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Copyrights

The authors analyze possible ramifications of the Supreme Court's determination that Aereo's service results in a public performance under the Copyright Act.

"Why Should That Matter?" The Potentially Dramatic Copyright Implications Of the U.S. Supreme Court's Aereo Decision



BY SIMON J. FRANKEL AND ETHAN FORREST

On June 25, 2014, the U.S. Supreme Court held in *American Broadcasting Cos. v. Aereo, Inc.*,¹ that the capture of broadcast television, which was in that case transmitted to users over the Internet without a license from the stations or the program licensors, violated the Copyright Act. As reflected in many of the amicus briefs the court had received, there was consid-

¹ 134 S. Ct. 2498, 110 U.S.P.Q.2d 1961 (2014) (88 PTCJ 579, 6/27/14).

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erable concern that the court's ruling might have significant implications for cloud storage. The court's narrowly crafted decision avoided any suggestion that cloud storage might violate the Copyright Act, but some of the court's logic has dramatic and unexpected implications for copyright law, which have received relatively little attention.

In finding that Aereo's technology contravened the Copyright Act, Justice Breyer's majority opinion focused on the practical implications of Aereo's systems. The decision declined to consider the technical ways Aereo accomplished its television streaming using a system that Aereo had built specifically to try to comply with prior copyright decisions. The fact that the system might technically follow copyright law did not move Justice Breyer: "Why should that matter," he asked repeatedly, when it *appeared* that Aereo's system was taking action that would infringe on content owners' copyrights?

Justice Breyer's refrain of "Why should that matter?" may have been appropriate in the specific context in which the *Aereo* case arose. If applied broadly, however, Justice Breyer's approach could significantly alter broad swathes of copyright law. For decades, courts have decided copyright cases based on the specific, of-

ten technical, facts of how defendants used copyrighted works, such as whether a work was in fact copied or performed and who actually did the copying or performing given the specific technology used. Particularly in the digital era, these questions often turn on technical details that are not obvious to consumers. Why should that matter? This article seeks to answer that question.

Background to Aereo: Two Key Copyright Decisions

The background to Aereo's technology and the Court's decision lies in two key copyright decisions. Thirty years ago, in *Sony Corp. of America v. Universal City Studios, Inc.*,² known as the *Betamax* case, the Supreme Court rejected the claim of Universal Studios and the Walt Disney Company that their copyrights were contributorily infringed by Sony's marketing of Betamax video tape recorders (VTRs)—which allowed widespread copying of their (and others') copyrighted works. The Supreme Court focused its analysis on whether the Betamax was capable of “commercially significant non-infringing uses.” The Court considered the fact that many consumers used their Betamax VTRs mainly for “time-shifting”—recording broadcast programs to view them later. The Court ruled that consumers' private, non-commercial time-shifting of television programs—for example, recording educational programs to watch at more convenient times—outweighed the legitimate interests of some copyright holders in preventing consumers from copying their works, and therefore was a fair use.

After the *Betamax* decision, Universal Studios and Walt Disney remained free to sue individual infringing consumers, as not every consumer's use would be fair use. But the studios could not sue Sony for creating the technology that made all of these consumers' uses possible, fair or not. By effectively holding that technologies with “commercially significant non-infringing uses” would not necessarily create secondary copyright liability—even if the technologies were used to create some infringing copies—the *Betamax* decision was critical in fostering the growth in digital technology over the past few decades.

The Second Circuit's 2008 decision in *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*,³ often referred to as the *Cablevision* case, built on *Betamax*'s legal and factual approach. Cablevision operated cable television systems—which are themselves means of retransmitting television broadcasts—and also provided a “Remote Storage DVR System” (RS-DVR). Regular digital video recorders (DVRs), such as TiVo, serve the same function as the now mostly defunct VCR, which itself supplanted Betamax: they let consumers store pre-recorded television programs (now in digital form) for later viewing, typically on hard drives in boxes connected to individual consumers' televisions and cable connections.

Cablevision's RS-DVR was different: The hard drive was housed at Cablevision facilities, so there was no

need for consumers to have additional hardware. Instead, Cablevision would receive broadcast and cable programming pursuant to licenses and then retransmit the content to its subscribers' homes in two streams of data. One stream went directly and immediately to the subscriber for viewing. The other went to a router that buffered and reformatted it, and then sent it to a separate server, the “Arroyo Server.” This server housed a number of high-capacity hard disks, separated into partitions designated for each Cablevision RS-DVR customer. If a subscriber recorded a specific program, it would be placed onto the subscriber's designated portion of these hard drives (otherwise, the buffered and reformatted stream would be deleted automatically).

As in *Betamax*, content owners sued, claiming Cablevision's technology infringed their copyrights (although this time they claimed direct infringement). At both the trial and appellate levels, the courts focused on the specific steps carried out by the RS-DVR. The customer may just have pressed a button on a remote control to record a television program, and once again to watch the recording, but on the back-end, the program had already been transcoded, buffered, and sent through a server to a segment of a hard drive—and was later streamed to the user's television for viewing. The plaintiffs-content owners contended that these steps constituted direct infringement of their reproduction rights (by buffering and creating playback copies) and public performance rights (by sending requested and pre-recorded programs to its subscribers on demand).

After analyzing the specific technology of the RS-DVR, the Second Circuit found no direct infringement. There was no infringement of reproduction rights, the court held, because subscribers—not Cablevision—actually controlled what television programs to record. Cablevision simply provided the hardware that subscribers used. The Court also held that, because Cablevision's RS-DVR system resulted in just one copy per subscriber, each transmission of a recorded program to a subscriber limited the potential audience of that transmission, such that Cablevision did not infringe the cable and television companies' public performance rights in their works, even if Cablevision's subscribers ultimately all watched the same program through different recorded copies at different times.

Aereo's Architecture: Designed against the backdrop of Betamax and Cablevision

In numerous other decisions over the past twenty years (some discussed below), courts approached new digital technologies in an analogous fashion to the *Cablevision* court, asking what, technically, was copied, how, and by whom. In order to determine if an exclusive right of copyright was infringed, courts systematically analyzed every point at which a copyrighted work traversed the defendant company's system to, and at the command of, the consumer using the technology.

Aereo specifically designed its architecture against the backdrop of *Betamax*, *Cablevision*, and courts' focuses on technological operations. In Aereo's system, thousands of tiny antennas in a warehouse correspond to individual subscribers who use Aereo's website to select television programs to watch. Aereo's servers choose one antenna for each individual subscriber, transcode that subscriber's chosen program to digital

² 464 U.S. 417, 220 U.S.P.Q. 665 (1984) (27 PTCJ 243, 1/19/84).

³ 536 F.3d 121, 87 U.S.P.Q.2d 1641 (2d Cir. 2008) (76 PTCJ 511, 8/8/08).

video data, save it to an individual subscriber-specific folder on Aereo's hard drives, and finally buffer and stream that transcoded video program to the subscriber. This obviously inefficient one-to-one correspondence of antennas and hard drive folders to subscribers was meant to track *Cablevision's* holding that streaming stored content to a subscriber is not a public performance, even if the same content is also streamed individually to many other subscribers.

The specific issue before the Supreme Court was whether Aereo infringed the television networks' exclusive right to perform their copyrighted works publicly under the Copyright Act's Transmit Clause—an issue the Second Circuit had also addressed in the *Cablevision* case.⁴ That Clause defines the performance right as including the right to “transmit or otherwise communicate a performance . . . of the [copyrighted] work . . . to the public, by means of any device or process, whether the members of the public capable of receiving the performance . . . receive it in the same place or in separate places and at the same time or at different times.”⁵ Justice Breyer divided the issue into two subparts: whether Aereo's technological service “performed” under the Transmit Clause, and if so, whether Aereo did so “publicly.”⁶

On the first question, Aereo contended that it did not “perform” when a subscriber watched the copyrighted show using Aereo's service. Rather, as Aereo argued, it only supplied the equipment that emulated a home antenna (non-infringing in itself) and a DVR setup (likewise), and responded technologically to subscribers' directives, such that only the subscribers technically “perform” when they stream broadcasts to themselves. The Court looked not so much to technology but to its own historical precedent, analogizing to how it had previously treated community antenna television (“CATV”) systems in two prior cases. In those cases from 1968 and 1974, the Court found that CATV providers did not infringe broadcasters' performance rights by setting up antennas and running coaxial cables to subscribers' homes to enable them to receive and watch more channels and programs.⁷ Essentially, the Court had treated CATV providers as if they were viewers themselves (as both captured broadcast signals), so the Court held their services did not infringe the broadcasters' performance rights.

Congress reversed those decisions in 1976 when it amended the Copyright Act to provide that to “perform” an audiovisual work means to “show its images in any sequence or to make the sounds accompanying it audible,” such that, per the statute, both broadcaster and viewer would perform the work by both showing its images and making its sounds audible.⁸ Congress added the Transmit Clause that same year. Given this history, Justice Breyer found Aereo's “overwhelming likeness to the cable companies targeted by the 1976 amendments” the most compelling fact of the case, dis-

regarding the fact that CATV providers transmitted all the broadcast content, whereas Aereo's subscribers themselves selected the content that was copied and streamed. This distinction, emphasized by Justice Scalia in dissent, made no difference to Justice Breyer. Instead, he emphasized that when an Aereo subscriber or a CATV subscriber wanted to watch a program, she would turn a knob or press a button, at which point the broadcast signals' “ordinary course of travel through the universe” would divert at a turn of the knob—a click on a website, for an Aereo subscriber—and the underlying technical system would intercept the broadcast and reroute it to the subscriber. By focusing only on the functional commonalities between Aereo and CATV providers, Justice Breyer's analysis effectively excluded the technology provider from the relationship: The content owner and the consumer viewing the content may see little of significance between the point of broadcast transmission and what reaches the subscriber's eyes, but for much of copyright's recent history, courts have focused on those intervening technological events.

Having found that Aereo itself “performed,” given its similarity to the more-familiar cable systems, the Court then considered the merits of Aereo's argument that its one-to-one transmission model meant that its performances were not “to the public.” Again, the Court found that the fundamental similarity of Aereo's system to CATV controlled. “Viewed in terms of Congress' regulatory objectives,” Justice Breyer asked, “why should any of these technological differences matter? They concern the behind-the-scenes way in which Aereo delivers television programming to its viewers' screens Why would a subscriber who wishes to watch a television show care much whether images and sounds are delivered to his screen via a large multisubscriber antenna or one small dedicated antenna, whether they arrive instantaneously or after a few seconds' delay, or whether they are transmitted directly or after a personal copy is made?”⁹

Given the specific history of Congress' treatment of CATV providers—and the functional similarity between the way those providers (which are required to secure consent for retransmission) and Aereo captured broadcast television and provided it to subscribers—the result in *Aereo* may well have been appropriate. But Justice Breyer's repeatedly asking “Why should that matter?” of technological distinctions has the potential to upend the way courts have applied copyright to digital technology. *Aereo* suggests that judges should now emphasize the end experience for the copyright holder and the consumer, with perhaps some indifference to intervening events. We briefly consider some significant respects in which Justice Breyer's functional approach, if broadly adopted by courts, could change the landscape of copyright law.

Implications for Inline Framing?

The plaintiff copyright owner in *Perfect 10, Inc. v. Amazon.com, Inc.*,¹⁰ a 2007 Ninth Circuit decision, operated a subscription-only website where it marketed and sold images of nude models. It sued Google for infringing its copyright in those photographs based on

⁴ 536 F.3d at 134.

⁵ 17 U.S.C. § 106(4).

⁶ *Am. Broad. Cos. v. Aereo, Inc.*, 134 S. Ct. 2498, 2504, 110 U.S.P.Q.2d 1961 (2014).

⁷ *Id.* at 2505 (citing *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 158 U.S.P.Q. 1 (1968); *Teleprompter Corp. v. Columbia Broad. Sys., Inc.*, 415 U.S. 394, 181 U.S.P.Q. 65 (1974)).

⁸ *Id.* at 2506.

⁹ *Id.* at 2509.

¹⁰ 508 F.3d 1147, 82 U.S.P.Q.2d 1609 (9th Cir. 2007) (74 PTCJ 119, 5/25/07).

Google's Image Search service, which displayed thumbnail images in search results (lower-resolution images, stored on Google's servers) and, if a user clicked through to a specific image, displayed the full-sized images stored on third-party computers (some of which were infringing copies of Perfect 10's images, stored on third-party websites without authorization).

As to the thumbnail images in the search results, the Ninth Circuit held that these low-resolution images stored on (and therefore copied onto) Google servers were a fair use because they provided a valuable mechanism for users to locate materials on the Internet and did not supplant Perfect 10 originals (given generally reduced demands for low-resolution images). But what about when a user clicked on a thumbnail image and then saw a high-resolution version of that image, framed by Google's site? The Ninth Circuit explored the technical workings of Google's search engine with users' browsers and the specific requirements of the Copyright Act, and concluded that Google itself did not infringe Perfect 10's copyright. This was because Google merely framed the page, and its HTML instructions directed user's browsers to display the selected image—but the image was displayed from a third-party site where it was stored. So the Court held that Google itself did not “display” the image or “distribute” it to users without authorization—that was done by the third-party sites.

Of course, to the user it appeared Google was retrieving, serving, and distributing the images in response to a search, and the images were framed by Google's site. And as Perfect 10 contended, Google was causing the display and distribution of infringing copies of its images. But *technically*, the Ninth Circuit reasoned, Google had done none of those things.

Now consider Justice Breyer's “Why should that matter?” Through his prism, if users and rightsholders saw Google as the displaying party, why should it matter that Google was achieving that result through HTML instructions that cause the user's browser to find and display the image from a host site? In brief, the “behind-the-scenes,” “technical” distinctions that the Supreme Court found irrelevant in *Aereo*—the underlying code that made Google Image Search work—were exactly what the Ninth Circuit held rendered Google not liable for copyright infringement.

Aereo raises similar issues with respect to *Flava Works, Inc. v. Gunter*, a 2012 Seventh Circuit case that was essentially the *Perfect 10* case applied to video. The defendant, myVidster, allowed users to “bookmark” third-party sites' videos on the myVidster site, after which myVidster's site's code would request an “embed code” from the third-party site.¹¹ MyVidster would then create a page that made the video appear to be on myVidster's site—though the underlying code actually connected the user's computer to the third party's server, with myVidster's site framing the third-party video.

Just as in *Perfect 10*, a purveyor of racy material (this time pornographic videos) claimed contributory copyright infringement by the website. Judge Posner began his opinion with a telling phrase about myVidster's video-bookmarking technology: “We need to describe

how this works.”¹² Judge Posner then explained the steps necessary for myVidster to display videos to users and held that, under the evidence at that juncture, myVidster could not be held liable for contributory infringement of the reproduction or performance rights. As to the latter specifically, Judge Posner noted, “myVidster doesn't touch the data stream, which flows directly from one computer to another, neither being owned or operated by myVidster.”¹³ After *Aereo*, of course, Judge Posner might not have focused on “how this works,” but might instead have asked, “Why should any of these technological differences matter? They concern the behind-the-scenes way in which myVidster delivers videos to users' screens.” He could then have easily focused on the users' experiences, viewing infringing videos framed by and viewed through myVidster's site—even if not actually reproduced or displayed by myVidster.

Implications for Digital First Sale?

While an “*Aereo* approach” would have favored the copyright holder in *Perfect 10* and *Flava Works*, it would benefit the defendant in *Capitol Records, LLC v. ReDigi, Inc.*, a case decided by the Southern District of New York in 2013.¹⁴ The defendant there operated a digital music resale business on the “digital first sale” theory. For physical works at least, a buyer may resell a “particular copy” of a work she purchases, without infringing the copyright owner's normally exclusive right to distribute the work.¹⁵ For example, someone who purchases a CD of her favorite band's new album can freely resell it, and the band (or its label) has no control over that resale.

ReDigi sought to take the first sale doctrine online, offering “the world's first and only online marketplace for digital used music.”¹⁶ Users could transfer a “used” digital song file (a song she had purchased from iTunes or another ReDigi user) to another user who purchased it (ReDigi taking a small cut). Essentially, a new copy of a digital song file was created and sent to the buyer's ReDigi account, and ReDigi's “forward and delete” technology erased the original file from the seller's storage devices after sale, assuring that only one copy of the song existed at any time.

Capitol Records sued ReDigi for infringement of its reproduction and distribution rights, claiming that ReDigi's process necessarily created a new copy of each song file, so the first sale doctrine did not apply. The court painstakingly analyzed the technology at issue, again essentially taking apart ReDigi's service and passing the pieces through copyright precedent. The court concluded that when a user's song file is transferred through ReDigi, the file is reproduced into the buyer's account and is a new “phonorecord” under the Copyright Act. Despite the virtually simultaneous deletion of the original file, a new copy is created at some point; the actual copy in the seller's account is not the copy that ends up in the buyer's account: “It is simply impossible that the same ‘material object’ can be trans-

¹² *Id.* at 756.

¹³ *Id.* at 761.

¹⁴ 934 F. Supp. 2d 640, 106 U.S.P.Q.2d 1449 (S.D.N.Y. 2013) (85 PTCJ 802, 4/5/13).

¹⁵ See 17 U.S.C. § 109(a).

¹⁶ *ReDigi*, 934 F. Supp. 2d at 645.

¹¹ 689 F.3d 754, 103 U.S.P.Q.2d 1563 (7th Cir. 2012) (84 PTCJ 622, 8/10/12).

ferred over the Internet.”¹⁷ So ReDigi made unauthorized electronic copies and distributed them.

But “why should that matter?” Practically, the one originally licensed copy of a song (on which the copyright holder had presumably been paid initially) was transferred from one owner to another. Before the ReDigi transaction there was one licensed copy of the song; afterward there was one licensed copy of the song. Just as in an offline world where a person resells a CD, the seller loses the copy she sold, the buyer ends up with the only copy, and the record company is deprived of income on the second sale (just as it would have been had the original buyer resold a CD instead of an MP3 file). *Aereo* forces us to ask what the result would have been had the *ReDigi* court focused on the practical and economic realities of the transaction, rather than the “behind-the-scenes” and “technical” details.

More Implications for First Sale?

A third arena (also concerning first sale) where an “*Aereo* approach” might lead to different results can be seen in the Ninth Circuit’s 2010 decision in *Vernor v. Autodesk, Inc.*¹⁸ Autodesk created valuable computer-aided design software and distributed it on CD-ROMs. Defendant Vernor bought several used copies of the software and sought to resell them. But the software had been distributed with a software license agreement stating that Autodesk retained title to copies of the software, while customers received nonexclusive, non-transferable licenses to use it. So, Autodesk contended, when original customers paid money for the software, they did not “buy” it, but only obtained an authorization code required to activate the licensed software.

Autodesk sued, contending that Vernor’s reselling of the CD-ROMs was an unauthorized distribution of the software because it had never been sold in the first place—so the first sale doctrine did not apply to insulate his resales from liability. The Ninth Circuit agreed, holding that because Autodesk’s customers only *licensed* their installations of the software from Autodesk, they had not bought them and did not own them. So Vernor could not “buy” the software and could not resell it without infringing Autodesk’s distribution right. In short, the first sale doctrine had no application because there had never been a first sale.

This decision did not turn on technological details and distinctions, but on the court’s giving effect to the details of the license agreement that had accompanied Autodesk’s distribution of the software. Still, *Aereo* raises parallel questions here when the practical effect of a transaction differs from the underlying legal technicalities. For consumers, Autodesk’s distribution of the software looked like a sale: Autodesk parted with the

software (and authorization code) and would likely never see the CD-ROMs again. Purchasers obtained physical possession of the discs and the complete ability to use the software. But the court gave priority to the lengthy license document distributed with the software over the practicalities of the transaction. Arguably, *Vernor* is distinct from *Perfect 10* or *ReDigi*, in that a license is a discrete legal document, with a body of contract law behind it, which creates a different legal posture. Nonetheless, all three cases reflect that adopting the practical approach of Justice Breyer’s *Aereo* opinion could have dramatic effects on copyright jurisprudence, often leading to results opposite the fact-by-fact approach that has long been standard in copyright cases.

Whither *Aereo*?

It is too soon to say whether lower courts will apply *Aereo* along these lines. But already parties are asking courts to do so. In a recent case in the Southern District of New York, Getty Images sued Microsoft for allegedly infringing Getty’s reproduction and display rights, based on Microsoft’s Image Widget tool, which allows users to display Bing Image Search results on their websites in slideshow or collage formats.¹⁹ The images are indexed from Microsoft’s Bing service but ultimately served (and so arguably “displayed”) from third parties’ sites, much as they were in the *Perfect 10* case. In seeking a preliminary injunction, Getty relied on *Aereo* to ask the court to disregard the *Perfect 10* decision and the fact that the displayed images resided on third-party servers. Such technical distinctions did not change what subscribers or rightsholders experience, and Getty contended that “[a]s the *Aereo* decision teaches, it is this practical, functional perspective rather than technical gimmickry that should govern whether a particular mode of content delivery is infringing or not.”²⁰

The *Getty v. Microsoft* court did not reach this issue, as it denied the preliminary injunction motion on other grounds.²¹ But if not in that case, courts in other cases will have to grapple with the broader application of the *Aereo* decision. An answer to Justice Breyer’s repeated “Why should that matter?” question is that a focus on the specific factual details about how technology operates has long been critical in determining who is or is not violating copyright law and why. It remains to be seen whether and to what extent, after *Aereo*, that focus will be replaced by more practical considerations of what is occurring in the marketplace.

¹⁹ Complaint, ECF No. 1, *Getty Images (US), Inc. v. Microsoft Corp.*, No. 14-cv-7114-DLC (S.D.N.Y. Oct. 16, 2014).

²⁰ Plaintiff’s Mem. ISO Prelim. Inj. at 12-13, ECF No. 6, *Getty Images v. Microsoft*, No. 14-cv-7114-DLC (Sept. 5, 2014).

²¹ Opinion and Order at 7-10, ECF No. 63, *Getty Images v. Microsoft*, No. 14-cv-7114-DLC, 2014 BL 290610 (Oct. 16, 2014) (88 PTCJ 1693, 10/31/14).

¹⁷ *Id.* at 649.

¹⁸ 621 F.3d 1102, 93 U.S.P.Q.2d 1336 (9th Cir. 2010) (80 PTCJ 631, 9/17/10).