Copyright Infringement In The Cloud:
Examining the Challenges of the "Digital Storage Locker"

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Late last year, Sony announced that it would end production of Betamax videocassettes in March 2016, 40 years after their introduction. In the tech press, the announcement was reported as a curiosity—like an obituary for a 1980s celebrity everyone thought was already dead. Betamax was a technologically advanced videocassette format that was widely adopted for commercial use; but it never caught on in the home market, in part because of Sony's monolithic control over the format. Today, it is mostly discussed (when discussed at all) as an example of a highly restricted closed system that lost out in the market to a technically inferior, but more open, rival, VHS.

A Little (Recent) History

But for intellectual properly lawyers, Betamax leaves a different legacy. In 1984, the Supreme Court decided *Sony Corp. of America v. Universal City Studios, Inc.*, also known as the "Betamax" case. In that case, the owners of various copyrighted television programs sued Sony for contributory copyright infringement, asserting that home taping of copyrighted works from TV constituted infringement, and Sony was making that infringement possible. Plaintiffs presented a parade of horribles to the Court, essentially arguing that this new technology—home taping—would destroy the broadcast television industry outright.

The Court didn't buy it. It held that the home recording of television shows for purposes of "time shifting" was a "fair use," not a violation of the copyright laws, and that Sony was therefore not engaging in contributory infringement by selling Betamax recorders, because those machines were capable of "substantial noninfringing uses."[1]

The *Sony* standard is very broad on its face. Almost any technology has at least *some* substantial noninfringing use (leaving aside how it is actually used in the real world), so an expansive reading of *Sony* would sharply limit the scope of contributory infringement. For some time that was exactly how the case was interpreted in the lower courts. But subsequent developments in copyright law (including the passage of the DMCA) and changes in the business and technology landscape eventually caused the pendulum to swing the other way. From the late

[1] 464 U.S. 417, 454-56 (1984).

1990s to the mid 2000s, industry trade groups like the MPAA and the RIAA began an aggressive PR and legal campaign against so-called “file sharing” sites, including Napster, Grokster, Aimster and Limewire. These sites offered users the ability to freely and anonymously upload and download files through a variety of technologies. They were designed and, in many cases marketed, as sources of “free” (that is, pirated) music and movies.

Courts hearing these cases sometimes struggled with the *Betamax* standard. There was nothing about the technology involved that prevented these services from being used to share non-infringing content; in fact the services often offered evidence that at least *some* users did just that. Under the *Betamax* standard, the services argued that they could show “substantial non-infringing use.” But many lower courts rejected this. The view of most of those courts was that these services were not innocent third parties providing a service, but knowing participants in an underground economy built on piracy.

Whether or not that view was entirely fair, it certainly led to some muddy and, in some cases, contradictory opinions. So, twenty years after *Betamax*, in 2005, the Supreme Court returned to the issue in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, to decide “under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product.”[2]

By the time of the *Grokster* case, the term “file sharing” had become largely synonymous (at least in the mainstream) with “music piracy,” and although Grokster and others had successfully defended their services in some lower courts using the *Sony* standard, the Supreme Court reversed those wins. The Court held that a file sharing service could be held liable for contributory infringement where its product was “overwhelmingly used to infringe” and it encouraged and profited from that infringement. Interestingly, the fragmented *Grokster* Court split over whether its decision required or implied a reconsideration of the *Sony* doctrine, and that question remains alive today, as the pendulum continues to swing.

[2] 545 U.S. 913, 918-19 (2005).

A decade later, the delivery and discovery of media over the internet has left the hackers and pirates behind and become part of the licensed distribution chain, just as videotape did. The term “file sharing” is now more likely to describe a multi-billion dollar, cloud-based collaboration platform (like Dropbox or Microsoft’s OneDrive) than a piracy site. And courts are beginning to examine the law of contributory infringement in that complex new business context. A case study in this new sharing environment can be found in the opinion of United States District Judge Andrew Carter in *Smith v. BarnesandNoble.com, LLC*.[3]

Smith, Barnes & Noble and the Digital Locker System

The *Smith* decision is worth reviewing because it involves the interplay between complex technical issues (automatic copying from a cloud-based storage system) and complex legal issues (the lines between direct infringement, contributory infringement, and non-infringement). The court takes its time and does an excellent job analyzing all of these, placing them in context, and reaching a sound and well-reasoned result, even in a case where the stakes are, on the particular facts, fairly low.

In *Smith*, plaintiff was an author who wrote a book called *The Hardscrabble Zone*. Smith signed up with an online eBook distributor called Smashwords and uploaded his book to the service in December 2009, electing to charge $3.33 for it. Pursuant to its Terms of Service, Smashwords put Smith’s book up for sale on its own website, made a free sample available for download and also offered the book (and a smaller sample) through its publishing partners, one of which was defendant Barnes & Noble. The book was not a runaway best seller. In fact, in the time the book was for sale on Barnes & Noble’s website, it sold no copies at all. Nobody bought it. But one single customer did download the free sample.[4]

At the time Smith’s book was listed, Barnes & Noble made its content available to customers through a cloud-based “digital locker” system. These kinds of cloud-based digital synchronization systems are increasingly common, and

[3] No. 1:12-CV-04374 ALC, 2015 WL 6681145 (S.D.N.Y. Nov. 2, 2015).
[4] *Id.*, 2015 WL 6681145, at *1-*2.

customers may not even know they are using them. They enable the content provider to store, synchronize and even modify content on a central server and then provide it to the customer on whatever device the customer happens to be using at the time. Apple, Amazon and Google all supply media to their customers this way, for example, with varying degrees of transparency to the user.

With the Barnes & Nobles system, customers could access their accounts through the Barnes & Noble website or their proprietary Barnes & Noble e-readers, and any books they had purchased (or samples they had downloaded) would be available from the cloud, regardless of what device was being used. Content could also be stored locally on the customer's e-reader, but in certain situations (such as if it was low on storage space) the e-reader might automatically release the content and re-download it as necessary from the customer's cloud-based digital locker. Thus, on June 12, 2010, the one and only time a Barnes & Noble customer chose to acquire the free sample of Smith's book, the sample was saved to her digital locker.[5]

Over a year later, in October 2011, Smith cancelled his agreement with Smashwords and closed his account. Smashwords "unpublished" his book from its own website, but because Smith had closed his account it did not send a takedown notice to Barnes & Noble. Barnes & Noble therefore did not learn of the account closure until it received a notice of copyright infringement from Smith's lawyer, at which point it removed the listing for Smith's book from its website. But Barnes & Noble did not remove the already-downloaded sample from the digital locker of the one customer who had downloaded it. Subsequently, that sample was "re-downloaded" on two occasions, to two distinct devices with two different IP addresses, both associated with that customer's account. Smith sued Barnes & Noble, asserting that each of those downloads constituted an infringement for which Barnes & Noble was liable, either as a direct or contributory infringer.

[5] *Id.* at *2.

The Court's Analysis and Decision

After a review of the Barnes & Noble system and the applicable law, the court rejected Smith's claims and granted summary judgment to Barnes & Noble. *First*, the court rejected Smith's claim of direct infringement because it found that Barnes & Noble lacked the necessary "volition" to be considered a direct infringer. Plaintiff claimed, correctly, that each download of the sample created a new copy and therefore could be the basis for a claim of direct infringement. But, as the court pointed out, that does not end the inquiry. In *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, the Second Circuit held that a court must also examine who is responsible for "the volitional conduct that causes the copy to be made." [6] Here, the court analogized the Barnes & Noble digital locker to the video-on-demand service at issue in the *Cartoon Network* case: although Barnes & Noble's system was technically responsible for making and storing the digital copies accessed by the customer, it was the customer who caused the copies to be made.

The court noted, however, that *Cartoon Network* does not necessarily offer blanket protection to service providers: "Courts have also refined the definition of 'volitional conduct' put forth in *Cartoon Network*. . . Courts have looked to the purpose and general use of the service in question, finding 'volitional conduct' where a service or program was designed solely to collect and sell copyrighted material and where a program collected material that its creators knew to be copyrighted."[7] Thus, in cases where the service is *designed* to facilitate infringement, or contributes significantly to creation of the infringing copy, a claim for direct infringement may still exist.

So *Cartoon Network* wouldn't save Grokster; but it does save Barnes & Noble. Here, the court found no facts to suggest that Barnes & Noble was opearing a service designed to facility infringement. Barnes & Noble had a license to distribute the sample at the time it populated the customer's digital locker, and its subsequent re-distribution of that content at the user's command—even after the

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[6] 536 F.3d 121, 131 (2d Cir. 2008).

[7] *Smith*, 2015 WL 6681145, at *5 (internal citations omitted).

expiration of that license—was not sufficient "volitional conduct" to support a claim of direct infringement.

The court also rejected Smith's claim of contributory infringement, basing its argument explicitly on the *Sony* standard. The court noted that Barnes & Noble's digital locker system was not only *capable* of commercially substantial noninfringing use, but primarily used for the valid and legal purpose of distributing content to which Barnes & Noble had legal licenses. After distinguishing Barnes & Noble's digital locker from services designed solely or primarily to encourage or facilitate infringement, the court thus granted summary judgment to Barnes & Noble on the contributory infringement claim "under the *Sony-Betamax* rule."

<u>A Thoughtful Decision, But Is It An Outlier?</u>

The *Smith* decision is a model in many ways. It includes careful and accurate analysis of the technology and the law, and its holding fits both. The decision to grant summary judgment to Barnes & Noble is well within the scope of Second Circuit precedent, and as a policy matter it would hardly make sense to hold a defendant liable simply for implementing a cloud-based solution to cross-device synchronization—even if that solution is technically imperfect. Such systems are increasingly common and they provide substantial benefits to consumers: they are not tools of piracy, they are tools of commerce. In short, this was not an especially close case on the facts, and the court treated it appropriately.

But outside of the Second Circuit, and even in the Supreme Court, the law is not as clear. In 2014, the Supreme Court sealed the fate of Aereo, a company that transmitted television broadcasts from an array of tiny TV antennas to its subscribers over the internet, when it held that Aereo was "performing" those broadcasts and so could be held liable for direct infringement.[8] *Aereo* is a complex case involving the "Transmit Clause" of the Copyright Act, so it is not precisely applicable here, but it is notable because of Justice Scalia's dissent.

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[8] *Am. Broad. Companies, Inc. v. Aereo, Inc.*, 134 S. Ct. 2498, 2511 (2014).

In his dissent, Justice Scalia focused on the "volitional conduct" requirement for direct infringement, and specifically on the Second Circuit's decision in *Cartoon Network*. He pointed out that each Aereo subscriber controlled his or her own tiny antenna in Aereo's array and made all of the decisions regarding what would be received by that antenna and transmitted on. Aereo simply picked up the signal selected by the subscriber and relayed it over the internet. "The key point is that subscribers call all the shots: Aereo's automated system does not relay any program, copyrighted or not, until a subscriber selects the program and tells Aereo to relay it." Thus, in Justice Scalia's view, Aereo lacked sufficient volitional conduct to be held directly liable.[9] The majority, however, rejected this argument because it believed Aereo to be technically similar to a cable TV system, and therefore subject to the Transmit Clause. Given the expressly limited scope of the majority's decision in *Aereo*, it is hard to be sure what this means for the volitional conduct requirement generally, but it is certainly possible that courts will continue to limit it.

But the *Smith* decision contains another, broader discussion that could be a better basis for what is clearly the right result. It is found in what is essentially an aside in Judge Carter's discussion of contributory infringement. At the outset of that discussion, Judge Carter notes that there may not be an infringement here at all: "Whether Customer's possibly unintentional redownload of a previously authorized sample constitutes 'reproduction' is a thorny question." Among other things, Judge Carter points out that the sample was only ever moved between the cloud and devices owned by the customer, and never any other account. "An individual may move copyrighted material around on his personal hard drive without infringing on copyrights. To find that she may not move material between her personal hard drive and personal cloud-based digital locker without infringing would have far-reaching consequences for the many users of cloud-based storage systems like Dropbox or Apple's iCloud—particularly as it is not always clear to the user what is stored locally and what is stored in the cloud."[10] This analysis is measured, technically savvy, legally sound, and recognizes the inherent complexity

[9] *Id.* at 2514 (Scalia, J., dissenting).
[10] *Id.* at *8 (internal citations omitted).

in distributed systems. One can only hope that other courts facing similar "thorny questions" will take similar care.

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