

OCTOBER 2017

DEVOTED TO  
LEADERS IN THE  
INTELLECTUAL  
PROPERTY AND  
ENTERTAINMENT  
COMMUNITY

VOLUME 37 NUMBER 9

THE *Licensing*  
*Journal*

*Edited by Gregory J. Battersby and Charles W. Grimes*

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# Licensing Markets

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## Copyright Licensing

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### Zazzle Fizzles: Website Operator Denied Copyright Safe Harbor Protection for Its Sale of Physical Products Featuring User-Generated Images

Over the last year, we have seen the trend of companies who are no longer happy simply to host user-generated content on their Web sites, blogs and social media pages and reap the resulting boost to their traffic numbers. Increasingly, companies are seeking to monetize user-generated content, finding creative ways to commercialize such content—by incorporating it into ads (including print, TV, and other offline ads), creating new works based on such content and even selling the content. A recent Central District of California decision in *Greg Young Publishing, Inc. v. Zazzle, Inc.*, [Case No. 2:16-cv-04587-SVW-KS., U.S. Dist. Ct., C.D. California, January 31, 2017], serves as an important reminder of the serious risks that can arise from seeking to commercially exploit such content.

Under the Digital Millennium Copyright Act's (DMCA) § 512(c) safe harbor, online service providers that comply with the eligibility

requirements are shielded from copyright damages in connection with their hosting of infringing content uploaded by service users. This powerful safe harbor has played a major role in the success of Facebook, Instagram, YouTube, and other US social media and Internet sites.

Although the DMCA is nearly 20 years old, questions remain as to the boundaries of the Section 512(c) safe harbor. In *Zazzle*, the court addressed one such question: Whether the safe harbor protects an online service provider that not only hosts images uploaded by its users, but also creates and sells—at the direction of those same users—physical products featuring such images. In a victory for copyright owners, the court ultimately concluded that the Section 512(c) safe harbor did not protect the online service provider's activities with respect to such physical products.

#### The Parties' Dispute

Zazzle, Inc. operates a Web site that allows site users to upload images of artwork, slogans and designs; in doing so, users can elect to have the images printed on coffee mugs, posters, t-shirts, and other physical products for sale to the public. When a sale occurs, Zazzle manufactures the ordered product and delivers it to the purchaser, and then pays a royalty to the user who had uploaded to Zazzle's Web site the image that appears on the product.

As often is the case with user-generated content sites, many of the images uploaded to the Zazzle site are not owned by the uploading users, and are uploaded without authorization from the owners of such images.

Greg Young is a producer and marketer of works created by the visual artist Kerne Erickson, and the licensing agent for Scott Westmoreland, who also is a visual artist. Alleging that Zazzle was publicly displaying and creating consumer products using images from 41 paintings created by Erickson or Westmoreland, Young—through a corporate entity named Greg Young Publishing, Inc. (GYPI)—sued Zazzle for copyright infringement. Zazzle moved to dismiss the suit, arguing that GYPI lacks standing to sue and that Zazzle is protected against liability for copyright infringement under the Section 512(c) safe harbor.

#### Standing to Sue for Copyright Infringement

##### *Westmoreland Copyrights*

The court first considered whether GYPI had standing to enforce the copyrights in Westmoreland's works. GYPI and Westmoreland had entered into an agreement specifying that GYPI would be Westmoreland's "exclusive representative" for soliciting, negotiating, and administering licensing agreements with third parties. The court, however, distinguished *the right to negotiate license agreements from the power to use or authorize use of the paintings*, and found that GYPI's status as an exclusive representative of Westmoreland was *insufficient to establish standing*.

GYPI further argued that an "Enforcement of Copyrights" provision in the parties' agreement

gave GYPI “the right to enforce the copyrights as a beneficiary to th[e] Agreement” if Westmoreland declined to do so. Citing Ninth Circuit precedent, the court held that the mere right to sue for copyright infringement without the transfer of an associated exclusive right in the Westmoreland copyrights was insufficient to confer standing on GYPI.

Finding that Westmoreland did not grant GYPI any exclusive rights under his copyrights, the court determined that GYPI lacked standing to sue Zazzle for alleged infringement of the Westmoreland paintings.

### ***Erickson Copyrights***

Turning to the Erickson copyrights, the court noted that the copyrights in the Erickson paintings had been assigned to Young’s d/b/a entities, “Greg Young Publishing” (GYP) and “Greg Young International” (GYI). Zazzle argued that GYPI had no standing to enforce the copyrights because, at the time of the alleged infringement, the copyrights were technically owned by GYP and GYI, not GYPI.

The court, however, noted that GYP, GYI and GYPI “were all one-man shops” controlled by Young; “[a]s a practical matter, Young is GYPI, just as Young was GYP and GYI.” Because Young “could decide that copyrights owned by any of these entities would be jointly owned by all of them, and no one could disagree,” the court held that GYPI is entitled to assert claims belonging to Young’s d/b/a entities. Moreover, and as an alternative to this holding, the court deemed GYPI’s complaint amended to add GYP and GYI as plaintiffs.

### **Applicability of the DMCA § 512(c) Safe Harbor**

Once the court found that GYPI had standing to sue for

infringement of the Erickson works, Zazzle asserted the DMCA § 512(c) safe harbor as an affirmative defense. In response, GYPI argued that Zazzle is ineligible for Section 512(c) safe harbor protection because (1) Zazzle is not a service provider for purposes of the safe harbor; (2) Zazzle knew that its services were being used to infringe GYPI’s copyrights; and (3) Zazzle received a financial benefit from the infringing activity and had the right and ability to control it.

### ***Is Zazzle a Service Provider?***

In determining the applicability of the Section 512(c) safe harbor, the court first considered whether Zazzle was a “service provider” eligible for protection under the safe harbor.

GYPI argued that Zazzle is not a service provider because Zazzle “goes beyond passively accepting and displaying user-submitted images” by also directly manufacturing and selling physical products bearing the user-submitted images.

The court, however, rejected this argument, noting that “a company does not cease to be a provider of online services because it offers offline services as well.” The court held that Zazzle’s services—allowing users to upload images online to be printed on consumer goods—were “unquestionably ‘online services’” and that Zazzle was therefore “a provider of online services” consistent with the definition of a “service provider” in the statute.

### ***Did Zazzle Have Knowledge of the Infringing Images or Conduct?***

Having found Zazzle to be a service provider, the court turned to the issue of whether Zazzle had

actual or constructive knowledge of the infringing Erickson images or of activity using such images that was infringing; any such knowledge would render Zazzle ineligible for Section 512(c) safe harbor protection.

Observing that constructive knowledge “has been construed so narrowly in the Ninth Circuit that it is questionable whether it retains any independent meaning,” the court held that a service provider does not have knowledge of the infringement unless (1) the copyright holder submits a complaint that complies with the DMCA’s procedural requirements or (2) a third-party submits a “sufficiently specific complaint” about potential infringement.

Although GYPI argued that it had complained to Zazzle regarding its users’ unauthorized uploading of the Erickson images and had provided Zazzle with a catalogue of such images to check for future infringement, the court determined that, even if such allegations are true, they do not show that Zazzle had “specific knowledge of particular infringing activity” that would render Zazzle ineligible for Section 512(c) safe harbor protection.

### ***Did Zazzle Receive a Financial Benefit from Infringement That It Could Control?***

Finally, the court considered whether Zazzle received a financial benefit directly attributable to the infringing activity where it had the right and ability to control such activity.

Because Zazzle did not dispute that its sale of physical products bearing the Erickson images resulted in a financial benefit directly attributable to infringing activity, the court focused on whether Zazzle had

the right and ability to control the infringing activity. The court stated that the following rights and activities, standing alone, do not result in a right and ability to control:

- That the service provider has “the general ability to remove infringing materials and terminate the accounts of repeat infringers;” and
- That the service provider engages in “limiting monitoring” of its site or network for “apparent infringements.”

Rather, the right and ability to control exists where a service provider exerts “substantial influence” over the activities of its users, for example, by playing “an active role in selecting, monitoring, or marketing user content.”

Zazzle argued that it lacked the ability to control the sale of infringing products because, after a user’s order was approved by Zazzle’s content management team (CMT), the production process was “effectively automated.” The court rejected this argument, noting that “[i]t doesn’t matter if Zazzle lacked the ability to control its productions process *after* CMT approved the product,” given that the CMT presumably had the authority to reject infringing products. Moreover, even if Zazzle’s entire process were automatic, “that would suggest at most that Zazzle had chosen not to exercise its right and ability to reject infringing products, not

that it *lacked* the right and ability to do so.”

The court concluded that Zazzle had the right and ability to control the sale of infringing products; “[u]nlike eBay or Amazon, Zazzle’s role is not limited to facilitating the sale of products owned and marketed by third parties. Zazzle *creates* the products.” As a result, the court found Zazzle ineligible for DMCA Section 512(c) safe harbor protection to the extent it manufactured and sold the infringing physical products featuring the Erickson images. (One prominent Internet law commentator, Prof. Eric Goldman, has questioned the court’s reliance on the “right and ability to control” factor, rather than the “service provider” factor, in ruling against Zazzle.)

In a small victory for Zazzle, the court noted that its ruling “does not preclude Zazzle from invoking Section 512(c) with respect to images that were displayed on its Web site but never printed onto physical products.”

## Concluding Thoughts

After nearly two decades of court decisions taking an ever more expansive approach to the DMCA § 512(c) safe harbor, is the pendulum beginning to swing in the other direction?

Although the outcome of *Zazzle* is perhaps not surprising, when viewed in connection with the Ninth Circuit’s recent decision in *Mavrix Photographs, LLC v.*

*LiveJournal, Inc.*, it suggests that courts are increasingly seeking to reign in the scope of the safe harbor.

As Web site operators, brands and other companies have become more bold in their efforts to curate and monetize user-generated content, *Zazzle* and *Mavrix* highlight the need for companies to step back and reassess the potential copyright risks associated with their exploitation of user-generated content.

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*This article originally appeared on Morrison & Foerster’s Socially Aware blog at <http://www.sociallyawareblog.com>.*