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Intellectual Property

# Second Circuit Examines Evolving Infringement Standard

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Tasked with formulating a legal definition of "hard-core pornography" in 1964, U.S. Supreme Court Justice Potter Stewart demurred with the famous observation "I know it when I see it."<sup>1</sup> Fifty years later, intellectual property lawyers might be forgiven for falling back on some similar formulation when asked to advise their clients on copyright infringement. Infringement analysis has always been a complex and fact-intensive exercise, and recent developments in the case law, statutes and regulatory environment have made these problems so knotty that practitioners may be tempted to fall back on experience to supplement their usual factual and legal review. Yet even for experienced lawyers, outcomes are increasingly difficult to predict. Today, a business model that looks problematic may be saved by—among many other things—the fair use doctrine, a statutory safe harbor provision, a judicially created exception (such as "substantial non-infringing use"), a compulsory license, or even a change in the technology used to implement it.

This complexity and flexibility has benefits. It enables copyright law to adapt to the rapid social and technological change around the works it is designed to protect. But it also means that the line between legitimate service and actionable infringement can get fairly blurry, sometimes making innovation a dangerous (and expensive) gamble. Nowhere is this more evident than in the developing fields of content delivery and cloud services.

## The Demand for New Services

Over the past several years, with the increase in home and mobile bandwidth, there has been a substantial shift in the way Americans consume media. Most people are willing to pay for content, whether through monthly subscriptions, advertising, or one-time purchases. But they no longer consume it in on a single, fixed device like the living room TV. Rather, they demand that it be available and synchronized across a range of devices—computers, phones, tablets, set-top boxes—some fixed and some mobile. The technical solution to this problem is relatively simple: Store the media in the cloud, authenticate the user (to ensure everything is paid for), and deliver it over the Internet to whatever device the user has handy. Numerous successful businesses do exactly this for both music (e.g., iTunes,

Spotify, Google Play) and video (e.g., Netflix, Hulu, Amazon Prime). But the devil is in the details, both technical and legal.

Efforts to implement similar cloud-based structures for broadcast television programming have struggled in the courts. The Second Circuit's decision last month in *CBS Broad. v. FilmOn.com*<sup>2</sup> provides some insight into the challenges facing companies in this space. It also illustrates the potential pitfalls of innovation during a time of rapid legal change. Understanding the decision and its import requires some context.

## 'Cartoon Network'

Until recently, the Second Circuit had been seen as particularly friendly to companies exploring new technologies and business models in digital content distribution. This perception was due, in part, to the Circuit's 2008 opinion in [\*Cartoon Network LP v. CSC Holdings\*](#).<sup>3</sup> That case addressed a "remote DVR" technology offered to customers by Cablevision. A digital video recorder (commonly known as a DVR) is a device used to record TV programs, similar to a VCR. But instead of using videotape, a DVR uses an internal hard drive to store and play back recorded TV programs. A *remote* DVR takes it one step further by moving the entire operation to "the cloud." The user selects what programs will be recorded and played back through her set-top box, just as she would with a regular DVR. But everything else—all of the recording, storing, encoding, and decoding of the programs—actually takes place on remote servers maintained elsewhere by a service provider. The user schedules recordings and controls playback through the set-top box, which is connected to the remote servers over the Internet. The video is then relayed ("streamed") back to the user's TV, again over the Internet.

These systems are enormously technologically complex, but to the user they are largely indistinguishable from an ordinary DVR or VCR. From the user's point of view, a remote DVR is just another way to record TV and play it back at a more convenient time or place—for example, on another device located in a different room. As a technical matter, however, the service provider is *copying* television programs to its servers (as directed by the user) and then *transmitting* them to the user over the Internet. Unhappy with this, several television networks sued Cablevision for direct copyright infringement. Both of these acts—copying a work and "performing" it "publicly"—are exclusive rights granted to copyright owners under the law.<sup>4</sup>

Upon examination of Cablevision's remote DVR system in *Cartoon Network*, the district court granted summary judgment to the plaintiff networks and entered an injunction against Cablevision.<sup>5</sup> But the Second Circuit reversed. It found that (1) the transmission of recorded programs over the Internet to the users who had chosen those programs was not a "public" performance and (2) the copies of the programs made on Cablevision's servers had not been made *by Cablevision*. Rather, the court held that the recordings—which were made at users' requests using Cablevision's hardware, software, and systems—were made *by the users*, not Cablevision.<sup>6</sup>

*Cartoon Network* instructed courts in the Second Circuit, in the context of direct infringement analysis, to determine the identity of "the author of an allegedly infringing instance of reproduction" by looking to "the volitional conduct that causes the copy to be made." The

opinion noted that "a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct."<sup>7</sup> Under this analysis, the court held that Cablevision could not be liable for direct copyright infringement, given that its remote DVR system simply responded automatically to the commands of users who were licensed, authorized consumers of the programming at issue.

## 'CBS Broadcasting v. FilmOn'

The "volitional conduct" standard set out in *Cartoon Network* is highly protective of innovation, as it creates at least a limited safe harbor for good-faith service providers who are not actively participating in infringement. Companies using and developing technologies similar to Cablevision's relied on the decision for several years to protect their products, which did not always fare as well in other courts. In fact, the Second Circuit emerged as something of an outlier in this context, and was considered a predictably "safe" jurisdiction for companies developing and implementing these services.

One of the companies that sought to rely on *Cartoon Network* was FilmOn.com. FilmOn offered a series of related for-profit services that relayed television content to users over the Internet. This content included copyrighted television programming that FilmOn provided to its customers, without authorization, from the copyright-holding networks. FilmOn captured the broadcast signals of television stations and offered live "streams" of that content to its subscribers, who could view them through FilmOn's proprietary media-viewer application.

In 2010, several television networks and stations sued FilmOn for copyright infringement and obtained a temporary restraining order, enjoining FilmOn from streaming their copyrighted content. In 2012, the parties entered into a settlement agreement to resolve the dispute, conditioned on the court entering a stipulated consent judgment and permanent injunction, which it did. One of the terms of the injunction prohibited FilmOn "from infringing by any means, directly or indirectly, any of plaintiff's exclusive rights under §106(1)-(5) of the Copyright Act, including but not limited to through the streaming over mobile telephone systems and/or the Internet of any of the broadcast television programming in which any Plaintiff owns a copyright." In other words, FilmOn agreed not only to stop infringing, but to a *court order* prohibiting it from infringing.

Shortly afterwards, FilmOn violated the injunction by offering a video-on-demand service that allowed users to access archived copies of previously televised programs. This also was held to be infringement, and in 2013, the court issued a contempt judgment that awarded attorney fees, prohibited FilmOn from continuing to operate its video-on-demand service, and ordered a monetary penalty of \$10,000 per day if FilmOn failed to comply.

Notably, none of these early FilmOn services fit comfortably within the protections of *Cartoon Network*. Both the streaming and video-on-demand services relied on "copies" of the television broadcasts that were "made" by FilmOn. FilmOn recorded and stored the broadcasts *before* the user affirmatively chose to access the content, so FilmOn, not its subscribers, was the source of the "volitional conduct" that was the hallmark of direct infringement under *Cartoon Network*.

## 'Aereo' Enters the Mix

After these initial, failed legal forays, FilmOn sought to create a service that could take advantage of the shelter of *Cartoon Network*. It began to offer a new service, closely resembling that offered by a competitor, Aereo, that it claimed was specifically designed to comply with Second Circuit law. FilmOn offered each of its subscriber households access to its own remotely located micro-antenna, which would receive, capture, and record television broadcasts onto FilmOn's servers, and which would then be transmitted to the subscriber. This whole process would occur only when the subscriber selected a particular broadcast for viewing, thus placing the volitional conduct in the hands of the subscriber. The Southern District of New York had permitted Aereo to operate this type of service under the principles of *Cartoon Network* (as the Second Circuit eventually would too).

Shortly after FilmOn began this new strategy, however, the Supreme Court in 2014 decided [\*American Broadcasting Companies v. Aereo\*](#).<sup>8</sup> In *Aereo*, the court reversed the Second Circuit and found that Aereo's practices constituted direct infringement. Specifically, the court held that Aereo was "performing" under the language of the Copyright Act and was doing so "publicly." Of particular importance to the decision was the court's view that "Aereo's activities [were] substantially similar to those of the CATV companies that Congress amended the Act to reach"—finding also that the "sole technological difference between Aereo and traditional cable companies [did] not make a critical difference."

Whereas Aereo immediately heeded the Supreme Court's decision, FilmOn did not. It continued to operate within the Second Circuit until the plaintiffs once again filed an order to show cause. The district court found FilmOn to be in contempt of the injunction for its direct infringement under *Aereo*.

On appeal, the Second Circuit affirmed, finding that the injunction—and the law—was clear and unambiguous, thus warranting the contempt order. The court had no sympathy for FilmOn's arguments that "Plaintiffs' exclusive rights under the Copyright Act were in flux and were uncertain"—but in this particular case, primarily because FilmOn flouted the ruling in *Aereo* without either taking affirmative steps to protect itself (for example, by seeking a compulsory license of the kind available to cable companies) or seeking to clarify its rights under the order (for example, by petitioning the court "for a modification, clarification or construction of the order").

Notably, however, the Second Circuit did *not* address any further ramifications of the Supreme Court's ruling in *Aereo*. Rather, the court limited its holding, stating "whatever future door *Aereo* ... may have opened regarding Section 111 licensing, there is no doubt that the Supreme Court's holding explicitly slammed shut the possibility that FilmOn could continue deploying [its system] throughout the Second Circuit, absent a license, without violating the Copyright Act." In short, the holding is that FilmOn should have known it was sufficiently similar to Aereo to be bound by that ruling, so the contempt ruling can stand. But where does that leave the law outside the limited case of micro-antenna providers? What about services that accomplish the same result using a different technology? Are they still entitled to the protections inherent in "volitional conduct," or has the Supreme Court eliminated that standard entirely?

## Reckoning With 'Aereo'

The Supreme Court's decision in *Aereo* is entirely based on analogy or, as Justice Antonin Scalia called it in his dissent, "Guilt By Resemblance." He wrote: "The Court's conclusion that Aereo performs boils down to the following syllogism: (1) Congress amended the Act to overrule our decisions holding that cable systems do not perform when they retransmit over-the-air broadcasts (2) Aereo looks a lot like a cable system; therefore (3) Aereo performs."<sup>9</sup> Whether or not one agrees that Aereo "looks a lot like a cable system" (Justice Scalia did not), and whether or not one agrees with the holding in *Aereo*, that kind of decision creates challenges for the lower courts and practitioners alike.

Here, the Second Circuit is absolutely right: FilmOn's service was functionally identical to Aereo's, so it should have ceased operation. But what about the remote DVRs at issue in *Cablevision*? Would the Supreme Court find that they, too, "look like" a cable system, or are they still entitled to the protection of *Cartoon Network*, at least in this Circuit? What about a new service that addresses the same consumer need through some as yet undiscovered technology? By definition, disruptive technologies break analogies. In a legal environment explicitly built on analogy, that presents a substantial challenge for innovators and the lawyers who advise them.

### Endnotes:

1. [Jacobellis v. Ohio, 378 U.S. 184, 197 \(1964\)](#) (Stewart, J., concurring).
2. \_\_\_ F.3d \_\_\_, No. 14-3123-CV, 2016 WL 611903 (2d Cir. Feb. 16, 2016).
3. [Cartoon Network LP, v. CSC Holdings, 536 F.3d 121, 131 \(2d Cir. 2008\)](#).
4. 17 U.S.C. § 106.
5. [Twentieth Century Fox Film v. Cablevision Sys., 478 F. Supp. 2d 607, 624 \(S.D.N.Y. 2007\)](#) rev'd in part, vacated in part sub nom. [Cartoon Network LP v. CSC Holdings, 536 F.3d 121 \(2d Cir. 2008\)](#).
6. *Cartoon Network*, 536 F.3d at 140.
7. *Id.* at 131.
8. 134 S. Ct. 2498 (2014).
9. *Id.* at 2515 (Scalia, J., dissenting).

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