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CASES OF INTEREST

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IP/Entertainment Law Weekly Case Update For Motion Picture Studios And Television Networks

January 5, 2012

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UMG Recordings, Inc. v. Veoh Networks, Inc., USCA Ninth Circuit, December 20, 2011

 [Click here for a copy of the full decision.](#)

- In a heavily litigated and much watched case, the Ninth Circuit upholds DMCA safe harbor protection from copyright infringement liability for video-sharing site and affirms dismissal of claims of secondary liability for copyright infringement against investors in the site.

Plaintiffs, record labels and music publishing companies, sued defendants, Veoh Networks, operator of a web site that allows users to share videos, and its investors, for infringement of music copyrights plaintiffs owned in some of the videos users had shared. The district court granted summary judgment to Veoh, holding that it was protected by the Digital Millennium Copyright Act (DMCA) "safe harbor" limiting service providers' liability for "infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." The district court also granted defendant investors' motion to dismiss the claims for secondary liability against them. Plaintiff UMG appealed both the summary judgment and the dismissal, and the Ninth Circuit panel affirmed.

As the court explained, the safe harbor provision, at 17 U.S.C. Sec. 512(c), limits the liability of web service providers for "infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." This safe harbor is only available to a web site that (i) "does not have actual knowledge that the material or an activity using the material [posted to the site] is infringing; (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material."

Veoh allows users to post videos to its web site, after which automated processes make the video viewable by others and also extract data that helps others find the video for viewing. While Veoh employees do not review videos before they are made publicly accessible, Veoh does have procedures and systems to remove copyrighted videos posted to the web site without authorization. In the case, however, Veoh did not dispute that, at one point, visitors to its web site could view videos containing copyrighted content owned by UMG.

UMG asserted several reasons for why Veoh was ineligible for safe harbor protection under the DMCA, including that the infringements in question were not "by reason of the storage [of videos] at the direction of a user ..." UMG argued (among other things) that the safe harbor only protected infringements resulting "by reason of" storage on a web site, not a site's provision of access to stored videos. The Ninth Circuit rejected this argument, finding that the safe-harbor provision and



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other parts of the DMCA (e.g. the detailed notice and takedown provisions) presuppose that web sites will provide access to stored material. The Ninth Circuit also noted that the safe harbor would be ineffectual if it did not protect web sites from suits arising from their provision of access to copyrighted material.

UMG also argued that Veoh had knowledge of the infringing conduct and therefore was ineligible for the protection of the safe harbor provision. The Ninth Circuit disagreed, affirming that the district court's finding that UMG failed to rebut Veoh's showing that it initially lacked knowledge of any specific infringing material, and that when it did acquire such knowledge, it immediately removed the material.

The Ninth Circuit also rejected UMG's argument that Veoh must have known that copyrighted material was accessible through its site since Veoh provides access to music videos and, in general, many music videos are copyrighted. The Ninth Circuit noted that many music videos lawfully appear on Veoh's web site, such that the mere presence of music videos in general could not have given Veoh knowledge that some of these music videos were posted without authorization. The DMCA also places the burden on copyright owners to inform web sites about the presence and accessibility of infringing material and UMG had failed to identify any specific infringing videos to Veoh. The Ninth Circuit also rejected UMG's argument that Veoh, upon receiving notices from the Recording Industry Association of America, was obliged to search its web site and eliminate all unauthorized videos, noting that neither the DMCA nor court precedent imposed investigative duties on web sites as a condition for qualifying for the safe harbor.

The court also affirmed the district court's dismissal of the investor defendants for failure to state a claim, agreeing with the lower court that UMG had not alleged sufficiently that the investor defendants gave material assistance to Veoh or its users to help accomplish infringement. Acknowledging at the outset that allowing a claim for secondary liability against investors to proceed despite the fact that the service provider is shielded from liability by the safe harbor provision would be an illogical and anomalous result, the Ninth Circuit nonetheless considered the merits of plaintiff's claims and concluded that the district court properly dismissed the complaint. Conceding that funding alone did not meet the material assistance requirement for secondary liability, UMG argued that the three investor defendants occupied three of the five seats on Veoh's board and worked in concert to take control of the company's operations by wielding majority control. The Ninth Circuit rejected UMG's argument, reasoning that, even assuming that exercising this kind of joint control could satisfy the material assistance requirement (which the court was not convinced it could), plaintiff had not alleged in its complaint that the three defendants ever agreed to work in concert to that end, and simply alleging that they had majority control of the board was insufficient.

JAKKS Pacific v. Conte, USDC D. New Jersey, December 30, 2011 (NOT FOR PUBLICATION)

 [Click here for a copy of the full decision.](#)

- District court grants defendant patent holders' motion to dismiss declaratory judgment action for lack of personal jurisdiction, holding that defendants' cease-and-desist letter to resident of New Jersey did not subject them to jurisdiction in that state.

Plaintiff JAKKS Pacific, a manufacturer of toys, filed a declaratory judgment in New Jersey against defendants, California residents and holders of a patent for an interactive, hide-and-seek doll, seeking a declaration that plaintiff's hide-and-seek



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bear toys did not infringe defendants' patent. Defendants moved to dismiss the complaint for lack of personal jurisdiction, and the court granted the motion, holding that it lacked specific jurisdiction over defendants.

Defendants, mother and daughter, owned a patent for an interactive, hide-and-seek toy doll that allows a child holding a hand-held transmitter and receiver to look for the doll while receiving verbal clues relating to the doll's whereabouts. After learning that non-party Toys "R" Us was selling hide-and-seek toy bears manufactured by plaintiff, defendants, through counsel, sent a letter to Toys "R" Us at its headquarters in Wayne, N.J., advising the company of the defendants' patent and their belief that the JAKKS toys were nearly identical in design, concept, and capabilities to their patented toy dolls, and requesting information about the number of toy bears sold and the price for the toys. As a result of this letter, plaintiff JAKKS, also headquartered in California, filed a complaint in the federal court in New Jersey, seeking a declaration of non-infringement.

Defendants asserted – and the court agreed – that the court lacked personal jurisdiction over the defendants for two reasons: (1) that they had never availed themselves of the jurisdiction of New Jersey and (2) that their letter to Toys "R" Us did not confer personal jurisdiction over them. The court focused its analysis on specific jurisdiction – jurisdiction which must be based on activities that arise out of or relate to the cause of action and can exist even if the defendant's contacts with the forum are isolated and sporadic.

At the outset, the court determined that although the defendant's letter did not call itself a "cease-and-desist" letter, it nonetheless was, for four reasons. First, the letter appeared to be a cautionary notice describing the offensive activity at issue –that Toys "R" Us and its affiliate stores had sold products of JAKKS that defendants believed to be nearly identical to the design and concept of a product that is patented, trademarked, and copyrighted to defendants. Second, the letter was "remedial" in nature, in that defendants were asking Toys "R" Us to provide sales information relating to the sale of the allegedly infringing dolls. Third, the court reasoned that it was immaterial that the letter was not labeled "cease and desist" because the notion of infringement was implicit within the body of the letter. Finally, the court considered it "plausible" that the letter could have been used either to stop or block suspected infringement relating to defendants' intellectual property rights, or to obtain an out-of-court resolution with JAKKS.

The court then concluded that it could not exercise personal jurisdiction over the defendants. Under the law of the Federal Circuit cease-and-desist letters alone cannot justify personal jurisdiction. Defendants also had not engaged in other activities in New Jersey that related either to enforcing or defending the validity of their patent. They had neither initiated judicial or extra-judicial patent enforcement within the forum, nor entered into licensing agreements or other undertakings that impose enforcement obligations with a party residing or regularly doing business in the forum. Finally, the principles of fair play and substantial justice allow the defendants, as patent holders, sufficient latitude to inform others of its patent rights without being subjected to jurisdiction in a foreign forum. Cease-and-desist letters attempt to produce out-of-court solutions, which align the interests of the parties and public policy favoring private resolution of difficulties. If these of letters operated as a waiver of objection to personal jurisdiction, the result would be a chilling effect on the assertion of legal rights by holders of copyrights, patents, and trademarks.



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