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Copyright Alert: *Ellison v. AOL*

Ninth Circuit Expands, Defines Secondary Liability for Online Service Providers and Limits DMCA Safe Harbor for OSPs

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In an important ruling handed down February 10, 2004, the U.S. Court of Appeals for the Ninth Circuit continued the trend, begun in *A&M Records v. Napster*, 239 F.3d 1004 (9th Cir. 2001), of expanding vicarious liability of online service providers (OSPs) for copyright infringement by users, based on the "draw" of the web site. *Ellison v. Robertson and America Online Inc.*, 2004 U.S. App. LEXIS 2074 (9th Cir. 2/10/04). The decision also addressed liability for contributory infringement and clarified the operation of the safe harbors for OSPs under the Digital Millennium Copyright Act (DMCA).

Key holdings in the case:

- The "direct financial benefit" element of a *vicarious copyright infringement* claim can be satisfied by showing that infringing matter on a web site is part of the web site's draw to users, even if the proportion of the OSP's income directly linked to the infringing activity is not "substantial."
- However, "the central question of the 'direct financial benefit' inquiry [for vicarious liability] … is whether the infringing activity constitutes a draw for subscribers, not merely an added benefit."
- The "knowledge" element of a *contributory copyright infringement* claim is satisfied when an OSP has "reason to know" infringing works have been posted to its web site, and AOL had "reason to know" (or a reasonable jury might so find) when the copyright holder's attempted notification only failed to provide actual notice because of an unreasonable problem with AOL's email notification system. Also supporting "reason to know" was a non-DMCA-compliant phone call from someone not purporting to represent a copyright holder, reporting other infringing activity by the USENET news-group where the infringing work was found.
- AOL was also not entitled to summary judgment based on a DMCA safe harbor for OSPs, because 17 U.S. C. § 512(i) requires that an OSP *reasonably implement* a policy of terminating repeat infringers, and the same failings in AOL's email notification arrangements barred a finding that, as a matter of law, AOL had "reasonably implemented" its repeat infringer policy.
- Regarding the safe harbor of § 512(a) for "transitory digital network communications" (conduit service providers), AOL's storage and retention of infringing works for a 14 day period complied with the § 512(a) requirements limiting retention to "intermediate and transitory storage" for no longer than is "reasonably necessary for the transmission, routing, or provision of connections."

Case background: Defendant Robertson scanned and uploaded short stories written by plaintiff Harlan Ellison to a USENET news-group used primarily for the exchange of unauthorized digital copies of works by famous authors. AOL provided its subscribers with access to the USENET news-group's material.

Ellison's attorney sent an email to AOL notifying AOL of the infringement. AOL apparently never received the notification because AOL had changed the email address it had provided to the Copyright Office for DMCA notifications without informing the Copyright Office of the change; further, AOL's old email notification address neither forwarded email to the new address nor notified senders of the nondelivery of messages. Ellison sued Robertson and AOL. On receiving the complaint, AOL blocked access to the infringing news-group. Ellison and AOL cross moved for summary judgment. The district court granted AOL's motion on the ground that it had met the threshold eligibility requirements of 17 U.S.C. § 512(i) and qualified for the specific safe harbor of § 512(a) for "conduit" service providers. The district court had also found that AOL was entitled to summary judgment on Ellison's vicarious infringement claim, but that there would have been a triable issue of fact concerning AOL's liability for contributory infringement. The Ninth Circuit, reviewing de novo, addressed AOL's liability for contributory and for vicarious liability, and considered the applicability of the DMCA safe harbor.

Contributory infringement, the court held, can be satisfied by proof that the defendant had reason to know of, and materially contributed to, an underlying direct infringement. The Ninth Circuit held that a jury could reasonably have found AOL "had reason to know of potentially infringing activity" on its USENET network because it unreasonably failed to configure its system to deal properly with email infringement notifications and because AOL had also received a call from a subscriber reporting that the USENET group distributed infringing works. Notwithstanding that (or perhaps because) the caller apparently did not purport to represent any copyright holder, and hence his information would not provide notice under the DMCA, see 17 U.S.C. § 512(c)(3)(B)(i), the call was acceptable evidence going to actual knowledge of infringement. As to the second element, the Ninth Circuit held – consistent with established law – that storing infringing matter and making it accessible to infringing groups, after receiving notice, could reasonably be found to constitute "materially assisting" the infringement.

Vicarious copyright infringement requires a direct financial benefit from the infringement and the right and ability to supervise the infringing activity. Originally, the "direct financial benefit" element was interpreted to apply to financial benefits in proportion to the infringing activity, such as a royalty or commission "directly" related to the infringement. See, e.g., *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304 (2d Cir. 1963). Over time, however, the concept of "direct financial benefit" has been stretched to cover situations in which the financial benefit from the infringement was neither any immediate revenue nor any value correlated with the infringing activity itself. Thus, in *Napster*, "direct" financial benefit was found where the availability of infringing matter was said to act as a "draw" for web site users and where "Napster's future revenue is directly dependent upon 'increases in userbase.'" *Napster*, 239 F.3d at 1023.

Many attorneys believed, hitherto, that the *Napster* extension of "direct" financial benefit would be limited to circumstances in which the value of the entire enterprise, essentially, was tied to infringement, even if no revenues flowed directly from the infringement. That limiting reading was rejected by the Ninth Circuit in *Ellison v. AOL*. Though the plaintiff still must show that the infringing activity "constitutes a draw for [an online service's] subscribers, not just an added benefit," the extent of the draw need not be "substantial" for direct financial benefit to be found. Nonetheless, the Court of Appeals upheld summary judgment against Ellison's vicarious liability claim because Ellison failed to show "that AOL attracted or retained subscriptions because of the infringement or lost subscriptions because of AOL's eventual obstruction of the infringement."

Under the DMCA's safe harbor provisions, AOL could escape secondary liability if it (1) satisfied the threshold eligibility requirements of § 512(i) – in relevant part, that AOL had adopted and reasonably implemented a policy for terminating repeat infringers – and (2) satisfied the specific requirements of § 512(a) for conduit service providers. On the § 512(i) requirement, the court held that when AOL allowed email infringement notices "to fall into a vacuum and to go unheeded," a reasonable jury could conclude that AOL had not "reasonably implemented its policy against repeat infringers."

Finally, the Ninth Circuit addressed the issue of eligibility under § 512(a), to allow for the possibility that, after remand and trial, a jury might find AOL eligible under § 512(i) for the safe harbor. Under AOL's policy, files attached to USENET postings were stored and retained for 14 days. But § 512(a) is only available to conduits for "intermediate and transient storage," and only when "no … copy is maintained … for a longer period than is reasonably necessary for the transition, routing, or provision of connections." Is 14 days too long to meet these requirements? The Ninth Circuit first held that the issue was purely one of law, then held that storage for such a period did not disqualify AOL from the § 512(a) safe harbor.

Lessons of *Ellison v. AOL:* (1) Keep your email address for DMCA notices at the Copyright Office up-to-date, and don't let messages to older email addresses fall into a black hole! (2) Although the courts will require proof of causation, under the Ninth Circuit's cases, there is no longer any coherent distinction between "direct" financial benefit that triggers vicarious liability and "indirect" financial benefit that does not. (3) A system that stores postings for up to 14 days can qualify for the conduit service provider safe harbor of § 512(a).

For further information on copyright issues in the online environment, please contact Mitchell Zimmerman, Chair of the Firm's Copyright Group, at 650.335.7228 (mzimmerman@fenwick.com) or David Hayes, Chair of the Firm's Intellectual Property Group, at 415.875.2411 (dhayes@fenwick.com).