# Copyrights in the Clouds – Social Networking and Fair Use

The Copyright Society of the USA Mid-Winter Meeting
February 2010

Presented by Douglas Masters, Loeb & Loeb LLP
dmasters@loeb.com

## I. Social Networking, Copyright Infringement, and Fair Use

A. 17 U.S.C. §107. Limitations on exclusive rights: Fair use.

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The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors."

B. Selected Decisions

***Sony BMG Music Entertainment, et al. v. Tenenbaum*, 2009 U.S. Dist. LEXIS 112845 (D. Mass., December 7, 2009)**

In a file sharing copyright infringement action, the court granted plaintiff record companies' motion for summary judgment on the issue of defendant's fair use defense.

Plaintiff record companies filed a copyright infringement action against defendant Joel Tenenbaum for allegedly sharing over 800 copyrighted songs over a four-year period using several different peer-to-peer platforms. The defendant argued that his use was a fair use, and the plaintiffs moved for summary judgment on the fair use issue.

In a July 2009 electronic order, the court granted the plaintiffs' motion because the defendant failed to meet the burden of identifying disputed facts based on "hard proof rather than spongy rhetoric." The court held that the defendant proposed a fair use defense "so broad that it would swallow the copyright protections that Congress has created . . . [and he makes] no claim of a transformative use or public benefit sufficient to justify an exception to copyright protections."

In the December 2009 memorandum, the court described in greater detail the reasons for the court's July decision – that is "why fair use, ultimately, was not appropriate for a jury in this case."

The court began by saying that it was "deeply concerned by the rash of file sharing lawsuits, the imbalance of resources between the parties, and the upheaval of norms of behavior brought on by the internet" and that it was prepared to consider a more expansive fair use argument than other courts have credited. For example, defendants who used file sharing for the purposes of sampling music prior to purchase or space-shifting to store purchased music more efficiently, or who used the new file sharing networks in the time period before digital media could be purchased legally and who later shifted to paid outlets might be able to rely on the fair use defense. But, the court said, "the defendant would have none of it. Rather than tailoring his fair use defense to suggest a modest exception to copyright protections, Tenenbaum mounted a broadside attack that would excuse all file sharing for private enjoyment. It is a version of fair use so broad that it would swallow the copyright protections that Congress created, defying both statute and precedent."

As a preliminary matter, the court held that the Seventh Amendment guarantees the right to a jury trial, but only on issues that turn on reasonably disputed facts (citing to the judge's own treatise on juries, and case law). "He has the right to put this matter to a jury only if he shows – through specific, colorable evidence – that the facts relevant to that legal analysis are in dispute. He has no right to a jury, constitutional or otherwise, if he has not adequately contested the underlying facts."

The court then turned to the fair use defense. Before applying the four statutory fair use factors, the court discussed the origin and purpose of the fair use defense. "It is the flip side of the copyright coin, embracing at its core those uses that advance public purposes without unduly diminishing the market for the original work. . . . This analysis is not some open-ended referendum on 'fairness,' as the defendant would have it, but an effort to measure the purpose and effects of a particular use against the incentives for literary and artistic creation that drive copyright protections."

The court also listed the facts of the case that were not in dispute: "(1) the main purpose of Tenenbaum's file sharing was his own private enjoyment and that of his friends, that is, the very use for which the artist or copyright holder is entitled to expect payment as a reward; (2) he downloaded entire songs, although not entire albums of music; (3) he did not transform the 30 works at issue (i.e., turn them into his own creative work); (4) his file sharing spanned more than four years and several different software platforms, both before and after this activity was detected in August 2004; and (5) during that time, his file sharing software made more than 800 songs available to other Kazaa users to download. His activity continued notwithstanding changes in the case law, making it clear that the conduct was not protected; by 2001, for example, the Ninth Circuit had held that peer-to-peer file sharing was not fair use. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1012-19 (2001). And his activity continued even after digital music was lawfully available."

Regarding Tenebaum's fair use defense, the court said that "Tenenbaum did not contest these facts at summary judgment; he argued, instead, that they just did not matter."

Applying the first fair use factor – the purpose and character of the use, including whether such use is commercial – the court said the commercial/non-commercial inquiry is a misleading one in this case. It is clear that Tenenbaum did not sell the downloaded songs, nor did he demand anything directly in exchange from those who might have downloaded them from him. However, the court noted that the Copyright Act broadly defines "financial gain" as the "receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works." 17 U.S.C. § 101. According to the court, "[f]ile sharing is not far off. Peer-to-peer networks are based on an informal kind of exchange, whereby each user 'shares' his or her files and, at the same time, gains access to the files made available by others on the network." The court suggested that the purpose and character of the defendant's use should be classified along a spectrum that ranges from pure, large-scale profit-seeking to uses that advance important public goals, and that Tenenbaum's use falls somewhere in the middle.

The court declined to label Tenenbaum's use commercial, noting that there is a "meaningful difference between personal file sharing and a business strategy that exploits copyrighted works for profit. These activities have different goals and dimensions; they should not be reduced to a single category in this analysis." However, the court also said that the issue that is more important in this inquiry, and which weighs against the defendant, is the conclusion that his use was not accompanied by any public benefit or transformative purpose that would trigger the core concerns of the fair use doctrine. "Tenenbaum might argue that online file sharing increases public access to these artistic works, a broad social benefit. But this is not enough. . . . Since fair use operates as an exception to the exclusive rights of the copyright holder, which broadly serve to promote artistic creation, it is critical that a proposed fair use carry its own public benefits." The court concluded that nothing in Tenenbaum's use of these sound recordings was remotely transformative, or served other public ends.

The second factor – the nature of the copyrighted work – weighed against Tenebaum because music "commands robust copyright protections." The third factor – the portion of the work used – also weighed against Tenebaum because he downloaded complete songs. The court called Tenenbaum's argument that he did not download complete albums "a distinction without a difference."

The fourth fair use factor – the effect on the potential market for the work – also weighed against fair use. Tenenbaum argued that his file sharing made little economic difference to the plaintiffs because the songs at issue were immensely popular, and therefore widely available on Kazaa. But the plaintiffs provided evidence that the widespread availability of free copies of copyrighted works on the internet has decreased their sales revenue, which other courts have acknowledged. Tenenbaum offered no affidavits or expert report on summary judgment to disprove or dispute this assertion.

The court took issue with Tenenbaum's apparent argument that "the plaintiffs still make enough money from their copyrights," noting that the sufficiency of the plaintiffs' profits is not the measure of fair use, nor is Tenenbaum's view of what amount of profits is "enough." "Congress has not capped the revenue that a copyright holder may derive from its monopoly, and that is indeed a quintessential legislative judgment. . . . The Copyright Act grants the plaintiffs an exclusive right to distribute these works; file sharing effectively displaces that right, and the market it represents, by offering the same works for free."

The court also examined several non-statutory fair use factors urged upon it by defendant, including the plaintiffs' asserted assumption of risk, plaintiffs' acquiescence in the infringement or abandonment of their copyrights, and the plaintiffs' aggressive marketing of their copyrighted works without providing adequate protection from piracy. The court dismissed these factors and said the "mere act of producing and releasing artistic works where there is a known risk of piracy cannot amount to a deliberate waiver of copyright. Such a rule would hand control over copyright to counterfeiters and pirates; copyright protections would be weakest, practically and legally, precisely where piracy efforts were most concerted or successful. The result would undermine copyright on a grand scale, offering greatly diminished incentives to produce the most vulnerable artistic and literary works."

The court acknowledged that Tenenbaum "was on firmer ground" when he argued that there were no legal alternatives to downloading individual digital music files, but ultimately the court rejected this argument because Tenenbaum continued to download music files from peer-to-peer networks for 15 months after the iTunes store opened, making authorized digital music files easily available.

The court said that it could envision a scenario in which a defendant sued for file sharing could assert a plausible fair use defense, but, based on the undisputed facts, "Tenenbaum is not such a defendant." Accordingly, the court granted summary judgment in plaintiffs' favor on defendant's affirmative defense of fair use.

Despite granting plaintiff's motion for summary judgment, the court expressed some sympathy for Tenenbaum's argument that copyright infringement actions for peer-to-peer downloading is unjust. "As this Court has previously noted, it is very, very concerned that there is a deep potential for injustice in the Copyright Act as it is currently written. It urges – no implores – Congress to amend the statute to reflect the realities of file sharing. There is something wrong with a law that routinely threatens teenagers and students with astronomical penalties for an activity whose implications they may not have fully understood. The injury to the copyright holder may be real, and even substantial, but, under the statute, the record companies do not even have to prove actual damage. 'Repeatedly, as new developments have occurred in this country, it has been Congress that has fashioned the new rules that new technology made necessary' (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 430-431 (1984)). It is a responsibility that Congress should not take lightly in the face of this litigation and the thousands of suits like it."

In a separate memorandum handed down on the same date, the court granted the plaintiffs' request for a permanent injunction barring the defendant from infringing on plaintiffs' copyrights now and in the future and requiring the defendant to destroy all copies of plaintiffs' recordings that defendant has downloaded without plaintiffs' authorization. However, the court denied the plaintiffs' request for a permanent injunction barring the defendant from promoting or advertising using the internet or any online media distribution system to infringe copyrights on First Amendment grounds. According to the court, it must refrain from issuing an injunction that imposes an unconstitutional prior restraint on defendant's right to free speech. "Although plaintiffs are entitled to statutory damages, they have no right to silence defendant's criticism of the statutory regime under which he is obligated to pay those damages."

A jury awarded plaintiffs $675,000 for defendant's willful infringement, which is $22,500 per song.

***A.V., et al. v. iParadigms LLC*, 544 F. Supp. 2d 473 (E.D. Virginia 2008), affirmed in part and reversed in part by *A.V. v. iParadigms*, 562 F.3d 630 (4th Cir., Apr. 16, 2009) (affirming summary judgment for defendant based on fair use defense)**

Defendant iParadigms owns and operates Turnitin, a proprietary technology system that evaluates the originality of written works in order to prevent plagiarism. Educational institutions contract with iParadigms and require their students to submit their written works via Turnitin. When the student work is submitted to Turnitin, the system compares the work electronically to content available on the internet, student works previously submitted to Turnitin and commercial databases of journal articles and periodicals. Turnitin also has the ability to archive a student's work upon its submission to Turnitin.

The plaintiffs each used Turnitin to submit their written works and agreed to the terms of the online registration agreement (a click-through or clickwrap agreement) which included a limitation of liability clause. However, the students had also written on their papers that they did not give permission for the papers to be archived. The defendant continued to archive all student-submitted works, including all the works submitted by the plaintiffs, and the plaintiffs subsequently filed suit, claiming that the defendant's continued archiving of their works constituted copyright infringement.

The court examined the four fair use factors and concluded that the defendant's use was a fair use. First, it examined "the purpose and character of the use," stating that if the new work is transformative or adds something new, it is strong evidence of a fair use. Citing to *Perfect 10, Inc. v. Google, Inc.*, 487 F.3d 701 (9th Cir. 2007), in regard to use of works in a computer database, the court held that the use by the defendant was highly transformative, because the papers are used for an entirely different purpose, namely to prevent plagiarism and protect the students' written works from plagiarism, whereas the original purpose of the students' works was education and creative expression. "Defendant does this by archiving the students' works as digital code and makes no use of any work's particular expressive or creative content beyond the limited use of comparison with other works."

Next, the court examined the nature of the copyrighted work, stating that this factor is of lesser importance because the allegedly infringing use makes no use of any creative aspect of the students' works. Rather, the use relates solely to the comparative value of the works. The court held that this factor either favored neither party or favored a finding of fair use, because the defendant's use in no way diminishes the incentive for creativity on the part of students.

Third, the court examined "the amount and substantiality of the portion used," citing to Supreme Court precedent and stating that complete and entire use of the original work does not automatically preclude a finding of fair use. Citing again to *Perfect 10*, the court found that although the defendant must use the entirety of the original work to be successful in its plagiarism detection services, the use is highly transformative and highly beneficial to the public, and held that this factor either favored neither party or favored a finding of fair use.

Finally, the court examined the fourth fair use factor, the effect of the use upon the potential market for the copyrighted work, and found that it was clear that the defendant's use of the plaintiffs' works has caused no harm to the market value of the works. Rather, the defendant's use has a protective effect, preventing others from using the plaintiffs' works as their own and protecting the future marketability of the plaintiffs' works.

The court also held that the online registration agreement, that contained a limitation of liability clause, was an enforceable contract and precluded the students' copyright infringement suit against the defendant. The court reached this conclusion despite a defense of infancy by the plaintiffs, stating that "if an infant enters into any contract subject to conditions or stipulations, he cannot take the benefits of the contract without the burden of the conditions or stipulations." The court, however, denied the defendant's claim for indemnification against the plaintiffs because the indemnification language was contained in the web site terms of use and not the registration agreement, and the terms of use did not create an enforceable contract because users were not required to view or agree to the terms of use before using the web site.

**The Google Library Project and *The Author's Guild v. Google***

Dec. 2004 - Google announces it contracted with several libraries to scan entire copies of printed books; Google users can search the index free of charge; search results would display only a few sentences around the search term or a "snippet".

Sept. 2005 – Author's Guild and several authors file class action copyright infringement action against Google (*The Author's Guild v. Google Inc.*, No. 05-cv-8136 (SDNY, complaint filed Sept. 20, 2005)). The court subsequently consolidates with similar action filed by McGraw-Hill and other publishers.

Google claims that its use of the books is a fair use.

October 2008 – First settlement agreement

November 2009 – Amended settlement agreement

Amended Settlement Terms

Rightsholders authorize Google, on a non-exclusive basis, to:

- Continue to digitize Books
- Sell subscriptions to an electronic Books database to institutions
- Sell online access to individual Books
- Sell advertising on pages from Books
- Display portions of Book in a "preview" format to encourage sales of online access to Books
- Display Snippets from Books, and
- Display bibliographic information from Books.

Rightsholders are entitled to receive 63% of revenues earned in Google Book Search.

Google will pay $34.5 million to establish and maintain a Book Rights Registry, to locate Rightsholders and create a database of their contact information and copyright interests in their books, and to collect revenues from Google and distribute those revenues to Rightsholders, and for notice and settlement administration costs.

Rightsholders will have the right to determine whether and to what extent Google may use their copyrighted writings.

Google will pay a minimum of $45 million to compensate Rightsholders whose works Google has scanned without permission as of May 5, 2009. Rightsholders of works Google has scanned without permission as of May 5, 2009 are eligible for Cash Payments, which will be at least $60 per Principal Work, $15 per Entire Insert, and $5 per Partial Insert.

## II. Social Networking and the DMCA Safe Harbors

Section 512 of the Digital Millennium Copyright Act (DMCA) provides four "safe harbors" from liability for copyright infringement for online service providers. 17 U.S.C. § 512 (a-d).

To be eligible for the 512(c) safe harbor ("Information Residing on Systems or Networks at Direction of Users"), an online service provider must:

1. Establish a take-down procedure and a policy for repeat offenders
2. Register an agent with the U.S. Copyright Office
3. Not interfere with copy protection mechanisms

To comply with the safe harbor requirements, an online service provider must:

1. not know of infringement; or
2. act expeditiously to remove or disable access to the material when it (a) has actual knowledge, (b) is aware of facts or circumstances from which infringing activity is apparent, or (c) has received DMCA-compliant notice; and
3. not have the right and ability to control the infringing activity, or – if it does – it does not receive a financial benefit directly attributable to the infringing activity.

***Io Group, Inc. v. Veoh Networks, Inc.*, 586 F.Supp.2d 1132 (N.D. Cal. 2008)**

In a significant decision concerning the liability of websites hosting user-provided content for copyright infringement, Magistrate Judge Howard R. Lloyd held that Veoh Networks, which provides software and a website (www.veoh.com) that enables the uploading and sharing of user-provided video content over the Internet, qualified for the protections of the DMCA § 512(c) safe harbor and, accordingly, dismissed Io Group's copyright infringement suit.

Io Group, a producer and distributor of adult entertainment films, sued Veoh Networks when it found several clips, some lasting as long as 20 minutes or more, from 10 of its copyrighted films on veoh.com. Io filed suit against Veoh for copyright infringement without serving any DMCA notice or otherwise notifying Veoh of its claims. The parties cross-moved for summary judgment, but the court chose only to address, and grant, Veoh's motion claiming that it qualified for the DMCA § 512(c) safe harbor because it disposed of the entire case.

The court held that Veoh met the safe harbor threshold requirements: (1) it met the definition of "service provider;" (2) it adopted, reasonably implemented and informed subscribers of its termination policy for repeat infringers; and (3) it did not interfere with standard technical measures to protect copyrighted works.

The court rejected the plaintiff's argument that Veoh failed to reasonably implement its repeat infringer policy because it does not prevent repeat infringers from reappearing on the site under a pseudonym and a different email address. Citing the Ninth Circuit, the court held that a service provider reasonably 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." See *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102 (9th Cir. 2007). The court stated that the DMCA requires reasonable, not perfect, policies and it rejected the plaintiff's contention that to have a reasonable policy, the defendant must track users by their actual names or by Internet Protocol addresses.

Turning to the requirements for the § 512(c) safe harbor, the court summarized that a service provider is eligible for the safe harbor if it (1) does not know of infringement; or (2) acts expeditiously to remove or disable access to the material when it (a) has actual knowledge, (b) is aware of facts or circumstances from which infringing activity is apparent, or (c) has received DMCA-compliant notice; and (3) either does not have the right and ability to control the infringing activity, or – if it does – that is does not receive a financial benefit directly attributable to the infringing activity.

The court rejected the plaintiff's argument that Veoh could not qualify for the safe harbor because it employs software that automatically changes the format of the user-submitted video content into "Flash files" and still-image files (screen captures for preview purposes) so that it is readily accessible to users. This, Io argued, meant that the infringing content was stored on Veoh's system not "at the direction of a user" but by Veoh's own acts and decisions. The court held that Veoh itself does not actively participate in or supervise the uploading of files and that there was nothing in § 512(c) that precluded a service provider from the safe harbor protections by virtue of its automatic processing of user-submitted content.

Because the plaintiff did not serve a DMCA notice on Veoh before initiating the lawsuit, the court held that "there is no question on the record presented that Veoh lacked actual knowledge of the alleged infringing activity." Nevertheless, Io argued that Veoh could not qualify for safe harbor protection because it had knowledge of "apparent infringing activity." Under this so-called "red flag" test, a service provider may lose safe harbor protection "if it fails to take action with regard to infringing material when it is 'aware of facts or circumstances from which infringing activity is apparent.'" In determining whether a service provider has such awareness, the question is whether the service provider "deliberately proceeded in the face of blatant factors of which it was aware." In other words, "apparent knowledge requires evidence that a service provider 'turned a blind eye to 'red flags' of obvious infringement.'" According to Io, the fact that it registered the copyrights in the videos, the videos looked professionally produced and the clips online did not contain the labeling required for adult content were all "red flags" sufficient to evidence Veoh's awareness of infringing activity. The court rejected each of these arguments and held that none was sufficient to put Veoh on notice.

The court also rejected the plaintiff's argument that Veoh had the right and ability to control the infringing activity based on Veoh's maintenance of a central index of video files on its servers and its ability to terminate user accounts, remove infringing material, disable access to such materials on its users' hard drives, and feature certain videos on portions of its website. The court stated that "Veoh's right and ability to control its system does not equate to the right and ability to control infringing activity. Unlike Napster, there is no suggestion that Veoh aims to encourage copyright infringement on its system. And, there is no evidence that Veoh can control what content users choose to upload before it is uploaded." The court also rejected the plaintiff's suggestion that Veoh should be required to prescreen every submission before it is published. "Veoh has submitted evidence indicating that it has received hundreds of thousands of video files from users . . . and this court finds that no reasonable juror could conclude that a comprehensive review of every file would be feasible."

The plaintiff also argued that Veoh should have changed its business operations to prevent infringing activity from occurring on its site. Specifically, it contended that Veoh should have verified the source of all incoming videos by obtaining and confirming the names and addresses of the submitting user and the producer, as well as the submitting user's authority to upload a given file. Alternatively, the plaintiff suggested that, if Veoh cannot prevent infringement on its site given the current volume of its business, then Veoh should be required to either hire more employees or to decrease its operations and limit its business to a manageable number of users.

The court stated that the DMCA does not require service providers to deal with infringers in a particular way and that the plaintiff's suggestion that Veoh must be required to reduce or limit its business operations is contrary to one of the stated goals of the DMCA. "The DMCA was intended to facilitate the growth of electronic commerce, not squelch it. In sum, Io has not raised a genuine issue of material fact that Veoh had the right and ability to control the alleged infringing activity on veoh.com. This court finds that there is no triable fact issue as to whether Veoh qualifies for safe harbor under section 512(c) with respect to the alleged infringing activity in question."

***Columbia Pictures Industries, Inc. v. Fung*, 2009 U.S. Dist. LEXIS 122661 (CD California, Dec. 21, 2009)**

In a copyright infringement action against the operator of BitTorrent websites, the district court granted summary judgment to the plaintiff movie studios on liability for inducement to infringe.

Defendant Gary Fung operates several BitTorrent websites, i.e., a type of peer-to-peer website where users can locate copyrighted content such as movies and television shows and can download that content from other users. BitTorrent technology facilitates the downloading of large files by triggering the downloading from several different users simultaneously, rather than from a single user.

BitTorrent technology includes: (1) a software application that users download, which is commonly referred to as a "client application"; (2) websites, also known as "torrent sites," which allow users to select "dot-torrent files" that they wish to download; and (3) servers, also known as "trackers," that manage the download process. In order to download files from others in a BitTorrent network, users must complete several steps:

(1) install a BitTorrent client application; (2) visit a torrent site for the purpose of locating dot-torrent files containing the content that they wish to download; and (3) click on the desired dot-torrent file. Once these steps are completed, the BitTorrent client will locate and download the actual content item. (The dot-torrent files do not contain the actual content item searched for; rather, the dot-torrent file contains the data used by the BitTorrent client to retrieve the content through a peer-to-peer transfer.) The BitTorrent client application then simultaneously downloads the pieces of the content file from as many users as are available at the time of the request, and then reassembles the content file on the requesting computer when the download is complete. Once a user downloads a given content file, he or she also becomes a source for future requests and downloads.

Plaintiffs are several major motion picture studios who alleged that defendants Fung and Isohunt Web Technologies, Inc. are liable for inducement to infringe, contributory infringement and vicarious infringement, based on direct infringement by sites' users. According to the court, it is established in the Ninth Circuit that inducement and contributory infringement are distinct theories of liability. "Generally, inducement requires that the defendant has undertaken purposeful acts aimed at assisting and encouraging others to infringe copyright; in contrast, material contribution . . . applies if the defendant 'has actual knowledge that specific infringing material is available using its system, and can take simple measures to prevent further damage to copyrighted works, yet continues to provide access to infringing works'" and a defendant "infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it" (citations omitted).

The court addressed only the theory of inducement because "defendants' inducement liability is overwhelmingly clear."

Under all secondary theories of liability for copyright infringement, a plaintiff must show (1) direct infringement by third parties and (2) that infringement took place in the U.S. The court rejected the defendants' argument that plaintiffs must show that a particular copyrighted work was both uploaded and downloaded in the U.S. "[T]he acts of uploading and downloading are each independent grounds of copyright infringement liability. Uploading a copyrighted content file to other users (regardless of where those users are located) violates the copyright holder's § 106(3) distribution right. Downloading a copyrighted content file from other users (regardless of where those users are located) violates the copyright holder's § 106(1) reproduction right. Accordingly, plaintiffs need only show that United States users either uploaded or downloaded copyrighted works; plaintiffs need not show that a particular file was both uploaded and downloaded entirely within the United States" (citations omitted).

The plaintiffs presented "abundant evidence of copyright infringement using defendants' site" including IP addresses and usage summary data provided by the defendants. Also, plaintiffs provided evidence that approximately 50% of about 400 actual downloads were made from the U.S.

The court then turned to liability for inducement. Under the U.S. Supreme Court's ruling in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), one is liable for inducing third parties to infringe if one "distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement." The court added that liability may attach even if the defendant does not induce specific acts of infringement.

Inducement may be shown by defendants' statements and advertisements that "stimulate others" to commit infringement; providing technical assistance to users seeking copyrighted works; implementation of technical features that promote infringement; and a business model that depends on massive infringing use. Plaintiffs provided undisputed evidence of defendants' actions in all of these areas. For example, the court held that defendants' creation on their websites of a Box Office Movies feature, in which defendants posted and updated a list of the top 20 highest-grossing movies playing in theatres with links for uploading dot-torrent files for those movies, was evidence that defendants engaged in direct solicitation of infringing activity. The court also called defendants' statement on their websites that users should try Peer Guardian, a software application that can be used to frustrate copyright enforcement, a "classic instance of inducement."

Plaintiffs also provided evidence that defendants provided technical assistance to users seeking copyrighted works (showing that defendants "did not maintain a hands-off approach to the operation of the sites") and that the business model of defendants' websites relied almost exclusively on advertising revenue which depends on the number of users visiting each site. The court held that the undisputed evidence shows that the defendants engaged in "purposeful, culpable expression and conduct" aimed at promoting infringing uses of the websites and accordingly the court granted summary judgment for the plaintiffs on the issue of liability for inducement to infringe.

The court also held that the defendants did not meet the requirements of the DMCA safe harbor for a provider of information location tools (17 U.S.C. § 512(d)). Under § 512(d), a provider of information location tools must satisfy all three of the following requirements: (1) the defendant: does not know or have reason to know of infringing activities, or does not remove infringing materials upon receipt of such knowledge; (2) does not profit from infringement where it has the power to control the infringement; and (3) upon receiving notice from the copyright holder, removes the infringing material. In the present case, the court held that plaintiffs established that defendants had reason to know of their users' infringing activities. For example, defendant Fung admitted to downloading certain copyrighted works which the court said indicated that defendants knew that infringing material was available on the defendants' websites. The court also held that defendants failed to satisfy their summary judgment burden by identifying facts showing that they were not aware of factors or circumstances from which infringing activity is apparent, and failed to introduce any evidence that they acted expeditiously to remove, or disable access to, infringing material once they became aware of it.

The court concluded by saying: "This case contains the same general pattern presented in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, *A&M Records, Inc. v. Napster, Inc.*, and, more recently, *Arista Records LLC v. Usenet.com, Inc.* [citations omitted]. The Defendants in the present case attempt to distinguish their situation on three main grounds: first, that the BitTorrent technology is different from the other technologies because users do not download content files through Defendants' websites; second that Defendants' conduct is protected by the First Amendment; and third, that Defendants' users are located across the globe, not just in the United States. On the evidence presented to the Court, none of these arguments raises a triable question of fact for the jury to decide. Defendants' technology is nothing more than old wine in a new bottle."

***Lenz v. Universal Music Corp.*, 572 F.Supp.2d 1150 (ND California 2008)**

In a case of first impression, the United States District Court for the Northern District of California held that a copyright owner, before issuing a takedown notice under the Digital Millennium Copyright Act (DMCA), must first evaluate whether the material sought to be taken down makes fair use of the owner's copyrighted work.

The plaintiff in this action had posted a video on YouTube of her children dancing with the Prince song "Let's Go Crazy" playing in the background. Universal Music Corp. and its affiliates, as owners of the copyright to the song, sent YouTube a takedown notice which included the statement required by 17 U.S.C. § 512(c)(3)(A)(v) that "the complaining party has a good faith belief that use of the material complained of is not authorized by the copyright owner, its agent, or the law." The plaintiff brought a misrepresentation claim against the Universal defendants under 17 U.S.C. § 512(f), alleging that her use of the song constituted fair use and claiming that the defendants acted with bad faith in sending a takedown notice in regards to a use that was therefore "authorized" by law.

In its motion, Universal contended that copyright owners cannot be required to evaluate the question of fair use prior to sending a takedown notice because "fair use is merely an excused infringement of copyright rather than a use authorized by copyright owner or by law." The court found that the phrase "authorized by law" was unambiguous and that an activity authorized by law is one "permitted by law or not contrary by law." The court went on to find that fair use is a lawful use of a copyright.

Having reached this conclusion, the court denied defendants' motion to dismiss, holding that "in order for a copyright owner to proceed under the DMCA with '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,' the owner must evaluate whether the material makes fair use of the copyright." The court made clear that a misrepresentation claim requires a showing of subjective bad faith, and that "a full investigation to verify the accuracy of a claim of infringement is not required." Nonetheless, on a motion to dismiss, "[a]n allegation that a copyright owner acted in bad faith by issuing a takedown notice without proper consideration of the fair use doctrine . . . is sufficient to state a misrepresentation claim pursuant to Section 512(f) of the DMCA."

Plaintiff's complaint included allegations of bad faith and deliberate ignorance, including allegations that defendants acted solely to satisfy Prince's personal agenda related to protecting his music on the Internet and had nothing to do with any particular video that uses his songs. Accordingly, despite expressing doubt as to whether the plaintiff would ultimately be able to prove the defendants acted with subjective bad faith in sending the takedown notice, and survive a motion for summary judgment following discovery, the court allowed the plaintiff's misrepresentation claim to proceed.