F.3d at 1011-14. There, the infringing conduct was the use of Napster's "service to download and upload copyrighted music." *Id.* at 1014 (internal quotation omitted). Because Napster had a closed system requiring user registration, and could terminate its users' accounts and block their access to the Napster system, Napster had the right and ability to prevent its users from engaging in the infringing activity of uploading file names and downloading Napster users' music files through the Napster system.¹⁴ *Id.* at 1023-24. By contrast, Google cannot stop any

¹⁴Napster's system included "Napster's MusicShare software, available free of charge from Napster's Internet site, and Napster's network servers and server-side software." *Napster*, 239 F.3d at 1011. By downloading Napster's MusicShare software to the user's personal computer, and registering with the Napster system, a user could both upload and download music files. *Id.* at 1011-13. If the Napster user uploaded a list of music files stored on the user's personal computer to the Napster system, such music files would be automatically available to other Napster users whenever the user was logged on to the Napster system. *Id.* at 1012. In addition, the Napster user could download music files directly from other users' personal computers. *Id.* We explained the infringing conduct as "Napster users who upload file names to the [Napster] search index for others to copy violate plaintiffs' distribution rights. Napster users who download files [through the Napster system] containing copyrighted music violate plaintiffs' reproduction rights." *Id.* at 1014.

of the third-party websites from reproducing, displaying, and distributing unauthorized copies of Perfect 10's images because that infringing conduct takes place on the third-party websites. Google cannot terminate those third-party websites or block their ability to "host and serve infringing full-size images" on the Internet. *Perfect 10*, 416 F. Supp. 2d at 831.

Moreover, the district court found that Google lacks the practical ability to police the third-party websites' infringing conduct. *Id.* at 857-58. Specifically, the court found that Google's supervisory power is limited because "Google's software lacks the ability to analyze every image on the [I]nternet, compare each image to all the other copyrighted images that exist in the world . . . and determine whether a certain image on the web infringes someone's copyright." *Id.* at 858. The district court also concluded that Perfect 10's suggestions regarding measures Google could implement to prevent its web crawler from indexing infringing websites and to block access to infringing images were not workable. *Id.* at 858 n.25. Rather, the suggestions suffered from both "imprecision and overbreadth." *Id.* We hold that these findings are not clearly erroneous. Without image-recognition technology, Google lacks the practical ability to police the infringing activities of third-party websites. This distinguishes Google from the defendants held liable in *Napster* and *Fonovisa*. See *Napster*, 239 F.3d at 1023-24 (*Napster* had the ability to identify and police infringing conduct by searching its index for song titles); *Fonovisa*, 76 F.3d at 262 (*swap meet operator* had the ability to identify and police infringing activity by patrolling its premises).

Perfect 10 argues that Google could manage its own operations to avoid indexing websites with infringing content and linking to third-party infringing sites. This is a claim of contributory liability, not vicarious liability. Although "the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn," *Sony*, 464 U.S. at 435 n.17 (internal quotation omitted), in general, contributory

liability is based on the defendant's failure to stop its own actions which facilitate third-party infringement, while vicarious liability is based on the defendant's failure to cause a third party to stop its directly infringing activities. *See, e.g., Ellison*, 357 F.3d at 1077-78; *Fonovisa*, 76 F.3d at 261-64. Google's failure to change its operations to avoid assisting websites to distribute their infringing content may constitute contributory liability, *see supra* Section IV.A. However, this failure is not the same as declining to exercise a right and ability to make third-party websites stop their direct infringement. We reject Perfect 10's efforts to blur this distinction.

[26] Because we conclude that Perfect 10 has not shown a likelihood of establishing Google's right and ability to stop or limit the directly infringing conduct of third-party websites, we agree with the district court's conclusion that Perfect 10 "has not established a likelihood of proving the [control] prong necessary for vicarious liability." *Perfect 10*, 416 F. Supp. 2d at 858.¹⁵

C. Digital Millennium Copyright Act

Google claims that it qualifies for the limitations on liability set forth in title II of the DMCA, 17 U.S.C. § 512. In particular, section 512(d) limits the liability of a service provider "for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link" if the service provider meets certain criteria. We have held that the limitations on liability contained in 17 U.S.C. § 512 protect secondary infringers as well as direct infringers. *Napster*, 239 F.3d at 1025.

¹⁵Having so concluded, we need not reach Perfect 10's argument that Google received a direct financial benefit.

[27] The parties dispute whether Google meets the specified criteria. Perfect 10 claims that it sent qualifying notices to Google and Google did not act expeditiously to remove the infringing material. Google claims that Perfect 10's notices did not comply with the notice provisions of section 512 and were not adequate to inform Google of the location of the infringing images on the Internet or identify the underlying copyrighted work. Google also claims that it responded to all notices it received by investigating the webpages identified by Perfect 10 and suppressing links to any webpages that Google confirmed were infringing.

Because the district court determined that Perfect 10 was unlikely to succeed on its contributory and vicarious liability claims, it did not reach Google's arguments under section 512. In revisiting the question of Perfect 10's likelihood of success on its contributory infringement claims, the district court should also consider whether Google would likely succeed in showing that it was entitled to the limitations on injunctive relief provided by title II of the DMCA.

V

Amazon.com

Perfect 10 claims that Amazon.com displays and distributes Perfect 10's copyrighted images and is also secondarily liable for the infringements of third-party websites and Amazon.com users. The district court concluded that Perfect 10 was unlikely to succeed in proving that Amazon.com was a direct infringer, because it merely in-line linked to the thumbnails on Google's servers and to the full-size images on third-party websites.¹⁶ *Perfect 10 v. Amazon*, No. 05-4753, consoli-

¹⁶Amazon.com states that it ended its relationship with Google on April 30, 2006. Perfect 10's action for preliminary injunction against Amazon.com is not moot, however, because Amazon.com has not established "that the allegedly wrongful behavior cannot reasonably be expected to recur." *F.T.C. v. Affordable Media, LLC*, 179 F.3d 1228, 1238 (9th Cir. 1999) (internal quotation omitted).

dated with 04-9484 (C.D. Cal. February 21, 2006) (order denying preliminary injunction). In addition, the district court concluded that Perfect 10's secondary infringement claims against Amazon.com were likely to fail because Amazon.com had no program analogous to AdSense, and thus did not provide any revenues to infringing sites. *Id.* Finally, the district court determined that Amazon.com's right and ability to control the infringing conduct of third-party websites was substantially less than Google's. *Id.* Therefore, the district court denied Perfect 10's motion for a preliminary injunction against Amazon.com. *Id.*

We agree that Perfect 10 has not shown a likelihood that it would prevail on the merits of its claim that Amazon.com directly infringed its images. Amazon.com communicates to its users only the HTML instructions that direct the users' browsers to Google's computers (for thumbnail images) or to a third party's computer (for full-size infringing images). Therefore, Amazon.com does not display or distribute a copy of the thumbnails or full-size images to its users.

[28] We also agree with the district court's conclusion that Amazon.com does not have "the right and ability to supervise the infringing activity" of Google or third parties. The district court did not clearly err in concluding that Amazon.com lacked a direct financial interest in such activities. Therefore, Perfect 10's claim that Amazon.com is vicariously liable for third-party infringement is unlikely to succeed.

[29] However, the district court did not consider whether Amazon.com had "*actual* knowledge that *specific* infringing material is available using its system," *Napster*, 239 F.3d at 1022 (emphasis in original), and could have "take[n] simple measures to prevent further damage" to copyrighted works, *Netcom*, 907 F. Supp. at 1375, yet continued to provide access to infringing works. Perfect 10 has presented evidence that it notified Amazon.com that it was facilitating its users' access to infringing material. It is disputed whether the notices gave

Amazon.com actual knowledge of specific infringing activities available using its system, and whether Amazon.com could have taken reasonable and feasible steps to refrain from providing access to such images, but failed to do so. Nor did the district court consider whether Amazon.com is entitled to limit its liability under title II of the DMCA. On remand, the district court should consider Amazon.com's potential contributory liability, as well as possible limitations on the scope of injunctive relief, in light of our rulings today.

VI

We conclude that Google's fair use defense is likely to succeed at trial, and therefore we reverse the district court's determination that Google's thumbnail versions of Perfect 10's images likely constituted a direct infringement. The district court also erred in its secondary liability analysis because it failed to consider whether Google and Amazon.com knew of infringing activities yet failed to take reasonable and feasible steps to refrain from providing access to infringing images. Therefore we must also reverse the district court's holding that Perfect 10 was unlikely to succeed on the merits of its secondary liability claims. Due to this error, the district court did not consider whether Google and Amazon.com are entitled to the limitations on liability set forth in title II of the DMCA. The question whether Google and Amazon.com are secondarily liable, and whether they can limit that liability pursuant to title II of the DMCA, raise fact-intensive inquiries, potentially requiring further fact finding, and thus can best be resolved by the district court on remand. We therefore remand this matter to the district court for further proceedings consistent with this decision.

Because the district court will need to reconsider the appropriate scope of injunctive relief after addressing these secondary liability issues, we do not address the parties' arguments regarding the scope of the injunction issued by the district court. For the same reason, we do not address the parties' dis-

pute over whether the district court abused its discretion in determining that Perfect 10 satisfied the irreparable harm element of a preliminary injunction.

Therefore, we reverse the district court's ruling and vacate the preliminary injunction regarding Google's use of thumbnail versions of Perfect 10's images.¹⁷ We reverse the district court's rejection of the claims that Google and Amazon.com are secondarily liable for infringement of Perfect 10's full-size images. We otherwise affirm the rulings of the district court. We remand this matter for further proceedings consistent with this opinion. Each party shall bear its own costs on appeal. *See* FED. R. APP. P. 39(a)(4).

**AFFIRMED IN PART; REVERSED IN PART;
REMANDED.**

¹⁷Because we vacate the injunction, Google's motion for stay of the injunction is moot.

FOR PUBLICATION

**UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

MAVRIX PHOTOGRAPHS,
LLC, a California limited
liability company,
Plaintiff-Appellant,

v.

LIVEJOURNAL, INC.,
Defendant-Appellee.

No. 14-56596

D.C. No.
8:13-cv-00517-CJC-JPR

AMENDED OPINION

Appeal from the United States District Court
for the Central District of California
Cormac J. Carney, District Judge, Presiding

Argued Submitted October 7, 2016
Pasadena, California

Filed April 7, 2017
Amended August 30, 2017

Before: Harry Pregerson, Richard A. Paez,
and Morgan Christen, Circuit Judges.

Opinion by Judge Paez

SUMMARY*

Digital Millennium Copyright Act

The panel filed an amended opinion (1) reversing the district court’s holding, on summary judgment, that the defendant was protected by the safe harbor of the Digital Millennium Copyright Act from liability for posting the plaintiff’s photographs online and (2) vacating a discovery order.

In its amended opinion, the panel held that the safe harbor set forth in 17 U.S.C. § 512(c) would apply if the photographs were stored at the direction of users. The defendant, a social media platform, posted the photographs after a team of volunteer moderators, led by an employee of the defendant, reviewed and approved them. The panel held that whether the photographs were stored at the direction of users depended on whether the acts of the moderators could be attributed to the defendant. Disagreeing with the district court, the panel held that the common law of agency applied to the defendant’s safe harbor defense. Because there were genuine factual disputes regarding whether the moderators were the defendant’s agents, the panel reversed the district court’s summary judgment and remanded the case for trial.

The panel also discussed the remaining elements of the safe harbor affirmative defense. If an internet service provider shows that the infringing material was posted “at the direction of the user,” it must then also show that (1) it lacked

* This summary constitutes no part of the opinion of the court. It has been prepared by court staff for the convenience of the reader.

actual or red flag knowledge of the infringing material; and (2) it did not financially benefit from infringements that it had the right and ability to control. The panel held that to fully assess actual knowledge, the fact finder must consider not only whether the copyright holder has given notice of the infringement, but also the service provider's subjective knowledge of the infringing nature of the posts. The panel held that to determine whether the defendant had red flag knowledge, the fact finder would need to assess whether it would be objectively obvious to a reasonable person that material bearing a generic watermark or a watermark referring to the plaintiff's website was infringing. When assessing the service provider's right and ability to control the infringements, the fact finder should consider the service provider's procedures that existed at the time of the infringements and whether the service provider had "something more" than the ability to remove or block access to posted materials.

Finally, the panel vacated the district court's order denying discovery of the moderators' identities. It remanded the case for further proceedings.

COUNSEL

Peter Afrasiabi (argued), Christopher W. Arledge, and John Tehranian, One LLP, Newport Beach, California, for Plaintiff-Appellant.

Wayne Mitchell Barsky (argued), Gibson Dunn & Crutcher LLP, Los Angeles, California; Blaine H. Evanson and Brandon J. Stoker, Gibson Dunn & Crutcher LLP, Los Angeles, California; for Defendant-Appellee.

Mitchell L. Stoltz and Corynne McSherry, Electronic Frontier Foundation, San Francisco, California; Jonathan Band, Jonathan Band LLP, Washington, D.C.; for Amici Curiae American Library Association, Association of College and Research Libraries, Association of Research Libraries, Electronic Frontier Foundation, Public Knowledge, and Wikimedia Foundation.

Brian M. Willen, Wilson Sonsini Goodrich & Rosati, New York, New York, for Amici Curiae Facebook, Inc.; Github, Inc.; Google, Inc.; IAC/Interactive Corp.; Kickstarter, PBC; Patreon, Inc.; Pinterest, Inc.; The Computer & Communications Industry Association; and The Internet Association.

Kelly M. Klaus, Munger Tolles & Olson LLP, San Francisco, California, for Amicus Curiae Motion Picture Association of America, Inc.

OPINION

PAEZ, Circuit Judge:

Plaintiff Mavrix Photographs (“Mavrix”) appeals the district court’s summary judgment in favor of Defendant LiveJournal. Mavrix sued LiveJournal for posting twenty of its copyrighted photographs online. The district court held that the Digital Millennium Copyright Act’s (“DMCA”) § 512(c) safe harbor protected LiveJournal from liability because Mavrix’s photographs were stored at the direction of the user. 17 U.S.C. § 512(c).

To be eligible at the threshold for the § 512(c) safe harbor, LiveJournal must show that the photographs were stored at the direction of the user. Although users submitted Mavrix’s photographs to LiveJournal, LiveJournal posted the photographs after a team of volunteer moderators led by a LiveJournal employee reviewed and approved them. Whether these photographs were truly stored at the direction of the user, or instead whether LiveJournal is responsible for the photographs, depends on whether the acts of the moderators can be attributed to LiveJournal. The issue we must decide is whether the common law of agency applies to LiveJournal’s safe harbor defense. The district court ruled that the common law of agency does not apply to this analysis. We disagree and conclude that it does. As there are genuine factual disputes regarding whether the moderators are LiveJournal’s agents, we reverse the district court’s summary judgment and remand for trial.

Because the district court ruled on the remaining elements of the safe harbor, we also proceed to discuss those elements in order to provide guidance to the district court and parties

on remand. Finally, we vacate the district court's order denying discovery of the moderators' identities because the agency determination may affect this analysis.

I.

*LiveJournal*¹

LiveJournal is a social media platform. Among other services, it allows users to create and run thematic “communities” in which they post and comment on content related to the theme. LiveJournal communities can create their own rules for submitting and commenting on posts.

LiveJournal set up three types of unpaid administrator roles to run its communities. “Moderators” review posts submitted by users to ensure compliance with the rules.² “Maintainers” review and delete posts and have the authority to remove moderators and users from the community. Each community also has one “owner” who has the authority of a maintainer, but can also remove maintainers.

LiveJournal protects against copyright infringement in its communities through various mechanisms. LiveJournal follows the formal notice and takedown procedures outlined in the DMCA by designating an agent and form to report infringement, and by promptly removing infringing posts and prohibiting repeat abusers from the community. 17 U.S.C.

¹ The facts are undisputed unless otherwise noted.

² Because moderators, maintainers, and owners can all review posts, we refer to all three as moderators when discussing the act of reviewing posts.

§ 512(c)(1)(C). LiveJournal’s Terms of Service instructs users not to “[u]pload, post or otherwise transmit any Content that infringes any patent, trademark, trade secret, copyright or other proprietary rights.”

Oh No They Didn’t! (“ONTD”)

ONTD is a popular LiveJournal community which features up-to-date celebrity news. Users submit posts containing photographs, videos, links, and gossip about celebrities’ lives. ONTD moderators review and publicly post some of the submissions. Other users engage in conversations about the celebrity news in the comments section of each post. For example, one of the ONTD posts at issue contained photographs that Mavrix had taken which appeared to show that super-celebrity Beyoncé was pregnant. Users speculated in the comments section of that post that Beyoncé was indeed pregnant.³

Like other LiveJournal communities, ONTD created rules for submitting and commenting on posts. ONTD’s rules pertain to both potential copyright infringement and substantive guidance for users. For example, one rule instructs users to “[i]nclude the article and picture(s) in your post, do not simply refer us off to another site for the goods.” Another rule provides “Keep it recent. We don’t need a post in 2010 about Britney Spears shaving her head.” ONTD’s

³ In a more recent post about Beyoncé, a user speculated that she would perform her song “Formation” at the 2016 Super Bowl. Other users commented on the post, debating how Beyoncé might incorporate feminist and racial justice themes into her performance. XOXOBLISS, *Beyoncé Is Performing Formation at the Super Bowl + Celebrities React to Formation*, ONTD (Feb. 6, 2016, 05:49 PM), <http://ohnotheydidnt.livejournal.com/100179096.html>.

rules also include a list of sources from which users should not copy material. The sources on the list have informally requested that ONTD stop posting infringing material. ONTD has also automatically blocked all material from one source that sent ONTD a cease and desist letter.

ONTD has nine moderators, six maintainers, and one owner. ONTD users submit proposed posts containing celebrity news to an internal queue. Moderators review the submissions and publicly post approximately one-third of them. Moderators review for substance, approving only those submissions relevant to new and exciting celebrity news. Moderators also review for copyright infringement, pornography, and harassment.

When ONTD was created, like other LiveJournal communities, it was operated exclusively by volunteer moderators. LiveJournal was not involved in the day-to-day operation of the site. ONTD, however, grew in popularity to 52 million page views per month in 2010 and attracted LiveJournal's attention. By a significant margin, ONTD is LiveJournal's most popular community and is the only community with a "household name." In 2010, LiveJournal sought to exercise more control over ONTD so that it could generate advertising revenue from the popular community. LiveJournal hired a then active moderator, Brendan Delzer, to serve as the community's full time "primary leader." By hiring Delzer, LiveJournal intended to "take over" ONTD, grow the site, and run ads on it.⁴

⁴ When Delzer was hired in 2010, LiveJournal had not yet created the owner administrator position. In 2011, when LiveJournal created the owner position, Delzer was elected by the community and became the

As the “primary leader,” Delzer instructs ONTD moderators on the content they should approve and selects and removes moderators on the basis of their performance. Delzer also continues to perform moderator work, reviewing and approving posts alongside the other moderators whom he oversees. While Delzer is paid and expected to work full time, the other moderators are “free to leave and go and volunteer their time in any way they see fit.” In his deposition, Mark Ferrell, the General Manager of LiveJournal’s U.S. office, explained that Delzer “acts in some capacities as a sort of head maintainer” and serves in an “elevated status” to the other moderators. Delzer, on the other hand, testified at his deposition that he does not serve as head moderator and that ONTD has no “primary leader.”

Mavrix

Mavrix is a celebrity photography company specializing in candid photographs of celebrities in tropical locations. The company sells its photographs to celebrity magazines. According to Mavrix, infringement of its photographs is particularly devastating to its business model. Since Mavrix’s photographs break celebrity news, such as the pregnancy of Beyoncé, infringing posts on sites like ONTD prevent Mavrix from profiting from the sale of the photographs to celebrity magazines.

Procedural History

Mavrix filed an action for damages and injunctive relief against LiveJournal alleging copyright infringement on the

owner. After this lawsuit was filed, LiveJournal’s parent company became the owner.

basis of twenty Mavrix photographs posted on ONTD. ONTD posted the photographs in seven separate posts between 2010 and 2014. Some of these photographs contained either a generic watermark or a specific watermark featuring Mavrix's website "Mavrixonline.com." To the best of his recollection, Delzer did not personally approve the seven posts. LiveJournal has no technological means of determining which moderator approved any given post. Mavrix did not utilize LiveJournal's notice and takedown procedure to notify LiveJournal of the infringements. When Mavrix filed this lawsuit, LiveJournal removed the posts.⁵

During discovery, Mavrix filed two motions to compel responses to its interrogatories seeking the identity of the ONTD moderators. The magistrate judge denied the first motion, finding that Mavrix had not met and conferred with LiveJournal in good faith. The magistrate judge denied the second motion to compel because Mavrix failed to notify the anonymous monitors of the pending motion. Mavrix moved the district court for review of the magistrate judge's order, which the district court denied on the basis of the moderators' First Amendment right to anonymous internet speech.

LiveJournal moved for summary judgment on the basis of the § 512(c) safe harbor. The district court granted LiveJournal's motion and denied Mavrix's cross-motion for partial summary judgment, concluding that the § 512(c) safe harbor shielded LiveJournal from liability for copyright infringement. Mavrix timely appealed.

⁵ Because LiveJournal removed the posts, Mavrix's request for injunctive relief is likely moot.

II.

We review de novo a district court’s grant of summary judgment. *Curley v. City of N. Las Vegas*, 772 F.3d 629, 631 (9th Cir. 2014) (citing *Smith v. Clark Cty. Sch. Dist.*, 727 F.3d 950, 954 (9th Cir.2013)). We must determine, “viewing the evidence in the light most favorable to the nonmoving party, whether there are any genuine issues of material fact and whether the district court correctly applied the substantive law.” *Id.*

The district court’s denial of a motion to reconsider a magistrate judge’s pretrial discovery order under Federal Rule of Civil Procedure 72(a) will be reversed only if “clearly erroneous or contrary to law.” *Rivera v. NIBCO, Inc.*, 364 F.3d 1057, 1063 (9th Cir. 2004) (citing *Osband v. Woodford*, 290 F.3d 1036, 1041 (9th Cir. 2002)).

III.

A.

The DMCA strikes a balance between the interests of “copyright holders in benefitting from their labor; . . . entrepreneurs in having the latitude to invent new technologies without fear of being held liable if their innovations are used by others in unintended infringing ways; and those of the public in having access [to] both . . .” *Columbia Pictures Indus., Inc. v. Fung*, 710 F.3d 1020, 1037 (9th Cir. 2013). The DMCA balances these interests by requiring service providers to take down infringing materials when copyright holders notify them of the infringement and by limiting service providers’ liability for unintentional

infringement through several safe harbors. *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004).

The DMCA established four safe harbors to “provide protection from liability for: (1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of users; and (4) information location tools.” *Id.* at 1076–77 (citing 17 U.S.C. § 512(a)–(d)). LiveJournal claimed protection from damages under the § 512(c) safe harbor for “infringement of copyright by reason of the storage [of material] at the direction of a user.” 17 U.S.C. § 512(c)(1). To be eligible at the threshold for the § 512(c) safe harbor, a service provider must show that the infringing material was stored “at the direction of the user.” 17 U.S.C. § 512(c)(1).⁶

⁶ Section 512(c)(1) provides in relevant part:

A service provider shall not be liable . . . 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, if the service provider—

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

If it meets that threshold requirement, the service provider must then show that (1) it lacked actual or red flag knowledge of the infringing material; and (2) it did not receive a “financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.” *Id.*⁷ Because the § 512(c) safe harbor is an affirmative defense, LiveJournal must establish “beyond controversy every essential element,” and failure to do so will render LiveJournal ineligible for the § 512(c) safe harbor’s protection. *See S. Cal. Gas Co. v. City of Santa Ana*, 336 F.3d 885, 888 (9th Cir. 2003); *see also UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 718 F.3d 1006, 1013 (9th Cir. 2013).

B.

1.

LiveJournal must make a threshold showing that Mavrix’s photographs were stored at the direction of the user. “Storage,” in this context, has a unique meaning. Congress

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement . . . , responds expeditiously to remove, or disable access to, the material that is claimed to be infringing

17 U.S.C. § 512(c)(1).

⁷ LiveJournal must also show that it complied with § 512(c)’s notice and takedown procedure, but that issue is not contested in this case.

explained that “[e]xamples of such storage include providing server space for a user’s web site, for a chatroom, or other forum in which material may be posted at the direction of users.” S. Rep. 105-190, at 43 (1998). We have held that storage “encompasses the access-facilitating processes” in addition to storage itself. *Shelter Capital*, 718 F.3d at 1016 (rejecting a claim that the safe harbor addresses mere storage lockers). We reasoned that rather than requiring “that the infringing conduct *be* storage,” the statutory language allows for infringement “*by reason of the storage* at the direction of a user.” *Id.* (emphasis added). The district court held that although moderators screened and publicly posted all of the ONTD posts, the posts were at the direction of the user. The district court focused on the users’ submission of infringing photographs to LiveJournal rather than LiveJournal’s screening and public posting of the photographs. A different safe harbor, § 512(a), protects service providers from liability for the passive role they play when users submit infringing material to them. 17 U.S.C. § 512(a); *see, e.g., Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1116 (9th Cir. 2007) (describing infringing material passively and temporarily placed on a computer server as within the § 512(a) safe harbor). The § 512(c) safe harbor focuses on the service provider’s role in making material stored by a user publicly accessible on its site. *See Shelter Capital*, 718 F.3d at 1018; S. Rep. No. 105-190, at 43-44 (1998). Contrary to the district court’s view, public accessibility is the critical inquiry. In the context of this case, that inquiry turns on the role of the moderators in screening and posting users’ submissions and whether their acts may be attributed to LiveJournal.

2.

Mavrix, relying on the common law of agency, argues that the moderators are LiveJournal's agents, making LiveJournal liable for the moderators' acts. The district court erred in rejecting this argument.

“[S]tatutes are presumed not to disturb the common law, ‘unless the language of a statute [is] clear and explicit for this purpose.’” *State Eng’r of Nev. v. S. Fork Band of Te-Moak Tribe of W. Shoshone Indians of Nev.*, 339 F.3d 804, 814 (9th Cir. 2003) (quoting *Norfolk Redevelopment & Hous. Auth. v. Chesapeake & Potomac Tel. Co. of Va.*, 464 U.S. 30, 35 (1983)). Pursuant to this principle, the Supreme Court and this court have applied common law in cases involving federal copyright law, including the DMCA. The Supreme Court has applied the common law of agency in interpreting the Copyright Act. *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 751–52 (1989). We have applied the common law of vicarious liability in analyzing the DMCA, reasoning that Congress intended that the DMCA’s “limitations of liability” be interpreted “under existing principles of law.” *Ellison*, 357 F.3d at 1076–77 (quoting S. Rep. 105-190, at 19 (1998)). We have also applied the common law of agency to determine a service provider’s intent to infringe under the DMCA. *Fung*, 710 F.3d at 1038.

Along with other courts, we have applied agency law to questions much like the question of LiveJournal’s liability for the moderators’ acts. We applied agency law to determine whether a service provider was responsible under the DMCA for copyright infringement by its employees. *Fung*, 710 F.3d at 1038. The Tenth Circuit applied agency law to determine whether a service provider was responsible under the DMCA

for copyright infringement by its contractors. *See BWP Media USA, Inc. v. Clarity Dig. Grp., LLC*, 820 F.3d 1175, 1180 (10th Cir. 2016).⁸ Finally, a district court applied agency law to determine whether a service provider was responsible under the DMCA for the acts of moderators. *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578 SVW(JCx), 2009 WL 6355911, at *13 n.21 (C.D. Cal. Dec. 21, 2009), *aff'd in part*, 710 F.3d 1020 (9th Cir. 2013).⁹ We therefore have little difficulty holding that common law agency principles apply to the analysis of whether a service provider like LiveJournal is liable for the acts of the ONTD moderators.

⁸ The Tenth Circuit held that the service provider’s contractors were “users” rather than agents under the DMCA. *BWP*, 820 F.3d at 1180. The court also held that even if the contractors were agents, they were not employees. *Id.* at 1181. Finally, the court held that even if the contractors were employees, they could still be users. *Id.* To the extent that *BWP*’s holding contradicts our case law that common law principles of agency apply to the DMCA such that a service provider is liable for the acts of its agents, including its employees, we reject it. *See, e.g., Fung*, 710 F.3d at 1038 (“When dealing with corporate or entity defendants, . . . the relevant intent must be that of the entity itself, as defined by traditional agency law principles . . .”).

⁹ Although the district court’s order does not specify whether the moderators were paid, the parties’ filings before the district court make clear that the moderators were unpaid. *See* Defendant’s Memorandum of Points and Authorities in Opposition to Plaintiff’s Motion for Summary Judgment on Liability at 2, *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578 SVW(JCx), 2009 WL 6355911(C.D. Cal. Dec. 21, 2009); Plaintiff’s Reply Statement of Uncontroverted Facts in Support of Plaintiff’s Motion for Summary Judgment on Liability at 6, *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578 SVW(JCx), 2009 WL 6355911(C.D. Cal. Dec. 21, 2009).

3.

In light of the summary judgment record, we conclude that there are genuine issues of material fact as to whether the moderators are LiveJournal's agents. The factual dispute is evident when we apply common law agency principles to the evidentiary record.

“Agency is the fiduciary relationship that arises when one person (a ‘principal’) manifests assent to another person (an ‘agent’) that the agent shall act on the principal’s behalf and subject to the principal’s control, and the agent manifests assent or otherwise consents so to act.” Restatement (Third) Of Agency § 1.01 (Am. Law Inst. 2006). For an agency relationship to exist, an agent must have authority to act on behalf of the principal and “[t]he person represented [must have] a right to control the actions of the agent.” Restatement (Third) Of Agency § 1.01, cmt. c (Am. Law Inst. 2006).

An agency relationship may be created through actual or apparent authority. *Gomez v. Campbell-Ewald Co.*, 768 F.3d 871, 878 (9th Cir. 2014) (citing Restatement (Third) of Agency §§ 2.01, 2.03, 4.01 (Am. Law Inst. 2006)), *cert. granted*, 135 S. Ct. 2311, (2015), *and aff’d*, 136 S. Ct. 663 (2016). Actual authority arises through “the principal’s assent that the agent take action on the principal’s behalf.” Restatement (Third) of Agency § 3.01 (Am. Law Inst. 2006). LiveJournal argues that it did not assent to the moderators acting on its behalf. Mavrix, however, presented evidence that LiveJournal gave its moderators explicit and varying levels of authority to screen posts. Although LiveJournal calls the moderators “volunteers,” the moderators performed

a vital function in LiveJournal's business model.¹⁰ There is evidence in the record that LiveJournal gave moderators express directions about their screening functions, including criteria for accepting or rejecting posts. Unlike other sites where users may independently post content, LiveJournal relies on moderators as an integral part of its screening and posting business model. LiveJournal also provides three different levels of authority: moderators review posts to ensure they contain celebrity gossip and not pornography or harassment, maintainers delete posts and can remove moderators, and owners can remove maintainers. Genuine issues of material fact therefore exist regarding whether the moderators had actual authority.

Apparent authority arises by "a person's manifestation that another has authority to act with legal consequences for the person who makes the manifestation, when a third party reasonably believes the actor to be authorized and the belief is traceable to the manifestation." Restatement (Third) of Agency § 3.03 (Am. Law Inst. 2006); *see also Hawaiian Paradise Park Corp. v. Friendly Broad. Co.*, 414 F.2d 750, 756 (9th Cir. 1969). "The principal's manifestations giving rise to apparent authority may consist of direct statements to the third person, directions to the agent to tell something to the third person, or the granting of permission to the agent to perform acts . . . under circumstances which create in him a reputation of authority. . . ." *Hawaiian Paradise Park*, 414 F.2d at 756.

¹⁰ Agents need not receive payment from their principal to be agents. Restatement (Third) of Agency § 1.01 cmt. d (Am. Law Inst. 2006) ("Many agents act or promise to act gratuitously."); Model Civ. Jury Instr. 9th Cir. 4.4 (2007) ("One may be an agent without receiving compensation for services.").

LiveJournal selected moderators and provided them with specific directions. Mavrix presented evidence that LiveJournal users may have reasonably believed that the moderators had authority to act for LiveJournal. One user whose post was removed pursuant to a DMCA notice complained to LiveJournal “I’m sure my entry does not violate any sort of copyright law. . . . I followed [ONTD’s] formatting standards and the moderators checked and approved my post.” The user relied on the moderators’ approval as a manifestation that the post complied with copyright law, and the user appeared to believe the moderators acted on behalf of LiveJournal. Such reliance is likely traceable to LiveJournal’s policy of providing explicit roles and authority to the moderators. Accordingly, genuine issues of material fact exist regarding whether there was an apparent authority relationship.

Whether an agency relationship exists also depends on the level of control a principal exerts over the agent. *See Hollingsworth v. Perry*, 133 S. Ct. 2652, 2657–58 (2013) (referring to control as one of “the basic features of an agency relationship”); *United States v. Bonds*, 608 F.3d 495, 505 (9th Cir. 2010) (explaining that the “the extent of control exercised by the employer” is the “essential ingredient” in determining an agency relationship) (quoting *NLRB v. Friendly Cab Co.*, 512 F.3d 1090, 1096 (9th Cir. 2008)). Evidence presented by Mavrix shows that LiveJournal maintains significant control over ONTD and its moderators. Delzer gives the moderators substantive supervision and selects and removes moderators on the basis of their performance, thus demonstrating control. Delzer also exercises control over the moderators’ work schedule. For example, he added a moderator from Europe so that there would be a moderator who could work while other

moderators slept. Further demonstrating LiveJournal's control over the moderators, the moderators' screening criteria derive from rules ratified by LiveJournal.¹¹

On the other hand, ONTD moderators "are free to leave and go and volunteer their time in any way they see fit." In addition, the moderators can reject submissions for reasons other than those provided by the rules, which calls into question the level of control that LiveJournal exerts over their conduct. This evidence raises genuine issues of material fact regarding the level of control LiveJournal exercised over the moderators. From the evidence currently in the record, reasonable jurors could conclude that an agency relationship existed.

4.

We turn briefly to a related issue that the fact finder must resolve in the event there is a finding that the moderators are agents of LiveJournal. In that event, the fact finder must assess whether Mavrix's photographs were indeed stored at the direction of the users in light of the moderators' role in screening and posting the photographs. Infringing material is stored at the direction of the user if the service provider played no role in making that infringing material accessible on its site or if the service provider carried out activities that were "narrowly directed" towards enhancing the accessibility

¹¹ LiveJournal ratified the ONTD rules when Ferrell discussed changing the rules with Delzer and declined to do so. *See United States v. Alaska S.S. Co.*, 491 F.2d 1147, 1155 (9th Cir.1974) ("Ratification is the affirmance by a person of a prior act which did not bind him but which was done or professedly done on his account. . .") (quoting Restatement (Second) of Agency § 82 (Am. Law Inst. 1958)); *see also Gomez*, 768 F.3d at 878.

of the posts. See *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081, 1092 (C.D. Cal. 2008); see also *Shelter Capital*, 718 F.3d at 1018. Accessibility-enhancing activities include automatic processes, for example, to reformat posts or perform some technological change. *Shelter Capital*, 718 F.3d at 1020 (referring to accessibility-enhancing activities as those where the service provider did “not actively participate in or supervise file uploading”). Some manual service provider activities that screen for infringement or other harmful material like pornography can also be accessibility-enhancing. *Id.* at 1012 n.2. Indeed, § 512(m) of the DMCA provides that no liability will arise from “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity.” *Id.* at 1022 (quoting 17 U.S.C. § 512(m)).¹²

¹² The district court did not assess whether the moderators’ review of posts exceeded accessibility-enhancing activities because it focused on submission rather than public accessibility and did not determine whether the moderators were agents. In *Shelter Capital*, we suggested that accessibility-enhancing activities have a limit when we approved software “processes that automatically occur when a user uploads” materials as within accessibility-enhancing activities. 718 F.3d at 1016, 1020. Other circuits have more squarely faced the outer edges of this limit. The Second Circuit found it a close call and remanded when YouTube manually selected videos for front page syndication on the basis of substance. *Viacom Int’l, Inc. v. YouTube, Inc.*, 676 F.3d 19, 40 (2d Cir. 2012). The district court on remand held that only those processes “without manual intervention” satisfied the § 512(c) safe harbor. *Viacom Int’l Inc. v. YouTube, Inc.*, 940 F. Supp. 2d 110, 123 (S.D.N.Y. 2013). The Fourth Circuit extended accessibility-enhancing activities to include a real estate website’s “cursory” manual screening to determine whether photographs indeed depicted real estate. *CoStar Grp., Inc. v. LoopNet, Inc.*, 373 F.3d 544, 556 (4th Cir. 2004). The fact finder should determine whether LiveJournal’s manual, substantive review process went beyond

The ONTD moderators manually review submissions and publicly post only about one-third of submissions. The moderators review the substance of posts; only those posts relevant to new and exciting celebrity gossip are approved. The question for the fact finder is whether the moderators' acts were merely accessibility-enhancing activities or whether instead their extensive, manual, and substantive activities went beyond the automatic and limited manual activities we have approved as accessibility-enhancing.

* * *

Because the district court focused on the users' submission of Mavrix's photographs rather than on ONTD's role in making those photographs publicly accessible and rejected Mavrix's argument that unpaid moderators could be agents of LiveJournal, the district court erred in granting summary judgment to LiveJournal. Genuine issues of material fact exist as to whether the moderators were LiveJournal's agents. Accordingly, remand is warranted. In assessing LiveJournal's threshold eligibility for the § 512(c) safe harbor, the fact finder must resolve the factual dispute regarding the moderators' status as LiveJournal's agents and in light of that determination, whether LiveJournal showed that Mavrix's photographs were stored at the direction of the users.

the automatic processes we have approved as accessibility-enhancing activities such that any infringements were still by reason of storage at the direction of the user.

C.

Once the district court concluded that the moderators were not LiveJournal's agents (except for its employee Delzer), it proceeded to address the two remaining disputed requirements for establishing the § 512(c) safe harbor defense—lack of knowledge of infringements and lack of any financial benefit from infringement that it had the right and ability to control. Because these issues may be contested on remand, we proceed to address them to provide guidance to the district court.

1.

If LiveJournal shows that it meets the threshold requirement for the § 512(c) safe harbor because the photographs were stored at the direction of the user, LiveJournal must then show that it lacked both actual and red flag knowledge of the infringements. *See* 17 U.S.C. § 512(c)(1)(A). Actual knowledge refers to whether the service provider had subjective knowledge, while red flag knowledge turns on whether a reasonable person would objectively know of the infringements. *Shelter Capital*, 718 F.3d at 1025 (quoting *YouTube, Inc.*, 676 F.3d at 31). Both actual and red flag knowledge refer to knowledge of the specific infringement alleged. *Id.* at 1023, 1025.

On remand, the fact finder must first determine whether LiveJournal had actual knowledge of the infringements. A copyright holder's failure to notify the service provider of infringement through the notice and takedown procedure, as Mavrix failed to do here, "strip[s] it of the most powerful evidence of [actual] knowledge." *Id.* at 1020 (quoting *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1107

(W.D. Wash. 2004)). Such evidence is powerful, but not conclusive, towards showing that a service provider lacked actual knowledge. *Id.* at 1021. The district court held that LiveJournal lacked actual knowledge of the infringing nature of Mavrix’s photographs solely on the basis of Mavrix’s failure to notify LiveJournal of the infringements. This was an incomplete assessment of the issue. To fully assess actual knowledge, the fact finder should also assess a service provider’s subjective knowledge of the infringing nature of the posts. *See, e.g., id.* at 1025 (continuing to assess knowledge). Delzer testified that he did not remember approving the posts, and Mavrix did not establish that he had actual knowledge of them, but Mavrix has not had the opportunity to depose the moderators. On remand, the fact finder should determine whether LiveJournal, through its agents, had actual knowledge of the infringing nature of the posts.

In the event the fact finder determines that LiveJournal lacked actual knowledge of the infringements, it must then assess whether LiveJournal lacked red flag knowledge. Red flag knowledge arises when a service provider is “aware of facts that would have made the specific infringement ‘objectively’ obvious to a reasonable person.” *Fung*, 710 F.3d at 1043 (quoting *YouTube*, 676 F.3d at 31); *see also UMG Recordings, Inc. v. Veoh Networks Inc.*, 665 F. Supp. 2d 1099, 1111 (C.D. Cal. 2009) (describing red flag knowledge as a “high bar”). The infringement must be immediately apparent to a non-expert. *See Veoh Networks Inc.*, 665 F. Supp. 2d at 1108; H.R. Rep. 105-551, pt. 2 at 58 (1998) (explaining that infringements must be “apparent from even a brief and casual viewing”). Some of the photographs at issue in this case contained either a generic

watermark¹³ or a watermark containing Mavrix's website, "Mavrixonline.com."¹⁴ To determine whether LiveJournal had red flag knowledge, the fact finder should assess if it would be objectively obvious to a reasonable person that material bearing a generic watermark or a watermark referring to a service provider's website was infringing.

2.

Finally, if the fact finder determines that LiveJournal met the § 512(c) safe harbor threshold requirement (i.e., that the photographs were stored at the direction of the user, *see* 17 U.S.C. § 512(c)(1)), and that LiveJournal lacked knowledge of the infringements (*see* 17 U.S.C. § 512(c)(1)(A)), then the fact finder should determine whether LiveJournal showed that it did not financially benefit from infringements that it had the right and ability to control. *See* 17 U.S.C. § 512(c)(1)(B).

¹³ Congress explained that red flag knowledge includes "customary indicia . . . such as a standard and accepted digital watermark." H.R. Rep. 105-55, pt. 1, at 25 (1998). *But see Veoh Networks Inc.*, 665 F. Supp. 2d at 1115 (declining to rely on this report because it addressed a "version of the DMCA that is significantly different in its text and structure than the version that Congress ultimately adopted").

¹⁴ The district court stated that Delzer was unaware that Mavrix had a website so photographs containing a "Mavrixonline.com" watermark did not differ from the other photographs with a more generic watermark. To the extent that the district court relied on Delzer's purported lack of knowledge that Mavrix had a website to suggest that Delzer lacked knowledge of the infringements, this was error. The existence of a watermark, and particularly this watermark with a company name, is relevant to the knowledge inquiry.

We agree with the district court in *Io Group, Inc. v. Veoh Networks, Inc.* that the fact finder should consider the service provider's procedures that existed at the time of the infringements when assessing the service provider's right and ability to control the infringements. 586 F. Supp. 2d 1132, 1153 (N.D. Cal. 2008). The fact finder should consider the service provider's general practices, not its conduct with respect to the specific infringements.¹⁵ See *Shelter Capital*, 718 F.3d at 1023, 1030.

“Right and ability to control” involves “something more than the ability to remove or block access to materials posted on a service provider’s website.” *Id.* (quoting *YouTube, Inc.*, 676 F.3d at 38). The service provider does “something more” when it exerts “high levels of control over activities of users.” *Id.* The service provider exerts “high levels of control,” for example, when it, “prescreens sites, gives them extensive advice, prohibits the proliferation of identical sites,” provides “detailed instructions regard[ing] issues of layout, appearance, and content,” and ensures “that celebrity images do not oversaturate the content.” *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1173, 1182 (C.D. Cal.

¹⁵ This inquiry is different from both the threshold determination (i.e., whether the infringing material was stored at the direction of the user, see 17 U.S.C. § 512(c)(1)), and the knowledge showing (i.e., whether the service provider had knowledge of the infringing material, see 17 U.S.C. § 512(c)(1)(A)), where the fact finder should focus on the specific infringements, rather than on the service provider's general practices and procedures.

2002); *see also Shelter Capital*, 718 F.3d at 1030, *cited with approval in Perfect 10*, 213 F. Supp. 2d 1146.¹⁶

The district court concluded that LiveJournal did not have high levels of control such that it had “something more” than the right and ability to remove or block access to material posted on ONTD. LiveJournal’s rules instruct users on the substance and infringement of their posts. The moderators screen for content and other guidelines such as infringement. Nearly two-thirds of submitted posts are rejected, including on substantive grounds. In determining whether LiveJournal had the right and ability to control infringements, the fact finder must assess whether LiveJournal’s extensive review process constituted high levels of control to show “something more.”

LiveJournal must also show that it did not derive a financial benefit from infringement that it had the right and ability to control. *See* 17 U.S.C. § 512(c)(1)(B). “In determining whether the financial benefit criterion is satisfied, courts should take a common-sense, fact-based approach, not a formalistic one.” S. Rep. No. 105-190, at 44 (1998). The financial benefit need not be substantial or a large proportion of the service provider’s revenue. *Ellison*, 357 F.3d at 1079. In *Fung*, we held that a financial benefit was shown when “there was a vast amount of infringing material on [the service provider’s] websites . . . supporting an inference that [the service provider’s] revenue stream is predicated on the broad availability of infringing materials for [its] users, thereby attracting advertisers.” 710 F.3d at 1045.

¹⁶ “Right and ability to control” may also be shown by intentional inducement of infringement, but we agree with the district court that inducement is not at issue here. *Shelter Capital*, 718 F.3d at 1030.

On the other hand, the service provider in that case “promoted advertising by pointing to infringing activity” and “attracted primarily visitors who were seeking to engage in infringing activity, as that is mostly what occurred on [the service provider’s] sites.” *Id.*

LiveJournal derives revenue from advertising based on the number of views ONTD receives. Mavrix presented evidence showing that approximately 84% of posts on ONTD contain infringing material, although LiveJournal contested the validity of this evidence. The fact finder should determine whether LiveJournal financially benefitted from infringement that it had the right and ability to control.

D.

Mavrix also challenges the denial of its motions to compel responses to interrogatories seeking the identities of the moderators. The magistrate judge denied both of Mavrix’s motions, and on review, the district court upheld the denial, reasoning that the moderators had a First Amendment interest in internet anonymity. When a district court denies reconsideration of a pretrial discovery order under Federal Rules of Civil Procedure 72(a), our review is deferential. Upon review of such a ruling we will disturb it only if the complaining party shows clear legal error and actual and substantial prejudice. *See Arizona v. City of Tucson*, 761 F.3d 1005, 1009 n.2 (9th Cir. 2014); *In re Anonymous Online Speakers*, 661 F.3d 1168, 1177 (9th Cir. 2011) (describing the standard as “highly deferential”). In determining whether First Amendment protections for anonymous speech outweigh the need for discovery, we have applied a multi-factor balancing test. *See, e.g., In re Anonymous Online Speakers*, 661 F.3d at 1174–76 (describing balancing factors).

Notwithstanding the deferential standard of review and complex issues of law that govern this discovery ruling, we vacate the district court's order denying the motion and remand for further consideration. Whether the moderators are agents should inform the district court's analysis of whether Mavrix's need for discovery outweighs the moderators' interest in anonymous internet speech. Given the importance of the agency analysis to the ultimate outcome of the case, and the importance of discovering the moderators' roles to that agency analysis, the district court should also consider alternative means by which Mavrix could formally notify or serve the moderators with process requesting that they appear for their deposition at a date and time certain.

IV.

For the foregoing reasons, we reverse the district court's grant of summary judgment to LiveJournal, vacate its order denying discovery, and remand for further proceedings consistent with this opinion.

REVERSED, VACATED and REMANDED.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

THE LEADER’S INSTITUTE, LLC and DOUG STANEART,	§	
	§	
Plaintiffs,	§	
	§	
v.	§	CIVIL ACTION NO. 3:14-CV-3572-B
	§	
ROBERT JACKSON and MAGNOVO TRAINING GROUP, LLC,	§	
	§	
Defendants.	§	

MEMORANDUM OPINION & ORDER

Before the Court is Defendants Robert Jackson and Magnovo Training Group, LLC’s (collectively Defendant or Defendants) Expedited Motion for Leave to Amend Counterclaims. Doc. 142, Defs.’ Expedited Mot. for Leave to Am. Countercl. [hereinafter Defs.’ Mot.]. For the following reasons, the Court **GRANTS in part** and **DENIES in part** Defendants’ Motion.

I.

BACKGROUND

Plaintiffs The Leader’s Institute, LLC and Doug Stanearth (collectively Plaintiff or Plaintiffs) initially filed their lawsuit in this Court on October 2, 2014. Doc. 1, Pls.’ Orig. Compl. Put simply, Plaintiffs, purveyors of corporate leadership and team-building events using a trademarked “Build-A-Bike” training method, allege Defendant, a former independent contractor of Plaintiff, breached an independent contractor agreement by going into the corporate training business against Plaintiff using a similar method, and violated Plaintiff’s “Build-A-Bike” trademark by registering confusingly

similar domain names—such as www.letsbuildabike.com, www.charitybuildabike.com, www.buildabikecharity.com, and www.buildabikeforcharity.com—in a deliberate attempt to confuse consumers. *See generally id.* Accordingly, Plaintiffs’ causes of action against Defendants include, *inter alia*, claims for federal trademark infringement, violations of federal anti-cybersquatting law, breach of contract, unfair competition, and tortious interference with prospective business relations.

On December 17, 2015, Plaintiffs filed their Third Amended Complaint. Doc. 82, Pls.’ 3d Am. Compl. In response, Defendants filed an Answer on January 11, 2016. Doc. 91, Defs.’ Answer to Pls.’ 3d Am. Compl. Defendants’ Answer also included counterclaims for, *inter alia*, tortious interference with business relations, fraud and defamation, and copyright infringement against Plaintiff. *See generally id.* According to Defendants, Plaintiff registered four internet domain names—(1) <http://bicycle-team-building.org/>, (2) <http://bicycles-team-building.com/>, (3) <http://bicycleteambiulding.org/>, and (4) <http://bicycleteambuildings.org/>—and “[f]ollowing such domain registrations, . . . caused such registered domains to then ‘frame’ Defendant Magnovo’s internet website . . . , whereby the full content of [Defendant’s] website, including the Copyrighted Works, was presented within and under Plaintiffs’ registered domain name as though Plaintiffs owned and operated such Magnovo website content and Copyrighted Works.” *Id.* ¶¶ 256–57. At that time Defendants also accused Plaintiffs of: (1) “retaliating against Jackson due to Jackson resigning and starting his own consulting firm”; (2) “holding Defendants’ business out as that of Plaintiffs”; (3) creating a “false persona” to “obtain a Magnovo client proposal document” and then using “the Magnovo client proposal document, along with printouts of Magnovo’s website, in order to fraudulently file a trademark application for ‘MAGNOVO’ with the United States Patent and

Trademark Office”; and (4) making “defamatory statements . . . to current and former [The Leader’s Institute] employees” that “Jackson is the subject of a ‘sting operation’ and is being investigated by the Federal Bureau of Investigation for criminal violations.” *Id.* ¶¶ 225, 233, 237–42.

The Court’s Scheduling Order in this case required that all pleading amendments be submitted by December 24, 2015. Doc. 61, Sched. Order 1. On August 8, 2016, with leave of Court, Plaintiffs filed their Fourth Amended Complaint. Doc. 130, Pls.’ 4th Am. Compl. On August 19, 2016, Defendants filed an Answer to Plaintiffs’ Fourth Amended Complaint, which included the same counterclaims as its January 11, 2016 Answer to Plaintiffs’ Third Amended Complaint, including the following: (1) abuse of process; (2) tortious interference with business relations; (3) fraud and defamation; (4) cancellation of Plaintiffs’ trademarks; (5) attorneys’ fees; and (6) federal copyright infringement. Doc. 131, Defs.’ Answer to Pls.’ 4th Am. Compl. ¶¶ 230–74.

On September 21, 2016, Defendants moved for leave to amend their counterclaims “based on recently discovered acts of Plaintiffs and in order to clarify counterclaims previously pleaded.” Doc. 142, Defs.’ Mot. 1. Specifically, Defendants allege they discovered on July 27, 2016, that Plaintiffs “content scraped, framed, mirrored, copied and reposted Magnovo website data, including Magnovo’s logo, and proprietary photos from” two of Defendants’ websites, onto another site allegedly managed by Plaintiffs at www.charityteambuildingevent.com. *Id.* at 2. Based on the newly discovered website, Defendants seek to amend their counterclaims by: (1) adding additional counterclaims for (i) money had and received, (ii) retaliation under the Fair Labor Standards Act (FLSA), (iii) false advertising under the Lanham Act, and (iv) tortious interference with prospective contracts; (2) dropping their claims for fraud and attorneys’ fees; and (3) supplementing their

remaining causes of action with additional facts and allegations. *See id.* at 5; Doc. 142-1, Defs.’ [Proposed] Am. Countercls. ¶¶ 21–72. Plaintiffs have responded, Doc. 154, Pls.’ Resp., and Defendants have replied. Doc 162, Defs.’ Reply. Thus, Defendants’ Motion is ripe for this Court’s review.

II.

LEGAL STANDARD

A. *Federal Rule of Civil Procedure 16*

Once a court has entered a scheduling order and the deadline for amending pleadings has passed, the decision to permit post-deadline amendments is governed by Rule 16(b) of the Federal Rules of Civil Procedure. *S & W Enters., L.L.C. v. South Trust Bank of Ala.*, 315 F.3d 533, 536 (5th Cir. 2003) (“We take this opportunity to make clear that Rule 16(b) governs amendment of pleadings after a scheduling order deadline has expired.”). Under Rule 16(b), a scheduling order should not be modified unless there is a showing of good cause. Fed. R. Civ. P. 16(b)(4) (“A schedule may be modified only for good cause and with the judge's consent.”).

The Fifth Circuit has set forth four factors to determine whether a movant has established good cause for modification of a scheduling order to allow an untimely amendment of pleadings: (1) the explanation for the failure to timely move for leave to amend; (2) the importance of the amendment; (3) potential prejudice in allowing the amendment; and (4) the availability of a continuance to cure such prejudice. *S & W Enters., L.L.C.*, 315 F.3d at 536 (quotations and alterations omitted). “The ‘good cause’ standard focuses on the diligence of the party seeking a modification of the scheduling order.” *Forge v. City of Ball*, No. 3:03-CV-0256, 2004 WL 1243151,

at *2 (N.D. Tex. June 4, 2004). A party's mere inadvertence to meet a deadline and the absence of prejudice to the opposing side are insufficient to establish good cause. *Id.* Rather, one must show that “despite his diligence, he could not have reasonably met the scheduling deadline.” *Id.* (quoting *Am. Tourmaline Fields v. Int'l Paper Co.*, No. 3:96-CV-3363, 1998 WL 874825, at *1 (N.D. Tex. Dec. 7, 1998)). Rule 15(a), which governs the substance of amendments and allows for liberal leave to amend, only comes into play once the moving party has demonstrated good cause under Rule 16(b). *S & W Enters., L.L.C.*, 315 F.3d at 536 n.4 (“[T]he presence of a scheduling order renders the Rule 15 inquiry secondary.”).

Here, Defendants seek leave to amend their counterclaims nearly nine months after the December 24, 2015 deadline for amending pleadings established in the Scheduling Order. *See* Doc. 61, Sched. Order; Doc. 142, Defs.' Mot. (filed September 21, 2016). Thus, Rule 16(b) governs whether to permit an amendment. *See S & W Enters. L.L.C.*, 315 F.3d at 536. Only if Defendants have demonstrated good cause will the Court consider whether granting leave to amend is consistent with Rule 15. *See id.* at 536 n.4.

B. *Federal Rule of Civil Procedure 15*

Under Rule 15(a), courts “should freely give leave [to amend] when justice so requires.” Fed. R. Civ. P. 15(a)(2). But this “generous standard is tempered by the necessary power of a district court to manage a case.” *Priester v. JP Morgan Chase Bank, N.A.*, 708 F.3d 667, 678 (5th Cir. 2013) (quoting *Schiller v. Physicians Res. Grp. Inc.*, 342 F.3d 563, 566 (5th Cir. 2003)). Although Rule 15 indicates a bias in favor of granting leave to amend, leave is by no means automatic. *Southmark Corp. v. Schulte Roth & Zabel (In re Southmark Corp.)*, 88 F.3d 311, 318 (5th Cir. 1996) (citing *Wimm v.*

Jack Eckerd Corp., 3 F.3d 137, 139 (5th Cir. 1993)). A district court must have a “substantial reason” to deny leave, yet the decision remains within the court's discretion. *Smith v. EMC Corp.*, 393 F.3d 590, 595 (5th Cir. 2004) (citing *Quintanilla v. Tex. Television, Inc.*, 139 F.3d 494, 499 (5th Cir. 1998)). In its discretion, the court should consider several factors, including “undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party by virtue of the allowance of the amendment, [and] futility of the amendment.” *Rosenzweig v. Azurix Corp.*, 332 F.3d 854, 864 (5th Cir. 2003) (quoting *Foman v. Davis*, 371 U.S. 178, 182 (1962)). Absent one of these factors, leave should be freely given. *Id.* (citing *Foman*, 371 U.S. at 182).

III.

ANALYSIS

The Court begins its analysis under Federal Rule of Civil Procedure 16(b) before deciding whether to analyze the Defendants’ Motion under the more liberal Rule 15(a) standard. See *S & W Enters., L.L.C.*, 315 F.3d at 536. In their Motion and Reply, Defendants argue that the Court should grant leave to amend under Rules of Civil Procedure 15 and 16, however, their arguments under each respective rule are closely related and thus will be addressed concurrently. See Doc. 142, Defs.’ Mot. 4–7; Doc. 162, Defs.’ Reply 3–9. Defendants assert that: (1) the reason they failed to timely move for leave to amend is because they were not aware of the newly discovered website until after the pleadings amendment deadline passed, Doc. 142, Defs.’ Mot. 5; (2) they had previously submitted written discovery requests to Plaintiffs before the pleading deadline, which were “broad enough” to cover disclosing the newly discovered website, *id.* at 3; (3) the amendment is important

because without it Defendants will have to file a new lawsuit alleging the additional counterclaims, Doc. 162, Defs.’ Reply 4–6; and (4) allowing the proposed amendments would not prejudice Plaintiffs because there is likely no need for additional discovery. *Id.* at 4; Doc. 142, Defs.’ Mot. 6.

In response, Plaintiffs argue that “Defendants cannot overcome their burden under Rule 16 to show good cause for any of their proposed amendments, other than to add [the newly discovered website] to the list of domain names included in Defendants’ previously-asserted claim for copyright infringement.” Doc. 154, Pls.’ Resp. 4. Plaintiffs contend that allowing Defendants leave to amend their counterclaims in light of the newly discovered website is improper because the new counterclaims are all premised upon information Defendants already knew when they filed their January 11, 2016 counterclaims. *Id.* at 4–6.

Plaintiffs concede that Defendants did not know of the newly discovered website until after the deadline to amend pleadings. *Id.* at 4. Nonetheless, Plaintiffs argue that Defendants fail to show why the newly discovered website is any different from the four other allegedly fraudulent websites asserted in Defendants’ previous counterclaims such as would warrant the proposed amendments and additional counterclaims. *Id.* Plaintiffs also argue they would be substantially prejudiced given the expired discovery, expert designation, and dispositive motions deadlines. *Id.* at 6.

Plaintiffs point out that since at least January 11, 2016—the date Defendants filed their currently-pending counterclaims in response to Plaintiff’s Third Amended Complaint—Defendants were aware of (1) “the previously-identified domain names,” (2) “the trademark application for MAGNOVO,” and (3) the “allegations made to law-enforcement agencies and the framing of various websites,” all of which also form the basis for Defendants’ new proposed counterclaims. *Id.*

at 4–6; Doc. 91, Defs.’ Answer, Defenses, and Countercls. to Pls.’ 3rd Am. Compl. ¶¶ 231, 233, 237, 240–41, 243, 256–57 [hereinafter Defs.’ Answer to 3rd Am. Compl.].

Similarly, Defendants live counterclaims, filed on August 19, 2016, in response to Plaintiffs’ Fourth Amended Complaint, are based on Plaintiff allegedly: (1) “retaliating against Jackson due to Jackson resigning and starting his own consulting firm”; (2) “filing a fraudulent trademark application for MAGNOVO”; (3) “informing current and former TLI employees that Jackson is the subject of a ‘sting operation’ and is being investigated by the [FBI] for criminal violations”; and (4) registering four domain names that “‘frame’ Defendant Magnovo’s internet website . . . whereby the full content of Magnovo’s . . . website, including the Copyrighted Works, was presented within and under Plaintiffs’ registered domain name.” Doc. 131, Defs.’ Answer to 4th Am. Compl. ¶¶ 239, 245, 251, 270–71.

Defendants sole arguments for the amendments sought are that they did not know of the newly discovered website until July 27, 2016, after the pleading amendment deadline, and that their new counterclaims are important to asserting their rights against Plaintiffs. Doc. 162, Defs.’ Reply 4–5. Thus, Defendants now seek to bring in additional counterclaims through the newly discovered website based on the same alleged actions of Plaintiffs for which Defendants previously asserted counterclaims in their Answer to Plaintiffs’ Third and Fourth Amended Complaint. Although Defendants have sufficiently shown that they did not know of the newly discovered website until July 27, 2016, they have failed to show why this discovery warrants the additional counterclaims based on facts previously known as early as January 11, 2016. There is no reason Defendants could not have brought these additional counterclaims in their January 11, 2016 or August 19, 2016 Answers

to Plaintiffs' Third and Fourth Amended Complaint. *See* Doc. 91, Defs.' Answer to Pls.' 3rd Am. Compl. ¶¶ 231, 233, 237, 240-41, 243, 256-57; Doc. 131, Defs.' Answer to Pls.' 4th Am. Compl. ¶¶ 239, 245, 251, 270-71. Additionally, Defendants have not shown how Plaintiffs' newly discovered website, which allegedly "content scraped, framed, mirrored, copied and reposted Magnovo website data, including Magnovo's logo, and proprietary photos," Doc. 142, Defs.' Mot. 2, is any different from the other four previously known websites that Defendants previously alleged "frame[d] Defendant Magnovo's internet website . . . whereby the full content of Magnovo's Bicycle Team Building website, including the Copyrighted Works, was presented within and under Plaintiffs' registered domain name as though Plaintiffs owned and operated such Magnovo website content and Copyrighted Works." Doc. 91, Defs.' Answer to Pls.' 3rd Am. Compl. ¶¶ 256-57; Doc. 131, Defs.' Answer to Pls.' 4th Am. Compl. ¶¶ 270-71. Thus, the Court finds that Defendants' reliance on previously known information for their new counterclaims, as well as their failure to show how the newly discovered website is different than the previously known websites, does not sufficiently explain Defendants' failure to timely move for leave to amend. *See S & W Enters., L.L.C.*, 315 F.3d at 536.

Even assuming Defendants' additional counterclaims are "important" for purposes of Rule 16, allowing Defendants to completely amend their counterclaims with new claims and information at this late stage in the litigation when they have failed to show "good cause" for their failure to timely move would be prejudicial to Plaintiffs. In their Motion and Response, Defendants argue that Plaintiffs are not prejudiced by the addition of four new counterclaims because the new counterclaims will likely not require any additional discovery. Doc. 142, Defs.' Mot. 6; Doc. 162,

Defs.' Resp. 4. However, the Court finds that Defendants' proposed lack of the need for additional discovery on four new counterclaims further demonstrates that Defendants were already aware of the facts that form the basis of these counterclaims. Because the Court finds that Defendants have failed to show "good cause" under Rule 16(b), the Court need not consider whether leave to amend is warranted under the less stringent Rule 15 standard. See *S & W Enters., L.L.C.*, at 536 n.4.

However, the Court does find that Defendants have shown "good cause" to add the newly discovered website to the list of the four other websites in their previously pleaded federal copyright infringement claim. See Doc. 91, Defs.' Answer to Pls.' 3rd Am. Compl. ¶ 256; Doc. 131, Defs.' Answer to Pls.' 4th Am. Compl. ¶ 270. Defendants have shown that, "despite their diligence," they did not know about the newly discovered website until after the amending pleadings deadline. See *Forge*, 2004 WL 1243151, at *2. Also, in their response, Plaintiffs stated they are unopposed to the addition of the newly discovered website to the existing copyright infringement counterclaim. Doc. 154, Pls.' Resp. 6–7. Therefore, the Court concludes that Defendants have sustained their burden under Rule 16(b) for adding the newly discovered website under the federal copyright infringement claim.

The Court will now consider whether to grant leave to amend under the less onerous Rule 15 standard with regard to adding the newly discovered website. Absent "undue delay, bad faith or dilatory motive on the part of the movant, repeated failure to cure deficiencies by amendments previously allowed, undue prejudice to the opposing party by virtue of the allowance of the amendment, [or] futility of the amendment," leave should be freely given. *Rosenzweig*, 332 F.3d at 864 (quoting *Forman*, 371 U.S. at 182). As explained above, the delay and prejudice from adding the

newly discovered website is not undue, and there is no indication of bad faith. Therefore, the Court concludes that Defendants have sustained their burden under Rule 15. Accordingly, the Court **GRANTS in part** Defendants' Expedited Motion for Leave to Amend Counterclaims only to the extent that Defendants may add the newly discovered website under their existing federal copyright infringement claim. In all other respects, Defendants' Motion is **DENIED**.

IV.

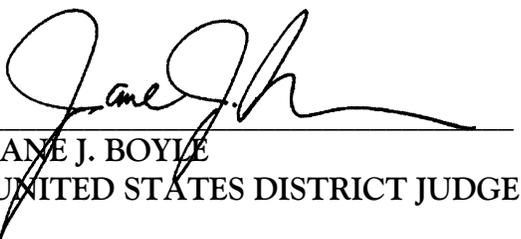
CONCLUSION

For these reasons, the Court **GRANTS in part** and **DENIES in part** Defendants' Expedited Motion for Leave to Amend Counterclaims (Doc. 142). Should Defendants choose to amend their pleadings to the extent permitted by the Court above, they must do so by **April 3, 2017**. Under Rule 15(a)(3), Plaintiffs will have 14 days to answer.

To allow the parties an opportunity to file dispositive motions in relation to their live pleadings, the Court **DENIES without prejudice** all pending Motions for Summary Judgment (Docs. 146 & 149). The parties may re-file summary judgment motions after Plaintiffs have had the opportunity to respond to Defendants' amended counterclaims. The Court thus **EXTENDS** the deadline for dispositive motions until **May 8, 2017**.

SO ORDERED.

SIGNED: March 29, 2017.



JANE J. BOYLE
UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----- X
JUSTIN GOLDMAN,

Plaintiff,

-v-

BREITBART NEWS NETWORK, LLC,
HEAVY, INC., TIME, INC., YAHOO, INC.,
VOX MEDIA, INC., GANNETT COMPANY,
INC., HERALD MEDIA, INC., BOSTON
GLOBE MEDIA PARTNERS, INC., and NEW
ENGLAND SPORTS NETWORK, INC.,

Defendants.
----- X

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DOC #: _____
DATE FILED: February 15, 2018

17-cv-3144 (KBF)

OPINION & ORDER

KATHERINE B. FORREST, District Judge:

When the Copyright Act was amended in 1976, the words “tweet,” “viral,” and “embed” invoked thoughts of a bird, a disease, and a reporter. Decades later, these same terms have taken on new meanings as the centerpieces of an interconnected world wide web in which images are shared with dizzying speed over the course of any given news day. That technology and terminology change means that, from time to time, questions of copyright law will not be altogether clear. In answering questions with previously un contemplated technologies, however, the Court must not be distracted by new terms or new forms of content, but turn instead to familiar guiding principles of copyright. In this copyright infringement case, concerning a candid photograph of a famous sports figure, the Court must construe how images shown on one website but stored on another website’s server implicate an owner’s exclusive display right.

Today, many websites embed Twitter posts into their own content; for those familiar with digital news or other content, this is common knowledge. Here, plaintiff Justin Goldman’s copyrighted photo of Tom Brady went “viral”—rapidly moving from Snapchat to Reddit to Twitter—and finally, made its way onto the websites of the defendants, who embedded the Tweet alongside articles they wrote about Tom Brady actively helping the Boston Celtics recruit basketball player Kevin Durant.

Plaintiff, claiming he never publicly released or licensed his photograph, filed suit against the defendant websites, claiming a violation of his exclusive right to display his photo, under § 106(5) of the Copyright Act.

With the consent of the parties, this Court divided the litigation into two phases—the first to determine whether defendants’ actions violate the exclusive right to display a work (here an embedded Tweet), and the second to deal with all remaining issues, such as the liability (or non-liability) for other defendants and any defenses that have been raised.

Defendants filed a motion for partial Summary Judgment on October 5, 2017. (ECF No. 119.) The Court heard oral argument on January 16, 2018.

Having carefully considered the embedding issue, this Court concludes, for the reasons discussed below, that when defendants caused the embedded Tweets to appear on their websites, their actions violated plaintiff’s exclusive display right; the fact that the image was hosted on a server owned and operated by an unrelated third party (Twitter) does not shield them from this result.

Accordingly, defendants' motion for partial Summary Judgment is DENIED. Partial Summary Judgment is GRANTED to the plaintiff.

I. FACTUAL BACKGROUND

The parties agree that the principle issue briefed on this motion is a legal one and amenable to summary judgment. The following facts are materially undisputed and all inferences are drawn in favor of the plaintiff. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 255 (1986).

A. The Tom Brady Photo

On July 2, 2016, plaintiff Justin Goldman snapped a photograph of Tom Brady (the "Photo"), Danny Ainge, and others on the street in East Hampton. (ECF No. 149, Goldman Declaration ("Goldman Decl.") ¶ 2.) Shortly thereafter, he uploaded the photograph to his Snapchat Story.¹ (Id. ¶ 5.) The Photo then went "viral," traveling through several levels of social media platforms—and finally onto Twitter, where it was uploaded by several users, including Cassidy Hubbarth (@cassidyhubbarth), Bobby Manning (@RealBobManning), Rob H (@rch111), and Travis Singleton (@SneakerReporter). (Id. ¶ 6–10; ECF No. 120, Defendants' Statement of Undisputed Facts Pursuant to Local Rule 56.1 ("Defs.' 56.1 Statement") ¶ 28.) These uploads onto Twitter are referred to as "Tweets."

Defendants in this case are online news outlets and blogs who published articles featuring the Photo. Each of defendants' websites prominently featured the Photo by "embedding" the Tweet into articles they wrote over the course of the next

¹ Snapchat is a social media platform where users share photographs and messages; a Snapchat story is a series of photos a user posts—each photo is available for twenty-four hours only.

forty-eight hours; the articles were all focused on the issue of whether the Boston Celtics would successfully recruit basketball player Kevin Durant, and if Tom Brady would help to seal the deal.

It is undisputed that plaintiff holds the copyright to the Photo.

B. Embedding

None of the defendant websites copied and saved the Photo onto their own servers. Rather, they made the Photo visible in their articles through a technical process known as “embedding.” Some background is helpful to an understanding of the embedding process.

A webpage is made up of a series of instructions usually written by coders in Hypertext Markup Language (“HTML”). These instructions are saved to a server (a computer connected to the internet), and when a user wishes to view a webpage, his or her computer’s browser connects with the server, at which point the HTML code previously written by the coder instructs the browser on how to arrange the webpage on the user’s computer. The HTML code can allow for the arrangement of text and/or images on a page and can also include photographs. When including a photograph on a web page, the HTML code instructs the browser how and where to place the photograph. Importantly for this case, the HTML code could instruct the browser either to retrieve the photograph from the webpage’s own server or to retrieve it from a third-party server.

“Embedding” an image on a webpage is the act of a coder intentionally adding a specific “embed” code to the HTML instructions that incorporates an image,

hosted on a third-party server, onto a webpage. To embed an image, the coder or web designer would add an “embed code” to the HTML instructions; this code directs the browser to the third-party server to retrieve the image. An embedded image will then hyperlink (that is, create a link from one place in a hypertext document to another in a different document) to the third-party website. The result: a seamlessly integrated webpage, a mix of text and images, although the underlying images may be hosted in varying locations. Most social media sites—Facebook, Twitter, and YouTube, for example—provide code that coders and web designers can easily copy in order to enable embedding on their own webpages.

Here, it is undisputed that none of the defendant websites actually downloaded the Photo from Twitter, copied it, and stored it on their own servers. Rather, each defendant website merely embedded the Photo, by including the necessary embed code in their HTML instructions. As a result, all of defendants’ websites included articles about the meeting between Tom Brady and the Celtics, with the full-size Photo visible without the user having to click on a hyperlink, or a thumbnail, in order to view the Photo.

II. LEGAL PRINCIPLES

A. Summary Judgment Standard

This Court applies the well-known summary judgment standard set forth in Rule 56 of the Federal Rules of Civil Procedure. Summary Judgment may not be granted unless a movant shows, based on admissible evidence in the record, “that there is no genuine dispute as to any material fact and the movant is entitled to

judgment as a matter of law.” Fed. R. Civ. P. 56(a). The moving party bears the initial burden of demonstrating “the absence of a genuine issue of material fact.” Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986). When the moving party does not bear the ultimate burden on a particular claim or issue, it need only make a showing that the non-moving party lacks evidence from which a reasonable jury could find in the non-moving party’s favor at trial. Id. at 322–23.

In making a determination on summary judgment, the court must “construe all evidence in the light most favorable to the non-moving party, drawing all inferences and resolving all ambiguities in its favor.” Dickerson v. Napolitano, 604 F.3d 732, 740 (2d Cir. 2010) (citing LaSalle Bank Nat’l Ass’n v. Nomura Asset Capital Corp., 424 F.3d 195, 205 (2d Cir. 2005)). Once the moving party has discharged its burden, the opposing party must set out specific facts showing a genuine issue of material fact for trial. Wright v. Goord, 554 F.3d 255, 266 (2d Cir. 2009). “A party may not rely on mere speculation or conjecture as to the true nature of the facts to overcome a motion for summary judgment,” as “mere conclusory allegations or denials cannot by themselves create a genuine issue of material fact where none would otherwise exist.” Hicks v. Baines, 593 F.3d 159, 166 (2d Cir. 2010) (internal quotation marks, citations, and alterations omitted).

“In considering a motion for summary judgment, if our analysis reveals that there are no genuine issues of material fact, but that the law is on the side of the non-moving party, we may grant summary judgment in favor of the non-moving party even though it has made no formal cross-motion.” Orix Credit Alliance, Inc. v.

Horten, 965 F. Supp. 481, 484 (S.D.N.Y. 1997) (citing Int’l Union of Bricklayers v. Gallante, 912 F. Supp. 695, 700 (S.D.N.Y. 1996); see also Coach Leatherware Co. v. AnnTaylor, Inc., 933 F.2d 162, 167 (2d Cir. 1991) (“[I]t is most desirable that the court cut through mere outworn procedural niceties and make the same decision as would have been made had defendant made a cross-motion for summary judgment.” (citing Local 33, Int’l Hod Carriers v. Mason Tenders Dist. Council, 291 F.2d 496, 505 (2d Cir. 1961))). “Summary judgment may be granted to the non-moving party in such circumstances so long as the moving party has had an adequate opportunity to come forward with all of its evidence.” Orix Credit Alliance, 965 F. Supp. at 484. (citing Cavallaro v. Law Office of Shapiro & Kreisman, 933 F. Supp. 1148, 1152 (E.D.N.Y. 1996)).

B. The Copyright Act

“From its beginning, the law of copyright has developed in response to significant changes in technology.” Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 430 (1984). Copyright protections “subsists . . . in original works of authorship fixed in any tangible medium of expression.” 17 U.S.C. § 102(a). The Copyright Act of 1976, enacted in response to changing technology, gives a copyright owner several “exclusive rights,” including the exclusive right to “display the copyrighted work publicly.” 17 U.S.C. § 106(5). To display a work, under the Act, is to “show a copy of it, either directly or by means of a film, slide, television image, or any other device or process.” 17 U.S.C. § 101 (emphasis added). The Act’s Transmit Clause defines that exclusive right as including the right to

“transmit or otherwise communicate . . . a display of the work . . . to the public, by means of any device or process.” Id. It further defines “device or process” as “one now known or later developed.” Id.

A review of the legislative history reveals that the drafters of the 1976 Amendments intended copyright protection to broadly encompass new, and not yet understood, technologies. Indeed, on the first page of the House Report, the drafters proclaimed that the Amendments were necessary in part because “technical advances have generated new industries and new methods for the reproduction and dissemination of copyrighted works;” furthermore, Congress did “not intend to freeze the scope of copyrightable subject matter at the present stage of communications technology.” H.R. Rep. 94-1476, 47, 51 (1976).

Specifically, in considering the display right, Congress cast a very wide net, intending to include “[e]ach and every method by which the images . . . comprising a . . . display are picked up and conveyed,” assuming that they reach the public. Id. at 64 (emphasis added). It further noted that “display’ would include the projection of an image on a screen or other surface by any method, the transmission of an image by electronic or other means, and the showing of an image on a cathode ray tube, or similar viewing apparatus connected with any sort of information storage and retrieval system.” Id. (emphasis added). Indeed, an infringement of the display right could occur “if the image were transmitted by any method (by closed or open circuit television, for example, or by a computer system) from one place to members of the public elsewhere.” Id. at 80 (emphasis added).

The Register of Copyrights testified during hearings that preceded the passage of the Act: “[T]he definition [of the display right] is intended to cover every transmission, retransmission, or other communication of [the image],” beyond the originating source that might store the image, but including “any other transmitter who picks up his signals and passes them on.” H. Comm. On the Judiciary, 89th Cong., Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, at 25 (Comm. Print. 1965). He highlighted the importance of the display right in light of changing technology, specifically warning that “information storage and retrieval devices . . . when linked together by communication satellites or other means . . . could eventually provide libraries and individuals throughout the world with access to a single copy of a work by transmission of electronic images” and therefore that “a basic right of public exhibition should be expressly recognized in the statute.” Id. at 20 (emphasis added).

C. American Broadcasting Cos., Inc. v. Aereo, Inc.

The Supreme Court most recently considered the intersection of novel technologies and the Copyright Act in the Aereo decision, rendered in 2014. American Broadcasting Cos., Inc. v. Aereo, Inc., 134 S. Ct. 2498 (2014). The issue in Aereo was the performance right; the Court was deciding whether Aereo “infringed this exclusive right by selling its subscribers a technologically complex service that allows them to watch television programs over the Internet at about the same time as the programs are broadcast over the air.” Id. at 2503. Aereo charged a monthly

fee to allow subscribers to watch broadcast television programming over the internet; it maintained a vast number of servers and antennas in a central warehouse. When a user wanted to watch a program, he would visit Aereo's website and select a show; in turn, Aereo's servers would select an antenna, tune it to the on-air broadcast, and transmit it via the internet to the subscriber. Aereo argued that since the user chose the programs and Aereo's technology merely responded to the user's choice, it was the user and not Aereo who was in fact "transmitting" the performance.

The Court rejected this analysis, comparing Aereo to the cable companies that parts of the 1976 Amendments were intended to reach. When comparing cable technology (where the signals "lurked behind the screen") to Aereo's technology (controlled by a click on a website), the Court stated: "[T]his difference means nothing to the subscriber. It means nothing to the broadcaster. We do not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into 'a copy shop that provides its patrons with a library card.'" Id. at 2507.

Even the dissent, which would have found no liability based on the lack of Aereo's volition in choosing which programming to make available, stated that where the alleged infringer plays no role in selecting the content, it cannot be held directly liable when a customer makes an infringing copy: "Aereo does not 'perform' for the sole and simple reason that it does not make the choice of content." Id. at 2514 (Scalia, J., dissenting).

D. The “Server Test”

Defendants urge this Court to define the scope of the display right in terms of what they refer to as the “Server Test.” According to defendants, it is “well settled” law and the facts of this case call for its application. As set forth below, the Court does not view the Server Test as the correct application of the law with regard to the facts here. Nevertheless, it is useful to briefly chronicle the body of law that has developed in that area and explain why it is inapplicable.

In Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146 (9th Cir. 2007) (“Perfect 10 II”), the Ninth Circuit considered a claim of direct infringement of the display right against Google based upon Google Image Search. The district court addressed two different questions: 1) did the thumbnail images that automatically pop up when a user types in a search term constitute direct infringements of the display right; and 2) did the full size images that appeared on the screen after a user clicked on a thumbnail constitute direct infringements of the same display right. In answer, the court made a sharp distinction between the two based upon where the images were hosted. Perfect 10 v. Google, Inc., 416 F. Supp. 2d 828, 839 (C.D. Cal. 2006) (“Perfect 10 I”). First, it found the thumbnails to be infringing, based on the fact that they were stored on Google’s server. Id. at 844. Conversely, it held that the full size images, which were stored on third-party servers and accessed by “in-line linking”—which works, like embedding, based upon the HTML code instructions—were not infringements. Id. In so doing, the court rejected the plaintiff’s proposed Incorporation Test, which would define display as the “act of

incorporating content into a webpage that is then pulled up by the browser.” Id. at 839. It adopted instead the Server Test, where whether a website publisher is directly liable for infringement turns entirely on whether the image is hosted on the publisher’s own server, or is embedded or linked from a third-party server.

On appeal, the Ninth Circuit affirmed.² In the Ninth Circuit, therefore, at least as regards a search engine, the “Server Test” is settled law.

Defendants here argue that Perfect 10 is part of an “unbroken line of authority” on which this Court should rely in determining broadly whether a copyright owner’s display right has been violated. Outside of the Ninth Circuit, however, the Server Test has not been widely adopted. Even a quick survey reveals that the case law in this area is somewhat scattered. Of the other Circuits, only the Seventh Circuit has weighed in thus far—in Flava Works, Inc. v. Gunter, 689 F.3d 754 (7th Cir. 2012), the question before the court was whether the defendant was a contributory infringer. Defendant in that case, a “social bookmarker,” whose service involved enabling individuals who share interests to point each other towards online materials (in this case, videos) that cater towards that taste, through embedding the code for the video onto its website. The videos remained hosted on the original servers. As with Perfect 10, upon arriving on defendant’s website, thumbnails would appear; after clicking on one, the user would retrieve content from plaintiff’s website. The Flava Court found that defendants were not contributory infringers; the question of direct infringement was never reached. The

²It found, however, that “Google is likely to succeed in proving its fair use defense” as to the thumbnail images.

lower court, however, had opined that “[t]o the extent that Perfect 10 can be read to stand for the proposition that inline linking can never cause a display of images or videos that would give rise to a claim of direct copyright infringement, we respectfully disagree. In our view, a website’s servers need not actually store a copy of the work in order to ‘display’ it.” Flava Works, Inc. v. Gunter, 2011 WL 3876910, at *4 (N.D. Ill. Sept. 1, 2011), rev’d on other grounds, 689 F.3d 754 (7th Cir. 2012) (emphasis added).

Four courts in this District have discussed the Server Test and Perfect 10’s holding; none adopted the Server Test for the display right. First, in Live Face on Web, LLC v. Biblio Holdings LLC, 2016 WL 4766344 (S.D.N.Y. Sept. 12, 2016), the issue before the court was the distribution right, not the display right. Defendant argued that a distribution had not occurred, since the alleged infringing content was hosted on a third-party server, and not its own. The court noted that defendant cited no legal authority for this proposition, but stated that “such authority may exist,” citing Perfect 10. Id. at *4. The court did not adopt the Server Test; rather, it held that additional discovery was necessary as the issue had “hardly” been briefed. Id. at *5. Second, in MyPlayCity, Inc., v. Conduit Ltd., 2012 WL 1107648 (S.D.N.Y. Mar. 30, 2012), the distribution right was again at issue. In that case, when the user clicked a “play now” button on the defendant’s customized tool bar, it would be able to play games hosted on the plaintiff’s servers. The court cited Perfect 10 and then found that, due to the fact that plaintiff’s servers “‘actually disseminated’ the copies of [plaintiff’s] copyrighted games, [defendant] cannot be

held liable for infringing on [plaintiff's] distribution rights.” Id. at *14. Third, in Pearson Education, Inc. v. Ishayev, 963 F. Supp. 2d 239 (S.D.N.Y. 2013), the court held that standard text hyperlinks (not including images) that users click in order to view and visit other sites were not a use of infringing content, relying in part on Perfect 10; the exclusive right at issue here, too, was the distribution right.

Only the fourth case in this District, Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640 (S.D.N.Y. 2013) squarely dealt with the § 106(5) display right. There, however, the court did no more than offer a simple factual statement, “The Ninth Circuit has held that the display of a photographic image on a computer may implicate the display right, though infringement hinges, in part, on where the image was hosted.” Id. at 652 (emphasis added). It then proceeded to deny summary judgment based on material disputes as to the content of the allegedly infringing issues. Id.

Additionally, in a trademark decision rendered in this District prior to Perfect 10, when considering whether defendant Tunes was liable for trademark infringement to the Hard Rock Café for “framing” the Hard Rock logo on their website, the court held that it was. Hard Rock Café Int’l v. Morton, 1999 WL 717995 (S.D.N.Y. Sept. 9, 1999). After considering both the fact that “it [was] not clear to the computer user that she or he has left the [plaintiff’s] web site” and the fact that there was a “seamless presentation” on the website, the court found that “the only possible conclusion is that the Hard Rock Hotel Mark is used or exploited to advertise and sell CDS.” Id. at *25.

Only a handful of other district courts have considered the issue.³ In Grady v. Iacullo, 2016 WL 1559134 (D. Colo. Apr. 18, 2016), the court considered the exclusive reproduction and distribution rights, and, relying on Perfect 10, reopened discovery in order to allow plaintiff an opportunity to show that defendant stored the allegedly infringing images on his own computer.⁴ In another recent district court case, plaintiff survived the motion to dismiss stage in a distribution case, based on the theory that each time a user used defendant’s website, it “cause[d] a copy of [plaintiff’s] software to be distributed to the website visitor’s computer in cache, memory, or hard drive” and that the “[defendant’s] website distributed copies of the code to each of the website’s visitors.” Live Face on Web, LLC v. Smart Move Search, Inc., 2017 WL 1064664 (D.N.J. Mar. 21, 2017), at *2.

Finally, in The Leader’s Institute, LLC v. Jackson, 2017 WL 5629514 (N.D. Tex. Nov. 22, 2017), at issue on summary judgment was, inter alia, whether plaintiffs infringed defendant’s exclusive display rights by “framing” defendant’s websites. The court rejected Perfect 10, holding that by “framing the defendant’s copyrighted works, the plaintiffs impermissibly displayed the works to the public.” Id. at *10. It distinguished Perfect 10 on its facts, noting that, “[U]nlike Google, [plaintiffs’ website] did not merely provide a link by which users could access [defendant’s] content but instead displayed [defendant’s] content as if it were its own.” Id. at *11. It further stated: “[T]o the extent Perfect 10 makes actual

³ The Court does not here review district court cases from the Ninth Circuit, as they are appropriately controlled by Perfect 10’s analysis.

⁴ It subsequently granted summary judgment to the plaintiff upon a showing that the defendant had, in fact, downloaded the images onto his computer.

possession of a copy a necessary condition to violating a copyright owner’s exclusive right to display the copyrighted works, the Court respectfully disagrees with the Ninth Circuit. . . . The text of the Copyright Act does not make actual possession of a work a prerequisite for infringement.” Id.

In sum, this Court is aware of only three decisions outside of the Ninth Circuit considering the display right in light of Perfect 10; one from the Seventh Circuit which adopted the Server Test for contributory liability, one from the Southern District which stated as a factual matter only that Perfect 10 existed, and one from the Northern District of Texas rejecting Perfect 10.

III. DISCUSSION

Defendants’ argument is simple—they have framed the issue as one in which the physical location and/or possession of an allegedly infringing image determines liability under the § 106(5) exclusive display right. Defendants argue that—despite the seamless presentation of the Brady Photo on their webpages—they simply provided “instructions” for the user to navigate to a third-party server on which the photo resided. According to defendants, merely providing instructions does not constitute a “display” by the defendants as a matter of law. They maintain that Perfect 10’s Server Test is settled law that should determine the outcome of this case.

Plaintiff maintains both 1) that to apply the Server Test leads to results incongruous with the purposes and text of the Copyright Act; and 2) even if the Server Test is rightfully applied in a case such as Perfect 10, or another case in

which the user takes a volitional action of his own to display an image, it is inappropriate in cases such as those here, where the user takes no action to “display” the image. He and his amici⁵ caution that to adopt the Server Test broadly would have a “devastating” economic impact on photography and visual artwork licensing industries, noting that it would “eliminate” the incentives for websites to pay licensing fees, and thus “deprive content creators of the resources necessary to invest in further creation.” (ECF No. 145-1 at 4.)

The Court agrees with plaintiff. The plain language of the Copyright Act, the legislative history undergirding its enactment, and subsequent Supreme Court jurisprudence provide no basis for a rule that allows the physical location or possession of an image to determine who may or may not have “displayed” a work within the meaning of the Copyright Act. Moreover, the Court agrees that there are critical factual distinctions between Perfect 10 and this case such that, even if the Second Circuit were to find the Server Test consistent with the Copyright Act, it would be inapplicable here.

A. The Copyright Act

Nowhere does the Copyright Act suggest that possession of an image is necessary in order to display it. Indeed, the purpose and language of the Act support the opposite view. The definitions in § 101 are illuminating. First, to display a work publicly means to “to transmit . . . a . . . display of the work . . . by

⁵ Getty Images, the American Society of Media Photographers, Digital Media Licensing Association, National Press Photographers Association, and North American Nature Photography Association submitted an amicus brief supporting plaintiff. (ECF No. 145-1.)

means of any device or process.” 17 USC § 101. To transmit a display is to “communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.” Id. (emphasis added). Devices and processes are further defined to mean ones “now known or later developed.” Id. This is plainly drafted with the intent to sweep broadly.

Here, defendants’ websites actively took steps to “display” the image. A review of just a few of the declarations proffered by defendants illustrates the point. For defendant Heavy.com:

[I]n order to embed the SneakerReporter Tweet, Heavy.com navigated to Twitter and copied the SneakerReporter Tweet’s URL. Heavy.com then used out of the box content management functionality provided by WordPress to embed the SneakerReporter Tweet within the Heavy.com Article.

(ECF No. 130, Nobel Decl. ¶ 5.).

Defendant Boston Herald “pasted a code line into its blog/article that contains Twitter HTML instructions.” (ECF No. 137, Emond Decl. ¶ 16.)

Defendant The Big Lead submitted a declaration in which the managing editor stated, “My entering the URL for the RealBobManningTweet into the field for embedded content in the CMS [content management system] caused this URL to be inserted into embedding code that became part of the HTML code for the Big Lead Article.” (ECF No. 127, Lisk Decl. ¶ 7.)

Defendant Gannett submitted a declaration in which the Vice President stated that:

[I]f I wanted that web page to display a photo that a third party user had posted to a site like Twitter, I could do so without me ever having

to make a copy of the photo. I would simply include in my HTML code some additional coding containing a link to the URL of the Twitter page where the photo appeared.

(ECF No. 126, Hiland Decl. ¶ 6) (emphasis added).

It is clear, therefore, that each and every defendant itself took active steps to put a process in place that resulted in a transmission of the photos so that they could be visibly shown. Most directly this was accomplished by the act of including the code in the overall design of their webpage; that is, embedding. Properly understood, the steps necessary to embed a Tweet are accomplished by the defendant website; these steps constitute a process. The plain language of the Copyright Act calls for no more.

Indeed, and as discussed above, the Copyright Act's authors intended to include "each and every method by which images . . . comprising a . . . display are picked up and conveyed;" moreover they went as far as to note that an infringement of the display right could occur "if the image were transmitted by any method (. . . for example, by a computer system) from one place to members of the public elsewhere." H.R. Rep. 94-1476, 64, 70 (1976). Persuasive as well is the warning of the Register of Copyrights that a "basic right of public exhibition" was necessary to the 1976 Amendments precisely because "information storage and retrieval devices . . . when linked together by communication satellites or other means . . . could eventually provide libraries and individuals throughout the world with access to a single copy or a work by transmission of electronic images." H. Comm. On the Judiciary, 89th Cong., Copyright Law Revision Part 6: Supplementary Report of the

Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, at 25 (Comm. Print. 1965).

In sum, this Court sees nothing in either the text or purpose of the Copyright Act suggesting that physical possession of an image is a necessary element to its display for purposes of the Act.

B. Aereo's Impact

Moreover, though the Supreme Court has only weighed in obliquely on the issue, its language in Aereo is instructive. At heart, the Court's holding eschewed the notion that Aereo should be absolved of liability based upon purely technical distinctions—in the end, Aereo was held to have transmitted the performances, despite its argument that it was the user clicking a button, and not any volitional act of Aereo itself, that did the performing. The language the Court used there to describe invisible technological details applies equally well here: “This difference means nothing to the subscriber. It means nothing to the broadcaster. We do not see how this single difference, invisible to subscriber and broadcaster alike, could transform a system that is for all practical purposes a traditional cable system into a ‘copy shop that provides patrons with a library card.’” Aereo, 134 S. Ct. at 2507.

Of course, in Aereo there was no argument about the physical location of the antennae, which were without dispute located in Aereo's warehouses; similarly there was no dispute that Aereo's servers saved data from the on-air broadcasts onto its own hard drives. On the other hand, Aereo was arguably a more passive participant in transmitting the performance right than is a user in the case here—

who has no choice in what is displayed to him when he navigates to one of defendant’s webpages. Furthermore, the principles that undergird the Aereo decision—chief among them that mere technical distinctions invisible to the user should not be the lynchpin on which copyright liability lies—apply with equal vigor here.

As noted above, even the dissent implies that were Aereo to engage in any sort of curatorial process as to content, that liability might lie: “In sum, Aereo does not perform for the sole and simple reason that it does not make the choice of content.” Id. at 2514 (Scalia, J., dissenting). This adds credence to the notion that where, as here, defendants are choosing the content which will be displayed, that they would indeed be displaying.

In sum, this Court reads Aereo, while not directly on point, as strongly supporting plaintiff’s argument that liability should not hinge on invisible, technical processes imperceptible to the viewer.

C. Perfect 10

The Court declines defendants’ invitation to apply Perfect 10’s Server Test for two reasons. First, this Court is skeptical that Perfect 10 correctly interprets the display right of the Copyright Act. As stated above, this Court finds no indication in the text or legislative history of the Act that possessing a copy of an infringing image is a prerequisite to displaying it. The Ninth Circuit’s analysis hinged, however, on making a “copy” of the image to be displayed—which copy would be stored on the server. It stated that its holding did not “erroneously collapse the

display right in section 106(5) into the reproduction right in 106(1).” Perfect 10 II, 508 F.3d at 1161. But indeed, that appears to be exactly what was done.

The Copyright Act, however, provides several clues that this is not what was intended. In several distinct parts of the Act, it contemplates infringers who would not be in possession of copies—for example in Section 110(5)(A) which exempts “small commercial establishments whose proprietors merely bring onto their premises standard radio or television equipment and turn it on for their customer’s enjoyment” from liability. H.R. Rep. No. 94-1476 at 87 (1976). That these establishments require an exemption, despite the fact that to turn on the radio or television is not to make or store a copy, is strong evidence that a copy need not be made in order to display an image.

Second, even if it correctly interprets the Act, to the degree that defendants interpret Perfect 10 as standing for a broadly-construed Server Test, focusing on the physical location of allegedly infringing images, this Court disagrees. Rather, Perfect 10 was heavily informed by two factors—the fact that the defendant operated a search engine, and the fact that the user made an active choice to click on an image before it was displayed—that suggest that such a broad reading is neither appropriate nor desirable.

In Perfect 10, the district court’s Opinion, while not strictly cabining its adoption of the Server Test to a search engine like Google, nevertheless relied heavily on that fact in its analysis. It stated, for example, that adopting the Server Test “will merely preclude search engines from being held directly liable for in-line

linking and or framing infringing contents stored on third-party websites.” Perfect 10 I, 416 F. Supp. 2d at 844 (emphasis added). It went on: “Merely to index the web so that users can more readily find the information they seek should not constitute direct infringement” Id. (emphasis added). On appeal, the Ninth Circuit began its statement of the case by saying, “we consider a copyright owner’s efforts to stop an Internet search engine from facilitating access to infringing images.” Perfect 10 II, 508 F.3d at 1154.

In addition, the role of the user was paramount in the Perfect 10 case—the district court found that users who view the full-size images “after clicking on one of the thumbnails” are “engaged in a direct connection with third-party websites, which are themselves responsible for transferring content.” Perfect 10 I, 416 F. Supp. 2d at 843.

In this Court’s view, these distinctions are critical. In Perfect 10, Google’s search engine provided a service whereby the user navigated from webpage to webpage, with Google’s assistance. This is manifestly not the same as opening up a favorite blog or website to find a full color image awaiting the user, whether he or she asked for it, looked for it, clicked on it, or not. Both the nature of Google Search Engine, as compared to the defendant websites, and the volitional act taken by users of the services, provide a sharp contrast to the facts at hand.

In sum, the Court here does not apply the Server Test. It is neither appropriate to the specific facts of this case, nor, this Court believes, adequately

grounded in the text of the Copyright Act. It therefore does not and should not control the outcome here.

D. Defenses

Defendants warn that to find for plaintiff here would “cause a tremendous chilling effect on the core functionality of the web.” (ECF No. 121, Defs.’ Mem. of Law in Supp. at 35) (quoting Perfect 10 I, 426 F. Supp. 2d at 840). Their amici⁶ warn that not adopting the Server Test here would “radically change linking practices, and thereby transform the Internet as we know it.”

The Court does not view the results of its decision as having such dire consequences. Certainly, given a number as of yet unresolved strong defenses to liability separate from this issue, numerous viable claims should not follow.

In this case, there are genuine questions about whether plaintiff effectively released his image into the public domain when he posted it to his Snapchat account. Indeed, in many cases there are likely to be factual questions as to licensing and authorization. There is also a very serious and strong fair use defense, a defense under the Digital Millennium Copyright Act, and limitations on damages from innocent infringement.

⁶ The Electronic Frontier Foundation, a non-profit foundation dedicated to free expression, and Public Knowledge, a not-for-profit public interest advocacy and research organization, submitted an amicus brief at ECF No. 143-1. (Amicus Brief of the Electronic Frontier Foundation and Public Knowledge in Support of Defendants’ Motion for Partial Summary Judgment.)

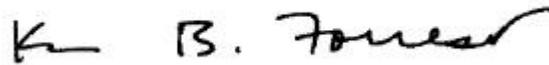
In sum, for all the reasons discussed above, the Court DENIES defendants' motion for partial summary judgment and GRANTS partial summary judgment to the plaintiff.

IV. CONCLUSION

For the reasons stated above, defendants' motion for partial Summary Judgment is DENIED. The Court GRANTS partial Summary Judgment to the plaintiff. The Clerk of Court is directed to terminate the motion at ECF No. 119.

SO ORDERED.

Dated: New York, New York
February 15, 2018

Handwritten signature of Katherine B. Forrest in black ink.

KATHERINE B. FORREST
United States District Judge

PUBLISHED

UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

No. 16-1972

BMG RIGHTS MANAGEMENT (US) LLC,

Plaintiff - Appellee,

and

ROUND HILL MUSIC LP,

Plaintiff,

v.

COX COMMUNICATIONS, INCORPORATED; COXCOM, LLC,

Defendants - Appellants,

and

COX ENTERPRISES, INC.; COXCOM, INC., d/b/a Cox Communications of
Northern Virginia; JOHN DOE 2, IP Subscriber 174.65.175.31,

Defendants,

RIGHTSCORP, INC.,

Party-in-Interest.

AMERICAN COUNCIL ON EDUCATION; ASSOCIATION OF AMERICAN
UNIVERSITIES; EDUCAUSE; AMERICAN LIBRARY ASSOCIATION;
ASSOCIATION OF RESEARCH LIBRARIES; ASSOCIATION OF COLLEGE
AND RESEARCH LIBRARIES; AMERICAN INDIAN HIGHER EDUCATION
CONSORTIUM; APPA: LEADERSHIP IN EDUCATIONAL FACILITIES;

NATIONAL ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS; THURGOOD MARSHALL COLLEGE FUND; ASSOCIATION OF CATHOLIC COLLEGES AND UNIVERSITIES; NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES; PUBLIC KNOWLEDGE; ELECTRONIC FRONTIER FOUNDATION; CENTER FOR DEMOCRACY & TECHNOLOGY,

Amici Curiae,

and

CONSUMER TECHNOLOGY ASSOCIATION; COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION; UNITED STATES TELECOM ASSOCIATION; AMERICAN CABLE ASSOCIATION; INTERNET COMMERCE COALITION,

Amici Supporting Appellant,

RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC.; THE COPYRIGHT ALLIANCE; NATIONAL MUSIC PUBLISHERS' ASSOCIATION; NASHVILLE SONGWRITERS ASSOCIATION INTERNATIONAL; MOTION PICTURE ASSOCIATION OF AMERICA, INC.,

Amici Supporting Appellee.

No. 17-1352

BMG RIGHTS MANAGEMENT (US) LLC,

Plaintiff - Appellant,

and

ROUND HILL MUSIC LP,

Plaintiff,

v.

COX COMMUNICATIONS, INCORPORATED; COXCOM, LLC,

Defendants - Appellees,

and

COX ENTERPRISES, INCORPORATED; COXCOM, INC., d/b/a Cox
Communications of Northern Virginia; JOHN DOE, IP Subscriber 174.65.175.31,

Defendants,

RIGHTSCORP, INC.,

Party-in-Interest.

No. 17-1353

BMG RIGHTS MANAGEMENT (US) LLC; ROUND HILL MUSIC LP,

Plaintiffs - Appellees,

v.

COX COMMUNICATIONS, INCORPORATED; COXCOM, LLC,

Defendants - Appellants,

and

COX ENTERPRISES, INCORPORATED; COXCOM, INC., d/b/a Cox
Communications of Northern Virginia; JOHN DOE, IP Subscriber 174.65.175.31,

Defendants,

RIGHTSCORP, INC.,

Party-in-Interest.

Appeals from the United States District Court for the Eastern District of Virginia, at Alexandria. Liam O’Grady, District Judge. (1:14-cv-01611-LO-JFA)

Argued: October 25, 2017

Decided: February 1, 2018

Before MOTZ and WYNN, Circuit Judges, and SHEDD, Senior Circuit Judge.

Affirmed in part, reversed in part, vacated in part, and remanded by published opinion. Judge Motz wrote the opinion, in which Judge Wynn and Senior Judge Shedd joined.

ARGUED: Michael S. Elkin, WINSTON & STRAWN LLP, New York, New York, for Appellants/Cross-Appellees. Michael J. Allan, STEPTOE & JOHNSON LLP, Washington, D.C., for Appellee/Cross-Appellant. **ON BRIEF:** Thomas P. Lane, New York, New York, Jennifer A. Golinveaux, Thomas J. Kearney, San Francisco, California, Steffen N. Johnson, Christopher E. Mills, WINSTON & STRAWN LLP, Washington, D.C.; Craig C. Reilly, Alexandria, Virginia, for Appellants/Cross-Appellees. William G. Pecau, John M. Caracappa, Jeffrey M. Theodore, STEPTOE & JOHNSON LLP, Washington, D.C.; Walter D. Kelly, Jr., HAUSFELD, LLP, Washington, D.C., for Appellee/Cross-Appellant. Seth D. Greenstein, CONSTANTINE CANNON LLP, Washington, D.C., for Amici Consumer Technology Association and Computer & Communications Industry Association. Jonathan Band, JONATHAN BAND PLLC, Washington, D.C., for Amici American Council on Education, Association of American Universities, Educause, American Library Association, Association of Research Libraries, Association of College and Research Libraries, American Indian Higher Education Consortium, APPA: Leadership in Educational Facilities, National Association of College and University Business Officers, Thurgood Marshall College Fund, Association of Catholic Colleges and Universities, and National Association of Independent Colleges and Universities. David E. Weslow, Brett A. Shumate, Ari S. Meltzer, WILEY REIN LLP, Washington, D.C., for Amicus United States Telecom Association. Ross J. Lieberman, AMERICAN CABLE ASSOCIATION, Washington, D.C.; John D. Seiver, Ronald G. London, William W. Hellmuth, DAVIS WRIGHT TREMAINE LLP, Washington, D.C., for Amicus American Cable Association. Andrew L. Deutsch, DLA PIPER LLP, New York, New York, for Amicus Internet Commerce Coalition. Mitchell L. Stoltz, ELECTRONIC FRONTIER FOUNDATION, San Francisco, California; Charles Duan, PUBLIC KNOWLEDGE, Washington, D.C., for Amici Public Knowledge, Electronic Frontier Foundation, and Center for Democracy & Technology. George M. Borkowski, RECORDING INDUSTRY ASSOCIATION OF AMERICA, INC., Washington, D.C.;

Kannon K. Shanmugam, Thomas G. Hentoff, Connor S. Sullivan, WILLIAMS & CONNOLLY LLP, Washington, D.C., for Amicus Recording Industry Association of America, Inc. Linda M. Burrow, Eric S. Pettit, Albert Giang, Alison Mackenzie, CALDWELL LESLIE & PROCTOR, PC, Los Angeles, California, for Amicus The Copyright Alliance. Erich C. Carey, Vice President & Senior Counsel, Litigation, NATIONAL MUSIC PUBLISHERS' ASSOCIATION, Washington, D.C., for Amicus National Music Publishers' Association. Jacqueline C. Charlesworth, New York, New York, for Amici National Music Publishers' Association and Nashville Songwriters Association International. R. Reeves Anderson, Denver, Colorado, Elisabeth S. Theodore, Washington, D.C., John C. Ulin, ARNOLD & PORTER KAYE SCHOLER LLP, Los Angeles, California, for Amicus Motion Picture Association of America, Inc.

DIANA GRIBBON MOTZ, Circuit Judge:

BMG Rights Management (US) LLC (“BMG”), which owns copyrights in musical compositions, filed this suit alleging copyright infringement against Cox Communications, Inc. and CoxCom, LLC (collectively, “Cox”), providers of high-speed Internet access. BMG seeks to hold Cox contributorily liable for infringement of BMG’s copyrights by subscribers to Cox’s Internet service. Following extensive discovery, the district court held that Cox had not produced evidence that it had implemented a policy entitling it to a statutory safe harbor defense and so granted summary judgment on that issue to BMG. After a two-week trial, a jury found Cox liable for willful contributory infringement and awarded BMG \$25 million in statutory damages. Cox appeals, asserting that the district court erred in denying it the safe harbor defense and incorrectly instructed the jury. We hold that Cox is not entitled to the safe harbor defense and affirm the district court’s denial of it, but we reverse in part, vacate in part, and remand for a new trial because of certain errors in the jury instructions.

I.

A.

Cox is a conduit Internet service provider (“ISP”), providing approximately 4.5 million subscribers with high-speed Internet access for a monthly fee. Some of Cox’s subscribers shared and received copyrighted files, including music files, using a technology known as BitTorrent. BitTorrent is not a software program, but rather describes a protocol — a set of rules governing the communication between computers — that allows individual

computers on the Internet to transfer files directly to other computers. This method of file sharing is commonly known as “peer-to-peer” file sharing, and contrasts with the traditional method of downloading a file from a central server using a Web browser.

Although peer-to-peer file sharing is not new, what makes BitTorrent unique is that it allows a user to download a file from multiple peers at the same time — even peers who only have a piece of the file, rather than the complete file. In other words, as soon as a user has downloaded a piece of the file, he or she can begin sharing that piece with others (while continuing to download the rest of the file). This innovation makes sharing via BitTorrent particularly fast and efficient. Although BitTorrent can be used to share any type of digital file, many use it to share copyrighted music and video files without authorization.

As a conduit ISP, Cox only provides Internet access to its subscribers. Cox does not create or sell software that operates using the BitTorrent protocol, store copyright-infringing material on its own computer servers, or control what its subscribers store on their personal computers.

Cox’s agreement with its subscribers reserves the right to suspend or terminate subscribers who use Cox’s service “to post, copy, transmit, or disseminate any content that infringes the patents, copyrights . . . or proprietary rights of any party.” To enforce that agreement and protect itself from liability, however, Cox created only a very limited automated system to process notifications of alleged infringement received from copyright owners. Cox’s automated system rests on a thirteen-strike policy that determines the action to be taken based on how many notices Cox has previously received regarding infringement by a particular subscriber. The first notice alleging a subscriber’s infringement produces

no action from Cox. The second through seventh notices result in warning emails from Cox to the subscriber. After the eighth and ninth notices, Cox limits the subscriber's Internet access to a single webpage that contains a warning, but the subscriber can reactivate complete service by clicking an acknowledgement. After the tenth and eleventh notices, Cox suspends services, requiring the subscriber to call a technician, who, after explaining the reason for suspension and advising removal of infringing content, reactivates service. After the twelfth notice, the subscriber is suspended and directed to a specialized technician, who, after another warning to cease infringing conduct, reactivates service. After the thirteenth notice, the subscriber is again suspended, and, for the first time, considered for termination. Cox never automatically terminates a subscriber.

The effectiveness of Cox's thirteen-strike policy as a deterrent to copyright infringement has several additional limitations. Cox restricts the number of notices it will process from any copyright holder or agent in one day; any notice received after this limit has been met does not count in Cox's graduated response escalation. Cox also counts only one notice per subscriber per day. And Cox resets a subscriber's thirteen-strike counter every six months.

BMG, a music publishing company, owns copyrights in musical compositions. To protect this copyrighted material, BMG hired Rightscorp, Inc., which monitors BitTorrent activity to determine when infringers share its clients' copyrighted works. When Rightscorp identifies such sharing, it emails an infringement notice to the alleged infringer's ISP (here, Cox). The notice contains the name of the copyright owner (here, BMG), the title of the copyrighted work, the alleged infringer's IP address, a time stamp,

and a statement under penalty of perjury that Rightscorp is an authorized agent and the notice is accurate.

Rightscorp also asks the ISP to forward the notice to the allegedly infringing subscriber, since only the ISP can match the IP address to the subscriber's identity. For that purpose, the notice contains a settlement offer, allowing the alleged infringer to pay twenty or thirty dollars for a release from liability for the instance of infringement alleged in the notice. Cox has determined to refuse to forward or process notices that contain such settlement language. When Cox began receiving Rightscorp notices in the spring of 2011 (before Rightscorp had signed BMG as a client), Cox notified Rightscorp that it would process the notices only if Rightscorp removed the settlement language. Rightscorp did not do so. Cox never considered removing the settlement language itself or using other means to inform its subscribers of the allegedly infringing activity observed by Rightscorp.

Rightscorp continued to send Cox large numbers of settlement notices. In the fall of 2011, Cox decided to "blacklist" Rightscorp, meaning Cox would delete notices received from Rightscorp without acting on them or even viewing them. BMG hired Rightscorp in December 2011 — *after* Cox blacklisted Rightscorp. Thus, Cox did not ever view a single one of the millions of notices that Rightscorp sent to Cox on BMG's behalf.

B.

On November 26, 2014, BMG initiated this action against Cox. BMG alleged that Cox was vicariously and contributorily liable for acts of copyright infringement by its subscribers.

At the conclusion of discovery, the parties filed multi-issue cross-motions for summary judgment, which the district court resolved in a careful written opinion. Among these issues, BMG asserted that Cox had not established a policy entitling it to the safe harbor defense contained in the Digital Millennium Copyright Act (“DMCA”), 17 U.S.C. § 512(a). To qualify for that safe harbor, an ISP, like Cox, must have “adopted and reasonably implemented . . . a policy that provides for the termination in appropriate circumstances of subscribers . . . who are repeat infringers.” *Id.* § 512(i)(1)(A). The district court agreed with BMG and held that no reasonable jury could find that Cox implemented a policy that entitled it to that DMCA safe harbor. The court explained that BMG had offered evidence that “Cox knew accounts were being used repeatedly for infringing activity yet failed to terminate” those accounts and that Cox did “not come forward with any evidence” to the contrary. Accordingly, the court granted summary judgment to BMG on Cox’s safe harbor defense.

The case proceeded to a jury trial that involved the testimony of more than a dozen witnesses and admission of numerous documents. At the conclusion of the trial, the district court instructed the jury that to prove contributory infringement, BMG had to show “direct infringement of BMG’s copyrighted works” by Cox subscribers, that “Cox knew or should have known of such infringing activity,” and that “Cox induced, caused, or materially contributed to such infringing activity.” The court further instructed the jury that BMG could prove Cox’s knowledge of infringing activity by showing willful blindness, if Cox “was aware of a high probability that Cox users were infringing BMG’s copyrights but consciously avoided confirming that fact.”

The jury found Cox liable for willful contributory infringement and awarded BMG \$25 million in statutory damages. The jury also found that Cox was not liable for vicarious infringement. The district court denied all post-trial motions and entered judgment in accordance with the verdict. Cox appeals, arguing that BMG should not have been granted summary judgment as to the DMCA safe harbor and that erroneous jury instructions entitle it to a new trial.¹

II.

We first address Cox’s contention that the district court erred in denying it the § 512(a) DMCA safe harbor defense. We review de novo the grant of summary judgment. *Henry v. Purnell*, 652 F.3d 524, 531 (4th Cir. 2011) (en banc).

A.

The DMCA provides a series of safe harbors that limit the copyright infringement liability of an ISP and related entities. As a conduit ISP, Cox seeks the benefit of the safe harbor contained in 17 U.S.C. § 512(a). To fall within that safe harbor, Cox must show that it meets the threshold requirement, common to all § 512 safe harbors, that it has “adopted and reasonably implemented . . . a policy that provides for the termination in

¹ After trial, both parties moved for fees and costs. The district court awarded BMG over \$8 million in attorney’s fees but limited some of the costs recoverable by BMG. The court denied Cox’s motion for fees and costs against an earlier plaintiff in the litigation, Round Hill Music LP, against whom Cox prevailed on summary judgment. The parties appeal these orders. Because our holding as to the jury instructions requires us to vacate this award of fees and costs, we do not address the merits of those awards.

appropriate circumstances of subscribers . . . who are repeat infringers.” 17 U.S.C. § 512(i)(1)(A).

Cox’s principal contention is that “repeat infringers” means *adjudicated* repeat infringers: people who have been held liable by a court for multiple instances of copyright infringement. Cox asserts that it complied with § 512(i)(1)(A)’s requirement and is therefore entitled to the § 512(a) DMCA safe harbor because BMG did not show that Cox failed to terminate any adjudicated infringers. BMG responds that Cox’s interpretation of “repeat infringers” is contrary to “the DMCA’s plain terms.” Appellee Br. at 31.

Because the statute does not define the term “repeat infringers,” to resolve that question, we turn first to the term’s ordinary meaning. *See Sebelius v. Cloer*, 569 U.S. 369, 376 (2013). The ordinary meaning of an infringer is “[s]omeone who interferes with one of the exclusive rights of a . . . copyright” holder — in short, one who infringes a copyright. *Infringer*, Black’s Law Dictionary 902 (10th ed. 2014). A repeat infringer, then, is one who infringes a copyright more than once.

Cox contends that because the repeat infringer provision uses the term “infringer” without modifiers such as “alleged” or “claimed” that appear elsewhere in the DMCA, “infringer” must mean “adjudicated infringer.” But the DMCA’s use of phrases like “alleged infringer” in other portions of the statute indicates only that the term “infringer” alone must mean something different than “alleged infringer,” otherwise, the word “alleged” would be superfluous. Using the ordinary meaning of “infringer,” however, fully accords with this principle: someone who *actually* infringes a copyright differs from someone who has merely *allegedly* infringed a copyright, because an allegation could be

false. The need to differentiate the terms “infringer” and “alleged infringer” thus does not mandate Cox’s proposed definition.

Moreover, other provisions of the Copyright Act use the term “infringer” (and similar terms) to refer to all who engage in infringing activity, not just the narrow subset of those who have been so adjudicated by a court. For example, § 501(a), which creates a civil cause of action for copyright owners, states that “[a]nyone who violates any of the exclusive rights of the copyright owner” provided for in the statute “is an *infringer* of the copyright or right of the author.” 17 U.S.C. § 501(a) (emphasis added).

Similarly, the DMCA itself provides that ISPs who store copyrighted material are generally not liable for removing “material or activity *claimed to be infringing* or based on facts or circumstances from which *infringing activity is apparent*, regardless of whether the material or activity is *ultimately determined to be infringing*.” *Id.* § 512(g)(1) (emphases added). This provision expressly distinguishes among three categories of activity: activity merely “claimed to be infringing,” actual “infringing activity” (as is apparent from “facts or circumstances”), and activity “ultimately determined to be infringing.” The distinction between “infringing activity” and activity “ultimately determined to be infringing” in § 512(g) shelters ISPs from being liable for taking down material that *is* “infringing,” even if no court “ultimately determine[s]” that it is infringing — because, for example, the copyright holder simply does not file a lawsuit against the person who uploaded the infringing material. As this provision illustrates, Congress knew how to expressly refer to adjudicated infringement, but did not do so in the repeat infringer provision. *See also id.* § 512(b)(2)(E)(i) (addressing circumstance in which “a court has

ordered that . . . material be removed”). That suggests the term “infringer” in § 512(i) is not limited to adjudicated infringers.

The legislative history of the repeat infringer provision supports this conclusion. Both the House Commerce and Senate Judiciary Committee Reports explained that “those who repeatedly or flagrantly abuse their access to the Internet through disrespect for the intellectual property rights of others should know that there is a realistic threat of losing that access.” H.R. Rep. No. 105-551, pt. 2, at 61 (1998); S. Rep. No. 105-190, at 52 (1998). This passage makes clear that if persons “abuse their access to the Internet through disrespect for the intellectual property rights of others” — that is, if they infringe copyrights — they should face a “realistic threat of losing” their Internet access. The passage does not suggest that they should risk losing Internet access only once they have been sued in court and found liable for multiple instances of infringement. Indeed, the risk of losing one’s Internet access would hardly constitute a “realistic threat” capable of deterring infringement if that punishment applied only to those *already* subject to civil penalties and legal fees as adjudicated infringers.

The only circuit to expressly consider the definition of a “repeat infringer” in the DMCA has defined it to mean “someone who interferes with one of the exclusive rights of a copyright” “again or repeatedly.” *EMI Christian Music Grp., Inc. v. MP3tunes, LLC*, 844 F.3d 79, 89 (2d Cir. 2016) (alterations, internal quotation marks, and citations omitted); *accord, e.g., Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004) (finding material dispute of fact as to whether ISP was entitled to invoke safe harbor provision because there was “ample evidence” that ISP did not terminate “repeat infringers,” but not suggesting

that the infringing subscribers were *adjudicated* infringers); *In re Aimster Copyright Litig.*, 334 F.3d 643, 655 (7th Cir. 2003) (finding ISP ineligible for safe harbor defense where ISP “invited” “the use of its service by ‘repeat infringers,’” but not discussing any evidence that users were *adjudicated* infringers). Cox does not cite a single case adopting its contrary view that only adjudicated infringers can be “repeat infringers” for purposes of the DMCA.²

Accordingly, we reject Cox’s argument that the term “repeat infringers” in § 512(i) is limited to adjudicated infringers.³

B.

Section 512(i) thus requires that, to obtain the benefit of the DMCA safe harbor, Cox must have reasonably implemented “a policy that provides for the termination in appropriate circumstances” of its subscribers who repeatedly infringe copyrights. 17 U.S.C. § 512(i)(1)(A). We are mindful of the need to afford ISPs flexibility in crafting repeat infringer policies, and of the difficulty of determining when it is “appropriate” to

² Nor do we find Cox’s reliance on Professor Nimmer’s copyright treatise convincing. Although the treatise discusses several possible meanings for the term “infringer,” it ultimately concludes that “an ‘infringer’ in the statutory sense may be *either* a party who has been adjudicated to have committed copyright infringement, *or* a party about whom the service provider has actual knowledge that s/he has engaged in infringement.” 4 Nimmer on Copyright § 12B.10[B][3][c] (emphases added); *see id.* § 12B.10[B][3][a]. That conclusion lies at odds with Cox’s assertion that only an adjudicated infringer qualifies as an “infringer” for purposes of the DMCA.

³ We note that even were we to adopt Cox’s position that its policy must only target *adjudicated* repeat infringers, Cox undisputedly did not have such a policy. As summarized above, Cox’s policy focused on the number of complaints (or strikes) a subscriber received, not whether a court had adjudicated the subscriber a repeat infringer.

terminate a person's access to the Internet. *See id.* At a minimum, however, an ISP has not "reasonably implemented" a repeat infringer policy if the ISP fails to enforce the terms of its policy in any meaningful fashion. *See In re Aimster Copyright Litig.*, 252 F. Supp. 2d 634, 659 (N.D. Ill. 2002), *aff'd*, 334 F.3d 643 (7th Cir. 2003) ("Adopting a repeat infringer policy and then purposely eviscerating any hope that such a policy could ever be carried out is not an 'implementation' as required by § 512(i)."). Here, Cox formally adopted a repeat infringer "policy," but, both before and after September 2012, made every effort to avoid reasonably implementing that policy. Indeed, in carrying out its thirteen-strike process, Cox very clearly determined *not* to terminate subscribers who in fact repeatedly violated the policy.

The words of Cox's own employees confirm this conclusion. In a 2009 email, Jason Zabek, the executive managing the Abuse Group, a team tasked with addressing subscribers' violations of Cox's policies, explained to his team that "if a customer is terminated for DMCA, you are able to reactivate them," and that "[a]fter you reactivate them the DMCA 'counter' restarts." The email continued, "This is to be an unwritten semi-policy." Zabek also advised a customer service representative asking whether she could reactivate a terminated subscriber that "[i]f it is for DMCA you can go ahead and reactivate." Zabek explained to another representative: "Once the customer has been terminated for DMCA, we have fulfilled the obligation of the DMCA safe harbor and can start over." He elaborated that this would allow Cox to "collect a few extra weeks of payments for their account. ;-)." Another email summarized Cox's practice more succinctly: "DMCA = reactivate." As a result of this practice, from the beginning of the

litigated time period until September 2012, Cox *never* terminated a subscriber for infringement without reactivating them.

Cox nonetheless contends that it lacked “actual knowledge” of its subscribers’ infringement and therefore did not have to terminate them. That argument misses the mark. The evidence shows that Cox *always* reactivated subscribers after termination, regardless of its knowledge of the subscriber’s infringement. Cox did not, for example, advise employees *not* to reactivate a subscriber if the employees had reliable information regarding the subscriber’s repeat infringement. An ISP cannot claim the protections of the DMCA safe harbor provisions merely by terminating customers as a symbolic gesture before indiscriminately reactivating them within a short timeframe.

In September 2012, Cox abandoned its practice of routine reactivation. An internal email advised a new customer service representative that “we now terminate, for real.” BMG argues, however, that this was a change in form rather than substance, because instead of terminating and then reactivating subscribers, Cox simply stopped terminating them in the first place. The record evidence supports this view. Before September 2012, Cox was terminating (and reactivating) 15.5 subscribers per month on average; after September 2012, Cox abruptly began terminating *less than one* subscriber per month on average. From September 2012 until the end of October 2014, the month before BMG filed suit, Cox issued only 21 terminations in total. Moreover, at least 17 of those 21 terminations concerned subscribers who had either failed to pay their bills on time or used excessive bandwidth (something that Cox subjected to a strict three-strike termination policy). Cox did not provide evidence that the remaining four terminations were for repeat

copyright infringement. But even assuming they were, they stand in stark contrast to the over 500,000 email warnings and temporary suspensions Cox issued to alleged infringers during the same time period.

Moreover, Cox dispensed with terminating subscribers who repeatedly infringed *BMG's* copyrights in particular when it decided to delete automatically all infringement notices received from *BMG's* agent, Rightscorp. As a result, Cox received none of the millions of infringement notices that Rightscorp sent to Cox on *BMG's* behalf during the relevant period. Although our inquiry concerns Cox's policy toward all of its repeatedly infringing subscribers, not just those who infringed *BMG's* copyrights, Cox's decision to categorically disregard all notices from Rightscorp provides further evidence that Cox did not reasonably implement a repeat infringer policy. *See Ellison*, 357 F.3d at 1080 (holding that "the district court erred in concluding on summary judgment that [the ISP] satisfied the requirements of § 512(i)" because the record showed that the ISP "allowed notices of potential copyright infringement to fall into a vacuum and to go unheeded," indicating it "had not reasonably implemented its policy against repeat infringers"); *Aimster*, 334 F.3d at 655 (holding that a defendant who "disabled itself from doing anything to prevent infringement" did not reasonably implement a repeat infringer policy).

BMG also provided evidence of particular instances in which Cox failed to terminate subscribers whom Cox employees regarded as repeat infringers. For example, one subscriber "was advised to stop sharing . . . and remove his PTP programs," and a Cox employee noted that the subscriber was "well aware of his actions" and was "upset that 'after years of doing this' he is now getting caught." Nonetheless, Cox did not terminate

the subscriber. Another customer was advised that “further complaints would result in termination” and that it was the customer’s “absolute last chance to . . . remove ALL” file-sharing software. But when Cox received another complaint, a manager directed the employee *not* to terminate, but rather to “suspend this Customer, one LAST time,” noting that “[t]his customer pays us over \$400/month” and that “[e]very terminated Customer becomes lost revenue.”

Cox responds that these post-September 2012 emails do not necessarily “*prove* actual knowledge of repeat infringement.” Appellants Br. at 59. Again, that argument is misplaced. Cox bears the burden of proof on the DMCA safe harbor defense; thus, Cox had to point to evidence showing that it reasonably implemented a repeat infringer policy. The emails show that Cox internally concluded that a subscriber should be terminated after the next strike, but then declined to do so because it did not want to lose revenue. In other words, Cox failed to follow through on its own policy. Cox argues that these emails only concerned “four cases,” and that “occasional lapses” are forgivable. *Id.* at 58. But even four cases are significant when measured against Cox’s equally small total number of relevant terminations in this period — also four. More importantly, Cox did not produce any evidence of instances in which it *did* follow through on its policy and terminate subscribers after giving them a final warning to stop infringing.

In addition, Cox suggests that because the DMCA merely requires termination of repeat infringers in “appropriate circumstances,” Cox decided not to terminate certain subscribers only when “appropriate circumstances” were lacking. Appellants Br. at 56–57. But Cox failed to provide evidence that a determination of “appropriate circumstances”

played *any* role in its decisions to terminate (or not to terminate). Cox did not, for example, point to any criteria that its employees used to determine whether “appropriate circumstances” for termination existed. Instead, the evidence shows that Cox’s decisions not to terminate had nothing to do with “appropriate circumstances” but instead were based on one goal: not losing revenue from paying subscribers.

Cox failed to qualify for the DMCA safe harbor because it failed to implement its policy in any consistent or meaningful way — leaving it essentially with no policy. Accordingly, the district court did not err in holding that Cox failed to offer evidence supporting its entitlement to the § 512(a) safe harbor defense and therefore granting summary judgment on this issue to BMG.

III.

We turn to Cox’s other principal challenge to the judgment: that the district court erred in instructing the jury as to contributory infringement. “We generally review a trial court’s . . . jury instructions for abuse of discretion.” *Coll. Loan Corp. v. SLM Corp.*, 396 F.3d 588, 595 (4th Cir. 2005). However, we review *de novo* whether jury instructions correctly state the law, *see United States v. Cherry*, 330 F.3d 658, 665 (4th Cir. 2003), because a trial court “by definition abuses its discretion when it makes an error of law,” *Koon v. United States*, 518 U.S. 81, 100 (1996). Where an instruction is erroneous, we will set aside the verdict if “[t]here is a reasonable probability” that the erroneous instruction “affected the jury’s verdict.” *See Cherry*, 330 F.3d at 600.

A.

Cox's initial jury instruction argument rests on its contention that it cannot be held liable for contributory copyright infringement because its technology is "capable of substantial noninfringing use." Appellants Br. at 15, 38. According to Cox, the district court erred in refusing "to instruct the jury on this principle." *Id.* at 15.

This argument is meritless. Of course, the mere sale of a product that has both lawful and unlawful uses does not in and of itself establish an intent to infringe. That is the holding of *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). In *Sony*, copyright holders sought to hold Sony contributorily liable for selling video cassette recorders (VCRs) that customers used to tape copyrighted programs. *Id.* at 419–20. The Supreme Court rejected that claim, holding that because a VCR was "capable of commercially significant noninfringing uses," its manufacturer, Sony, could not be held contributory liable for distribution of the VCR. *Id.* at 442.

A few courts initially interpreted *Sony*'s limitation, as Cox does, to mean that if a product can be substantially used lawfully, its producer *cannot* be contributorily liable for copyright infringement. *See, e.g., Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004), *vacated and remanded*, 545 U.S. 913 (2005); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 262, 267 (5th Cir. 1988). But in *Grokster*, the Supreme Court rejected this broad reading. *See Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). The Court clarified that "*Sony* barred secondary liability based on *presuming or imputing intent* to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor

knows is in fact used for infringement.” *Id.* at 933 (emphasis added). The *Grokster* Court explained that under *Sony*, intent to infringe will not be presumed from “the equivocal conduct of selling an item with substantial lawful as well as unlawful uses,” even when the seller has the “understanding that some of [his or her] products will be misused.” *Id.* at 932–33. More is needed. But the fact that a product is “capable of substantial lawful use” does not mean the “producer can never be held contributorily liable.” *Id.* at 934.

Exactly the same flaw infects Cox’s related argument that the district court erred in refusing to instruct the jury that “[i]t is not a material contribution to provide a product or service that is capable of substantial non-infringing uses.” Appellants Br. 22–23. As the Supreme Court explained, reversal was required in *Grokster* because the Ninth Circuit had “read *Sony*’s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties’ infringing use of it [t]his view of *Sony*, however, was error.” *Grokster*, 545 U.S. at 934.

Because the instruction Cox requested misstates the law, the district court did not err in refusing to give it. *See United States v. Smoot*, 690 F.3d 215, 223 (4th Cir. 2012). In fact, providing a product with “substantial non-infringing uses” *can* constitute a material contribution to copyright infringement. *See, e.g., Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1172 (9th Cir. 2007) (holding that Google’s image search engine “substantially assists websites to distribute their infringing copies” of copyrighted images, and thus constitutes a material contribution, even though “Google’s assistance is available to all websites, not just infringing ones”). *Grokster* makes clear that what matters is not simply whether the product has some or even many non-infringing uses, but whether the product

is distributed with the *intent* to cause copyright infringement. *See Grokster*, 545 U.S. at 934 (“*Sony*’s rule limits imputing *culpable intent* as a matter of law from the characteristics or uses of a distributed product.” (emphasis added)).

Thus, contrary to Cox’s argument, the fact that its technology can be substantially employed for a noninfringing use does not immunize it from liability for contributory copyright infringement. The district court did not err in refusing to instruct the jury to the contrary.

B.

Alternatively, Cox offers a more nuanced attack on the contributory infringement instructions. Cox contends that the court erred in charging the jury as to the intent necessary to prove contributory infringement. Specifically, Cox challenges the district court’s instructions that the jury could impose liability for contributory infringement if the jury found “Cox knew or should have known of such infringing activity.” We agree that in so instructing the jury, the court erred.

i.

Grokster teaches that “[o]ne infringes contributorily by *intentionally* inducing or encouraging direct infringement.” 545 U.S. at 930 (emphasis added). The requisite intent may, however, be presumed according to the “rules of fault-based liability derived from the common law.” *Id.* at 934–35. The most relevant of these common law rules is that if a person “knows that the consequences are certain, or substantially certain, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result.” *See* Restatement (Second) of Torts § 8A cmt. b (1965); *Grokster*, 545 U.S.

at 932 (a person “will be presumed to intend the natural consequences of his acts” (internal quotation marks and citation omitted)). Under this principle, “when an article is good for nothing else but infringement . . . there is no injustice in presuming or imputing an intent to infringe” based on its sale. *Grokster*, 545 U.S. at 932 (internal quotation marks and citation omitted). Assuming the seller is aware of the nature of his product — that its only use is infringing — he knows that infringement is substantially certain to result from his sale of that product and he may therefore be presumed to intend that result.

A similar result follows when a person sells a product that has lawful uses, but with the *knowledge* that the buyer *will in fact* use the product to infringe copyrights. In that circumstance, the seller knows that infringement is substantially certain to result from the sale; consequently, the seller intends to cause infringement just as much as a seller who provides a product that has exclusively unlawful uses. See *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), *overruled on other grounds*, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917). Indeed, *Henry*, a hundred-year-old Supreme Court case involving contributory patent infringement that the Supreme Court cited in *Grokster*, 545 U.S. at 932–33, 935, and *Sony*, 464 U.S. at 441–42, rests on this very reasoning. There, the Court affirmed a judgment for contributory infringement based on the defendants’ sale to a specific person with knowledge that the product would be used to infringe, even though the product — ink — also had noninfringing uses. *Henry*, 224 U.S. at 48–49. The Court reasoned that because the defendants sold the ink “with the expectation that it would be used” to infringe, “the purpose and intent that it would be so used” could be presumed. *Id.* at 49.

These principles apply equally in cases, like this one, that involve subscription services or rentals rather than one-time sales. Consider a company that leases VCRs, learns that specific customers use their VCRs to infringe, but nonetheless renews the lease to those infringing customers. Given those facts, the company knows that its action — renewing the lease of the VCR to these specific customers — is substantially certain to result in infringement, and so an intent to cause infringement may be presumed. *See Amazon.com*, 508 F.3d at 1172 (explaining that “intent may be imputed” based on “a service provider’s knowing failure to prevent infringing actions.”)

It is well-established that one mental state slightly less demanding than actual knowledge — willful blindness — can establish the requisite intent for contributory copyright infringement. This is so because the law recognizes willful blindness as *equivalent* to actual knowledge. *See Global-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 766 (2011) (“[P]ersons who know enough to blind themselves to direct proof of critical facts in effect have actual knowledge of those facts.”); *Aimster*, 334 F.3d at 650 (“Willful blindness is knowledge, in copyright law . . . as it is in the law generally.”).

Whether other mental states — such as negligence (where a defendant “should have known” of infringement) — can suffice to prove contributory copyright infringement presents a more difficult question.⁴ The notion that contributory liability could be imposed based on something less than actual knowledge, or its equivalent, willful blindness, is not

⁴ The parties at times refer to this “should have known” standard as a “constructive knowledge” standard. We will follow the Supreme Court and refer to it as a “negligence” standard. *See Global-Tech*, 563 U.S. at 769–71 (“[A] negligent defendant is one who should have known of a . . . risk [of wrongdoing] but, in fact, did not.”).

entirely without support. *See Aimster*, 334 F.3d at 650 (“[I]n copyright law . . . indeed it may be enough that the defendant *should* have known of the direct infringement”) Nonetheless, we believe for several reasons, that, as Cox contends, negligence does not suffice to prove contributory infringement; rather, at least willful blindness is required.

First, *Grokster*’s recitation of the standard — that “[o]ne infringes contributorily by *intentionally* inducing or encouraging direct infringement” — is on its face difficult to reconcile with a negligence standard. *See* 545 U.S. at 930 (emphasis added). In addition, it would have been unnecessary for the Court to discuss in detail the situations in which intent may be presumed, and those situations, like *Sony*, in which it may not, if liability did not require intent at all, but merely required negligence. *See id.* at 934.

Looking to patent law, as the Supreme Court did in *Sony* and *Grokster*, further counsels against a negligence standard. The Supreme Court has long held that contributory patent infringement requires knowledge of direct infringement. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 488 (1964). And in 2011, the Court held that willful blindness satisfies this knowledge requirement, but recklessness (“one who merely knows of a substantial and unjustified risk of . . . wrongdoing”) and negligence (“one who should have known of a similar risk but, in fact, did not”) do not. *Global-Tech*, 563 U.S. at 769–71. The Court reaffirmed this holding in 2015, stating that contributory patent infringement “requires proof the defendant knew the acts were infringing,” and that *Global-Tech* “was clear in rejecting any lesser mental state as the standard.” *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1928 (2015). The Court expressly rejected the possibility “that a person, or entity, could be liable even though he did not know the acts

were infringing.” *Id.* Thus, in the patent context, it is clear that contributory infringement cannot be based on a finding that a defendant “should have known” of infringement.

In both *Grokster* and *Sony*, the Supreme Court adopted now-codified patent law doctrines — the staple article doctrine and the inducement rule. The Court did so because of “the historic kinship between patent law and copyright law,” *Sony*, 464 U.S. at 439–42, and the similar need in both contexts to impose liability on “culpable expression and conduct” without “discouraging the development of technologies with lawful and unlawful potential,” *Grokster*, 545 U.S. at 936–37. We are persuaded that the *Global-Tech* rule developed in the patent law context, which held that contributory liability can be based on willful blindness but not on recklessness or negligence, is a sensible one in the copyright context. It appropriately targets culpable conduct without unduly burdening technological development.⁵

The law of aiding and abetting, “the criminal counterpart to contributory infringement,” *Aimster*, 334 F.3d at 651, similarly militates against adoption of a negligence standard. A person “aids and abets a crime when . . . he intends to facilitate that offense’s commission.” *Rosemond v. United States*, 134 S. Ct. 1240, 1248 (2014).

⁵ To be sure, in patent law, contributory infringement is codified, and the statute requires that a contributory infringer sell a component “knowing the same to be especially made or especially adapted for use in an infringement.” 35 U.S.C. § 271(c). But the Patent Act does not define knowledge or indicate whether knowledge includes willful blindness or something less, like recklessness or negligence. Nor was *Global-Tech*’s holding, that willful blindness suffices but negligence does not, based on statutory interpretation. Thus, *Global-Tech*’s rejection of any mental state lower than willful blindness cannot be limited to patent law solely because contributory infringement is codified in patent law but not in copyright law.

The necessary intent can be presumed only “when a person actively participates in a criminal venture with full *knowledge* of the circumstances constituting the charged offense.” *Id.* at 1248–49 (emphasis added).

Furthermore, “[t]he Restatement of Torts, under a concert of action principle, accepts a doctrine with rough similarity to criminal aiding and abetting,” and therefore provides another analog to contributory infringement. *See Cent. Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, 511 U.S. 164, 181 (1994). “An actor is liable for harm resulting to a third person from the tortious conduct of another ‘if he *knows* that the other’s conduct constitutes a breach of duty and gives substantial assistance or encouragement to the other.’” *Id.* (quoting Restatement (Second) of Torts § 876(b) (1977)) (emphasis added). Because the Restatement here uses only the word “knows,” where in other places it uses phrases like “knows or should know,” it is clear that “knows” here refers to actual knowledge, not any lesser mental state. *Compare* Restatement (Second) of Torts § 876(b) *with* § 336 (“knows or has reason to know”) *and* § 366 (“knows or should know”). And the Second Circuit’s widely-cited *Gershwin* decision on contributory infringement expressly drew on precisely this “common law doctrine that one who *knowingly* participates or furthers a tortious act is jointly and severally liable with the prime tortfeasor.” *Gershwin Publ’g. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (internal quotation marks and citation omitted) (emphasis added).

We therefore hold that proving contributory infringement requires proof of at least willful blindness; negligence is insufficient.

ii.

In arguing to the contrary, BMG relies on a pre-*Grokster* decision, *Ellison v. Robertson*, in which the Ninth Circuit stated that some of its precedents had “interpreted the knowledge requirement for contributory copyright infringement to include both those with *actual knowledge* and those who *have reason to know* of direct infringement.” 357 F.3d 1072, 1076 (9th Cir. 2004). But the Ninth Circuit has since clarified, consistent with our holding today, that contributory infringement requires “actual knowledge of specific acts of infringement” or “[w]illful blindness of specific facts.” *Ludvarts, LLC v. AT&T Mobility, LLC*, 710 F.3d 1068, 1072–73 (9th Cir. 2013) (internal quotation marks and citation omitted).

BMG also argues that “*Sony* itself described a case where the defendant ‘knew *or should have known*’ of the infringement as a “situation[] in which the imposition of [contributory] liability is manifestly just.” Appellee Br. 44–45 (Appellee’s alterations) (quoting *Sony*, 464 U.S. at 437–38, 437 n.18). BMG misreads *Sony*. The quoted sentence refers to *vicarious* liability, stating that imposing liability is “manifestly just” where the defendant can “control the use of copyrighted works by others,” *Sony*, 464 U.S. at 437–38 — which is an element of vicarious liability, but not of contributory infringement, *see Grokster*, 545 U.S. at 930 n.9.

In a footnote to that sentence, *Sony* cited numerous lower court cases, including one in which the district court held that an infringer’s advertising agency and similar defendants could be held contributorily liable if they “knew or should have known that they were dealing in illegal goods.” 464 U.S. at 437 n.18 (citing *Screen Gems-Columbia Music, Inc.*

v. Mark-Fi Records, Inc., 256 F.Supp. 399 (S.D.N.Y. 1966)). Although that district court used the phrase “knew or should have known,” the allegation in that case was that the defendants were dealing with counterfeit musical records priced “so suspiciously below the usual market price” that the defendants must have known or “deliberately closed [their] eyes” to the fact that the records were infringing. *Screen Gems-Columbia Music*, 256 F. Supp. at 404. In such circumstances, liability could be imposed based on a theory of willful blindness, making it unnecessary to permit the imposition of liability based on a lesser negligence standard.

iii.

In sum, the district court erred in charging the jury that Cox could be found liable for contributory infringement if it “knew or should have known of such infringing activity.” The formulation “should have known” reflects negligence and is therefore too low a standard. And because there is a reasonable probability that this erroneous instruction affected the jury’s verdict, we remand for a new trial. *See United States v. Wilson*, 133 F.3d 251, 265 (4th Cir. 1997) (“[T]he instructions did not adequately impose . . . the burden of proving knowledge For this reason, a new trial is required.”).⁶

⁶ BMG’s suggestion that the jury in the case at hand found willful blindness when it found willfulness is meritless. Under the willfulness instruction given by the court, the jury could find willfulness based on *recklessness*, a lower standard than willful blindness. Accordingly, we cannot conclude that the willfulness instruction provides a basis to hold that the jury found knowledge or willful blindness.

C.

Cox asserts two further errors in the district court’s contributory infringement instructions. Although Cox may not have adequately preserved these errors for review, we address them in the interest of judicial economy to ensure the correctness of the contributory infringement instructions on remand. *See Polk v. Yellow Freight Sys., Inc.*, 801 F.2d 190, 198 (6th Cir. 1986) (finding error in jury instructions and remanding for a new trial, explaining that “[a]lthough it appears that defendant may not have adequately preserved [the alleged errors in the jury instructions] for appeal, we nonetheless address them to ensure that the proper instructions are given on remand”).

First, Cox contends that the district court erred in instructing the jury that Cox could be held liable for contributory copyright infringement on the basis of proof of “direct infringement of BMG’s copyrighted works by users of Cox’s Internet services” and that Cox knew “of such activity.” *See* Appellants Br. at 24. Cox maintains that such “generalized knowledge — that infringement was occurring somewhere on its network — is exactly what falls short under *Sony*.” *Id.* at 27. We must agree.

Selling a product with both lawful and unlawful uses suggests an intent to cause infringement only if the seller knows of *specific* instances of infringement, but not if the seller only *generally* knows of infringement. *See Ludvarts*, 710 F.3d at 1072 (holding that contributory copyright infringement “requires more than a generalized knowledge . . . of the possibility of infringement”; it requires “specific knowledge of infringement”). A seller who only generally knows of infringement is aware that “some of [his] products will be misused” — but critically, not *which* products will be misused. *See Grokster*, 545 U.S. at

932–33. Thus, when that seller makes a sale to a specific customer, the seller knows only that the customer *may* infringe, not that the customer is substantially certain to do so.

BMG does not dispute that the requisite mental state must be tied to specific infringements; it contends, however, that the court’s instructions in fact “tied knowledge to specific acts of direct infringement.” Appellee Br. at 50. BMG rests on the fact that the instruction required that Cox knew “of *such* infringing activity,” and that *such* infringing activity referred back to “direct infringement of BMG’s copyrighted works by users of Cox’s Internet service.”

It does not follow, however, that a jury so instructed found that Cox had knowledge of specific infringements. For example, the jury could have found that Cox knew of “direct infringement of BMG’s copyrighted works” by its subscribers if Cox had data showing that *some number of its subscribers* were infringing BMG’s copyrights, even if the data did not show *which ones* were infringing. That level of generalized knowledge does not reflect an intent to cause infringement, because it is not knowledge that infringement is substantially certain to result from Cox’s continued provision of Internet access to particular subscribers. Put another way, the proper standard requires a defendant to have specific enough knowledge of infringement that the defendant could *do* something about it. On remand, therefore, the contributory infringement instruction should require that Cox knew of specific instances of infringement or was willfully blind to such instances.

Relatedly, Cox challenges the district court’s willful blindness instruction. The court instructed the jury that Cox “acted with willful blindness if it was aware of a high probability that Cox users were infringing BMG’s copyrights but consciously avoided

confirming that fact.” Since we have held that contributory infringement requires knowledge of, or willful blindness to, *specific instances* of infringement, the court’s willful blindness instruction should similarly require a conclusion that Cox consciously avoided learning about specific instances of infringement, not merely that Cox avoided confirming the fact that “Cox users were infringing BMG’s copyrights” in general.

D.

Although we have concluded that the district court incorrectly instructed the jury in some instances, we reject Cox’s argument that with proper instructions, it is entitled to judgment as a matter of law. The district court’s thoroughness and sure grasp of numerous complex issues provide a model of fair administration of justice. At trial, BMG offered powerful evidence from which a reasonable jury could find that Cox willfully blinded itself to specific instances of infringement by its subscribers, such as evidence that Cox prevented itself from receiving any of the more than one million notices Rightscorp sent on BMG’s behalf. Indeed, that appears to be the primary theory for liability advanced by BMG. *See* Appellee Br. at 21 (“Cox was put on notice of — and willfully blinded itself to — millions of specific instances of unlawful sharing of BMG’s works by its subscribers . . .”). That determination, of course, must be made by a jury properly instructed as to the law. But the trial record provides no basis for judgment as a matter of law in Cox’s favor.

IV.

Cox advances several other claims of error. None have merit.

A.

Cox challenges the district court's willfulness instruction, arguing that it incorrectly required "the jury to analyze Cox's knowledge of its *subscribers'* actions," rather than Cox's knowledge that "*its actions* constitute an infringement." Appellants Br. at 59.⁷ BMG contends that Cox failed to preserve this objection. We need not address whether Cox waived the objection because we reject it on the merits. Cox does not dispute that willfulness in copyright law is satisfied by recklessness, and the case law defines recklessness broadly. For example, we have explained that copyright infringement is willful if the defendant "recklessly disregards a copyright holder's rights." *Lyons P'ship, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 799 (4th Cir. 2001). The Second Circuit has similarly held that a finding of willfulness is appropriate if "the defendant's actions were the result of 'reckless disregard' for . . . the copyright holder's rights." *Island Software & Comput. Serv., Inc. v. Microsoft Corp.*, 413 F.3d 257, 263 (2d Cir. 2005). Contributorily (or vicariously) infringing with knowledge that one's subscribers are infringing is consistent with at least reckless disregard for the copyright holder's rights.

Cox next argues that the court erred by declining to give an innocent infringer instruction. Again, we disagree. Innocent infringer status (which may reduce damages) is only available if the infringer can prove that he or she "had no reason to believe that his or

⁷ The court's willfulness instruction reads in full:

Cox's contributory or vicarious infringement is considered willful if BMG proves by a preponderance of the evidence that Cox had knowledge that its subscribers' actions constituted infringement of BMG's copyrights, acted with reckless disregard for the infringement of BMG's copyrights, or was willfully blind to the infringement of BMG's copyrights."

her acts constituted an infringement.” 17 U.S.C. § 504(c)(2). For example, the Second Circuit upheld a district court’s conclusion as to innocent infringement where an infringing music wholesaler reasonably believed that it had received the right to make copies of copyrighted albums under an agreement with the copyright holder. *See Bryant v. Media Right Prods., Inc.*, 603 F.3d 135, 143 (2d Cir. 2010). Cox does not suggest such circumstances were present here. The district court therefore correctly concluded that an innocent infringer instruction was not available to Cox.

Cox also challenges the district court’s DMCA instruction. At trial, witnesses and documents often referred to the DMCA and its safe harbor provisions. Because the court held Cox not entitled to any DMCA safe harbor defense at summary judgment, it instructed the jury that “the DMCA is not a defense in this case and must be disregarded.” Cox fails to show that this instruction — which is not a misstatement of the law — constitutes an abuse of discretion. Cox’s theory is that the instruction “suggested that Cox’s alleged failure to qualify for the DMCA defense made it liable for infringement.” Appellants Br. at 33. But the district court clearly instructed the jury that it alone would determine the facts and weigh the evidence. And indeed, the jury found Cox not liable for vicarious infringement, suggesting it was not so easily confused.

B.

We also reject Cox’s assertions that the district court erred in its evidentiary rulings, which we review for abuse of discretion. *See Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 141 (1997).

Cox unpersuasively argues that the court abused its discretion by admitting Rightscorp's notices because the notices were hearsay. The district court correctly concluded that the information contained in the notices was not hearsay because it was generated by a computer and thus was not a "statement." See *United States v. Washington*, 498 F.3d 225, 231 (4th Cir. 2007) ("Only a person may be a declarant and make a statement. Accordingly, 'nothing "said" by a machine is hear-say"' (quoting 4 Mueller & Kirkpatrick, *Federal Evidence*, § 380, at 65 (2d ed. 1994))). Contrary to Cox's argument, the fact that the machine-generated notices also contained the signature of Rightscorp's CEO and an oath under penalty of perjury does not transform them into statements, since the information itself was not prepared or created by a human.

Nor were the notices excludable as more prejudicial than probative under Federal Rule of Evidence 403. The notices were certainly probative, and although they disfavored Cox's position, Cox fails to demonstrate that they were "*unfairly* prejudicial." See *PBM Prods., LLC v. Mead Johnson & Co.*, 639 F.3d 111, 124 (4th Cir. 2011). "The 'mere fact that the evidence will damage the defendant's case is not enough'" to establish unfair prejudice. *Id.* (quoting *United States v. Williams*, 445 F.3d 724, 730 (4th Cir. 2006)).

Cox next faults the district court for admitting two studies examining how much of the content shared using BitTorrent is infringing. Cox argues that the court erred by admitting these studies under Federal Rule of Evidence 803(17), the hearsay exception for "compilations that are generally relied on . . . by persons in particular occupations." Given that BMG's expert, Dr. William Lehr, testified that the two studies "were widely cited in

the industry” and were “the most substantial published publicly available studies” on the issue, the court did not abuse its discretion.

Finally, Cox contends that the district court erroneously “allowed BMG’s witnesses and attorneys to use the term ‘infringement’ pervasively when referring to Rightscorp’s automated observations.” Appellants Br. at 32. But as we have explained above, the court clearly and carefully instructed the jurors that they alone could determine infringement. The court even interrupted BMG’s expert testimony to instruct the jury that BMG’s expert was using the word infringement to describe “the contents in the notices,” but that the jury would “be making the ultimate decision” on infringement. Accordingly, the court did not abuse its discretion.

V.

For the reasons stated above, we affirm the district court’s grant of summary judgment to BMG on the § 512(a) DMCA safe harbor defense, but reverse and remand for a new trial. We also vacate the district court’s grant of attorney’s fees and costs to BMG and its denial of fees and costs to Cox.

*AFFIRMED IN PART, REVERSED IN PART,
VACATED IN PART, AND REMANDED*

Simon is a law graduate from Cambridge University. He started his career as a barrister, but soon realised he preferred a much more direct relationship with his clients. After a career running trade mark prosecution and enforcement practices, he spun off to create his own niche trade mark and designs consultancy with offices in London and Frankfurt. He has been awarded a broad range of accolades for his services to brands, including for his “out of the box thinking” and genuine desire to “solve problems quickly”.



**BEAR
WOLF** +

**BREXIT:
SHOULD TRADE MARK OWNERS CARE?**

CONTEXT



- ▶ As matters stand:
- ▶ The UK will cease to be a member state of the EU as the clock strikes midnight on 29 March 2019
- ▶ However, a transition period of slightly less than 2 years has, in principle, been agreed (subject to ratifying a withdrawal agreement)
- ▶ Negotiations of our terms of exit are ongoing and "somewhat troubled"

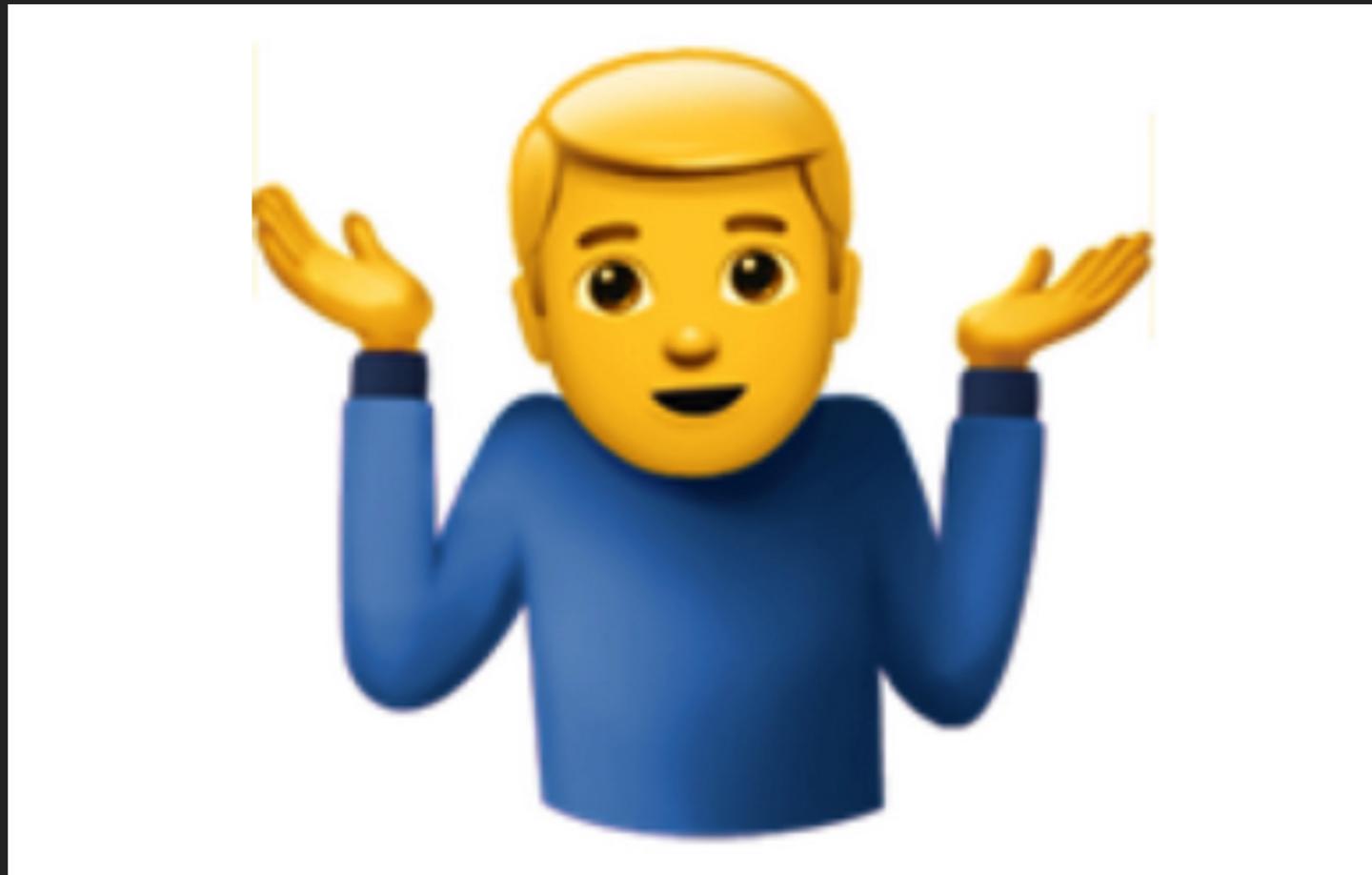
ONE VIEWPOINT ON WHY BREXIT IS HAPPENING

- ▶ Viewed from the UK, the EU was clearly intent on “ever closer union”. It classified the 28 countries who together comprise the union as “states”
- ▶ Those terms will resonate in today’s audience. The USA is comprised of 50 states, and its union was achieved in 1776
- ▶ Ever closer union did not appeal to many who understood the concept in the UK, and for that (and other) reasons the majority in the UK who voted did so to “leave” the “ever closer union”. The debate goes on as to what that decision means

THE CURRENT FRAMEWORK FOR TRADE MARKS IN THE EU

- ▶ Trade marks exist at national and union level, giving brands the ability to register in one/more member states and/or across the entirety of the EU
- ▶ Although some variations in practice and law do exist at national levels, trade mark law is effectively harmonised throughout the Union by the Union
- ▶ An EUTM has full force and effect in the United Kingdom without further ado. A UKTM stands as a right prior to a later filed EUTM, and therefore can prevent registration of that EUTM. And so on.

SO WHAT HAPPENS ON 30 MARCH 2019?



LET'S ASSUME THE TERMS OF OUR EXIT CONTAIN THOSE OF THE EUROPEAN COMMISSION DRAFT WITHDRAWAL AGREEMENT OF 19 MARCH 2018. WHAT HAPPENS DURING THE TRANSITION PERIOD?

- ▶ In short, nothing will change during the transition period
- ▶ The UK will remain a member state of the EU (albeit one with no element of control)
- ▶ Therefore, EUTMs will continue to have full force and effect (etc) in the UK until New Year's Eve 2020
- ▶ So the next couple of years, from a trade mark perspective will be "business as usual"

STAYING WITH THAT ASSUMPTION POST BREXIT

- ▶ See https://ec.europa.eu/commission/sites/beta-political/files/draft_agreement_coloured.pdf for the draft Withdrawal Agreement and go to Arts 50-57
- ▶ Registered EUTMs become UKTMS with mirror filing/priority dates provided they have matured to registration by 31 December 2020. As an important matter of formality, how they so become is yet to be determined, along with the following non exhaustive issues:
 - ▶ Whether a fee will need to be paid to the UKIPO for the metamorphosis to a UKTM
 - ▶ Whether the UK will require a declaration from the proprietor of a morphed EU/UKTM as to its bona fide intention to use a UKTM (which is the case for all UKTMs filed nationally)
 - ▶ Whether the proprietor of a morphed EU/UKTM will need a UK representative if it has no business address in the UK

“BEAR” WITH ME

- ▶ What about EUTMs still pending on 1 January 2021?
- ▶ Now it gets lively. The applicant will, controversially, be given 9 months to file a corresponding UKTM retaining the filing/priority date of the EUTM and meaning additional costs for said proprietor (and risks, such as UK specific oppositions)
- ▶ Failing that positive action, those EUTMs will have no force or effect in the UK
- ▶ What about oppositions pending against those pending applications and where the proprietor of the EUTM seeks to morph that into a UKTM? Would the UKIPO also hear the opposition in relation to the UK or would it simply wait for the EUIPO to reach its final determination and follow that decision?
- ▶ Some (including me) say a wiser position would simply be to morph such pending applications into UKTMs upon grant by the EUIPO

STILL GOING

- ▶ What about EUTMs that have only been used in the UK prior to Brexit? If they face revocation for non use post Brexit, will the use in the UK be considered relevant? The answer should be yes; but...
- ▶ And what about morphed EU/UKTMs that have not been used in the UK prior to Brexit? If they face revocation for non use post Brexit, will the use in the other 27 member states be considered relevant? Again, the answer should be yes; but...

CONCLUSIONS

- ▶ If the UK does cease to be a member state of the EU, which remains an "if" (albeit a "probably yes" if):
- ▶ there presently is no answer to what happens to EUTMs in the UK and UKTMs in the EU (together with pending proceedings involving them)
- ▶ Nor do we know whether that lack of an answer will be relevant from 30 March 2019 or post transition

SO WHAT SHOULD BRANDS DO?

- ▶ Be aware that the UK will most likely become a distinct trade mark jurisdiction, noting that the UK is generally a relevant commercial territory for US businesses
- ▶ Be aware that the EU will most likely also become a distinct trade mark jurisdiction, noting that the remaining 27 member states are also relevant commercial territories

ANYTHING ELSE?

- ▶ File new UKTMs alongside new EUTMs to avoid the total lack of clarity we have now, if they have the budget and are sufficiently concerned once they are made aware of the total lack of clarity we now have
- ▶ Review their existing portfolios to assess how many EUTMs they have that need “thinking about”
- ▶ Be prepared for surprises
- ▶ Wish us luck and let’s get a trade deal in play with the US, my learned friends. These are exciting times for our economies

**BEAR
WOLF** +

YES THEY SHOULD CARE!



BOAZ WEINSTEIN

Draws on more than a decade of experience as a high-stakes litigator to understand the practical needs of companies and their counsel.

Prior to founding Lake Whillans, Boaz was Director of Underwriting at BlackRobe Capital Partners. He previously was a litigator at Cleary Gottlieb, where he represented financial institutions and major corporations in complex commercial litigations and arbitrations, and Bernstein Litowitz Berger & Grossmann, where he represented investors in high-profile securities class action litigations. He has served as a law clerk to the Honorable Robert P. Patterson, Jr. (S.D.N.Y.) and the Honorable Pamela B. Minzner, then-Chief Justice of the New Mexico Supreme Court. Boaz has a J.D. from Columbia Law School and a B.A. in economics from Harvard University.



MARLA DECKER

Brings judgment and insight from years as a complex civil litigator.

Prior to joining Lake Whillans, Marla was a litigator at Cleary Gottlieb Steen & Hamilton LLP, where she represented financial institutions and major corporations in complex commercial litigations and government investigations. Marla was named a New York Rising Star by Super Lawyers Magazine in 2014 and 2015. Prior to attending law school, Marla was a senior consultant at WinMill Software where she provided software development services to an array of companies. Marla has a J.D. from Benjamin N. Cardozo School of Law and a B.S. in Agricultural and Biological Engineering from Cornell University.



Litigation Finance: The Basics, the Details and the Ethics

LITIGATION FINANCE: THE BASICS, THE DETAILS AND THE ETHICS

Questions for today:

- What are the ethical considerations for each step in the litigation finance process?
- How can litigation finance help lawyers and their clients meet the client's business and litigation objectives?

LITIGATION FINANCE: THE BASICS

Litigation Finance (aka Litigation Funding, Third Party Funding):

- Non-recourse provision of capital tied to outcome of litigation or arbitration
- Funds can be used for litigation expenses and other corporate purposes
- Bilateral agreement between funder and recipient of funds

LITIGATION FINANCE: THE BASICS

Litigation funding can assist lawyers and their clients achieve business and litigation objectives

- Lack of funds for legal expenses
- Obtain lower-cost capital
- Hedge risk of litigation
- Monetize a claim or judgment to fund other expenses
- Law firms can also utilize funding to grow practice area or firm

LITIGATION FINANCE: THE BASICS

Where is litigation funding used?

- Commercial Litigation
- Domestic and International Arbitration
- Bankruptcy Litigation
- Portfolios of Claims

Funded party is usually claimant (or counter-claimant), but in some cases, defendant can utilize funding.

ETHICAL CONSIDERATIONS IN COMMERCIAL LITIGATION FINANCE

Four primary ethical duties:

- Professional independence
- Competence
- Undivided loyalty
- Confidentiality

COMMERCIAL LITIGATION FINANCE: OVERVIEW OF THE PROCESS

Ethical considerations for each stage of the process:

1. Decision to Seek Funding

2. Investment Process

3. Investment Structure

4. Implementation through Judgment or Settlement

ETHICAL CONSIDERATIONS WHEN DETERMINING WHETHER TO SEEK FUNDING

Can a lawyer raise the prospect of finance and refer a client or potential client to a litigation funder?

- Many state bars have approved the practice (e.g. NY, NJ, AZ, MD, FL, SC, NV) and no contrary authority exists
- Lawyer should inform the client of any potential conflict and potentially obtain informed client consent in writing

Can a lawyer counsel the client during the negotiation with a litigation funder?

- Yes, if competent, capable of maintaining independence and obtains informed written consent respecting any potential conflicts of interest

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Lawyer's Duty of Confidentiality

ABA Model Rule 1.6(a)

A lawyer must not disclose “information relating to the representation of a client” without the client’s informed consent, unless the disclosure is impliedly authorized in order to carry out the representation

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Before disclosing confidential information to a prospective litigation funder:

- Advise the client of the risks of disclosure and obtain client informed, written consent to disclose confidential information
- Take steps to maintain confidences and guard against waivers, including execution of non-disclosure agreement
- Understand the information exchange process; limit disclosures where possible
- Consider applicable protective or confidentiality orders

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Disclosure of attorney-client privileged material

- Disclosure is not generally necessary
- The common interest exception to waiver *may* apply but weight of authority currently not supportive
 - Common legal interest is typically applied to joint defense agreements and communication with insurance carriers; also arises in M&A context
 - Multiple courts have held common interest does not exist with litigation funders: Miller v. Caterpillar (N.D. Ill. 2014); LeaderTech v. Facebook (D. Del. 2010)

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Disclosure of attorney work product material:

- Weight of authority supports work product protection for communications with actual or prospective funders if NDA is in place (*see also* Miller v. Caterpillar (N.D. Ill. 2014)); protection waived only if steps are not taken to keep info out of hand of an *adversary*.
- E.g., Viamedia v. Comcast (N.D. Ill. 2017): Communications between a party, its attorneys and actual or prospective litigation funders necessarily contain and reflect “opinions by . . . counsel regarding the strength of claims, the existence and merit of defenses, and other observations and impressions regarding issues in the litigation” and fall squarely within work product protection.

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Common features of investment structures:

- Investment contract is structured as a bilateral agreement between with the claimholder and financier. The attorney-client relationship remains exclusive to the claimholder and its attorney
- Non-recourse; if the underlying litigation or arbitration claim is not successful, the claimholder owes nothing
- Funds are used to pay for litigation fees and expenses, but it is also quite common for claimholders to take additional capital to use toward operating costs such as R&D, payroll, or manufacturing

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Are Other Attorney Ethical Rules Implicated?

Neither Model Rule 1.8(e) (prohibition on providing financial assistance to a client) or 1.8(i) (prohibition on acquiring a proprietary interest in a cause of action) are implicated by litigation finance as the attorney is not providing financial assistance to the client; rather the litigation funder acquires an interest in the client's cause of action through an agreement with the client.

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Portfolio Investments With Law Firms

- Capital provided to law firm against a portfolio of the firm's contingent interests across multiple cases
- What about ethical rules regarding fee splitting?
 - Akin to permissible law firm loans secured by receivables

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Other Legal Considerations

Champerty, Barratry and Maintenance

- Case by case analysis required to assess viability of financing and preferential structure for financing under applicable state law
- Champerty never adopted in some states, abandoned in others by case law or statute and may be applicable in others
- May not be a defense to claims even where champerty concerns remain

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Thoughtful Court Decisions

- A Delaware Superior Court decision explains history and the modern analysis of the champerty, barratry and maintenance doctrines. Charge Injection Analysis Techs., Inc. v. E.I. Dupont DE Nemours & Co. (Del. Sup. Ct. 2016)
- An Informative analysis is contained in Miller v. Caterpillar (N.D. Ill. 2014), regarding Illinois criminal statute prohibiting maintenance

ETHICAL CONSIDERATIONS IN ARBITRATION

Third Party Funding in Arbitration

- Review relevant arbitration rules and procedures, and law (if any) related to third party funding in the seat of arbitration
- Consider underlying substantive legal regime

ETHICAL CONSIDERATIONS DURING IMPLEMENTATION: DISCLOSURE

Disclosure

- No ethical, state or federal rule currently requires
- In 2014, 2016 and 2017, the U.S. Chamber Institute for Legal Reform unsuccessfully urged changes to F.R.C.P. Rule 26 to require disclosure of funding arrangement as part of mandatory initial disclosures
- Certain local rules have addressed the question
 - N.D. Ca. local rule requires existence of funder to be disclosed in class-action context only

ETHICAL CONSIDERATIONS DURING IMPLEMENTATION: ROLE OF FUNDER

Typically, the funder is a passive investor.

- Funder monitors the proceedings; receives regular updates
- Litigation counsel can consult a knowledgeable and experienced sounding board
- Attorney must exercise independent judgment

Model Rule 2.1 – “In representing a client, a lawyer shall exercise independent professional judgment and render candid advice...”

Model Rule 5.4(c) – A lawyer must not let third party financing obstruct the lawyer’s independent professional judgment on behalf of the client.

ETHICAL CONSIDERATIONS DURING IMPLEMENTATION: ROLE OF FUNDER

Typically, the funder does not have settlement control. Where contract gives settlement control to the funder:

- Client's delegation of settlement control to funder does not impair counsel's duties of loyalty and independence, nor require counsel to withdraw, pursuant to Model Rule 1.2(c) and Model Rule 1.16(a)(1).
- ABA – “There would seem to be no reason, as a matter of contract law, to regard these contract provisions as unenforceable ... The presence of a litigation funder is not different in kind from the other factors that are part of virtually any decision to settle....” (2012 Report at 28).

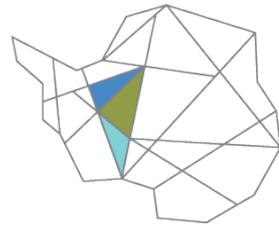
ETHICAL CONSIDERATIONS IN LITIGATION FINANCE – CONCLUSION AND RESOURCES

2012 American Bar Association Commission on Ethics 20/20 Informational Report to The House of Delegates:

- This report “... should not be interpreted as suggesting that alternative litigation finance raises novel professional responsibilities, since many of the same issues ... arise whenever a third party has a financial interest in the outcome of the client’s litigation.” (Report at 4).
- “It is unclear why the historical concerns of the common law would justify today placing special burdens on litigation funded by third parties.”

Association of the Bar of the City of New York Formal Opinion 2011 – 2

The best way to determine if financing is an attractive option for your client is to discuss it. Lake Whillans can be reached at:



LAKE
WHILLANS

1350 Avenue of the Americas
2nd Floor
New York, NY 10019
(646) 389-1032

228 Hamilton Avenue
3rd Floor
Palo Alto, CA 94301
(650) 427-0744

Marla Decker
mdecker@lakewhillans.com

Boaz Weinstein
weinstein@lakewhillans.com

Litigation Finance Ethics Primer

Marla Decker | [Lake Whillans](#)

Lake Whillans recently partnered with Above the Law and conducted a [survey](#) on litigation finance to learn details on who is using it, impressions of their experience, who isn't using it and why.

The results reflect the growing norm of litigation funding. Forty percent of respondents have had firsthand experience working with a litigation finance firm. Interestingly, law firms with the most experience using litigation finance were the very largest and very smallest firms surveyed: law firm size of 500+ lawyers (48.57%) and law firm size of 2 – 5 lawyers (58.54%). Litigators whose practice concerns the energy industry had the highest proportion of firsthand experience followed by the technology sector; finance/banking had the lowest. A resounding 85% of those with firsthand litigation finance experience would use it again.

For those without firsthand experience, the most commonly cited reason for ruling out the possibility of litigation finance by nearly 75% of negative respondents was “ethical reservations.” We'd like to address those reservations with a primer on the ethics of litigation finance.

Raising the Prospect of Litigation Finance with Clients

In general, a lawyer can (but it is not obligated to) raise the prospect of litigation funding to a client who may lack funds or wants to hedge litigation risk (the two most off-cited reasons to seek litigation finance per our survey). As the American Bar Association's Commission on Ethics 20/20 put it in its informational [report](#) on litigation finance, “if it is legal for a client to enter into the transaction, there would appear to be no reason to prohibit lawyers from informing clients of” the existence of litigation finance companies or referring clients to particular litigation funders. The lawyer should disclose the potential conflict between her interest in having her fees paid and the client's choice to use litigation funding, disclose any relationship with a funder, and obtain informed consent as necessary.

But What About Champerty?

The prohibition on champerty—which has been defined by the U.S. Supreme Court as “[helping another prosecute a suit] in return for a financial interest in the outcome”—is fading in the United States where it ever existed at all. Federal law never adopted the prohibition; neither did states such as California and Texas. Other states, such as Massachusetts, adopted the prohibition on champerty but have since abolished the concept entirely. Others, like New York and Illinois, now construe the prohibition on champerty so narrowly that it would not normally apply to commercial litigation funding arrangements. As one of the last major legal centers to provide clarity on the issue, a Delaware court [ruled last year](#) that its champerty doctrine did not apply to a commercial funding arrangement. However, there exists a minority of states where the prohibition may still exist and questions remain as to whether it would apply to commercial financing arrangements; you should expect that any funder will examine the legal landscape in a particular jurisdiction before funding.

Attorney Client Privilege and Work Product Protection

Communications with a funder are not per se protected by the attorney-client privilege, since the financier, while often comprised of trained attorneys, is not acting as the client's legal counsel. There is an unsettled question as to whether the common interest exception would nonetheless apply; courts that have considered it have split on this issue. Thus, at Lake Whillans, we request that communications that are only protected by the attorney client privilege not be shared with us.

However, most communications with a litigation funder or attorney analysis that would be pertinent to the funder's analysis are protected from disclosure by the work product doctrine. Courts have repeatedly held this protection applies to communications with funders, particularly where there is an agreement in place to maintain confidentiality (since work product protection is negated for those communications that could foreseeably be shared with one's adversary).

The Delaware Court of Chancery examined this issue in depth in 2015 and held in *Carlyle Investment Management LLC v. Moonmouth Company SA* that the work product doctrine protected the disclosure of communications regarding a litigation finance arrangement, reasoning that to convince a funder to provide financing, the claim holder would need to convince her of the merits of the case, which would necessarily involve sharing the "lawyers' mental impressions, theories and strategies[.]" Similarly, the terms of the final agreement—such as the financing premium or acceptable settlement conditions—could reflect an analysis of the merits of the case. The Court of Chancery, in an apparent endorsement of the equalizing benefit of litigation funding, further observed:

No persuasive reason has been advanced in this case why litigants should lose work product protection simply because they lack the financial means to press their claims on their own dime. Allowing work product protection for documents and communications relating to third-party funding places those parties that require outside funding on the same footing as those who do not and maintains a level playing field among adversaries in litigation.

Control of Litigation

Lawyers sometimes worry over the degree of control the funder will exercise over the strategy of the case and whether that raises ethical issues. (We at Lake Whillans generally do not contract for the right to control strategy or settlement). The guiding principle here is that the lawyer should exercise independent professional judgement and render candid advice regardless of the involvement of a funder. The Model Rules anticipate that a third party may pay the fees of another (think insurers for example) and instruct that a lawyer shall not permit a person who pays a lawyer for legal services on behalf of another to "regulate the lawyer's professional judgment." Model Rule 4.5(c).

In many ways, the ethical issues raised by litigation finance are not new and lawyers, already well-equipped to navigate them, should not be dissuaded from exploring litigation funding by ethical reservations.

Litigation Finance: Work Product & Discovery

Garrett Ordower | [Lake Whillans](#)

The closely watched case of *Gbarabe v. Chevron* – a class action against the oil giant based on an oil rig explosion off the coast of Nigeria – [has been portrayed](#) as a cautionary tale for the world of litigation finance. The defense attorneys’ dogged pursuit of the details of plaintiff’s outside funding, the story goes, succeeded, and aided in the attack on the adequacy of plaintiff’s counsel. The defense did successfully defeat class certification, but litigation funding ultimately played little or no role in the case’s demise.

The casual reader learning about *Gbarabe* might assume that litigation finance arrangements are routinely disclosed or discovered. [As discussed recently](#), there is currently no automatic disclosure regime for litigation finance. The litigation finance arrangements in *Gbarabe* came to light only because of the narrow circumstances presented there: the court had to determine whether counsel could adequately represent the class, counsel conceded litigation funding had relevance to that inquiry, and counsel did not assert privilege over the funding agreement. *Gbarabe* is an outlier. In nearly every case where similar discovery has been sought, it has been denied.

Those courts faced with the disclosure issue have generally found that a party’s communications with actual or prospective funders are shielded from production based on the work product doctrine, which protects “documents and tangible things that are prepared in anticipation of litigation or for trial by or for another party or its representative (including the other party’s attorney, consultant, surety, indemnitor, insurer or agent).” Fed. R. Civ. P. 26(b)(3)(a). As explained in a recent case, [Viamedia, Inc. v. Comcast Corp.](#), the doctrine serves “to protect an attorney’s thought processes and mental impressions against disclosure.” Communications between a party, its attorneys and actual or prospective litigation funders necessarily contain and reflect “opinions by . . . counsel regarding the strength of . . . claims, the existence and merit of . . . defenses, and other observations and impressions regarding issues that have arisen in this litigation,” and fall squarely within this protection. [Doe v. Society of Missionaries of Sacred Heart](#) (N.D. Ill. May 1, 2014). The “the terms of the final agreement—such as the financing premium or acceptable settlement conditions” similarly “reflect an analysis of the merits of the case.” [Carlyle Investment Management v. Moonmouth Co.](#) (Del. Ch. Feb. 24, 2015).

Parties seeking disclosure of communications between claimants and funders argue that even if they do constitute work product that protection has been waived. This argument has been repeatedly rejected. While disclosure to a third-party can result in waiver, it generally will not when the disclosure is done pursuant to a non-disclosure agreement and steps are otherwise taken to control the confidential information. As explained in *Viamedia*, “the point of the protection is not to keep information secret from the world at large but to keep it out of the hands of one’s adversary in litigation.” In that case, the court concluded that the disclosure to

litigation funding firms pursuant to an NDA did not result in a waiver because it did not make it “substantially more likely that its work-product protected information would fall in the hands of its adversaries.” As several courts have observed, “litigation funders have an inherent interest in maintaining the confidentiality of potential clients’ information.” [See, e.g., U.S. ex rel. Fisher v. Ho](#) (E.D. Texas March 15, 2016).

Viamedia is the latest of numerous cases that have examined the issue of work product protection for communications or agreements with actual or prospective funders and reached similar conclusions. (A partial list follows; please visit [this page](#) for a comprehensive list of relevant cases that will be regularly updated.)

- In a patent infringement case, the IP holding company that owned the patent at issue reached out to various “investment brokers and potential investors with slide presentations and other documents that contained disclosures of Inpro’s licensing and litigation strategies and also estimates of licensing and litigation revenues.” The court rejected the argument that these documents were not created for litigation purposes but rather for “business advice” and found the work product protection applicable because the documents were prepared “with the intention of coordinating potential investors to aid in future possible litigation.” Because the documents were shared pursuant to an NDA the protection was preserved. [Mondis Technology, Ltd. v. LG Electronics, Inc.](#) (E.D. Texas May 4, 2011).
- In a trade secret misappropriation case, the court, in an expansive opinion discussing many issues relevant to litigation funding, including champerty, maintenance, and issues related to the “real party in interest,” held that documents provided subject to an NDA did not lose their work product status when shared with a funder, but also held that certain “damage estimates, summaries or worksheets” shared with prospective funders without an NDA *did* need to be turned over because work product protection had been waived by failing to protect the material from broader disclosure through an NDA. The court otherwise found the “deal documents” in the case irrelevant having “nothing to do with the claims or defenses in the case.” [Miller UK v. Caterpillar](#) (N.D. Ill. Jan. 6, 2014).
- In a complex dispute related to the propriety of funding foreign litigation against plaintiffs by a company in liquidation in the foreign jurisdiction, the court concluded that although in a funded case “the overlap between business and litigation reasons for the creation of the disputed documents is more extensive than usual” the work product protection still applied. This extended not just to communications with the funder but also to “the terms of the final agreement—such as the financing premium or acceptable settlement conditions—[because it] could reflect an analysis of the merits of the case.” As the court explained, “allowing work product protection for documents and communications relating to third-party funding places those parties that require outside funding on the same footing as those who do not and maintains a level playing field among adversaries in litigation.” [Carlyle Investment Management v. Moonmouth Co.](#) (Del. Ch. Feb. 24, 2015).

- In an involuntary bankruptcy case brought by an individual who had a business dispute with the bankrupt entity, the court found work product protection was not waived by disclosure to a funder reasoning “it does not matter that [the funder’s] obvious purpose is to obtain a return on its investment, just as it does not matter that counsel’s purpose is typically to earn a fee.” The court did order production of the funding agreement because it was “central to one theory presented” in the case, but allowed redaction of the payment terms and other terms that would reveal counsel’s “mental impressions and opinion” of the litigation. [In re Intern. Oil Trading Co.](#) (Bankr. S.D. Fla. April 28, 2016).

If all of these cases have found similarly that a party’s communications with its funder, including the final agreement, constitutes protected work product, what is the story with the *Gbarabe* case? First of all, the case was a class action, and the [plaintiff conceded](#) the relevance of counsel’s funding agreement to determining the adequacy of representation; an essential element in the class action context. (A funding agreement will not always be relevant to an adequacy determination — such as where concerns about counsel’s ability to fund the action are “purely speculative.” See *Kaplan et al. v. SAC Capital Advisors LP et al.*, No. 12-cv-09350 (S.D.N.Y. Sept. 10, 2015)). Second, the plaintiff had already turned over to the defense a redacted copy of the litigation funding agreement before the discovery dispute made its way to the court. Third, and very significantly, as the court highlighted “*plaintiff does not assert that the agreement is privileged.*” Instead, plaintiff argued that the “contractual obligation to preserve the confidentiality of the funder’s identity” prohibited production. The court concluded that the funding agreement did not actually prohibit plaintiffs from producing the agreement, and that, even if it did, “plaintiff does not cite any authority for the proposition that such a provision would override discovery obligations or a court order.”

In the end, [the court found that plaintiff’s counsel could not adequately represent the class](#) and, for that and other reasons, denied class certification. In the court’s exhaustive opinion denying class certification, litigation funding was pointedly not cited as a reason. Instead the court noted counsel’s “complete disregard for scheduling orders”; “lack of familiarity with or understanding of the Federal Rules of Civil Procedure and the Civil Local Rules”; “fail[ure] to diligently prosecute the case”; submission of “deficient” expert reports; failure to produce data underlying the expert reports; and class member evidence “riddled with falsity and unreliability.”

So what does *Gbarabe* tell us about litigation finance? Not much. It was an unusual litigation funding case and one in which counsel did not resist the disclosure of the litigation finance agreement on work product or other privilege grounds. In a more typical case (especially outside the class action context), work product protection should continue to protect the funding agreement (or at least its most sensitive terms) and other communications with prospective or actual funders from potentially prejudicial disclosure to an adversary.

Rules Governing Disclosure of Litigation Finance

Garrett Ordower | [Lake Whillans](#)

The U.S. Court’s Advisory Committee on Civil Rules signaled in its [recently released report](#) that litigation finance continues “growing and evolving” and that considering potential rules mandating disclosure of funding arrangements must begin “if at all, by undertaking a careful quest for information that may be hard to come by.” That process will not proceed quickly, and “the topic may be no more ripe for further work now than it was in 2014 or 2016,” when two prior proposals were rebuffed.

The committee delegated initial consideration of the proposal by the U.S. Chamber of Commerce to a subcommittee studying various issues related to multi-district litigation, or MDL. The subcommittee has been tasked with a six- to 12-month project aimed at gathering information on litigation financing and other MDL-related topics.

The Chamber’s proposed amendment to Rule 26 of the Federal Rules of Civil Procedure would have required disclosure of “any agreement under which any person, other than an attorney permitted to charge a contingent fee representing a party, has a right to receive compensation that is contingent on, and sourced from, any proceeds of the civil action, by settlement, judgment or otherwise.”

The advisory committee noted that the only “clear” aspect of the proposal is that “it is not designed to regulate third-party lending in any way” and would only mandate disclosure; “the benefits to be gained by disclosure are less clear.” The report rattled through the Chamber’s purported list of reasons for disclosure — such as protecting against the funder’s “undue influence” — but noted that opponents of the proposal argue “that the professed motives camouflage different motives” aimed more at the practice of litigation funding than lack of disclosure.

The advisory committee considered the argument that litigation financing is similar to insurance, [which does need to be disclosed](#). It found some parallels but significant differences. Disclosure of insurance agreements, for example, is limited to insurance businesses. “Other forms of indemnification agreements are not covered. Nor is discovery generally allowed into a defendant’s financial position, even though both indemnification agreements and overall resources may have impacts similar to, or even exceeding, the impact of liability insurance.” In discussing the proposal, the committee members noted “possible difficulties” with the draft language. The proposal would reach all sorts of potentially unintended arrangements like loans from family and friends and subrogation interests including the rights of medical insurers to recover from a successful plaintiff.

More broadly, the committee questioned whether the federal rules could even play a “useful role” in addressing the issues raised by the Chamber. “Fears about confidentiality, conflicts of

interest, vigorous advocacy, party control of settlement, and even fee-splitting resonate to rules of professional responsibility that are traditionally and peculiarly a matter of state regulation.” The substantive debate over litigation financing urged by the Chamber “demonstrate[s] a complicated and politically charged interplay between rules of procedure, rules of professional responsibility, and substantive regulation of third-party financing.” The committee reiterated that “much more must be learned before determining whether a useful role can be found for new procedures” Such a rule might also prove counterproductive by “rais[ing] potentially troubling questions that cannot be addressed within the framework of existing law.”

Caution in moving forward is particularly warranted, the committee found, because courts have had “no more than episodic encounters with the terms of actual financing arrangements, nor even a reliable sense of just how common these arrangements are or will become.”

For now, the disclosure landscape remains the same. Courts continue to uphold the work product protection for litigation finance arrangements and communications with funders. And with the advisory committee’s acknowledgment that litigation financing continues “growing and evolving” it appears committed to moving cautiously on developing a mandatory disclosure rule.

The Association of the Bar of the City of New York Committee on Professional Ethics

Formal Opinion 2011-2: THIRD PARTY LITIGATION FINANCING

TOPIC: Third-party litigation financing

DIGEST: It is not unethical *per se* for a lawyer to represent a client who enters into a non-recourse litigation financing arrangement with a third party lender. Nevertheless, when clients contemplate or enter into such arrangements, lawyers must be cognizant of the various ethical issues that may arise and should advise clients accordingly. The issues may include the compromise of confidentiality and waiver of attorney-client privilege, and the potential impact on a lawyer's exercise of independent judgment.

RULES: 1.2(d); 1.6(a); 1.7(a); 1.8(e), (f); 2.1; 2.2; 5.4(c)

QUESTION: What ethical issues may arise when a lawyer represents a client who is contemplating or has entered into a non-recourse litigation financing agreement?

OPINION

I. Background

Third party litigation financing first emerged as an industry in the United States in the early 1990s, when a handful of small lenders began providing cash advances to plaintiffs involved in contingency fee litigation. Within a decade, as many as one hundred companies were offering financing to lawyers, their clients, or both.^[1] As of 2011, this industry has continued to grow, both as to the number and types of lawsuits financed and financing provided. The aggregate amount of litigation financing outstanding is estimated to exceed \$1 billion.^[2]

This opinion addresses non-recourse litigation loans, *i.e.*, financing repaid by a litigant only in the event he or she settles the case or is awarded a judgment upon completion of the litigation. Under these arrangements, financing companies advance funds that will be reimbursed, if at all, solely from any proceeds of the lawsuit. As compensation, the financing companies are entitled to receive specified fees, often calculated as a percentage of any settlement or judgment.

Non-recourse loans are extended most often to plaintiffs in personal injury cases. These loans may be used to pay the costs of litigation, but also may be used to cover the plaintiff's living expenses during the pendency of the lawsuit.

Non-recourse financing of commercial claims is a more recent development, although it has become increasingly common.^[3] The providers of this financing typically undertake an analysis of the merits of the contemplated claim that is more rigorous than the analysis employed in personal injury cases. If the claim appears meritorious, the financing company will advance amounts to cover attorneys fees and the other costs of the litigation.^[4] These advances typically are made to the claimant or its outside litigation counsel, in return for a percentage of any eventual recovery.

The growing use of non-recourse litigation financing recently has attracted increasing attention, both within and outside the legal profession,^[5] in part because the arrangements are largely unregulated, and, in the view of some critics, may require the payment of relatively exorbitant financing fees that appear usurious, create the potential for expanding the volume of litigation, and raise the specter of reviving the historically reviled

practice of champerty, defined broadly as the support of litigation by a stranger in return for a share of the proceeds.

From the legal ethics perspective, perhaps the greatest concern stems from a financing company's involvement in the details of a claimant's case. Because a financing company's decision to fund will hinge on the company's analysis of the merits of the lawsuit, *i.e.*, the likelihood and size of the expected return, the availability of financing necessarily depends on the company's ability to obtain access to information relevant to its assessment of risks of its investment, both before and after a decision to fund has been made. As part of this process, a financing company may contact the claimant's lawyer to obtain confidential and privileged information regarding the case before making any loan commitment. And even after funding has been provided, the financing agreements may require litigation counsel to periodically update the financing company with developments in the case and/or provide the company with direct access to the claimant's file.

Providing financing companies access to client information not only raises concerns regarding a lawyer's ethical obligation to preserve client confidences, it also may interfere with the unfettered discharge of the duty to avoid third party interference with the exercise of independent professional judgment. While litigation financing companies typically represent that they will not attempt to interfere with a lawyer's conduct of the litigation, their financial interest in the outcome of the case may, as a practical matter, make it difficult for them to refrain from seeking to influence how the case will be handled by litigation counsel.

II. Analysis

Against this backdrop, we discuss below the ethical issues potentially implicated by non-recourse financing arrangements and examine how lawyers may properly address these issues as they arise.

A. Legality of the Agreement

Whether a particular financing arrangement comports with the law will depend on its terms and governing law, matters outside the scope of this opinion. Nevertheless, under Rule 1.2(d) of the New York Rules of Professional Conduct, if the arrangement is unenforceable under applicable laws, such as those governing champerty and usury, or is otherwise unlawful, an attorney should so advise the client and refrain from facilitating a transaction that is unlawful.

1. Usury

A financing company generally makes its funding determination based on the "merits" of the lawsuit, *i.e.*, on the likelihood of success and the amount of any anticipated recovery. In the same vein, it will seek to set the fee it collects for providing funds based on its assessment of the likelihood of recovery. Fee arrangements vary widely as a result.

Critics have focused on fee arrangements that ultimately require litigants to pay financing companies a substantial portion of any recovery, noting that if the advances made in exchange for these fees were characterized as "loans," the fees could be deemed usurious.^[6] While financing companies generally characterize non-recourse financing arrangements as a "purchase" or "assignment" of the anticipated proceeds of the lawsuit (and therefore not subject to usury laws),^[7] lawyers should be aware that in certain circumstances, courts have found that non-recourse litigation financing agreements violate usury laws.^[8]

2. Champerty

Champerty is a form of maintenance in which a nonparty furthers another's interest in a lawsuit in exchange for a portion of the recovery. The law of champerty varies by jurisdiction.^[9] While we are aware of no

decision finding non-recourse funding arrangements champertous under New York law, lawyers should be mindful that courts in other jurisdictions have invalidated certain financing arrangements under applicable champerty laws.^[10]

B. Attorney as Advisor

A lawyer may be asked by a client to recommend a source of third party funding or to review or negotiate a non-recourse financing agreement for a client. If the lawyer does so, Rule 2.1 requires the lawyer to provide candid advice regarding whether the arrangement is in the client's best interest.^[11]

In providing candid advice, a lawyer should advise the client to consider the costs and the benefits of non-recourse financing, as well as possible alternatives.^[12] With respect to costs, a common criticism of non-recourse financing is that the fees charged to clients may be excessive relative to other financing options, such as bank loans, thereby significantly reducing the client's recovery.^[13] A lawyer thus should bear in mind the extent to which non-recourse financing will limit a client's recovery. And before recommending financing companies, a lawyer should conduct a reasonable investigation to determine whether particular providers are able and willing to offer financing on reasonable terms.^[14] In addition, if a lawyer assists a client with non-recourse financing, the lawyer may wish to make clear that such assistance itself is not an endorsement of the financing company.^[15]

With respect to benefits, a lawyer should advise the client to consider whether, absent funding, the client would be unable to cover litigation or living expenses, or prematurely could be forced into a relatively disadvantageous settlement, effectively limiting his or her access to seek redress through the legal system. Commercial claimants also may lack the resources to pursue a claim absent funding, or may be able to deploy resources more effectively for their business needs by financing some or all of their litigation costs.

C. Conflicts of Interest

Within the parameters discussed above, a lawyer may refer a client to a litigating financing company. When making a referral, the lawyer is barred from accepting a referral fee from the company if the fee would impair the lawyer's exercise of professional judgment in determining whether a financing transaction is in the client's best interest and would compromise the lawyer's ethical obligation to provide candid advice regarding the arrangement; even where the fee is permitted, the lawyer may be required to remit the fee to the client.^[16] A conflict also may arise in the event the lawyer is asked to advise the client about financing when the client cannot afford to commence or continue litigation absent a third party advance of the lawyer's fees. And the conflict rules may prohibit a lawyer, or possibly a company in which the lawyer has a substantial ownership interest, from extending financing to a client that the lawyer represents in litigation.^[17] Lawyers should carefully evaluate these and other potential conflicts when initiating or continuing the representation of a client who contemplates the use of financing for the conduct of litigation.

D. Privilege and Confidentiality

Non-recourse financing arrangements also may result in waiver of the attorney-client privilege or other protection from disclosure. This risk arises from provisions requiring a claimant or his or her lawyer to disclose documents and information to financing companies to enable them to evaluate the strength of the claims in the litigation to be financed.^[18] In addition, financing arrangements may require a lawyer to inform the financing company of developments in the case and/or allow periodic reviews of the case file.^[19] And for very large claims, some financing companies reserve the right to share information regarding a matter with other companies that may participate in the financing.

This opinion does not address whether such communications between the client or lawyer and a financing company result in a waiver of the attorney-client privilege or other applicable protection. We note, however,

that the argument has been made that the common interest privilege does not apply to such communications because the financing company's interest in the outcome of a litigation is commercial, rather than legal.^[20]

With the foregoing in mind, a lawyer may not disclose privileged information to a financing company unless the lawyer first obtains the client's informed consent, including by explaining to the client the potential for waiver of privilege and the consequences that could have in discovery or other aspects of the case.^[21] In making disclosures to the financing company, a lawyer should take care not to disclose any more information than is necessary in his or her judgment.^[22]

E. Control Over the Legal Proceeding

Non-recourse financing agreements often require the claimant's lawyer to keep the financing company apprised of any developments in the litigation or to seek the company's consent when taking steps to pursue or resolve the lawsuit, such as making or responding to settlement offers. These notice provisions raise the specter that a financing company, armed with information regarding the progress of the case, may seek to direct or otherwise influence the course of the litigation.^[23] For example, to protect its own interest in maximizing the fee it may earn, a financing company may object to steps calculated to advance the client's interests, such as pursuing a promising line of additional discovery at a cost the company would prefer to avoid, or accepting a settlement offer that does not meet the company's expectations regarding the return on its investment. While a client may agree to permit a financing company to direct the strategy or other aspects of a lawsuit, absent client consent, a lawyer may not permit the company to influence his or her professional judgment in determining the course or strategy of the litigation, including the decisions of whether to settle or the amount to accept in any settlement.^[24]

III. Conclusion

Non-recourse litigation financing is on the rise, and provides to some claimants a valuable means for paying the costs of pursuing a legal claim, or even sustaining basic living expenses until a settlement or judgment is obtained. It is not unethical *per se* for a lawyer to advise on or be involved with such arrangements. However, they may raise various ethical issues for a lawyer, such as the potential waiver of privilege and interference in the lawsuit by a third party. A lawyer representing a client who is party, or considering becoming party, to a non-recourse funding arrangement should be aware of the potential ethical issues and should be prepared to address them as they arise.

June, 2011

^[1]See Terry Carter, *Cash Up Front: New Funding Sources Ease Strains on Plaintiffs Lawyers*, ABA Journal 34-36 (Oct. 8, 2004), available at http://abajournal.com/magazine/article/cash_up_front/.

^[2]See Binyamin Appelbaum, *Investors Put Money on Lawsuits to Get Payouts*, New York Times (Nov. 14, 2010), available at <http://www.nytimes.com/2010/11/15/business/15lawsuit.html>.

^[3] See Holly E. Loiseau, Eric C. Lyttle, and Brianna N. Benfield, *Third-Party Financing of Commercial Litigation*, ABA In-House Litigator (2010), http://www.weil.com/files/Publication/17c770d9-514d-426d-aalf-bbc4c7547c0c/Presentation/PublicationAttachment/cacabd85-lea5-46ac-8657-40ffd9eac8be/IHL_2010_ThirdPartyFinance.pdf.

[4] See Louis M. Solomon, *Third-Party Litigation Financing: It's Time to Let Clients Choose*, N.Y.L.J. (Sept. 13, 2010).

[5] For articles (in addition to those cited elsewhere herein), see, e.g., Steven Garber, *Alternative Litigation Funding in the United States: Issues, Knowns and Unknowns* (Rand Corp. 2010); Susan Lorde Martin, *The Litigation Financing Industry: The Wild West of Finance Should Be Tamed Not Outlawed*, 10 *Fordham J. Corp. & Fin. L.* 55 (2004); Douglas R. Richmond, *Other People's Money: The Ethics of Litigation Funding*, 56 *Mercer L. Rev.* 649 (Winter 2005); Julie H. Mclaughlin, *Litigation Funding: Charting a Legal and Ethical Course*, *Vermont Law Review*, Vol. 31, No. 3 615-662 (Spring 2007). For ethics opinions, see, e.g., N.Y. State 666 (1994); Utah State Bar Op. 97-11(1997); State Bar of Mich. Op. RI-321 (2000); FL. Bar Op. 00-3 (2002); Virginia Legal Ethics Op. 1764 (2002); N.Y. State 769 (2003); State Bar of Nevada Standing Comm. On Prof'l. Responsibility, Formal Op. 29 (2003).

[6] See generally Appelbaum, *supra* note 2; Garber, *supra*, note 3 at 10; see also Binyamin Appelbaum, *Lawsuit Loans Add New Risk for the Injured*, *New York Times*, (Jan. 16, 2011), available at <http://www.nytimes.com/2011/01/17/business/17lawsuit.html?pagewanted=1&emc=eta1>. Usury laws in New York set a maximum allowable rate of interest per annum. See N.Y. Banking Law § 14-a (McKinney 2008); see also N.Y. Gen. Oblig. Law § 5-501 (McKinney 2001 & Supp. 2011).

[7] See, e.g., in the personal injury context, Frequently Asked Questions: What percentage of the proceeds do we purchase?, FastFunds, <http://www.fastfunds4u.com/pages/faqs.html> (last visited Apr. 19, 2011) ("We provide funds by purchasing a small portion of the anticipated proceeds. It is not a loan, so there is no interest, no matter how long it takes for the case to be resolved. Like the claimant and the attorney, we take the risk of a successful resolution. If the case is lost, we lose our money.").

[8] See, e.g., *Echeverria v. Estate of Lindner*, 2005 N.Y. Slip Op. 50675(u), at 4-5 (Sup. Ct. Nassau County 2005) (finding non-recourse agreement was "loan" because recovery was certain under strict liability statute and interest rate was usurious); *Lawsuit Fin. v. Curry*, 683 N.W.2d 233, 236 (Mich. Ct. App. 2004) (finding same because judgment had already been entered in favor of plaintiff when she entered into financing agreement).

[9] Twenty-eight states reportedly no longer prohibit champerty. See Ashby Jones, *The Next National Investment Craze: Lawsuits!*, *The Wall Street Journal Law Blog* (June 4, 2010), available at <http://blogs.wsj.com/law/2010/06/04/the-next-national-investment-craze-lawsuits/>. The Court of Appeals of New York has recently clarified the law of champerty in New York. See *Trust for Certificate Holders of Merrill Lynch Mortgage Investors, Inc. v. Love Funding Corp.*, 13 N.Y.3d 190, 192 (2009).

[10] See, e.g., *Johnson v. Wright*, 682 N.W.2d 671 (Minn. Ct. App. 2004).

[11] See N.Y. State 666 (1994) (attorney may refer client to financing company for living expenses); see also Fla. Bar, Op. 00-3 (Mar. 15, 2002) (same). In addition to Rule 2.1's duty of candor, a lawyer may have other obligations. For example, several financing companies doing business in New York State have entered into a Stipulation with the Attorney General that requires the companies to follow certain guidelines, such as procuring an attorney certification that the lawyer has reviewed the financing agreement with the client. See American Legal Finance Association, ALFA Agreement (Feb. 17, 2005), available at <http://www.americanlegalfin.com/alfasite2/documents/ALFAAgreementWithAttorneyGeneral.pdf>. Signatories to the Agreement include Plaintiff Support Services, Pre-Settlement Finance, QuickCash, Magnolia Funding, BridgeFunds Limited, Plaintiff Funding Corp. d/b/a LawCash, Oasis Legal Finance, The Whitehaven Group, and New Amsterdam Capital Partners. *Id.* at 9-18. The Stipulation is posted on the website of the American Legal Finance Association (ALFA). Currently, 21 companies belong to the Association nationwide. See American Legal Finance Association, available at <http://www.americanlegalfin.com/index.asp> (last visited Apr. 19, 2011).

[12] See N.Y. State 769 (2003) (attorney should advise the client of costs and benefits of the transaction as well as alternative courses of action); see also Fla. Bar, Op. 00-3 (Mar. 15, 2002).

[13] See Garber, *supra* note 3, at 10; Appelbaum, *supra* note 2.

[14] See Nev. State Bar Standing Comm. On Ethics and Prof'l Responsibility, Formal Op. 29 (Aug. 7, 2003).

[15] See N.Y. State 769.

[16] See N.Y. Rules of Prof'l Conduct R. 1.7(a), 1.8(f), 5.4(c) (2010); N.Y. State 682 (1996) (lawyer must offer client any referral fee the lawyer receives for standard products and services); N.Y. State 671 (1994) (lawyer "absolutely forbidden" from receiving referral fee where amount of product or service purchased depends on attorney advice); ABA Formal Op. 331 (1972).

[17] See N.Y. Prof'l Conduct R. 1.8(e); N.Y. State 753 (2002) (reiterating that lawyer may not ethically represent a client in a real estate transaction if the lawyer acts as a principal in the title insurance agency that has been engaged for the transaction and that is performing non-ministerial tasks); see also N.Y. State 769; 666; Fla. Bar, Op. 00-3 (Mar. 15, 2002); Ohio Sup. Ct. Op. 2000-01 (2000) [available at](http://www.supremecourt.ohio.gov/Boards/BOC/Advisory_Opinions/2000/Op%2000-001.doc) http://www.supremecourt.ohio.gov/Boards/BOC/Advisory_Opinions/2000/Op%2000-001.doc (last visited Apr. 20, 2011); Phila. Bar Ass'n Prof'l Guidance Comm., Ethics Op. 91-9 (May 1991); cf. S.C. Bar Ethics Advisory Op. 92-06 (1992) (an attorney may own interest in a non-recourse financing company that provides funding to non-clients).

[18] See, e.g., Frequently Asked Questions: Will my case qualify for an advance?, LawMax Legal Finance, <http://www.fundmycase.com/en/FAQ.php4> (last visited Apr. 19, 2011) ("LawMax considers each request for an advance on a case-by-case basis. We will thoroughly review your case, and our underwriters will make a decision within 48 hours of receiving the required documentation from your attorney."); Frequently Asked Questions: Do we get involved in the case?, FastFunds, <http://www.fastfunds4u.com/pages/faqs.html> (last visited Apr. 19, 2011) ("Our only involvement is to initially review the attorney's file so we can evaluate the claim."); Case Documents for Plaintiff Funding, LawLeaf, www.lawleaf.com/lawsuit-funding/case-documents-for-plaintiff-funding.html (requiring certain documents for evaluation of the claim).

[19] See, e.g., The Funding Process, LawMax Legal Finance, <http://www.litigationfinancing.com/FundingProcess.htm> (last visited Apr. 19, 2011) ("We . . . ask . . . that we be kept aware of any developments in the case."); see also Del. State Bar Ass'n Comm. On Prof'l Ethics, Op. 2006-2 (Oct. 6, 2006) ("Th[e] information [requested] includes police/accident reports, medical records, witness statements, expert reports, and information relating to the defendant's insurance carrier and its policy limits."); Complaint, *S&T Oil Equip. & Mach. Ltd. v. Juridica Invests. Ltd.*, (S.D. Tex. Filed Feb. 14, 2011) (alleging that claimant's counsel "was required to place all information regarding the strategy, public profile, factual or legal developments regarding the [arbitration] on [the] internal website [of the law firm associated with the funding company]. This included key substantive pleadings, key documents, settlement documents and any scheduling orders.").

[20] See, e.g., *Leader Techns., Inc. v. Facebook, Inc.*, 719 F. Supp. 2d 373 (D. Del. 2010) (compelling disclosure of documents shared with financing companies during discussions about potential financing); see also *Abrams v. First Tenn. Bank Nat'l Ass'n*, No. 3:03-cv-428, 2007 WL 320966, at *1 (E.D. Tenn. Jan. 30, 2007); see also Nate Raymond, *Litigation Funders Face Discovery Woes*, Nat'l L.J., Feb. 21, 2011 (reporting that in at least one case, the initial conversations between a funding company and the client were not protected from disclosure by the attorney-client privilege).

[21] See N.Y. Prof'l Conduct R. 1.6(a) (2009).

[22] See N.Y. State 769.

[23] See Garber, *supra* note 3, at 18.

[24] See N.Y. Rules of Prof'l Conduct 1.7(a), 1.8(f), 5.4(c) (2010). After a settlement or judgment has been obtained, a lawyer may turn over to a funding company a portion of a client's recovery pursuant to the terms of that client's non-recourse financing agreement. See N.Y. State 666; Fla. Bar, Op. 00-3 (Mar. 15, 2002); S.C. Bar Ethics Advisory Op. 92-06 (1992); Phila. Bar Ass'n Prof'l Guidance Comm., Ethics Op. 91-9 (May 1991). We do not reach the issue, but note the potential conflict, where a lawyer is a signatory to a financing agreement and is instructed by the client not to pay over to the financing company the contractually-specified portion of the settlement or judgment.

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Litigation Finance: The Basics, the Details and the Ethics

LITIGATION FINANCE: THE BASICS, THE DETAILS AND THE ETHICS

Questions for today:

- What are the ethical considerations for each step in the litigation finance process?
- How can litigation finance help lawyers and their clients meet the client's business and litigation objectives?

LITIGATION FINANCE: THE BASICS

Litigation Finance (aka Litigation Funding, Third Party Funding):

- Non-recourse provision of capital tied to outcome of litigation or arbitration
- Funds can be used for litigation expenses and other corporate purposes
- Bilateral agreement between funder and recipient of funds

LITIGATION FINANCE: THE BASICS

Litigation funding can assist lawyers and their clients achieve business and litigation objectives

- Lack of funds for legal expenses
- Obtain lower-cost capital
- Hedge risk of litigation
- Monetize a claim or judgment to fund other expenses
- Law firms can also utilize funding to grow practice area or firm

LITIGATION FINANCE: THE BASICS

Where is litigation funding used?

- Commercial Litigation
- Domestic and International Arbitration
- Bankruptcy Litigation
- Portfolios of Claims

Funded party is usually claimant (or counter-claimant), but in some cases, defendant can utilize funding.

ETHICAL CONSIDERATIONS IN COMMERCIAL LITIGATION FINANCE

Four primary ethical duties:

- Professional independence
- Competence
- Undivided loyalty
- Confidentiality

COMMERCIAL LITIGATION FINANCE: OVERVIEW OF THE PROCESS

Ethical considerations for each stage of the process:

1. Decision to Seek Funding

2. Investment Process

3. Investment Structure

4. Implementation through Judgment or Settlement

ETHICAL CONSIDERATIONS WHEN DETERMINING WHETHER TO SEEK FUNDING

Can a lawyer raise the prospect of finance and refer a client or potential client to a litigation funder?

- Many state bars have approved the practice (e.g. NY, NJ, AZ, MD, FL, SC, NV) and no contrary authority exists
- Lawyer should inform the client of any potential conflict and potentially obtain informed client consent in writing

Can a lawyer counsel the client during the negotiation with a litigation funder?

- Yes, if competent, capable of maintaining independence and obtains informed written consent respecting any potential conflicts of interest

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Lawyer's Duty of Confidentiality

ABA Model Rule 1.6(a)

A lawyer must not disclose “information relating to the representation of a client” without the client's informed consent, unless the disclosure is impliedly authorized in order to carry out the representation

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Before disclosing confidential information to a prospective litigation funder:

- Advise the client of the risks of disclosure and obtain client informed, written consent to disclose confidential information
- Take steps to maintain confidences and guard against waivers, including execution of non-disclosure agreement
- Understand the information exchange process; limit disclosures where possible
- Consider applicable protective or confidentiality orders

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Disclosure of attorney-client privileged material

- Disclosure is not generally necessary
- The common interest exception to waiver *may* apply but weight of authority currently not supportive
 - Common legal interest is typically applied to joint defense agreements and communication with insurance carriers; also arises in M&A context
 - Multiple courts have held common interest does not exist with litigation funders: Miller v. Caterpillar (N.D. Ill. 2014); LeaderTech v. Facebook (D. Del. 2010)

ETHICAL CONSIDERATIONS DURING THE INVESTMENT PROCESS

Disclosure of attorney work product material:

- Weight of authority supports work product protection for communications with actual or prospective funders if NDA is in place (see *also* Miller v. Caterpillar (N.D. Ill. 2014)); protection waived only if steps are not taken to keep info out of hand of an *adversary*.
- E.g., Viamedia v. Comcast (N.D. Ill. 2017): Communications between a party, its attorneys and actual or prospective litigation funders necessarily contain and reflect “opinions by . . . counsel regarding the strength of claims, the existence and merit of defenses, and other observations and impressions regarding issues in the litigation” and fall squarely within work product protection.

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Common features of investment structures:

- Investment contract is structured as a bilateral agreement between with the claimholder and financier. The attorney-client relationship remains exclusive to the claimholder and its attorney
- Non-recourse; if the underlying litigation or arbitration claim is not successful, the claimholder owes nothing
- Funds are used to pay for litigation fees and expenses, but it is also quite common for claimholders to take additional capital to use toward operating costs such as R&D, payroll, or manufacturing

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Are Other Attorney Ethical Rules Implicated?

Neither Model Rule 1.8(e) (prohibition on providing financial assistance to a client) or 1.8(i) (prohibition on acquiring a proprietary interest in a cause of action) are implicated by litigation finance as the attorney is not providing financial assistance to the client; rather the litigation funder acquires an interest in the client's cause of action through an agreement with the client.

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Portfolio Investments With Law Firms

- Capital provided to law firm against a portfolio of the firm's contingent interests across multiple cases
- What about ethical rules regarding fee splitting?
 - Akin to permissible law firm loans secured by receivables

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Other Legal Considerations

Champerty, Barratry and Maintenance

- Case by case analysis required to assess viability of financing and preferential structure for financing under applicable state law
- Champerty never adopted in some states, abandoned in others by case law or statute and may be applicable in others
- May not be a defense to claims even where champerty concerns remain

ETHICAL CONSIDERATIONS CONCERNING INVESTMENT STRUCTURE

Thoughtful Court Decisions

- A Delaware Superior Court decision explains history and the modern analysis of the champerty, barratry and maintenance doctrines. Charge Injection Analysis Techs., Inc. v. E.I. Dupont DE Nemours & Co. (Del. Sup. Ct. 2016)
- An Informative analysis is contained in Miller v. Caterpillar (N.D. Ill. 2014), regarding Illinois criminal statute prohibiting maintenance

ETHICAL CONSIDERATIONS IN ARBITRATION

Third Party Funding in Arbitration

- Review relevant arbitration rules and procedures, and law (if any) related to third party funding in the seat of arbitration
- Consider underlying substantive legal regime

ETHICAL CONSIDERATIONS DURING IMPLEMENTATION: DISCLOSURE

Disclosure

- No ethical, state or federal rule currently requires
- In 2014, 2016 and 2017, the U.S. Chamber Institute for Legal Reform unsuccessfully urged changes to F.R.C.P. Rule 26 to require disclosure of funding arrangement as part of mandatory initial disclosures
- Certain local rules have addressed the question
 - N.D. Ca. local rule requires existence of funder to be disclosed in class-action context only

ETHICAL CONSIDERATIONS DURING IMPLEMENTATION: ROLE OF FUNDER

Typically, the funder is a passive investor.

- Funder monitors the proceedings; receives regular updates
- Litigation counsel can consult a knowledgeable and experienced sounding board
- Attorney must exercise independent judgment

Model Rule 2.1 – “In representing a client, a lawyer shall exercise independent professional judgment and render candid advice...”

Model Rule 5.4(c) – A lawyer must not let third party financing obstruct the lawyer’s independent professional judgment on behalf of the client.

ETHICAL CONSIDERATIONS DURING IMPLEMENTATION: ROLE OF FUNDER

**Typically, the funder does not have settlement control.
Where contract gives settlement control to the funder:**

- Client's delegation of settlement control to funder does not impair counsel's duties of loyalty and independence, nor require counsel to withdraw, pursuant to Model Rule 1.2(c) and Model Rule 1.16(a)(1).
- ABA – “There would seem to be no reason, as a matter of contract law, to regard these contract provisions as unenforceable ... The presence of a litigation funder is not different in kind from the other factors that are part of virtually any decision to settle....” (2012 Report at 28).

ETHICAL CONSIDERATIONS IN LITIGATION FINANCE – CONCLUSION AND RESOURCES

2012 American Bar Association Commission on Ethics 20/20 Informational Report to The House of Delegates:

- This report “... should not be interpreted as suggesting that alternative litigation finance raises novel professional responsibilities, since many of the same issues ... arise whenever a third party has a financial interest in the outcome of the client’s litigation.” (Report at 4).
- “It is unclear why the historical concerns of the common law would justify today placing special burdens on litigation funded by third parties.”

Association of the Bar of the City of New York Formal Opinion 2011 – 2

The best way to determine if financing is an attractive option for your client is to discuss it. Lake Whillans can be reached at:



LAKE
WHILLANS

1350 Avenue of the Americas
2nd Floor
New York, NY 10019
(646) 389-1032

228 Hamilton Avenue
3rd Floor
Palo Alto, CA 94301
(650) 427-0744

Marla Decker
mdecker@lakewhillans.com

Boaz Weinstein
weinstein@lakewhillans.com