

At the Direction of the User or Service Provider: The District Court of Northern California Takes a Stand on What Constitutes Creating a Copy Under DMCA Safe Harbors

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I. OVERVIEW OF THE CASE

In an attempt to stretch the confines of protection available under the Digital Millennium Copyright Act, Veoh Networks, Inc. (Veoh) sought to establish that third-party software creations, including flash files and screen shots of copyrighted works, did not disqualify them from liability protection because the creations were initiated by third-party users.¹

Io Group, Inc. (Io), an adult entertainment conglomerate that holds copyrights to several adult films, sued Veoh, an internet service provider and self-described “Internet Television Network” that allows users to upload and view videos, for copyright infringement.² Io claims that Veoh’s creation of flash file previews and screen shots amounted to copyright and should disqualify Veoh from being eligible for the Digital Millennium Copyright Act’s safe harbors.³ Veoh’s Web site allows anyone to view clips on Veoh, but a user wishing to upload a video must create a user name and password, provide an e-mail address, and accept the “Terms of Use” and the “Acceptable Use” policies.⁴ Both policies state that copyright infringement is unacceptable and warn of actions

1. See *Io Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 HRL, 2008 WL 4065872, at *1, 4-5 (N.D. Cal. Aug. 27, 2008).

2. See *id.* at *1, 12. Veoh partnered with several television networks and magazines and provides access to videos provided by the partners and creates promotional videos for them which are uploaded to the site, actions that are not at issue here. Veoh now offers and participates in advertising opportunities as well as provides a “premium content” program, neither of which actions were available during the time at issue and not relevant here.

3. *Id.*

4. *Id.* at *2-3.

taken against users who fail to observe the policies.⁵ Following acceptance of the policies, users must create a title and give the video a category description and a content rating.⁶ During the uploading process, Veoh's system uses a third-party software to automatically create a flash file for videos over ten minutes long and develops screen shots based on still screens from the video.⁷

Between June 1 and June 22, 2006, Io discovered clips from ten of its copyrighted films on Veoh's Web site.⁸ Of the numerous videos, which ranged in length from six seconds to forty minutes, only one clip, after a lapse of several minutes, displayed the Titan Media trademark.⁹ After discovering the allegedly infringing videos, Io filed this instant case.¹⁰ However, prior to notification, Veoh independently removed all adult content videos and screen shots, including those at issue in the noted case.¹¹ Io sought summary judgment for liability for direct, contributory, and vicarious copyright infringement and Veoh also moved for summary judgment on the reasoning that it is protected from liability under the Digital Millennium Copyright Act's safe harbors.¹² The Northern District of California District Court *held* that Veoh was eligible for safe harbor protection under the Digital Millennium Copyright Act and granted Veoh's motion for summary judgment. *Io Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 HRL, 2008 WL 4065872 at *7 (N.D. Cal. Aug. 27, 2008).

II. BACKGROUND

A. *Digital Millennium Copyright Act, 17 U.S.C. § 512*

Congress enacted the Digital Millennium Copyright Act (DMCA) of 1998 to encourage development and expansion of commerce and

5. *Id.* at *2, 9. These policies are also posted on the Web site and viewable to all users; Veoh has terminated at least 1,096 users for repeat copyright infringement.

6. *Id.* at *4. Veoh's system also extracts metadata to create a digital fingerprint of each file, assigns it an identification number for indexing, and then places it into the database so that it can appear in user searches. In addition, Veoh's employees sometimes review the content rating in order to assure the appropriate rating has been assigned.

7. *See id.* The court defines flash files as a format used to transmit videos over the Internet and screen shots as still-image screen shots viewed as thumbnails, both of which are discussed in greater depth in the Court's Decision.

8. *See id.* at *2. Io was unsure which films were copyrighted and ultimately changed what it thought was the number of infringed works to ten.

9. *Id.*

10. *Id.* The court made note of Io's failure to inform Veoh of the copyright infringing videos.

11. *See id.*

12. *Id.* at *6.

communications of the digital world.¹³ Title II of the DMCA, the Online Copyright Infringement Liability Limitation Act (OCILLA), was adopted to address controversial issues involving copyright liability in the online world and to facilitate cooperation between internet service providers (ISP's) and copyright owners in addressing online copyright infringement.¹⁴ By enacting OCILLA, Congress hoped to provide "greater certainty to service providers concerning their legal exposure for infringements that may occur in the course of their activities."¹⁵

OCILLA provides four safe harbors to qualifying ISPs by limiting liability for copyright infringement.¹⁶ Safe harbors limit liability of ISPs but do not affect the question of ultimate liability.¹⁷ Additionally, the limits to liability represented in section 512 are not exclusive.¹⁸

To be eligible for a safe harbor, an ISP must first satisfy the DMCA threshold requirements.¹⁹ The provider seeking immunity must fall within the definition of "service provider" as provided by 17 U.S.C. § 512(k), adopt, reasonably implement, and inform subscribers of a policy providing that it may, in appropriate circumstances, terminate the accounts of repeat infringers, and accommodate copyright holders with standard technical measures to determine whether infringement has occurred.²⁰

Provided these threshold requirements are satisfied, the ISP must then meet the requirements of the safe harbor from which it seeks protection.²¹ 17 U.S.C. § 512(c), the safe harbor at issue in the noted

13. See S. REP. No. 105-190, at 1-2 (1998).

14. See *id.* at 1-2, 19-20; see also *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004), *aff'g*, 189 F. Supp. 2d 1051 (C.D. Cal. 2002).

15. *Ellison*, 357 F.3d at 1076 (quoting S. REP. 1056-190, at 20 (1998); H.R. REP. 105-155(II), at 49-50 (1998)).

16. See Online Copyright Infringement Liability Limitation Act, 17 U.S.C. § 512(a)-(d) (2000). The safe harbors under § 512 provide protection for: (1) transitory digital network communications, (2) systems caching, (3) information residing on systems or networks at the direction of users, and (4) information location tools. While ISPs remain liable, eligibility for a safe harbor eliminates the possibility of the ISP having to pay monetary damages.

17. See *id.*; see also *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1108, 1109 (9th Cir.), *cert. denied*, 128 S. Ct. 709 (2007); *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1093, 1098-99 (W.D. Wash. 2004); *Ellison*, 357 F.3d at 1077 (noting that the ultimate question of liability is to be determined under existing principles of law and that the statute was not meant to enact or adopt new standards by which to evaluate claims of copyright infringement).

18. See *CCBill LLC*, 488 F.3d at 1109.

19. See Online Copyright Infringement Liab. Limitation Act, 17 U.S.C. § 512.

20. *Id.* § 512(k). Service providers are defined in § 512(k)(1)(b) as a "provider of online services or network access, or the operator of facilities therefore, and includes an entity described in subparagraph (A)." See also *id.* § 512 (i)(1)(A) (defining standard technical measures as measures that are used by copyright owners to identify and protect copyrighted works); *Ellison v. Robertson*, 357 F.3d 1072, 1076-80 (9th Cir. 2004), *aff'g*, 189 F. Supp. 2d 1051 (C.D. Cal. 2002).

21. See 17 U.S.C. § 512.

case, limits liability “for infringement of copyright by reason of storage at the direction of the user of material that resides on a system or network controlled or operated by or for the service provider.”²² Under § 512(c), an ISP qualifies for protection if it:

- (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;
- (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.²³

B. Courts Addressing the Applicability of § 512(c)

Section 512(c) provides a safe harbor for “information residing on systems . . . at the direction of users.”²⁴ Thus, to be eligible for the safe harbor the information must be placed on the system at the direction of the user.²⁵ Legislative reports indicate that such information includes space for users’ Web sites, chat rooms, or other forums where material may be posted at the direction of users.²⁶ As also specified by legislative reports, this material does not include information stored on a system for the ISP as a result of its own actions.²⁷

There is limited interpretive case law involving this statute, especially § 512(c)’s definition of “direction of user.”²⁸ However, courts have looked to the legislative history, which indicates the DMCA was

22. *Id.*

23. *See id.* Because Io did not notify Veoh of the potential infringement, no discussion of 17 U.S.C. § 512(c)(1)(C) is necessary. *Io Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 HRL, 2008 WL 4065872, at *2, 13 (N.D. Cal. Aug. 27, 2008).

24. 17 U.S.C. § 512(c).

25. *See id.*

26. *See* H.R. REP. 105-551(II), at 53 (1998).

27. *CoStar Group Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 691, 701 (D. Md. 2001), *aff’d*, 373 F.3d 544 (4th Cir. 2004) (quoting H.R. REP. No. 105-551, at 53 (1998)).

28. *See id.* at 699-700. The *CoStar* district court further notes that due to lack of precedent interpreting the DMCA, it is appropriate to turn to legislative history and precedent to define the relationship between infringement and the safe harbor provisions.

enacted in part to provide immunity to service providers from copyright infringement liability for “passive” and “automatic” actions.²⁹

Photographic images are works that are fixed in a tangible medium of expression and, when stored in an ISP’s system, are considered “copies” of the work for purposes of copyright law.³⁰ Based on its definition of a copy, the Court of Appeals for the Ninth Circuit held that the reproduction of copyright infringed photographs, through thumbnails, was a prima facie showing of copyright infringement.³¹ In *Perfect 10*, an internet search engine displayed thumbnails of copyright infringing photographs as a result of users’ search terms.³² The court in *Perfect 10* found that the defendant, by posting thumbnails of copyright infringing material, could be liable for direct copyright infringement and remanded the case back to the lower court.³³

In addition to determining what is a copy for infringement purposes, courts have also determined that there should be some element of volition in determining who is liable for the copy.³⁴ Volition is lacking where a defendant’s system is merely used to create a copy by a third party.³⁵ Photographs uploaded to an ISP’s Web site are uploaded at the volition of the user, despite being reviewed by the ISP’s employees.³⁶ In a District Court of Maryland case, the issues presented were whether copyrighted photographs illegally uploaded to the defendant’s Web site were done so at the user’s or the ISPs direction and whether the ISP was disqualified from safe harbor under § 512(c).³⁷ The court found that the photographs were screened as part of a gatekeeping function, which occurred only after the third-party user had already committed the volitional action of uploading the photographs.³⁸ In support of its decision, the court noted that making the removal or blocking of material a decision at the ISP’s direction would contradict the DMCA’s “take

29. *See id.*

30. *See Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1154, 1160 (9th Cir. 2007). The thumbnails were found to be stored on the ISPs system even though the actual infringing copies were not.

31. *See id.*

32. *See id.* at 1155, 1157.

33. *See id.* at 1160.

34. *See Cartoon Network LP,LLLP v. CSC Holdings, Inc.*, 536 F.3d 123, 130 (2d Cir. 2008) (citing to *Religious Tech. Ctr. v. Netcom On-Line Commc’n Serv.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995)).

35. *See CoStar Group Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 691, 701 (D. Md. 2001), *aff’d*, 373 F.3d 544, 556 (4th Cir. 2004); *see also Cartoon Network*, 536 F.3d at 130.

36. *See CoStar*, 164 F. Supp. 2d at 702.

37. *See id.* at 692.

38. *See id.* at 701.

down” procedures.³⁹ The United States Court of Appeals for the Fourth Circuit affirmed this decision, finding that automatic copying, storage, and transmission, when instigated by others, does not render a service provider liable for copyright infringement.⁴⁰ However, ISPs can become liable upon a showing of additional involvement by the service provider.⁴¹

The United States Court of Appeals for the Second Circuit recently held that the party who initiated the copying process “made” the copy rather than the service provider who created the process.⁴² In *Cartoon Network*, a cable company offered a form of a Digital Video Recorder to its customers without a recording box placed in their homes.⁴³ The process, created by the cable company, allowed users, through the press of a button, to record programs, which would be stored on the cable company’s system.⁴⁴ At issue in *Cartoon Network* was the question of who created the copy.⁴⁵ Following the Federal Copyright Act of 1976, the court defined copies as “work fixed in a tangible medium of expression when its embodiment . . . is sufficiently permanent or stable to permit it to be . . . reproduced . . . for a period of more than transitory duration.”⁴⁶ The *Cartoon Network* court held that determining who was responsible for the copying turned on who acted with volition, which it determined was the user.⁴⁷

In reaching its decision, the *Cartoon Network* court relied on the United State Copyright Office’s 2001 report on the DMCA, which stated that “an embodiment is fixed unless a reproduction manifests itself so fleetingly that it cannot be copied.”⁴⁸ The court found that the cable company’s copies made without the volition of the user were “so fleeting,” that the copies had to be made at the direction of the user.⁴⁹

39. See *id.* The “take down” procedures refer to § 512(c)’s requirements that allow an ISP protection if it “acts expeditiously to remove, or disable access to, the [infringing] material.” 17 U.S.C. § 512(c).

40. See *CoStar Group Inc. v. LoopNet, Inc.*, 373 F.3d 544, 555 (4th Cir. 2004).

41. See *id.* at 555.

42. See *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 123, 130 (2d Cir. 2008). Note that the DMCA was not created to upset the existing body of copyright law but merely to supplement it in the digital world context, allowing courts to look to copyright law where the DMCA does not speak.

43. See *id.* at 124-25.

44. See *id.*

45. See *id.* at 126.

46. *Id.* at 127 (citing Federal Copyright Act of 1976, 17 U.S.C. § 101) (original quotations and emphasis omitted).

47. See *Cartoon Network*, 536 F.3d at 132.

48. *Id.* at 127 (citing U.S. Copyright Office, *DMCA Section 104 Report* 111 (Aug. 2001), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf> (original punctuation and emphasis omitted).

49. See *id.* at 129-30.

III. THE COURT'S DECISION

In the noted case, the Northern District of California District Court held that Veoh's creation of flash files and screen shots did not disqualify it from protection under 17 U.S.C. § 512(c).⁵⁰

In determining whether Veoh fell under the safe harbor provided by § 512(c), which limits a service provider's liability for infringement of copyright for storage at the direction of a user, the court had to determine whether Veoh actually provided storage "at the direction of the user."⁵¹ As discussed earlier, when a file was uploaded onto Veoh's system, a flash file preview and screen shots were automatically created and stored on the system.⁵²

Indicating that this is a matter of first impression, the court analyzed Veoh's system's unique method of operation.⁵³ The court held that Veoh was not disqualified from § 512(c)'s safe harbor for numerous reasons.⁵⁴ First, the court found the language of § 512(c) did not limit Veoh merely to storing material.⁵⁵ The court based this finding on the differences between the definition of service provider as given in § 512(k)(1)(A), which pertains to § 512(a) only, and the definition of service provider in § 512(k)(1)(B), which pertains to the rest of § 512.⁵⁶ The court found that notably absent from the definition in § 512(k)(1)(B) was the wording "without modification to the content of the material as sent or received," and reasoned that Congress would have included the limitation in § 512(k)(1)(B) had they intended to.⁵⁷ Secondly, the court relied on the decisions in *LoopNet* and *Cartoon Network*.⁵⁸ Because the employees of LoopNet reviewed the infringing materials and their actions still qualified for safe harbor under § 512(c), the court held that Veoh's actions must also qualify for safe harbor, as they did not review the infringing material.⁵⁹ Additionally, the court determined that volition was important.⁶⁰ Consistent with their decisions in both *LoopNet* and

50. *See* *Io. Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 HRL, 2008 WL 4065872, at *13 (N.D. Cal. Aug. 27, 2008).

51. *See id.* at *11.

52. *Id.* at *2, 4.

53. *Id.* at *12.

54. *See id.*

55. *Id.*

56. *See id.*

57. *Id.*

58. *See id.* at *13.

59. *See id.* As noted earlier, although employees reviewed the content rating, the court found that they did not actually review the material for copyright infringement and was therefore not the same actions as taken by the LoopNet employees.

60. *Id.*

Cartoon Network, the court determined that the copying process began when the user initiated the uploading process.⁶¹ Lastly, the court reasoned that some of the policies behind the adoption of DMCA supported their conclusion.⁶² The court likened Veoh's system to one of the major goals of the DMCA: to provide information easily accessible to its users.⁶³ The court reasoned that the flash files and screen shots allowed users to determine what the videos were about, making it easier for users to use.⁶⁴

IV. ANALYSIS

The Northern District of California District Court's decision in the noted case appears to depart from precedent in what qualifies as a "copy" and raises significant questions regarding what actions would be considered not at the "direction of the user."

The court chose to focus on the actions of Veoh as being automatic and used to further DMCA goals, but never addressed whether the products of Veoh's actions, whether automatic or not, amounted to making copies.⁶⁵ The court failed to discuss the Federal Copyright Act of 1976 and that the result of Veoh's actions amounted to a copy because it falls within the definition of a copy because it is fixed in a tangible medium for longer than a transitory period.⁶⁶

Additionally, the court's decision departs from precedent by failing to accord with the Ninth Circuit's holding that an unauthorized display of thumbnails of copyrighted pictures is infringement.⁶⁷ The court failed to develop the fact that Veoh created the thumbnails from the videos that were uploaded, thus creating a copy, and then stored these copies on their system and displayed them to users.⁶⁸ Had the court followed precedent, a discussion of liability for copyright infringement would have ensued, after which a DMCA analysis would have been proper. Instead, the court simply chose to find Veoh's actions as being "at the direction of the user" and ignored the resulting product of Veoh's actions.⁶⁹

During analysis of who directed the actions, the court failed to acknowledge that Veoh's use of third-party software to create the flash

61. *Id.*

62. *See id.*

63. *Id.*

64. *See id.*

65. *Id.*

66. *See* Federal Copyright Act of 1976, 17 U.S.C. § 101 (2000).

67. *See* Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1154, 1159-60 (9th Cir. 2007).

68. *See Veoh*, 2008 WL 4065872 at *12-13.

69. *See id.*

files and screen shots was not an automatic process.⁷⁰ Veoh made the conscious decision to install the software, which it had tailored to meet their specifications to produce the results it desired.⁷¹ The creation of the flash files and screen shots was not an independent by-product of a user beginning the uploading process but rather a result Veoh planned for when the uploading process was initiated.⁷² In *LoopNet*, the Fourth Circuit noted that the DMCA was intended to provide protection for service providers whose participation in infringement activity was automatic and not something more.⁷³ While the uploading process is at the volition of the user, the court failed to address the notion that Veoh's actions may have amounted to something more.

Lastly, the court supported their decision by reasoning that Veoh's actions furthered the goals of the DMCA by making the Web site more user-friendly.⁷⁴ In *CoStar*, the court found that the employees' review of photographs amounted to gatekeeping functions used to remove or keep infringing material off of the site.⁷⁵ Here, in contrast, Veoh's system adds infringing material to the system. Veoh's system creates flash files and screen images of infringing material that did not exist before the file was uploaded.⁷⁶ While the flash files might assist users in viewing films, Veoh admitted that the screen shots decreased in value due to the flash file preview.⁷⁷ These "benefits" add little to further the goals of the DMCA and instead add to the amount of copyright infringement on Veoh's Web site.

For all of these reasons, the Northern District of California District Court should have denied the grant of Veoh's motion for summary judgment and allowed the facts to be further developed at trial.

The court's decision in the noted case has the potential to affect the impending *Viacom, Inc. v. YouTube, Inc.* case, which is moving through the discovery phase.⁷⁸ The similarity between the parties' positions and arguments strongly suggests that the decision in the noted case will have an impact in future litigation involving video sharing Web sites,

70. *See id.* at *4, 12-13.

71. *See id.* at *4, 13.

72. *See id.*

73. *See CoStar Group Inc. v. LoopNet, Inc.*, 373 F.3d 544, 555 (4th Cir. 2004).

74. *See Io. Group, Inc. v. Veoh Networks, Inc.*, No. C06-03926 HRL, 2008 WL 4065872, at *13 (N.D. Cal. Aug. 27, 2008).

75. *See CoStar*, 373 F.3d at 556.

76. *See Veoh*, 2008 WL 4065872, at *4-5.

77. *See id.* at *5.

78. *See Viacom Int'l, Inc. v. YouTube Inc.*, No. C 08-80129 SI., 2008 WL 3876142, at *1 (N.D. Cal. Aug. 18, 2008).

particularly sites like YouTube, which generate thumbnails in addition to the video.

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