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INTELLECTUAL PROPERTY LITIGATION

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New RS-DVR System: Not a Direct Violation of Copyrights

The evolution of home video recording technology continues to generate complex copyright disputes between distributors and copyright owners, in which the important rights can turn on seemingly arcane issues.

The latest example concerns Cablevision's proposed "Remote Storage" Digital Video Recorder (RS-DVR) system, designed to give cable subscribers the functionality of a TiVo-like personal digital video recorder. Unlike a TiVo, however, RS-DVR records and stores programs chosen by subscribers on Cablevision's own remote servers rather than on a DVR or set-top box in the subscriber's home. With few practical constraints on storage capacity, RS-DVR subscribers would have the ability to amass large collections of movies and television shows.

After learning that Cablevision was about to unveil this new technology, a group of content providers sued in the U.S. District Court for the Southern District of New York for copyright infringement, arguing that the RS-DVR system is akin to a video-on-demand service, but without the license fees normally charged for such a service. The district court granted plaintiffs summary judgment and an injunction. But in *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 2008 WL 2952614 (2d Cir. Aug. 4, 2008), the U.S. Court of Appeals for the Second Circuit reversed, holding that the RS-DVR system would not directly infringe plaintiffs' copyrights.

Plaintiffs alleged that the system would violate two of the exclusive rights granted copyright holders under §106 of the Copyright Act: the rights to reproduce and publicly perform copyrighted works. They argued, and the district court agreed, that Cablevision would infringe the



exclusive reproduction right by (1) buffering (temporarily storing) data from plaintiffs' programming stream; and (2) copying plaintiffs' programming onto a remote Cablevision server to enable playback of programs requested by RS-DVR customers. The district court also found that transmission of a program to an RS-DVR customer in response to a playback request would violate the public performance right. After a close analysis of the technical workings of the RS-DVR system, the Second Circuit rejected each of these arguments.

As an initial matter, the Second Circuit held that Cablevision's buffering of data does not constitute copying under the Copyright Act. The court noted that a work is copied when it is "fixed in a tangible medium" (the "embodiment requirement") for "a period of more than transitory duration" (the "duration requirement"). Both requirements must be satisfied.

The buffer temporarily receives data from the programming stream, temporarily stores it and then transmits it to a server for copying. The transmitted data is then overwritten. There was no serious dispute that the buffered data met the embodiment requirement. But because the data would reside in the buffer for a mere 1.2 seconds before being automatically overwritten, the court found the works would be embodied in the buffer for only a "transitory" period. While the 1.2 second duration was long enough for Cablevision to reproduce the data—and perhaps a significant

amount of time in the context of a computer system—the court rejected that reasoning as impermissibly reading the duration requirement out of the statute.

The Second Circuit also held that Cablevision is not liable for unauthorized copies "made" on Cablevision's servers because individual RS-DVR subscribers, not Cablevision, choose to make the copies. The court analogized to VCR recordings, observing that it is the person who presses the record button, not the person who manufactures the VCR machine, who takes the action necessary to make a copy.

"We do not believe that an RS-DVR customer is sufficiently distinguishable from a VCR user to impose liability as a direct infringer on a different party for copies that are made automatically upon that customer's command." The fact that the RS-DVR servers are owned and maintained by Cablevision did not change the court's view.

Finally, addressing the sometimes murky issue of public performance, the Second Circuit held that because each RS-DVR playback transmission is made only to a single subscriber using a copy made by that subscriber, such a transmission does not constitute a performance "to the public" and, therefore, does not infringe a copyright owner's exclusive right of public performance.

While it focuses on highly technical issues, the decision is a clear victory for cable providers. It does not address, however, two contentious issues in copyright litigation that the parties chose not to raise in the district court. Plaintiffs' chose not to raise claims of contributory infringement—the argument that customers' copying of copyrighted works is direct infringement, for which Cablevision is responsible—and Cablevision did not raise claims that such copying would be fair use. That battle may be joined in future cases concerning similar systems.

Copyright

In a ruling that may impact lawsuits against video Web sites such as YouTube, *Io Group, Inc. v. Veoh Networks, Inc.*, U.S. Dist. LEXIS

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65915 (N.D. Cal. Aug. 27, 2008), dismissed on summary judgment claims that user-provided video Web site Veoh was liable for infringement of the copyrights of adult film company Io Group.

Veoh allows users to upload video files, which Veoh then reformats and indexes so that users can locate and watch videos. The court found that, under the 1998 Digital Millennium Copyright Act, it is not necessary for Veoh to shoulder the entire burden of policing third-party copyrights on its Web site. Instead, Veoh need only take appropriate steps to limit incidents of copyright infringement by, among other things, removing unauthorized content when a copyright holder requests removal. Because Veoh was responsive to such requests, and worked diligently to keep unauthorized works off of its Web site, it was protected from liability by the “safe harbor” provisions of the DMCA.

Another opinion involving the application of the DMCA to user-provided video content, *Lenz v. Universal Music Corp.*, 2008 WL 3884333 (N.D. Cal. Aug. 20, 2008), denied dismissal of a claim that Universal acted in bad faith when it sent YouTube a take-down notice regarding a video featuring plaintiff’s young son dancing to Prince’s “Let’s Go Crazy.” The notice and take-down provision of the DMCA permits a copyright owner to demand that a Web site remove a work if the owner has “a good faith belief” that the use is not “authorized.”

Plaintiff claimed that Universal failed to consider whether the video was protected by the fair use doctrine before sending a take-down notice. Universal argued that copyright owners cannot be required to evaluate the question of fair use before sending a notice because fair use is merely an excused infringement of a copyright, not a use authorized by the copyright owner. Rejecting that view, the court ruled that an allegation that a copyright owner acted in bad faith by issuing a notice without proper consideration of fair use states a claim for misrepresentation under §512(f) of the DMCA, which allows victims of meritless take-down notices to seek damages. The ruling may impact significantly the procedures copyright owners follow in deciding to issue takedown notices.

In *Jacobsen v. Katzer*, 2008 WL 3395772 (Fed. Cir. Aug. 13, 2008), the U.S. Court of Appeals for the Federal Circuit held that a copyright holder who makes computer programming code available for free public downloading through a public or “open source” license may sue a user of that code for copyright infringement if the user does not comply with the conditions of the license. There was no dispute that plaintiff owned the copyright in the programming code and that defendant copied, modified and distributed the code. Defendant argued, however, that he was immune from liability because he

had a license to use the programming code. The open source license included restrictions on the user’s ability to distribute the code without appropriate copyright notice, or to alter the original code without tracking the modifications made by the user.

The Court of Appeals found that these restrictions were conditions, not covenants, of the license, so that by violating the conditions defendant was liable for both copyright infringement and breach of contract. The decision, which appears to be the first by a Court of Appeals to consider the remedies available for breach of an open source license, may provide significant leverage to open source licensors.

Trademarks

Illustrating the view of several courts and commentators that contributory trademark liability is far narrower than secondary liability for copyright violations, *Tiffany (NJ) Inc. v. eBay Inc.*, 2008 WL 2755787 (S.D.N.Y. July 14, 2008), rejected claims that eBay should be responsible under the trademark laws for the sale of counterfeit Tiffany-branded jewelry on eBay’s Web site. The trial record demonstrated that eBay had “generalized” notice that some portion of the Tiffany goods sold on its Web site might be counterfeit. Tiffany argued that eBay was therefore required to remedy the problem preemptively at the very moment it knew or had reason to know that the infringing conduct was occurring, even without specific knowledge of individual instances of infringing listings.

But the court held that the proper test for contributory trademark infringement, as articulated in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982), was not whether eBay could reasonably anticipate possible infringement, but whether eBay continued to supply its services when it knew or had reason to know of infringement by specific sellers. The district court concluded that eBay’s generalized knowledge of counterfeiting on its Web site was insufficient to impose an affirmative duty to remedy the problem.

The district court’s decision is consistent with the recent ruling by a Belgian court, which held that eBay did not have a general monitoring obligation with respect to the sale of counterfeit Lancôme products. Those decisions, however, stand in contrast to a recent decision by a Paris court, which granted a sweeping injunction requiring eBay to block all sales of counterfeit products bearing marks owned by LVMH Moët Hennessy Louis Vuitton (LVMH), as well as sales of genuine LVMH perfumes being sold by unauthorized distributors.

Patents

Muniauction, Inc. v. Thomson Corp., 532 F.3d 1318 (Fed. Cir. 2008) illustrates the impact of the U.S. Supreme Court’s landmark obviousness decision, *KSR Int’l Co. v. Teleflex Inc.*, 127 S.Ct. 1727 (2007) in the controversial area of business method patents. Reversing a \$77 million judgment entered after a jury trial, the *Muniauction* court held a patent covering methods for conducting electronic auctions of municipal bonds obvious as a matter of law. The Federal Circuit reviews a jury’s ultimate conclusions on obviousness as issues of law, without deference, while reviewing underlying factual findings for substantial evidence.

Plaintiff’s patented method was found to consist of a combination of a pre-existing auction system with Web browser functionality. Heeding KSR’s admonition that “a court must ask whether [an] improvement is more than the predictable use of prior art elements according to their established functions,” the Court of Appeals found that combination would have been obvious to those with skill in the art. In view of the strength of the case for obviousness, the Court of Appeals found unpersuasive plaintiff’s evidence of secondary considerations of nonobviousness, which commercial success and praise of the invention in the marketplace.

The issue of patent exhaustion—whether the sale of a patented item “exhausts” the patent, so that later purchasers take the item free of restriction on use—was the subject of the Supreme Court’s recent decision in *Quanta Computer Inc. v. LG Elecs. Inc.*, 128 S.Ct. 2109 (2008). In *Cornell University v. Hewlett-Packard Co.*, 2008 U.S. Dist. LEXIS 60209 (N.D.N.Y., Aug. 1, 2008), the court held that the doctrine of exhaustion is legal, rather than equitable, so that it is determined by the jury and not the court. Therefore, jury findings on issues relevant to exhaustion, for example, findings concerning the terms on which a patented item is sold or licensed, should be binding on the court. The *Cornell* decision may have unusual persuasive force because it was written by Federal Circuit Judge Randall Rader, sitting in the district court by designation.