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## Copyright Law: Additional Developments

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## ADDITIONAL DEVELOPMENTS— COPYRIGHT LAW

### *SONY BMG MUSIC ENTERTAINMENT V. TENENBAUM*

*2010 WL 2705499 (D. Mass. July 9, 2010)*

The District Court for Massachusetts held that a jury's award of \$675,000 in statutory damages violated the Due Process Clause by far exceeding the amount necessary to serve the government's legitimate interests in protecting copyright holders. The award was reduced to \$2,250 per infringed work, or \$67,500 in total damages.

In 2007, five major recording companies brought suit against Joel Tenenbaum. Tenenbaum was charged with infringing the plaintiffs' copyrights by using peer-to-peer networks to download and share copyrighted music when he was an undergraduate student. At trial, Tenenbaum admitted to sharing the files and the court granted the plaintiffs' motion for judgment as a matter of law on the issue of infringement. The questions of whether Tenenbaum's actions qualified as willful infringement and the amount of damages were left to the jury.

Based on the difficulty of showing actual damages, the plaintiff companies opted for statutory damages, which can range from \$750 to \$150,000 per infringed work in cases of willful infringement. The jury found Tenenbaum's actions to have been willful and imposed damages of \$22,500 per song, which led to a total award of \$675,000.

Tenenbaum appealed, challenging the amount of the damages. He argued that the amount was grossly excessive and thus in violation of the Due Process Clause. He proposed that the court dismiss the damages on procedural as well as constitutional grounds. However, the court felt that it was necessary to address the Due Process claim directly due to the plaintiffs' statement that they would opt for a new trial rather than accept a remitted award.

The court reviewed Supreme Court precedent on the outer bounds of constitutional awards of punitive or statutory damages. *See, e.g., St. Louis, I.M. & S. Ry. Co. v. Williams*, 251 U.S. 63 (1919); *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996). Based on that jurisprudence, the court found that the damages imposed against Tenenbaum were indeed "wholly out of proportion with the government's legitimate interests in compensating the plaintiffs and deterring unlawful file-sharing."

The court determined that the maximum permissible amount was \$2,250 per song, or three times the minimum amount allowed under the statute, for a total award of \$67,500 in damages. The court reached this amount by noting the common practice of allowing treble damages, including in related statutes such as the Digital Millennium Copyright Act, 17 U.S.C. § 1203(c)(4), as well as referring to the ratio of statutory-to-actual damages allowed by the Supreme Court in *Williams*.

The *Tenenbaum* decision reaffirmed that there is an outer limit at which damages become so far removed from the actual harm suffered and the government's interest in deterring similar wrongdoing that they exceed the bounds of constitutionality. This is true whether referring to punitive or statutory damages. The case reflects how the Due Process Clause can be invoked to protect individuals, as well as large corporations, from grossly excessive damages awards.

***REALNETWORKS, INC. V. DVD COPY CONTROL ASS'N, INC.***

*641 F. Supp. 2d 913 (N.D. Cal. 2009)*

The United States District Court for the Northern District of California enjoined RealNetworks, Inc. ("Real") from manufacturing, importing, offering to the public, providing or otherwise trafficking in its RealDVD software product. The court held that plaintiff DVD Copy Control Association ("DVD CCA") established a high likelihood of success of its DMCA claim that Real trafficked in a product that circumvented technology designed to protect DVDs from being copied, violating the access-control and copy-control provisions of the DMCA. The court also found that, although the fair use defense probably protects consumers' right to make a personal, backup copy of a DVD on their computers, the DMCA unambiguously denies device manufactures the right to provide products that allow such copying.

RealDVD is a digital video platform that allows the user to copy DVDs onto a computer hard drive so that the files can be played later without the need for physical DVDs. Real had licensed encryption technology from the DVD CCA for its RealDVD product. Real brought an action seeking a declaratory judgment that Real had neither breached its license agreement with DVD CCA nor violated the DMCA by manufacturing and distributing its RealDVD product. DVD CCA and a number of movie studios then brought an action to enjoin Real from manufacturing, distributing, or otherwise trafficking in RealDVD.

The court evaluated RealDVD under both access-control and copy-control provisions of the DMCA, which promulgated new grounds for

establishing liability in the context of unauthorized access or use of copyrighted material. The court first stated that under sections 1201(a) and 1201(b), CSS is a technological measure that effectively controls access to and prevents copying of copyrighted DVD content. The court reasoned that RealDVD violated the 1201(a) access-control provision because Real had designed the product to allow users to access the DVD's content without the physical DVD and the need to go through the CSS protection steps. The device allowed accessing of content without the authority of the copyright owner and thus constituted circumvention of the access-control provision. The court then explained that RealDVD violated the 1201(b) copy-control provision because, despite initially abiding by the CSS protection when the physical DVD was inserted, the product bypassed CSS protection by allowing the user to make a copy of the DVD on a computer hard drive. Here the court was clear to distinguish between the permanent copies made by RealDVD and transient buffered or cached copies, which might be produced during normal playback of a DVD.

Real put forth a "fair use" defense, arguing that DVD CCA had no right to prevent consumers from using the RealDVD products to back up or make personal copies of DVDs. The court agreed that fair use probably does allow individual use of circumvention devices to make personal copies of DVDs lawfully owned by the users, but that "federal law has nonetheless made it illegal to manufacture or traffic in a device or tool that permits a customer to make such copies." The court thus held that the fair use of copyrighted material by end users is not a defense to, and plays no role in determining liability under, the DMCA and that allowing such a defense would ignore Congress' "clear directive." Because of the substantial likelihood of success on the merits, along with the presumption of irreparable harm applicable in copyright infringement cases, the court granted DVD CCA's request for a preliminary injunction.

*GOLAN V. HOLDER**609 F.3d 1076 (10th Cir. 2010)*

In *Golan v. Holder*, the Tenth Circuit reversed the district court's decision striking down the URAA (Uruguay Round Agreements Act) under the First Amendment.

In 1994, the United States entered into a variety of trade agreements through the Uruguay Round General Agreement on Tariffs and Trade, including the Agreement on Trade Related Aspects of Intellectual Property Rights. This agreement required its signatories to extend copyright protection to foreign copyrights that had not expired, which prompted Congress to enact the URAA. Section 514 of the URAA "restores" the United States copyrights of certain foreign works in the public domain. These copyrights can be restored if the copyright was lost for one of three specified reasons: "failure to comply with formalities, lack of subject matter protection, or lack of national eligibility." Section 514 does not restore copyrights in foreign works that entered the public domain through the expiration of the term of protection."

In *Golan v. Holder*, the plaintiffs were "orchestra conductors, educators, performers, publishers, film archivists, and motion picture distributors," all of whom made their living in reliance on artistic works in the public domain. Plaintiffs originally filed suit against the government, challenging the constitutionality of the Copyright Term Extension Act and Section 514 of the URAA. The district court granted the government's motion for summary judgment.

On appeal, the Tenth Circuit remanded the case to "assess whether [Section] 514 is content-based or content-neutral," and to apply First Amendment scrutiny to Section 514. On remand, the parties agreed that Section 514 should be subject to an intermediate scrutiny standard due to its "content-neutral regulation of speech." Under this standard, the district court held Section 514 unconstitutional and granted summary judgment for the plaintiffs. The government then appealed.

Under the intermediate scrutiny standard, the law must be directed at an important or substantial governmental interest unrelated to the suppression of free expression. In addition, the "[g]overnment may not regulate expression in such a manner that a substantial portion of the burden on speech does not serve to advance its goals." The government argued that Section 514 promotes three essential government interests: "(1) attaining indisputable compliance with international treaties and multilateral agreements, (2) obtaining legal protections for American copyright holders'

interests abroad, and (3) remedying past inequities of foreign authors who lost or never obtained copyrights in the United States.”

The Tenth Circuit found that the government had a substantial interest in protecting American copyright holder’s interests abroad. The opinion cited evidence that billions of dollars were lost annually because several foreign countries were not providing copyright protection for American works. These countries were willing to provide protection only on a reciprocal basis, so the government would have to restore foreign copyrights in order to protect American interests abroad. The court concluded that Section 514 would help the government protect American works “in a direct and effective way.”

The Tenth Circuit held that Congress had the authority to enact Section 514. The court further held that Section 514 advances important governmental interests and thus did not violate plaintiffs’ First Amendment right to freedom of speech. Accordingly, the court reversed the district court’s judgment and remanded with the instruction to grant summary judgment to the government.

### *MATTEL V. MGA*

*616 F.3d 904 (9th Cir. 2010)*

In July 2010, the Ninth Circuit vacated a district court decision ordering equitable relief for Mattel in *Mattel v. MGA*, a case dealing with ownership of the copyright and trademarks in the Bratz line of dolls.

This litigation dates back to 2004, when Mattel sued Carter Bryant, a former employee who left Mattel to create the hugely successful Bratz brand of dolls. While Bryant was still employed by Mattel, he conceived of the idea for the Bratz. He produced several sketches of his ideas and created “a crude dummy constructed out of a doll head from a Mattel bin, a Barbie body and Ken (Barbie’s ex) boots.” Bryant went to MGA with his concept and signed a consulting agreement.

Bryant’s sketches were the basis for the first generation of Bratz dolls. The Bratz line has since expanded to include other dolls, doll accessories, video games, and even a movie.

With respect to the scope of the original copyright in the Bratz dolls, the district court used a two-part test. The first step considers extrinsic evidence and requires the court to “examine the similarities between the copyrighted and challenged works and then determine whether the similar elements are protectable or unprotectable.” Once the unprotectable elements are filtered out, the court determines whether the copyright in question provides “broad” or “thin” protection. The second step asks whether the two works

are either substantially similar or virtually identical, depending on which standard is appropriate, and thereby determines whether the work in question infringes on the original.

The Ninth Circuit reviewed the district court's decision *de novo* and held that, although the district court had applied the correct two-part test, it had failed to perform the correct analysis. The Ninth Circuit affirmed the district court's finding that Bryant's doll sketches were deserving of broad protection, but held that the court had erred by "failing to filter out all the unprotectable elements of Bryant's sketches." Although the district court's application of the substantial similarity test was appropriate, the comparison had incorrectly included unprotectable elements, such as "doll fashions that expressed an 'aggressive, contemporary, youthful style.'"

The Ninth Circuit also rejected the district court's finding that the doll sculpt merited broad copyright protection. The Ninth Circuit reasoned that, although it is possible to create innumerable images of bratty dolls simply by varying the doll's make-up, clothing, skin color, hair style, body shape, and facial structure, the same is not true when dealing with the tangible doll sculpt. There is a relatively narrow window in which designers can vary the basic body structure of a doll while remaining aligned with the idealized proportions typical in the doll industry.

### EUROPE'S "GRADUATED RESPONSE" TO INTERNET PIRACY

In order to reduce copyright infringement via illegal downloading and file-sharing, the creative industries have advocated so-called "graduated response" or "three strikes Internet disconnection policies," which disconnects consumers after issuing a number of warnings. In the United States, the creative industries have been successful in combating Internet piracy using civil lawsuits. By contrast, in Europe, copyright holders have struggled to successfully bring civil lawsuits against infringers in the face of strong judicial protection of privacy and personal data. Consequently, the industries have attempted to gain cooperation of Internet service providers (ISPs), asking them to identify infringers and to implement safeguards. Several countries (including France and the United Kingdom) have attempted to adopt a fast-track "three strikes" approach.

This approach poses many challenging legal questions. Is the "right to Internet access" a fundamental right? Under what authority can the state or ISPs cut off a user's Internet connection? How is it possible to strike a proper balance between the protection of copyright and users' rights, such as the right to privacy, freedom of speech, freedom of expression and due

process rights? How do we resolve technical issues such as tracking down users engaged in Internet piracy via Wi-Fi hotspots?

On October 22, 2009, the French Constitutional Council approved a French law authorizing the termination of a consumers Internet access after “three strikes.” CC decision no. 2009-590DC, Oct. 22, 2009, J.O. 18292. The Constitutional Council previously declared an earlier version of the bill unconstitutional, holding that revoking user’s Internet access without judicial review unlawfully infringes freedom of expression and the presumption of innocence, and violates the principle of separation of powers. CC decision no. 2009-580DC, June 10, 2009, J.O. 9675. However, under the new statute, when copyright holders bring suit, a government agency sends an email to the connection owner, followed by a certified letter. Law No. 2009-1311 of October 28, 2009, *Journal Officiel de la République Française* [J.O.] [Official Gazette of France], October 29, 2009, p. 18290. Upon further failure to comply, the connection owner must appear before a judge who can suspend the user’s Internet access for a maximum of one year and prohibit any other contract with all ISPs, as well as impose a fine. The statute is similar to the stance taken by the European Parliament, which approved in 2009 the common position as specifically requiring a court order before cutting off Internet access.

In the United Kingdom, the Digital Economy Act, 2010, c. 24, gained Royal Assent on April 8, 2010, although the new regime has not yet been enforced. The Act establishes a new process permitting the Secretary of State to order ISPs to impose technical measures to terminate infringers’ Internet connections upon copyright owners’ request and notification. On November 10, 2010, however, the High Court of Justice granted a judicial review of the relevant part of the Act, following an application from ISPs, which alleges violation of EU law, including rules on privacy and ISP liability. As to European rules, the European Data Protection Supervisor strongly opposes “three strikes Internet disconnection policies,” arguing that it unlawfully infringes the right to privacy and protection of personal data in light of the jurisprudence of the European Court of Human Rights and of the Court of Justice.

*ARISTA RECORDS, LLC V. LAUNCH MEDIA, INC.**578 F.3d 148 (2d Cir. 2009)*

The Second Circuit held, as a matter of first impression, that an Internet music service whose playlist is individually generated based on the preferences of a particular user is not an interactive service within the meaning of Section 114 of the Copyright Act.

In 2001 Arista Records, LLC, Bad Boy Records, BMG Music, and Zomba Recording LLC (collectively, “BMG”) brought action against Launch Media, Inc. (“Launch”) alleging that Launch violated provisions of the Digital Millennium Copyright Act (the “DMCA”), by willfully infringing sound recording copyrights of BMG from 1999 to 2001. Launch operated an Internet radio website or “webcasting” service, called LAUNCHcast. This service provided users with individualized Internet radio stations that play songs that are within a particular genre or similar to a particular artist or song for which the user has expressed a preference. BMG held the copyrights in the sound recordings of some of the songs that Launch used in its webcasting service.

At trial, BMG argued that Launch provided an “interactive service” within the meaning of Section 114 of the Copyright Act in LAUNCHcast and therefore was required to pay individual licensing fees for each song the webcasting service played for its users. An interactive service is defined as a service “that enables a member of the public to receive a transmission of a program specially created for the recipient, or on request, a transmission of a particular sound recording . . . which is selected by or on behalf of the recipient.” The use of songs in an interactive service requires paying individual licensing fees to the copyright holders of the sound recordings for those songs. However, if a service is not interactive, the use of songs only incurs a statutory licensing fee set by the Copyright Royalty Board.

The Southern District of New York entered judgment on a jury verdict, finding that LAUNCHcast was not an interactive service and was therefore not liable for paying licensing fees for each individual song. BMG appealed, claiming that LAUNCHcast is an interactive service, as a matter of law because LAUNCHcast is “designed and operated to enable members of the public to receive transmissions of programs specially created for them.”

The Second Circuit looked to Congressional intent and concluded that from the Sound Recording Act of 1971 to the DMCA in 1998, Congress had enacted copyright legislation directed at preventing decrease in record sales. Congress was concerned about either: (1) direct piracy of music, or (2) digital media services that offered users the ability to select the songs they could listen to such that they would have no reason to purchase them. The court

then noted that LAUNCHcast would be interactive under the statute if a user could either: (1) request and have played a particular sound recording, or (2) receive a transmission of a program “specially created” for the user. Because a LAUNCHcast user cannot request and have played a particular song, the service does not meet the first alternative. However, depending on the interpretation of “specially created,” LAUNCHcast could be liable under the second definition.

The court concluded that LAUNCHcast did not provide a specially created program within the meaning of § 114(j)(7) because the service did not provide sufficient control to users such that the song programs were so predictable as to incentivize users to listen to the webcast instead of purchasing records. Therefore, the court found that LAUNCHcast was not an interactive service within the meaning of 17 U.S.C. § 114(j)(7).

### *COSMETIC IDEAS, INC., v. IAC/INTERACTIVECORP*

*606 F.3d 612 (9th Cir. 2010)*

The United States Court of Appeals for the Ninth Circuit held that receipt by the Copyright Office of a complete application satisfies the registration requirement of 17 U.S.C. § 411(a). This decision solidifies a Circuit split on this particular issue, with the Fifth, Seventh, and Ninth Circuits adopting this approach, called the application rule. However, the Tenth and Eleventh Circuits have adopted the registration rule, which requires the Copyright Office to act on the application before an infringement action can be filed.

In 1997, Cosmetic created a piece of costume jewelry known as the “Lady Caroline Lorgnette.” Cosmetic began selling the necklace in 1999, and continued to do so up through the date of the lawsuit. Cosmetic claimed that defendants, sometime between 2005 and 2008, began manufacturing and distributing copies of a virtually identical necklace.

Cosmetic submitted an application to the Copyright Office for registration of its copyright in the jewelry, and received confirmation of receipt of that application in March 2008. Later that same month, Cosmetic filed a complaint alleging that defendant had infringed on that copyright.

In June, 2008, defendants moved to dismiss for failure to state a claim and lack of subject matter jurisdiction, arguing that Cosmetic did not possess a valid copyright registration when it commenced its action. The district court granted the motion to dismiss on the basis that it lacked subject matter jurisdiction, and Cosmetic appealed.

Section 411(a) states that “no civil action for infringement of the copyright in any United States work shall be instituted until pre-registration

or registration of the copyright claim has been made in accordance with this title.” In approaching the issue, the court first acknowledged the circuit split, and then moved on to textual analysis of § 411(a). However, the court found that the plain language of the particular section, as well as other sections in the statute, could support either the application or registration rule.

Finding the statutory language unclear, the court examined the broader context and purpose of the statute. The court observed that although the 1976 revision to the Copyright Act significantly increased the scope of protected works by eliminating required formalities like registration, Congress still valued having a robust federal register of copyrights. To this end, Congress chose to encourage registration through various incentives, such as requiring registration to bring an infringement action.

With this legislative background in mind, the Ninth Circuit adopted the application approach. It concluded that the application approach “better fulfills Congress’s purpose of providing broad copyright protection while maintaining a robust federal register.” The court pointed out that the application approach avoids unnecessary delay in infringement litigation. The court also found that it makes little sense to dismiss a case that is likely to be re-filed shortly thereafter, simply because the Copyright Office had not made a prompt decision, though the decision would have no substantive impact on the litigant’s right to proceed. In the worst case scenario, the registration approach could cause a party to lose the ability to sue because of the statute of limitations.

### *IN RE CELLCO PARTNERSHIP*

*663 F. Supp. 2d 363 (S.D.N.Y. 2009)*

Cellco Partnership d/b/a Verizon Wireless (“Verizon”) initially filed an application for a determination of reasonable fees for a blanket license for the public performance of musical compositions in the repertory of the American Society of Composers, Authors, and Publishers (“ASCAP”). ASCAP is a performing rights organization that licenses, on a non-exclusive basis, the non-dramatic public performance rights to musical works. Verizon is a retail wireless communications company that sells ringtones, among other products and services, to its customers. To obtain a ringtone from Verizon, the customer must purchase it and download it to a cellular phone. Verizon was already paying songwriters and music publishers a royalty for each ringtone download pursuant to an earlier Copyright Royalty ruling.

Verizon subsequently filed a motion for summary judgment on the issue of whether it is required to pay performance licensing fees for its customers’ use of ringtones. In response, ASCAP argued that Verizon is both directly

and secondarily liable for public performances of musical works when its customers play ringtones on their phones.

The court examined two categories of use: (1) downloading ringtones, and (2) playing ringtones. Under the first category of use, ASCAP contended that Verizon's transmission of a ringtone to a customer's phone is "but the first link in a chain of transmission to the public" and thus requires a public performance license. The court reasoned that since only one subscriber receives the transmission, the transmission could not be considered a public performance under 17 U.S.C. § 106(4).

Regarding the second use, ASCAP argued that cellular phones playing ringtones to signal incoming calls constitutes a public performance. ASCAP asserted that Verizon is secondarily liable when a ringtone plays. 17 U.S.C. § 110(4) exempts a performance that occurs with no expectation of profit. ASCAP argued that this exemption should not apply because the customer benefits by purchasing a product and service it desires, and Verizon failed to demonstrate that each and every customer would be able to meet its burden of proof to show that his or her "performance" of ringtones would satisfy the exemption. The court rejected this argument and held that "this personal, non-monetary benefit does not vitiate the application of the § 110(4) exemption" and that the law does not impose such an insurmountable burden of proof upon Verizon.

ASCAP also asserted that Verizon is directly liable for copyright infringement. ASCAP contended that Verizon controls the entire series of steps that make cell phones perform the ringtones in public and "that these actions constitute the performance 'publicly' of a musical work." The court again held in favor of Verizon and reasoned that "Verizon's putative 'control' over the playing of the ringtone in public . . . [is] too attenuated from that 'performance' to render Verizon liable."

In granting Verizon's motion for summary judgment, the U.S. District Court for the Southern District of New York effectively held that a wireless communications company was not required to pay performance royalties for the playing of ringtones when its customers receive a call.



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