

## insights

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TYPES NOT MAPPED YET September 12, 2017 | TTR not mapped yet | Mark Sableman

# 9th Circuit's VidAngel decision vindicates lawful video filtering service

Some have cast the *Disney v. VidAngel* proceeding, decided August 24 by the 9th Circuit, as the “big studios” versus the “little guy”; the movie studios’ collective effort to kill filtering. This is far from the truth. Instead, copyright law served to vindicate a small Utah company that pioneered filtering and adhered to the law.

The battle in this case was between two small companies. One - ClearPlay - fought for the Family Movie Act of 2005 (“FMA”), which affirmed movie filtering was legal as long as no infringing copy was made or protection technology circumvented. The second - VidAngel - unsuccessfully attempted to use the FMA and fair use to shield from liability its circumventing acts and infringing streaming service. The Ninth Circuit’s decision affirmed the preliminary injunction against VidAngel’s infringing service and confirmed ClearPlay’s position.

Seventeen years ago, ClearPlay created filters providing parents the ability to allow their children to watch R-rated DVDs with the “R” portions of the content excised from the video. ClearPlay’s product essentially acts as a remote control on steroids. It skips certain scenes (e.g., nudity) and mutes certain dialog (e.g., profanity). It never makes a copy or defeats DVD copy protection. Nevertheless, the movie studios sued ClearPlay for copyright infringement. While it had the better case, as a small company ClearPlay needed to quickly resolve the issue. Primarily at ClearPlay’s urging, Congress passed the FMA based on the ClearPlay technology.

ClearPlay continued marketing its DVD-based technology and implemented its filters on streaming services. In 2015 VidAngel entered the market claiming to offer filtering under the FMA. Actually, their advertising laid bare their real business model - offering streaming movies without a license for \$1.

From the consumer’s perspective VidAngel’s scheme worked as follows. It offered to “sell” a movie disc to the consumer for \$20. It then streamed the movie to the customer using a “filter” (e.g., don’t show the credits). After the movie ends, VidAngel urged the consumer to “sell” the disc back for \$19. Almost every consumer “sold” back “their” disc.

How it really works: Before the first stream, VidAngel made a full unauthorized copy of the copyrighted material from the disc it decrypted and stored a copy permanently on its server. VidAngel admitted it never streamed from the original “purchased” disc; but each time streamed the same unauthorized server copy to each customer paying a dollar to watch the movie.

VidAngel’s infringing service put ClearPlay’s legitimate service at a distinct disadvantage. A consumer had to either actually purchase a movie disc and ClearPlay filters or pay the legitimate streaming fee and pay for ClearPlay’s filters.

The district court issued a preliminary injunction against VidAngel, finding the studio plaintiffs were likely to succeed on the merits for VidAngel’s three violations of law. (1) VidAngel violated the Digital Millennium Copyright Act (“DMCA”) by defeating the effective content protection on DVDs; (2) the copies of movies on VidAngel’s server were infringing copies; and (3) the streams VidAngel sent to its customers were infringing public performances. VidAngel appealed to the 9th Circuit.

The three-judge panel easily found that VidAngel had violated the studios’ exclusive right to reproduce their copyrighted works. Indeed, VidAngel admitted copying the studios’ works. VidAngel claimed, however, its copying was protected under various exceptions and affirmative defenses including: (1) the First Sale doctrine; (2) the FMA; and, (3) fair use.

## First sale

VidAngel claimed the first sale doctrine permitted re-sale or rental of the discs because they lawfully purchased them. The Court easily dismissed VidAngel's first sale defense. While first sale permits re-sale or rental of the physical disc, Section 109(a) does not permit VidAngel to reproduce the work.

## The Family Movie Act does not protect VidAngel's service

The FMA explicitly limits the studios' ability to control filtering. But it did so without altering the copyright owner's exclusive right to control reproduction or public performance, or to prevent circumvention of the access-control protection afforded by the DMCA. The FMA implicitly approved ClearPlay's technology, which neither copies or streams, or circumvents encryption. After the FMA passed, the studios moved to dismiss their claims against ClearPlay. Indeed, the judge in that case said: "The technology provided by ... ClearPlay is consistent with the statutory definition."

The 9th Circuit addressed VidAngel's claim the FMA protected their service. The Court identified the two acts under the law that "are not infringements of copyright." First, the "making imperceptible" of "limited portions of a movie at or by the direction of a member of a private household during performances or transmissions to that household." Second, the FMA authorizes the creation and distribution of the enabling technology to accomplish the act of "making imperceptible" limited portions of the content, if the technology does not create a fixed copy of the altered version.

VidAngel claimed because they started with a lawful copy, the stream is "from" that copy. As ClearPlay asserted in its amicus brief, the Court held the FMA is clear: the stream must come from the original disc, not a subsequent copy. The FMA does not say "starting from" or "indirectly from" the original copy.

VidAngel also claimed the second act permitted by the FMA - creating/distributing filtering technology - avoids judging the technical details of such technology. Thus, the Court should not look at how the technology makes the content imperceptible. The Court made short work of that argument. It said the clause protecting the "making imperceptible," technology refers to the earlier description, i.e., making imperceptible the portions of an authorized copy. The Court noted that VidAngel's interpretation would sanction massive online infringement as long as any minimal filter was applied to the unauthorized copy.

The 9th Circuit also recognized ClearPlay's recitation of the legislative history. Indeed, ClearPlay's CEO testified at the 2004 hearing leading to the passage of the FMA. He stated that ClearPlay technology neither copies nor edits the DVDs. The Court found the legislative history did not support VidAngel's interpretation of the FMA. It concluded the district court did not abuse its discretion in holding that VidAngel would be unlikely to succeed on its FMA defense.

## VidAngel's failed fair use defense

The Court then addressed VidAngel's fair use defense. VidAngel admitted the district court correctly found that the second (nature of the work) and third factors (amount and substance of the copying) weighed against it. But, it claimed the Judge abused his discretion in finding that the first and fourth factors also were not in its favor. As to the first factor, VidAngel admitted the use was commercial, but claimed the use transformative: "omissions can transform a work." The district court found that filtering still permits the viewer to enjoy the work just without objectionable content. It did not add "something new." Indeed, in affirming the district court's conclusion, the Court noted that the FMA only allows making "limited portions" of the work imperceptible.

VidAngel argued the fourth factor - market harm - should be weighed in its favor because of all the movie discs it purchased and the fact that 51 percent of its customers would not watch a movie without filtering. The Court agreed with the district court, turning VidAngel's customer survey against it, i.e., 49 percent of its customers would watch the movies without filters. Thus, its one dollar stream was an effective substitute for the studios unfiltered works.

VidAngel's final fair use defense was that its service was "a paradigmatic example of fair use: space shifting." The Court found that precedent did not support VidAngel's claim. But, even conceding that space-shifting was fair use, VidAngel's service was not personal or noncommercial. Rather it was making illegal copies of movies, selling the streams with altered content and in a different format than the original. Thus, the Court agreed with the district court that VidAngel was unlikely to succeed on its fair use defense.

## DMCA circumvention claims

The Court then considered the district court's finding that the studio plaintiffs were likely to succeed on their DMCA circumvention claims. VidAngel admitted the discs it decrypted were protected by access controls. But it defended its action claiming "like all lawful purchasers, VidAngel is *authorized* by the Studios to decrypt [the Technical Protection Mechanism ("TPM")] to view the discs' content." Citing 9th Circuit precedent, the Court said the law distinguishes between those the content owner authorizes to *circumvent* and those it authorizes to access the work. The 9th Circuit adopted the 2nd Circuit's *Corley* rejection of the same argument made by the defendants in that case. It held the exemption from DMCA liability only applies to those who the copyright owner authorizes to decrypt the content, not those who only have authority to view the content.

VidAngel made an argument of first impression claiming that because the studios' TPMs were *use controls* under DMCA §1201(b) rather than *access controls* under §1201(a), they cannot be held liable. Unlike §1201(a), §1201(b) does not prohibit circumvention of use controls. VidAngel argued that the studios' complaint was about copying, not access, and therefore, since they didn't traffic in use controls, it wasn't liable. But the Court noted the statute

doesn't prohibit a TPM from being both an access control and a use control. Accordingly, the Court held: "...when a defendant decrypts the TPMs and then also reproduces that work, it is liable for both circumvention [of an access control] in violation of §1201(a)(1)(A) and copyright infringement in violation of §106(1)." The Court concluded the district court did not abuse its discretion by finding the plaintiffs would likely succeed on their DMCA claim.

### Other preliminary injunction criteria

*Irreparable Harm.* VidAngel claimed once the district court found the studios were likely to succeed on the infringement claim the Judge relied on the "forbidden presumption of harm." The Court disagreed, pointing to the Judge's reliance on a studio executive's declaration of the harm to its streaming business, e.g., offering a \$1 streaming service and offering movies for illegal streaming that were not available from legitimate streaming services. VidAngel also argued that damages for any lost streaming revenue were capable of being calculated. The Court disagreed, pointing to the district court's conclusion that loss of goodwill, negotiating leverage, and non-monetary terms in the studios streaming licenses cannot be remedied by damages.

*Balancing the Equities.* VidAngel argued the equities were balanced in its favor due to the harm an injunction would wreck on its "fledgling" business. The Court rejected that argument, citing the "long-settled principle" that significant equitable protection is not afforded harm caused by illegal conduct.

*Public Interest.* VidAngel claimed the public's interest in having filtering available - recognized in the FMA - would be harmed. The Court noted it was "undisputed that ClearPlay offers a filtering service to Google Play users ...." It also agreed with the district court that protecting copyright, incenting the creation of content of the public, is in the public interest.

Thus, the Court affirmed the district court's preliminary injunction, vindicating ClearPlay, the company with the original filtering model, and denied VidAngel's efforts to circumnavigate the Copyright Act.

### Implications

The Copyright Act has many flexible provisions rooted in the Constitution's intellectual property provision. Copyright is not a guarantee the copyright holder is remunerated for her work, nor is it permission for others to use her work in any fashion they desire just because the technology allows it. However, because technology allows a new use does not mean that use is per se infringing. Rather, copyright balance provides authors incentives to be productive while it encourages public dissemination of knowledge.

Thus, we have the affirmative defense of fair use, the first sale doctrine, the FMA, and other copyright exceptions and limitations. These provisions are not per se rules; but courts have interpreted them to give breathing space to creative use of copyrighted material as well as for First Amendment expression. The decisions are not without their limits. Commercial use that usurps the market for the original work often stretches fair use to the breaking point. Whereas transformative use that does not impact the market for the original often does not break the Copyright Act.

Technology often puts pressure on the copyright balance. Justice Breyer expressed it well in the *Grokster* oral argument when he questioned a new test proposed by the content industry (i.e., that employment of any technology used substantially for infringement was per se infringing):

All right, on your test, are we sure, if you were [counsel] to Mr. Carlson, that you recommend going ahead with the Xerox machine? Are you sure, if you were the counsel to the creator of the VCR, that you could recommend, given the use, copying movies, that we should ever have a VCR? Are you sure that you could recommend to the iPod inventor that he could go ahead and have an iPod, or, for that matter, Gutenberg, the press? I mean, you see the problem.

... for all I know, the monks had a fit when Gutenberg made his press.

While the content industry counsel, Don Verrilli answered yes in each case, the Court refused to condemn technology based on its use. Rather, it focused on how a given defendant used the technology.

After failing to ban the VCR, initial content industry reaction was to seek legislation imposing limits on new technology. Those have been uniformly rejected by the technology industry. One example is the Audio Home Recording Act, which required consumer electronic digital audio products to protect the content according two bits embedded in content in the clear. That did not work well. The Consumer Electronics product - the Digital Audio Tape - failed in the market. In the other example, the movie industry was persuaded to abandon legislation to regulate the design of DVD devices. Rather they relied on encryption and private licensing. Despite the weakness of the encryption scheme - the content industry sold hundreds of billions of dollars of DVDs and devices proliferated.

In *VidAngel*, and a number of other cases, defendants have attempted to use technology to stretch the Copyright Act to the breaking point. Two other examples are the Supreme Court's *Aereo* decision and the Southern District of New York's *Redigi* decision (on appeal to the 2nd Circuit). In *Aereo*, the defendant created a complex system to retransmit broadcast television over the Internet to individual consumers. It attempted to rely on the 2nd Circuit's *Cablevision* decision (cert. denied), arguing the tuning, processing, storage, and retransmission were all done at the command of the user. The Court rejected that Copyright Act interpretation.

Similarly in *Redigi*, attempting to rely on the first sale doctrine, the defendant created a market for "reselling" digital music through its complex system. As some have said, this was an attempt to fit a square peg in a round hole. The

district court held that the first sale doctrine only applied to physical goods onto which the music was recorded. “Transferring” a digital copy meant making copies, not allowed by the doctrine.

Likewise, in *VidAngel*, the defendant attempted to use technology creatively. It did not rely on licensing content for streaming, which would have meant paying the customary price and competing with others including ClearPlay for filtered films. Instead, it developed a clever scheme that didn’t pass muster under the law. VidAngel defeated the DVD encryption scheme, then ripped the DVDs and stored the content on its server. Then it “sold” a DVD to a customer, streamed from the previously ripped copy, and then “bought back” the DVD. Actually, the consumer received the money back as credit for future “purchases.” As discussed above, the Court found none of VidAngel’s defenses worked: first sale, fair use, FMA, or the DMCA.

It is sometimes hard to counsel an entrepreneur with a new use of digital technology consuming traditional content. This is because the Copyright Act limitations and exceptions often are not black and white tests. But it certainly seems in the VidAngel case, those lines were crossed several times. At least that is the 9th Circuit’s opinion.

*Thompson Coburn partner [Mark Sableman](#) filed an amicus brief on behalf of ClearPlay in the 9th Circuit. This article first appeared in Law360.*

## authorsTest

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Mark Sableman