

## VII. Direct and Secondary Liability

In many instances, more than one party may be responsible in some way for the infringement of the copyright in a work. For example, imagine that an individual uses a peer-to-peer file-sharing system to locate and obtain a digital file containing a copyrighted motion picture, which has been made available by another user of the peer-to-peer network without the permission of the copyright owner. Is the user who receives the digital file through the peer-to-peer network liable for infringement? Is the user of the peer-to-peer network who makes the file available liable? Is the firm that creates the software for the peer-to-peer network liable? Are the companies that have made the computers the users use to share files liable? Are businesses that run banner advertisements on the software interface that people use to operate the peer-to-peer network liable?

As you shall see, copyright law has developed doctrines that determine who can be held liable, either directly or “secondarily,” in situations, like the one described above, in which a number of actors may be said to be connected in some way to an act of infringement. This chapter begins by describing the rules governing **direct liability** for copyright infringement. It will then move on to describe the rules of **secondary liability**—liability for those who are not direct infringers, but who somehow assist, encourage, control, benefit from, or otherwise participate in the infringing conduct. The chapter will then consider special rules governing the **liability of online service providers**, as well as the **liability of the manufacturers of devices that can be used for infringement**.

As you read this chapter, pay close attention to the origin of both the direct and secondary liability rules. As you shall see, few of the rules governing either direct or secondary liability are specified in the Copyright Act. These rules have been developed by courts, not Congress. A substantial exception can be found in § 512 of the Copyright Act, which delineates a set of detailed rules limiting the secondary liability of online service providers.

### A. Volition as an Element of Direct Liability

As you read the next case, consider whether the concept of “volition” is a good proxy for who is most “directly” responsible for copyright infringement. Are there instances in which you would consider the exercise of volition to be more or less relevant to moral responsibility?

#### **Religious Technology Center v. Netcom On-Line Communication Services, Inc.**

907 F. Supp. 1361 (N.D. Cal. 1995)

WHYTE, J.:

[1] This case concerns an issue of first impression regarding intellectual property rights in cyberspace. Specifically, this order addresses whether the operator of a computer bulletin board service (“BBS”), and the large Internet access provider that allows that BBS to reach the Internet, should be liable for copyright infringement committed by a subscriber of the BBS.

[2] Plaintiffs Religious Technology Center and Bridge Publications, Inc. hold copyrights in the unpublished and published works of L. Ron Hubbard, the late founder of the Church of Scientology. Defendant Dennis Erlich is a former minister of Scientology turned vocal critic of the Church, whose pulpit is now the Usenet newsgroup alt.religion.scientology (“a.r.s.”), an on-line forum for discussion and criticism of Scientology. Plaintiffs

maintain that Erlich infringed their copyrights when he posted portions of their works on a.r.s. Erlich gained his access to the Internet through defendant Thomas Klemesrud's BBS "support.com." Klemesrud is the operator of the BBS, which is run out of his home and has approximately 500 paying users. Klemesrud's BBS is not directly linked to the Internet, but gains its connection through the facilities of defendant Netcom On-Line Communications, Inc., one of the largest providers of Internet access in the United States.

[3] After failing to convince Erlich to stop his postings, plaintiffs contacted defendants Klemesrud and Netcom. Klemesrud responded to plaintiffs' demands that Erlich be kept off his system by asking plaintiffs to prove that they owned the copyrights to the works posted by Erlich. However, plaintiffs refused Klemesrud's request as unreasonable. Netcom similarly refused plaintiffs' request that Erlich not be allowed to gain access to the Internet through its system. Netcom contended that it would be impossible to prescreen Erlich's postings and that to kick Erlich off the Internet meant kicking off the hundreds of users of Klemesrud's BBS. Consequently, plaintiffs named Klemesrud and Netcom in their suit against Erlich ....

[4] To establish a claim of copyright infringement, a plaintiff must demonstrate (1) ownership of a valid copyright and (2) "copying" of protectable expression by the defendant. Infringement occurs when a defendant violates one of the exclusive rights of the copyright holder.... The court has already determined that plaintiffs have established that they own the copyrights .... The court also found plaintiffs likely to succeed on their claim that defendant Erlich copied the [plaintiffs'] works and was not entitled to a fair use defense. Plaintiffs argue that, although Netcom was not itself the source of any of the infringing materials on its system, it nonetheless should be liable for infringement ... directly ....

[5] The parties do not dispute the basic processes that occur when Erlich posts his allegedly infringing messages to a.r.s. Erlich connects to Klemesrud's BBS using a telephone and a modem. Erlich then transmits his messages to Klemesrud's computer, where they are automatically briefly stored. According to a prearranged pattern established by Netcom's software, Erlich's initial act of posting a message to the Usenet results in the automatic copying of Erlich's message from Klemesrud's computer onto Netcom's computer and onto other computers on the Usenet. In order to ease transmission and for the convenience of Usenet users, Usenet servers maintain postings from newsgroups for a short period of time—eleven days for Netcom's system and three days for Klemesrud's system. Once on Netcom's computers, messages are available to Netcom's customers and Usenet neighbors, who may then download the messages to their own computers. Netcom's local server makes available its postings to a group of Usenet servers, which do the same for other servers until all Usenet sites worldwide have obtained access to the postings, which takes a matter of hours.

[6] Unlike some other large on-line service providers, such as CompuServe, America Online, and Prodigy, Netcom does not create or control the content of the information available to its subscribers. It also does not monitor messages as they are posted. It has, however, suspended the accounts of subscribers who violated its terms and conditions, such as where they had commercial software in their posted files. Netcom admits that, although not currently configured to do this, it may be possible to reprogram its system to screen postings containing particular words or coming from particular individuals. Netcom, however, took no action after it was told by plaintiffs that Erlich had posted messages through Netcom's system that violated plaintiffs' copyrights, instead claiming that it could not shut out Erlich without shutting out all of the users of Klemesrud's BBS....

[7] Accepting that copies were made, Netcom argues that Erlich, and not Netcom, is directly liable for the copying.... [T]he mere fact that Netcom's system incidentally makes temporary copies of plaintiffs' works does not mean Netcom has caused the copying. The court believes that Netcom's act of designing or implementing a system that automatically and uniformly creates temporary copies of all data sent through it is not unlike that of the owner of a copying machine who lets the public make copies with it. Although some

of the people using the machine may directly infringe copyrights, courts analyze the machine owner's liability under the rubric of contributory infringement, not direct infringement. Plaintiffs' theory would create many separate acts of infringement and, carried to its natural extreme, would lead to unreasonable liability. It is not difficult to conclude that Erlich infringes by copying a protected work onto his computer and by posting a message to a newsgroup. However, plaintiffs' theory further implicates a Usenet server that carries Erlich's message to other servers regardless of whether that server acts without any human intervention beyond the initial setting up of the system. It would also result in liability for every single Usenet server in the worldwide link of computers transmitting Erlich's message to every other computer. These parties, who are liable under plaintiffs' theory, do no more than operate or implement a system that is essential if Usenet messages are to be widely distributed. There is no need to construe the Act to make all of these parties infringers. Although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party.

[8] Plaintiffs point out that the infringing copies resided for eleven days on Netcom's computer and were sent out from it onto the "Information Superhighway." However, under plaintiffs' theory, any storage of a copy that occurs in the process of sending a message to the Usenet is an infringement. While it is possible that less "damage" would have been done if Netcom had heeded plaintiffs' warnings and acted to prevent Erlich's message from being forwarded, this is not relevant to its *direct* liability for copying. The same argument is true of Klemesrud and any Usenet server. Whether a defendant makes a direct copy that constitutes infringement cannot depend on whether it received a warning to delete the message....

[9] The court is not persuaded by plaintiffs' argument that Netcom is directly liable for the copies that are made and stored on its computer. Where the infringing subscriber is clearly directly liable for the same act, it does not make sense to adopt a rule that could lead to the liability of countless parties whose role in the infringement is nothing more than setting up and operating a system that is necessary for the functioning of the Internet. Such a result is unnecessary as there is already a party directly liable for causing the copies to be made. Plaintiffs occasionally claim that they only seek to hold liable a party that refuses to delete infringing files after they have been warned. However, such liability cannot be based on a theory of direct infringement, where knowledge is irrelevant. The court does not find workable a theory of infringement that would hold the entire Internet liable for activities that cannot reasonably be deterred. Billions of bits of data flow through the Internet and are necessarily stored on servers throughout the network and it is thus practically impossible to screen out infringing bits from noninfringing bits. Because the court cannot see any meaningful distinction (without regard to knowledge) between what Netcom did and what every other Usenet server does, the court finds that Netcom cannot be held liable for direct infringement....

## NOTES

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1. Who is the direct infringer in *Netcom*? Why do you think the plaintiffs didn't simply sue only the direct infringer?

2. Perhaps the pithiest summary of the court's holding in *Netcom* comes near the end of the opinion, to wit: "The court does not find workable a theory of infringement that would hold the entire Internet liable for activities that cannot reasonably be deterred." Is this a principle that is generally true in copyright law? Remember that copyright infringement is a strict liability tort. As a consequence, a defendant may be liable even for subconscious copyright infringement, such as may occur when a writer or a musician unwittingly copies protected material from a text or a song he or she has previously encountered but does not consciously recall. Does this basic aspect of copyright law fit with the court's holding in *Netcom*? If the two principles are consistent, then it is "volition" that makes the difference. But what sort of "volition" is involved in unconscious copying?

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As you read the next case, refer back to the question posed in note 1, above. Why do you think the plaintiffs didn't simply sue as "direct" infringers the individual Cablevision subscribers who made the copies?

## Cartoon Network LP v. CSC Holdings, Inc.

536 F.3d 121 (2d Cir. 2008)

WALKER, J.:

{Recall the facts in this case, which you first read with regard to fixation in Chapter II and encountered again with regard to public performance in Chapter V.} ...

### II. The District Court's Decision

[1] In the district court, plaintiffs successfully argued that Cablevision's proposed system would directly infringe their copyrights in three ways. First, by briefly storing data in the primary ingest buffer and other data buffers integral to the function of the RS-DVR, Cablevision would make copies of protected works and thereby directly infringe plaintiffs' exclusive right of reproduction under the Copyright Act. Second, by copying programs onto the Arroyo Server hard disks (the "playback copies"), Cablevision would again directly infringe the reproduction right. And third, by transmitting the data from the Arroyo Server hard disks to its RS-DVR customers in response to a "playback" request, Cablevision would directly infringe plaintiffs' exclusive right of public performance. Agreeing with all three arguments, the district court awarded summary declaratory judgment to plaintiffs and enjoined Cablevision from operating the RS-DVR system without obtaining licenses from the plaintiff copyright holders....

[2] On the issue of whether creation of the playback copies made Cablevision liable for direct infringement, the parties and the district court agreed that the dispositive question was "*who* makes the copies"? Emphasizing Cablevision's "unfettered discretion" over the content available for recording, its ownership and maintenance of the RS-DVR components, and its "continuing relationship" with its RS-DVR customers, the district court concluded that "the copying of programming to the RS-DVR's Arroyo servers ... would be done not by the customer but by Cablevision, albeit at the customer's request."

[3] Finally, as to the public performance right, Cablevision conceded that, during the playback, "the streaming of recorded programming in response to a customer's request is a performance." Cablevision contended, however, that the work was performed not by Cablevision, but by the customer, an argument the district court rejected "for the same reasons that [it] reject [ed] the argument that the customer is 'doing' the copying involved in the RS-DVR." ...

### DISCUSSION ...

#### II. Direct Liability for Creating the Playback Copies

[4] In most copyright disputes, the allegedly infringing act and the identity of the infringer are never in doubt. These cases turn on whether the conduct in question does, in fact, infringe the plaintiff's copyright. In this case, however, the core of the dispute is over the authorship of the infringing conduct. After an RS-DVR subscriber selects a program to record, and that program airs, a copy of the program—a copyrighted work—resides on the hard disks of Cablevision's Arroyo Server, its creation unauthorized by the copyright holder. The question is *who* made this copy. If it is Cablevision, plaintiffs' theory of direct infringement succeeds; if it

is the customer, plaintiffs' theory fails because Cablevision would then face, at most, secondary liability, a theory of liability expressly disavowed by plaintiffs.

[5] Few cases examine the line between direct and contributory liability. Both parties cite a line of cases beginning with *Religious Technology Center v. Netcom On-Line Communication Services*, 907 F. Supp. 1361 (N.D. Cal. 1995). In *Netcom*, a third-party customer of the defendant Internet service provider ("ISP") posted a copyrighted work that was automatically reproduced by the defendant's computer. The district court refused to impose direct liability on the ISP, reasoning that "[a]lthough copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party." Recently, the Fourth Circuit endorsed the *Netcom* decision, noting that

*to establish direct liability under ... the Act, something more must be shown than mere ownership of a machine used by others to make illegal copies. There must be actual infringing conduct with a nexus sufficiently close and causal to the illegal copying that one could conclude that the machine owner himself trespassed on the exclusive domain of the copyright owner.*

*CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir.2004).

[6] Here, the district court pigeon-holed the conclusions reached in *Netcom* and its progeny as "premised on the unique attributes of the Internet." While the *Netcom* court was plainly concerned with a theory of direct liability that would effectively "hold the entire Internet liable" for the conduct of a single user, 907 F. Supp. at 1372, its reasoning and conclusions, consistent with precedents of this court and the Supreme Court, and with the text of the Copyright Act, transcend the Internet. Like the Fourth Circuit, we reject the contention that "the *Netcom* decision was driven by expedience and that its holding is inconsistent with the established law of copyright," *CoStar*, 373 F.3d at 549, and we find it "a particularly rational interpretation of § 106," *id.* at 551, rather than a special-purpose rule applicable only to ISPs.

[7] When there is a dispute as to the author of an allegedly infringing instance of reproduction, *Netcom* and its progeny direct our attention to the volitional conduct that causes the copy to be made. There are only two instances of volitional conduct in this case: Cablevision's conduct in designing, housing, and maintaining a system that exists only to produce a copy, and a customer's conduct in ordering that system to produce a copy of a specific program. In the case of a VCR, it seems clear—and we know of no case holding otherwise—that the operator of the VCR, the person who actually presses the button to make the recording, supplies the necessary element of volition, not the person who manufactures, maintains, or, if distinct from the operator, owns the machine. We do not believe that an RS-DVR customer is sufficiently distinguishable from a VCR user to impose liability as a direct infringer on a different party for copies that are made automatically upon that customer's command.

[8] The district court emphasized the fact that copying is "instrumental" rather than "incidental" to the function of the RS-DVR system. While that may distinguish the RS-DVR from the ISPs in *Netcom* and *CoStar*, it does not distinguish the RS-DVR from a VCR, a photocopier, or even a typical copy shop. And the parties do not seem to contest that a company that merely makes photocopiers available to the public on its premises, without more, is not subject to liability for direct infringement for reproductions made by customers using those copiers. They only dispute whether Cablevision is similarly situated to such a proprietor.

[9] The district court found Cablevision analogous to a copy shop that makes course packs for college professors. In the leading case involving such a shop, for example, "[t]he professor [gave] the copyshop the materials of which the coursepack [was] to be made up, and the copyshop [did] the rest." *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1384 (6th Cir.1996) (en banc). There did not appear to be any serious dispute in that case that the shop itself was directly liable for reproducing copyrighted works. The

district court here found that Cablevision, like this copy shop, would be “doing” the copying, albeit “at the customer’s behest.”

[10] But because volitional conduct is an important element of direct liability, the district court’s analogy is flawed. In determining who actually “makes” a copy, 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. In cases like *Princeton University Press*, the defendants operated a copying device and sold the product they made using that device. Here, by selling access to a system that automatically produces copies on command, Cablevision more closely resembles a store proprietor who charges customers to use a photocopier on his premises, and it seems incorrect to say, without more, that such a proprietor “makes” any copies when his machines are actually operated by his customers....

[11] The district court also emphasized Cablevision’s “unfettered discretion in selecting the programming that it would make available for recording.” This conduct is indeed more proximate to the creation of illegal copying than, say, operating an ISP or opening a copy shop, where all copied content was supplied by the customers themselves or other third parties. Nonetheless, we do not think it sufficiently proximate to the copying to displace the customer as the person who “makes” the copies when determining liability under the Copyright Act. Cablevision, we note, also has subscribers who use home VCRs or DVRs ..., and has significant control over the content recorded by these customers. But this control is limited to the channels of programming available to a customer and not to the programs themselves. Cablevision has no control over what programs are made available on individual channels or when those programs will air, if at all. In this respect, Cablevision possesses far less control over recordable content than it does in the [video-on-demand] context, where it actively selects and makes available beforehand the individual programs available for viewing. For these reasons, we are not inclined to say that Cablevision, rather than the user, “does” the copying produced by the RS-DVR system. As a result, we find that the district court erred in concluding that Cablevision, rather than its RS-DVR customers, makes the copies carried out by the RS-DVR system.

[12] Our refusal to find Cablevision directly liable on these facts is buttressed by the existence and contours of the Supreme Court’s doctrine of contributory liability in the copyright context. After all, the purpose of any causation-based liability doctrine is to identify the actor (or actors) whose “conduct has been so significant and important a cause that [he or she] should be legally responsible.” *W. PAGE KEETON ET AL., PROSSER AND KEETON ON TORTS* § 42, at 273 (5th ed. 1984). But here, to the extent that we may construe the boundaries of direct liability more narrowly, the doctrine of contributory liability stands ready to provide adequate protection to copyrighted works.

[13] Most of the facts found dispositive by the district court—e.g., Cablevision’s “continuing relationship” with its RS-DVR customers, its control over recordable content, and the “instrumental[ity]” of copying to the RS-DVR system, seem to us more relevant to the question of contributory liability....

[14] The district court apparently concluded that Cablevision’s operation of the RS-DVR system would contribute in such a major way to the copying done by another that it made sense to say that Cablevision was a direct infringer, and thus, in effect, was “doing” the relevant copying.... We need not decide today whether one’s contribution to the creation of an infringing copy may be so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy. We conclude only that on the facts of this case, copies produced by the RS-DVR system are “made” by the RS-DVR customer, and Cablevision’s contribution to this reproduction by providing the system does not warrant the imposition of direct liability. Therefore, Cablevision is entitled to summary judgment on this point, and the district court erred in awarding summary judgment to plaintiffs....

## NOTES

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1. Think back to the question we asked just before this case: Why didn't the plaintiffs sue the Cablevision subscribers as "direct" infringers? The answer is, because the subscribers, who were recording television programs for personal use, were likely making fair use copies and were not themselves infringers. The Supreme Court so held on similar facts in *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984), a case you read in Chapter VI and will revisit later in this chapter. If the Cablevision subscribers are not "direct" infringers, then Cablevision cannot be held liable as a secondary infringer. This fact explains the plaintiffs' attempt to have Cablevision held liable as a direct infringer, an argument that clashed with *Netcom's* understanding of the sort of volition required for direct infringement.

2. *Netcom and Cartoon Network* both suggest that machines cannot possess the requisite volition to infringe copyright, whereas humans can. Is this distinction between human and machine a proper one? For more on this issue, see Mala Chatterjee & Jeanne C. Fromer, *Minds, Machines, and the Law: The Case of Volition in Copyright Law*, 119 COLUM. L. REV. (forthcoming 2019), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3392675](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3392675).

3. Recall *American Broadcasting Cos. v. Aereo, Inc.*, which you read in Chapter V. In particular, consider Justice Scalia's dissent. Does *Aereo* jettison the volition requirement for direct liability found in *Netcom* and *Cartoon Network*? Note that the Second and Ninth Circuits have both found, in decisions after *Aereo*, that the volition criterion for direct liability is still relevant. In *Perfect 10, Inc. v. Giganeys, Inc.*, 847 F.3d 657 (9th Cir. 2017), the Ninth Circuit held that "[t]he volitional-conduct requirement is consistent with the *Aereo* majority opinion." The Second Circuit has similarly affirmed the continuing relevance of volition post-*Aereo*. *BWP Media USA Inc. v. Polyvore, Inc.*, 922 F.3d 42 (2d Cir. 2019) (per curiam).

4. Why is the relevant "volition" the choice to make a copy, rather than the choice to build a machine that makes the copy? Think about this question as you read the material, below, on secondary liability.

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## B. Secondary Liability

Section 501 of the Copyright Act identifies as an infringer "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by section[] 106...." 17 U.S.C. § 501(a). In turn, § 106 states that, with respect to the list of specified rights that you studied in Chapter V, "the owner of copyright ... has the *exclusive rights to do and to authorize*" the activities that implicate those rights. *Id.* § 106 (emphasis added). The legislative history of the 1976 Act indicates that Congress added the words "to authorize" to § 106 to confirm its intent that contributory infringers be liable under the Act. H.R. REP. NO. 94-1476, 94th Cong., 2d Sess. 61 (1976).

It is clear, in sum, that Congress meant to provide for at least one form of secondary liability for copyright infringement. It is also clear that Congress did not define the standards for secondary liability in the Copyright Act. That job, both prior to and following the enactment of the 1976 Act, has been left to the courts. As we shall see in the following cases, courts have adapted two well-established theories of secondary liability in tort to the copyright context. The first, **contributory liability**, focuses on actors who, while not directly responsible for infringement, nonetheless may be held liable for knowingly assisting or encouraging infringement. The second, **vicarious liability**, focuses on actors who, while again not directly responsible for infringement, nonetheless may be held liable because they benefit from the infringement and have the right or authority to prevent or stop it.

As you read the following cases, pay attention to the ways in which courts adapt the common law secondary liability doctrines to the special context of copyright infringement. In adapting the common law standards, do the courts alter them?

## **Fonovisa, Inc. v. Cherry Auction, Inc.**

76 F.3d 259 (9th Cir. 1996)

SCHROEDER, J.:

[1] This is a copyright ... enforcement action against the operators of a swap meet, sometimes called a flea market, where third-party vendors routinely sell counterfeit recordings that infringe on the plaintiff's copyrights and trademarks. The district court dismissed on the pleadings, holding that the plaintiffs, as a matter of law, could not maintain any cause of action against the swap meet for sales by vendors who leased its premises.... We reverse.

### **Background**

[2] The plaintiff and appellant is Fonovisa, Inc., a California corporation that owns copyrights ... to Latin/Hispanic music recordings. Fonovisa filed this action in district court against defendant-appellee, Cherry Auction, Inc., and its individual operators (collectively "Cherry Auction"). For purposes of this appeal, it is undisputed that Cherry Auction operates a swap meet in Fresno, California, similar to many other swap meets in this country where customers come to purchase various merchandise from individual vendors. The vendors pay a daily rental fee to the swap meet operators in exchange for booth space. Cherry Auction supplies parking, conducts advertising and retains the right to exclude any vendor for any reason, at any time, and thus can exclude vendors for ... infringement. In addition, Cherry Auction receives an entrance fee from each customer who attends the swap meet.

[3] There is also no dispute for purposes of this appeal that Cherry Auction and its operators were aware that vendors in their swap meet were selling counterfeit recordings in violation of Fonovisa's ... copyrights. Indeed, it is alleged that in 1991, the Fresno County Sheriff's Department raided the Cherry Auction swap meet and seized more than 38,000 counterfeit recordings. The following year, after finding that vendors at the Cherry Auction swap meet were still selling counterfeit recordings, the Sheriff sent a letter notifying Cherry Auction of the on-going sales of infringing materials, and reminding Cherry Auction that they had agreed to provide the Sheriff with identifying information from each vendor. In addition, in 1993, Fonovisa itself sent an investigator to the Cherry Auction site and observed sales of counterfeit recordings.

[4] Fonovisa filed its original complaint in the district court ..., and ... the district court granted defendants' motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6). In this appeal, Fonovisa does not challenge the district court's dismissal of its claim for direct copyright infringement, but does appeal the dismissal of its claims for contributory copyright infringement [and] vicarious copyright infringement ....

[5] .... Although the Copyright Act does not expressly impose liability on anyone other than direct infringers, courts have long recognized that in certain circumstances, vicarious or contributory liability will be imposed. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984) (explaining that "vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying circumstances in which it is just to hold one individually accountable for the actions of another")....



## Vicarious Copyright Infringement

[6] The concept of vicarious copyright liability was developed in the Second Circuit as an outgrowth of the agency principles of respondeat superior. The landmark case on vicarious liability for sales of counterfeit recordings is *Shapiro, Bernstein and Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir.1963). In *Shapiro*, the court was faced with a copyright infringement suit against the owner of a chain of department stores where a concessionaire was selling counterfeit recordings. Noting that the normal agency rule of respondeat superior imposes liability on an employer for copyright infringements by an employee, the court endeavored to fashion a principle for enforcing copyrights against a defendant whose economic interests were intertwined with the direct infringer's, but who did not actually employ the direct infringer.

[7] The *Shapiro* court looked at the two lines of cases it perceived as most clearly relevant. In one line of cases, the landlord-tenant cases, the courts had held that a landlord who lacked knowledge of the infringing acts of its tenant and who exercised no control over the leased premises was not liable for infringing sales by its tenant. In the other line of cases, the so-called "dance hall cases," the operator of an entertainment venue was held liable for infringing performances when the operator (1) could control the premises and (2) obtained a direct financial benefit from the audience, who paid to enjoy the infringing performance.

[8] From those two lines of cases, the *Shapiro* court determined that the relationship between the store owner and the concessionaire in the case before it was closer to the dance-hall model than to the landlord-tenant model. It imposed liability even though the defendant was unaware of the infringement. *Shapiro* deemed the imposition of vicarious liability neither unduly harsh nor unfair because the store proprietor had the power to cease the conduct of the concessionaire, and because the proprietor derived an obvious and direct financial benefit from the infringement. The test was more clearly articulated in a later Second Circuit case as follows: "even in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities." *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir.1971) ....

[9] The district court in this case agreed with defendant Cherry Auction that Fonovisa did not, as a matter of law, meet either the control or the financial benefit prong of the vicarious copyright infringement test articulated in *Gershwin*. Rather, the district court concluded that based on the pleadings, "Cherry Auction neither supervised nor profited from the vendors' sales." In the district court's view, with respect to both control and financial benefit, Cherry Auction was in the same position as an absentee landlord who has surrendered its exclusive right of occupancy in its leased property to its tenants.

[10] This analogy to absentee landlord is not in accord with the facts as alleged in the district court and which we, for purposes of appeal, must accept. The allegations below were that vendors occupied small booths within premises that Cherry Auction controlled and patrolled. According to the complaint, Cherry Auction had the right to terminate vendors for any reason whatsoever and through that right had the ability to control the activities of vendors on the premises. In addition, Cherry Auction promoted the swap meet and controlled the access of customers to the swap meet area. In terms of control, the allegations before us are strikingly similar to those in *Shapiro* and *Gershwin*...

[11] The district court's dismissal of the vicarious liability claim in this case was therefore not justified on the ground that the complaint failed to allege sufficient control.

[12] We next consider the issue of financial benefit. The plaintiff's allegations encompass many substantive benefits to Cherry Auction from the infringing sales. These include the payment of a daily rental fee by each of the infringing vendors; a direct payment to Cherry Auction by each customer in the form of an admission

fee, and incidental payments for parking, food and other services by customers seeking to purchase infringing recordings.

[13] Cherry Auction nevertheless contends that these benefits cannot satisfy the financial benefit prong of vicarious liability because a commission, directly tied to the sale of particular infringing items, is required. They ask that we restrict the financial benefit prong to the precise facts presented in *Shapiro*, where defendant H.L. Green Company received a 10 or 12 per cent commission from the direct infringers' gross receipts. Cherry Auction points to the low daily rental fee paid by each vendor, discounting all other financial benefits flowing to the swap meet, and asks that we hold that the swap meet is materially similar to a mere landlord. The facts alleged by Fonovisa, however, reflect that the defendants reap substantial financial benefits from admission fees, concession stand sales and parking fees, all of which flow directly from customers who want to buy the counterfeit recordings at bargain basement prices. The plaintiff has sufficiently alleged direct financial benefit.

[14] Our conclusion is fortified by the continuing line of cases, starting with the dance hall cases, imposing vicarious liability on the operator of a business where infringing performances enhance the attractiveness of the venue to potential customers.... In this case, the sale of pirated recordings at the Cherry Auction swap meet is a "draw" for customers, as was the performance of pirated music in the dance hall cases and their progeny.

[15] Plaintiffs have stated a claim for vicarious copyright infringement.

### **Contributory Copyright Infringement**

[16] Contributory infringement originates in tort law and stems from the notion that one who directly contributes to another's infringement should be held accountable. Contributory infringement has been described as an outgrowth of enterprise liability, and imposes liability where one person knowingly contributes to the infringing conduct of another. The classic statement of the doctrine is in *Gershwin*, 443 F.2d 1159, 1162: "[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."

[17] There is no question that plaintiff adequately alleged the element of knowledge in this case. The disputed issue is whether plaintiff adequately alleged that Cherry Auction materially contributed to the infringing activity. We have little difficulty in holding that the allegations in this case are sufficient to show material contribution to the infringing activity. Indeed, it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet. These services include, *inter alia*, the provision of space, utilities, parking, advertising, plumbing, and customers.

[18] Here again Cherry Auction asks us to ignore all aspects of the enterprise described by the plaintiffs, to concentrate solely on the rental of space, and to hold that the swap meet provides nothing more. Yet Cherry Auction actively strives to provide the environment and the market for counterfeit recording sales to thrive. Its participation in the sales cannot be termed "passive," as Cherry Auction would prefer.

[19] The district court apparently took the view that contribution to infringement should be limited to circumstances in which the defendant expressly promoted or encouraged the sale of counterfeit products, or in some manner protected the identity of the infringers. Given the allegations that the local sheriff lawfully requested that Cherry Auction gather and share basic, identifying information about its vendors, and that Cherry Auction failed to comply, the defendant appears to qualify within the last portion of the district court's own standard that posits liability for protecting infringers' identities. Moreover, we [think] ... that providing the site and facilities for known infringing activity is sufficient to establish contributory liability....

## NOTES

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1. Do you agree with *Fonovisa's* holding that the defendant swap-meet operator enjoyed a "direct" financial benefit from the infringement committed by one of the vendors? If the swap meet operator benefited directly, can you give an example of an "indirect" financial benefit?
  2. *Fonovisa* holds that "providing the site and facilities for known infringing activity is sufficient to establish contributory liability." Keep this holding in mind as you read the following cases.
  3. Refer back to *Netcom* in the previous section. Is there a secondary infringer in *Netcom*? Under which of the two theories discussed in *Fonovisa* (if any) could that party be held secondarily liable?
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### **Perfect 10, Inc. v. Amazon.com, Inc.**

508 F.3d 1146 (9th Cir. 2007)

IKUTA, J.:

{Recall the facts of this case from Chapters V and VI.} ...

#### **Secondary Liability for Copyright Infringement**

[1] We now turn to the district court's ruling that Google is unlikely to be secondarily liable for its in-line linking to infringing full-size images under the doctrines of contributory and vicarious infringement. The district court ruled that Perfect 10 did not have a likelihood of proving success on the merits of either its contributory infringement or vicarious infringement claims with respect to the full-size images. In reviewing the district court's conclusions, we are guided by the Supreme Court's recent interpretation of secondary liability, namely: "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." [MGM Studios, Inc. v.] Grokster, [Ltd.,] 545 U.S. 913, 930 (2005).

[2] *Direct Infringement by Third Parties*. As a threshold matter, before we examine Perfect 10's claims that Google is secondarily liable, Perfect 10 must establish that there has been direct infringement by third parties. See [A&M Records, Inc. v.] Napster, [Inc.,] 239 F.3d 1004, 1013 n.2 (9th Cir. 2001) ("Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party.").

[3] Perfect 10 alleges that third parties directly infringed its images in three ways. First, Perfect 10 claims that third-party websites directly infringed its copyright by reproducing, displaying, and distributing unauthorized copies of Perfect 10's images. Google does not dispute this claim on appeal.

[4] Second, Perfect 10 claims that individual users of Google's search engine directly infringed Perfect 10's copyrights by storing full-size infringing images on their computers. We agree with the district court's conclusion that Perfect 10 failed to provide sufficient evidence to support this claim. There is no evidence in the record directly establishing that users of Google's search engine have stored infringing images on their computers, and the district court did not err in declining to infer the existence of such evidence.

[5] Finally, Perfect 10 contends that users who link to infringing websites automatically make "cache" copies of full-size images and thereby directly infringe Perfect 10's reproduction right. The district court rejected this argument, holding that any such reproduction was likely a fair use. The district court reasoned that "[l]ocal caching by the browsers of individual users is noncommercial, transformative, and no more than necessary to achieve the objectives of decreasing network latency and minimizing unnecessary bandwidth usage (essential

to the internet). It has a minimal impact on the potential market for the original work....” We agree; even assuming such automatic copying could constitute direct infringement, it is a fair use in this context. The copying function performed automatically by a user’s computer to assist in accessing the Internet is a transformative use. Moreover, as noted by the district court, a cache copies no more than is necessary to assist the user in Internet use. It is designed to enhance an individual’s computer use, not to supersede the copyright holders’ exploitation of their works. Such automatic background copying has no more than a minimal effect on Perfect 10’s rights, but a considerable public benefit. Because the four fair use factors weigh in favor of concluding that cache copying constitutes a fair use, Google has established a likelihood of success on this issue. Accordingly, Perfect 10 has not carried its burden of showing that users’ cache copies of Perfect 10’s full-size images constitute direct infringement.

[6] Therefore, we must assess Perfect 10’s arguments that Google is secondarily liable in light of the direct infringement that is undisputed by the parties: third-party websites’ reproducing, displaying, and distributing unauthorized copies of Perfect 10’s images on the Internet.

#### A. Contributory Infringement ...

[7] We must ... consider whether Google could be held liable under ... contributory liability ..., that is, the liability that may be imposed for intentionally encouraging infringement through specific acts. *Grokster* {a case you will encounter below in section D} tells us that contribution to infringement must be intentional for liability to arise. However, *Grokster* also directs us to analyze contributory liability in light of “rules of fault-based liability derived from the common law,” and common law principles establish that intent may be imputed.... Therefore, under *Grokster*, an actor may be contributorily liable for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement.

[8] Our tests for contributory liability are consistent with the rule set forth in *Grokster*. We have adopted the general rule set forth in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, namely: “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer,” 443 F.2d 1159, 1162 (2d Cir.1971).

[9] We have further refined this test in the context of cyberspace to determine when contributory liability can be imposed on a provider of Internet access or services. In *Napster* {another case you will encounter below in section D}, we considered claims that the operator of an electronic file sharing system was contributorily liable for assisting individual users to swap copyrighted music files stored on their home computers with other users of the system. We stated that “if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.” Because Napster knew of the availability of infringing music files, assisted users in accessing such files, and failed to block access to such files, we concluded that Napster materially contributed to infringement.

[10] The *Napster* test for contributory liability was modeled on the influential district court decision in [*Netcom*] .... *Netcom* held that if plaintiffs could prove that Netcom knew or should have known that the minister infringed plaintiffs’ copyrights, “Netcom [would] be liable for contributory infringement since its failure to simply cancel [the former minister’s] infringing message and thereby stop an infringing copy from being distributed worldwide constitute[d] substantial participation in [the former minister’s] public distribution of the message.”

[11] Although neither *Napster* nor *Netcom* expressly required a finding of intent, those cases are consistent with *Grokster* because both decisions ruled that a service provider’s knowing failure to prevent infringing

actions could be the basis for imposing contributory liability. Under such circumstances, intent may be imputed. In addition, *Napster* and *Netcom* are consistent with the longstanding requirement that an actor's contribution to infringement must be material to warrant the imposition of contributory liability. Both *Napster* and *Netcom* acknowledge that services or products that facilitate access to websites throughout the world can significantly magnify the effects of otherwise immaterial infringing activities. The Supreme Court has acknowledged that "[t]he argument for imposing indirect liability" is particularly "powerful" when individuals using the defendant's software could make a huge number of infringing downloads every day. *Grokster*, 545 U.S. at 929. Moreover, copyright holders cannot protect their rights in a meaningful way unless they can hold providers of such services or products accountable for their actions pursuant to a test such as that enunciated in *Napster*. See *id.* at 929–30 ("When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement."). Accordingly, we hold that a computer system operator can be held contributorily liable if it "has *actual* knowledge that *specific* infringing material is available using its system," *Napster*, 239 F.3d at 1022, and can "take simple measures to prevent further damage" to copyrighted works, *Netcom*, 907 F. Supp. at 1375, yet continues to provide access to infringing works.

[12] Here, the district court held that even assuming Google had actual knowledge of infringing material available on its system, Google did not materially contribute to infringing conduct because it did not undertake any substantial promotional or advertising efforts to encourage visits to infringing websites, nor provide a significant revenue stream to the infringing websites. This analysis is erroneous. There is no dispute that Google substantially assists websites to distribute their infringing copies to a worldwide market and assists a worldwide audience of users to access infringing materials. We cannot discount the effect of such a service on copyright owners, even though Google's assistance is available to all websites, not just infringing ones. Applying our test, Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps.

[13] The district court did not resolve the factual disputes over the adequacy of Perfect 10's notices to Google and Google's responses to these notices. Moreover, there are factual disputes over whether there are reasonable and feasible means for Google to refrain from providing access to infringing images. Therefore, we must remand this claim to the district court for further consideration whether Perfect 10 would likely succeed in establishing that Google was contributorily liable for in-line linking to full-size infringing images under the test enunciated today.

## B. Vicarious Infringement

[14] Perfect 10 also challenges the district court's conclusion that it is not likely to prevail on a theory of vicarious liability against Google.... [O]ne infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it. As this formulation indicates, to succeed in imposing vicarious liability, a plaintiff must establish that the defendant exercises the requisite control over the direct infringer and that the defendant derives a direct financial benefit from the direct infringement.... [T]he "control" element of the vicarious liability test [is directed to] the defendant's right and ability to supervise the direct infringer. Thus, ... a defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so.

[15] We evaluate Perfect 10's arguments that Google is vicariously liable in light of the direct infringement that is undisputed by the parties, namely, the third-party websites' reproduction, display, and distribution of unauthorized copies of Perfect 10's images on the Internet. In order to prevail at this preliminary injunction

stage, Perfect 10 must demonstrate a likelihood of success in establishing that Google has the right and ability to stop or limit the infringing activities of third party websites. In addition, Perfect 10 must establish a likelihood of proving that Google derives a direct financial benefit from such activities. Perfect 10 has not met this burden.

[16] With respect to the “control” element ..., Perfect 10 has not demonstrated a likelihood of showing that Google has the legal right to stop or limit the direct infringement of third-party websites. Unlike *Fonovisa*, where by virtue of a “broad contract” with its vendors the defendant swap meet operators had the right to stop the vendors from selling counterfeit recordings on its premises, Perfect 10 has not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies of Perfect 10’s images on the Internet. Perfect 10 does point to Google’s AdSense agreement, which states that Google reserves “the right to monitor and terminate partnerships with entities that violate others’ copyright[s].” However, Google’s right to terminate an AdSense partnership does not give Google the right to stop direct infringement by third-party websites. An infringing third-party website can continue to reproduce, display, and distribute its infringing copies of Perfect 10 images after its participation in the AdSense program has ended.

[17] Nor is Google similarly situated to Napster. Napster users infringed the plaintiffs’ reproduction and distribution rights through their use of Napster’s proprietary music-file sharing system. There, the infringing conduct was the use of Napster’s service to download and upload copyrighted music. Because Napster had a closed system requiring user registration, and could terminate its users’ accounts and block their access to the Napster system, Napster had the right and ability to prevent its users from engaging in the infringing activity of uploading file names and downloading Napster users’ music files through the Napster system. By contrast, Google cannot stop any of the third-party websites from reproducing, displaying, and distributing unauthorized copies of Perfect 10’s images because that infringing conduct takes place on the third-party websites. Google cannot terminate those third-party websites or block their ability to host and serve infringing full-size images on the Internet.

[18] Moreover, the district court found that Google lacks the practical ability to police the third-party websites’ infringing conduct. Specifically, the court found that Google’s supervisory power is limited because “Google’s software lacks the ability to analyze every image on the internet, compare each image to all the other copyrighted images that exist in the world ... and determine whether a certain image on the web infringes someone’s copyright.” The district court also concluded that Perfect 10’s suggestions regarding measures Google could implement to prevent its web crawler from indexing infringing websites and to block access to infringing images were not workable. Rather, the suggestions suffered from both “imprecision and overbreadth.” We hold that these findings are not clearly erroneous. Without image-recognition technology, Google lacks the practical ability to police the infringing activities of third-party websites. This distinguishes Google from the defendants held liable in *Napster* and *Fonovisa*.

[19] Perfect 10 argues that Google could manage its own operations to avoid indexing websites with infringing content and linking to third-party infringing sites. This is a claim of contributory liability, not vicarious liability. Although the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn, in general, contributory liability is based on the defendant’s failure to stop its own actions which facilitate third-party infringement, while vicarious liability is based on the defendant’s failure to cause a third party to stop its directly infringing activities. Google’s failure to change its operations to avoid assisting websites to distribute their infringing content may constitute contributory liability. However, this failure is not the same as declining to exercise a right and ability to make third-party websites stop their direct infringement. We reject Perfect 10’s efforts to blur this distinction.

[20] Because we conclude that Perfect 10 has not shown a likelihood of establishing Google’s right and ability to stop or limit the directly infringing conduct of third-party websites, we agree with the district court’s conclusion that Perfect 10 “has not established a likelihood of proving the [control] prong necessary for vicarious liability.”<sup>15</sup> ...

[21] We conclude that .... [t]he district court ... erred in its secondary liability analysis because it failed to consider whether Google ... knew of infringing activities yet failed to take reasonable and feasible steps to refrain from providing access to infringing images. Therefore we must ... reverse the district court’s holding that Perfect 10 was unlikely to succeed on the merits of its secondary liability claims ....

## **Perfect 10, Inc. v. Visa International Service, Association**

494 F.3d 788 (9th Cir. 2007)

SMITH, J.:

[1] Perfect 10, Inc. sued Visa International Service Association, MasterCard International Inc., and several affiliated banks and data processing services, alleging secondary liability under federal copyright ... law .... It sued because Defendants continue to process credit card payments to websites that infringe Perfect 10’s intellectual property rights after being notified by Perfect 10 of infringement by those websites. The district court dismissed all causes of action under Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim upon which relief can be granted. We affirm the decision of the district court.

### **FACTS AND PRIOR PROCEEDINGS**

[2] Perfect 10 publishes the magazine “PERFECT10” and operates the subscription website [www.perfect10.com](http://www.perfect10.com), both of which feature tasteful copyrighted images of the world’s most beautiful natural models. Perfect 10 claims copyrights in the photographs published in its magazine and on its website .... Perfect 10 alleges that numerous websites based in several countries have stolen its proprietary images, altered them, and illegally offered them for sale online.

[3] Instead of suing the direct infringers in this case, Perfect 10 sued Defendants, financial institutions that process certain credit card payments to the allegedly infringing websites. The Visa and MasterCard entities are associations of member banks that issue credit cards to consumers, automatically process payments to merchants authorized to accept their cards, and provide information to the interested parties necessary to settle the resulting debits and credits. Defendants collect fees for their services in these transactions. Perfect 10 alleges that it sent Defendants repeated notices specifically identifying infringing websites and informing Defendants that some of their consumers use their payment cards to purchase infringing images. Defendants admit receiving some of these notices, but they took no action in response to the notices after receiving them....

[4] Perfect 10 filed suit against Defendants ... alleging contributory and vicarious copyright ... infringement .... The district court granted the Defendants’ ... motion [to dismiss] .... Perfect 10 appealed to this court....

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<sup>15</sup> Having so concluded, we need not reach Perfect 10’s argument that Google received a direct financial benefit.

## DISCUSSION

### SECONDARY LIABILITY UNDER FEDERAL COPYRIGHT ... LAW ...

[5] Perfect 10 alleges that numerous websites based in several countries—and their paying customers—have directly infringed its rights under the Copyright Act. In the present suit, however, Perfect 10 has sued Defendants, not the direct infringers, claiming contributory and vicarious copyright infringement because Defendants process credit card charges incurred by customers to acquire the infringing images.

[6] We evaluate Perfect 10's claims with an awareness that credit cards serve as the primary engine of electronic commerce and that Congress has determined it to be the "policy of the United States—(1) to promote the continued development of the Internet and other interactive computer services and other interactive media [and] (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation." 47 U.S.C. §§ 230(b)(1), (2).

#### 1. Contributory Copyright Infringement

[7] Contributory copyright infringement is a form of secondary liability with roots in the tort-law concepts of enterprise liability and imputed intent.... We have found that a defendant is a contributory infringer if it (1) has knowledge of a third party's infringing activity, and (2) induces, causes, or materially contributes to the infringing conduct. In an Internet context, we have found contributory liability when the defendant engages in personal conduct that encourages or assists the infringement.... Most recently, in a case also brought by Perfect 10, we found that "an actor may be contributorily liable ... for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement." *Amazon.com*, 487 F.3d at 727.

[8] .... To find that Defendants' activities fall within the scope of such tests would require a radical and inappropriate expansion of existing principles of secondary liability and would violate the public policy of the United States.

#### a. Knowledge of the Infringing Activity

[9] Because we find that Perfect 10 has not pled facts sufficient to establish that Defendants ... materially contribute to the infringing activity, Perfect 10's contributory copyright infringement claim fails and we need not address the Defendants' knowledge of the infringing activity.

#### b. Material Contribution, Inducement, or Causation

[10] To state a claim of contributory infringement, Perfect 10 must allege facts showing that Defendants induce, cause, or materially contribute to the infringing conduct.... Perfect 10 argues that by continuing to process credit card payments to the infringing websites despite having knowledge of ongoing infringement, Defendants induce, enable and contribute to the infringing activity .... We disagree.

#### 1. Material Contribution

[11] The credit card companies cannot be said to materially contribute to the infringement in this case because they have no direct connection to that infringement. Here, the infringement rests on the reproduction, alteration, display and distribution of Perfect 10's images over the Internet. Perfect 10 has not alleged that any infringing material passes over Defendants' payment networks or through their payment processing systems, or that Defendants' systems are used to alter or display the infringing images. In



*Fonovisa*, the infringing material was physically located in and traded at the defendant's market. Here, it is not. Nor are Defendants' systems used to locate the infringing images. The search engines in *Amazon.com* provided links to specific infringing images, and the service[] in *Napster* ... allowed users to locate and obtain infringing material. Here, in contrast, the services provided by the credit card companies do not help locate and are not used to distribute the infringing images. While Perfect 10 has alleged that Defendants make it easier for websites to profit from this infringing activity, the issue here is reproduction, alteration, display and distribution, which can occur without payment. Even if infringing images were not paid for, there would still be infringement.

[12] Our analysis is fully consistent with this court's recent decision in *Perfect 10 v. Amazon.com*, where we found that "Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps." The dissent claims this statement applies squarely to Defendants if we just substitute "payment systems" for "search engine." But this is only true if search engines and payment systems are equivalents for these purposes, and they are not. The salient distinction is that Google's search engine itself assists in the distribution of infringing content to Internet users, while Defendants' payment systems do not. The *Amazon.com* court noted that "Google substantially assists websites to distribute their infringing copies to a worldwide market and assists a worldwide audience of users to access infringing materials." Defendants do not provide such a service. They in no way assist or enable Internet users to locate infringing material, and they do not distribute it. They do, as alleged, make infringement more profitable, and people are generally more inclined to engage in an activity when it is financially profitable. However, there is an additional step in the causal chain: Google may materially contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be *profitable*, which tends to increase financial incentives to infringe, which in turn tends to increase infringement.

[13] ... We acknowledge that Defendants' payment systems make it easier for such an infringement to be profitable, and that they therefore have the effect of increasing such infringement, but because infringement of Perfect 10's copyrights can occur without using Defendants' payment system, we hold that payment processing by the Defendants as alleged in Perfect 10's ... Complaint does not constitute a "material contribution" under the test for contributory infringement of copyrights....

## **2. Vicarious Copyright Infringement**

[14] Vicarious infringement is a concept related to, but distinct from, contributory infringement. Whereas contributory infringement is based on tort-law principles of enterprise liability and imputed intent, vicarious infringement's roots lie in the agency principles of *respondeat superior*. To state a claim for vicarious copyright infringement, a plaintiff must allege that the defendant has (1) the right and ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity.... Perfect 10 alleges that Defendants have the right and ability to control the content of the infringing websites by refusing to process credit card payments to the websites, enforcing their own rules and regulations, or both. We hold that Defendants' conduct alleged in Perfect 10's ... complaint fails to state a claim for vicarious copyright infringement.

### **a. Right and Ability to Supervise the Infringing Activity**

[15] In order to join a Defendant's payment network, merchants and member banks must agree to follow that Defendant's rules and regulations. These rules, among other things, prohibit member banks from providing services to merchants engaging in certain illegal activities and require the members and member banks to investigate merchants suspected of engaging in such illegal activity and to terminate their participation in the payment network if certain illegal activity is found. Perfect 10 has alleged that certain websites are infringing

Perfect 10's copyrights and that Perfect 10 sent notices of this alleged infringement to Defendants. Accordingly, Perfect 10 has adequately pled that (1) infringement of Perfect 10's copyrights was occurring, (2) Defendants were aware of the infringement, and (3) on this basis, Defendants could have stopped processing credit card payments to the infringing websites. These allegations are not, however, sufficient to establish vicarious liability because even with all reasonable inferences drawn in Perfect 10's favor, Perfect 10's allegations of fact cannot support a finding that Defendants have the right and ability to control the infringing activity.

[16] In reasoning closely analogous to the present case, the *Amazon.com* court held that Google was not vicariously liable for third-party infringement that its search engine facilitates. In so holding, the court found that Google's ability to control its own index, search results, and webpages does not give Google the right to control the infringing acts of third parties even though that ability would allow Google to affect those infringing acts to some degree. Moreover, and even more importantly, the *Amazon.com* court rejected a vicarious liability claim based on Google's policies with sponsored advertisers, which state that it reserves "the right to monitor and terminate partnerships with entities that violate others' copyright[s]." The court found that

*Google's right to terminate an AdSense partnership does not give Google the right to stop direct infringement by third-party websites. An infringing third-party website can continue to reproduce, display, and distribute its infringing copies of Perfect 10 images after its participation in the AdSense program has ended.*

This reasoning is equally applicable to the Defendants in this case. Just like Google, Defendants could likely take certain steps that may have the indirect effect of reducing infringing activity on the Internet at large. However, neither Google nor Defendants has any ability to directly control that activity, and the mere ability to withdraw a financial "carrot" does not create the "stick" of "right and ability to control" that vicarious infringement requires. A finding of vicarious liability here, under the theories advocated by the dissent, would also require a finding that Google is vicariously liable for infringement—a conflict we need not create, and radical step we do not take...

[17] Perfect 10 offers [a] counter-argument[.]. Perfect 10 ... claims that Defendants' rules and regulations permit them to require member merchants to cease illegal activity—presumably including copyright infringement—as a condition to their continuing right to receive credit card payments from the relevant Defendant entities. Perfect 10 argues that these contractual terms effectively give Defendants contractual control over the *content* of their merchants' websites, and that contractual control over content is sufficient to establish the "right and ability" to control that content for purposes of vicarious liability. In the sense that economic considerations can influence behavior, these contractual rules and regulations do give Defendants some measure of control over the offending websites since it is reasonable to believe that fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with a content-based suggestion from Defendants. But the ability to exert financial pressure does not give Defendants the right or ability to control the actual infringing activity at issue in this case. Defendants have no absolute right<sup>16</sup> to stop that activity—they cannot stop websites from reproducing, altering, or distributing infringing images. Rather, the credit card companies are analogous to Google, which we held was not liable for vicarious copyright infringement even though search engines could effectively cause a website to disappear by removing it from their search results, and reserve the right to do so.... For vicarious liability to

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<sup>16</sup> We do not, as the dissent suggests, hold that an absolute right to stop the infringement is a prerequisite for vicarious liability. Rather, we consider the Defendants' inability to directly control the actual infringing activities of third-party websites—reproduction, alteration, display, and distribution over the Internet, not over Defendants' payment systems—as evidence that they, much like Google, lack the right and ability to control those activities.

attach, however, the defendant must have the right and ability to *supervise* and *control* the infringement, not just affect it, and Defendants do not have this right or ability....

#### **b. Obvious and Direct Financial Interest in the Infringing Activity**

[18] Because Perfect 10 has failed to show that Defendants have the right and ability to control the alleged infringing conduct, it has not pled a viable claim of vicarious liability. Accordingly, we need not reach the issue of direct financial interest....

### **CONCLUSION**

We decline to create any of the radical new theories of liability advocated by Perfect 10 and the dissent and we affirm the district court's dismissal with prejudice of all causes of action in Perfect 10's complaint for failure to state a claim upon which relief can be granted.

AFFIRMED.

KOZINSKI, J., dissenting for the most part:

[19] Federal law gives copyright owners the exclusive right to "distribute copies [of their works] ... to the public by sale." 17 U.S.C. § 106(3). Plaintiff alleges that certain third parties it refers to as the "Stolen Content Websites" unlawfully copy its protected images and sell them to the public, using defendants' payment systems as financial intermediaries. According to plaintiff, the Stolen Content Websites "maintain no physical presence in the United States in order to evade criminal and civil liability for their illegal conduct." Plaintiff also claims that "Defendants do not enforce their own rules against [the] Stolen Content Websites because Defendants do not want to lose the substantial revenues and profits they receive from the websites." Plaintiff has repeatedly notified defendants that they are abetting the sale of stolen merchandise by "knowingly providing crucial transactional support services for the sale of millions of stolen photos and film clips worth billions of dollars," but to no avail. Frustrated in its effort to protect the rights Congress has given it, plaintiff turns to the federal courts for redress. We should not slam the courthouse door in its face.

[20] Accepting the truth of plaintiff's allegations, as we must on a motion to dismiss, the credit cards are easily liable for indirect copyright infringement: They knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale. If such active participation in infringing conduct does not amount to indirect infringement, it's hard to imagine what would. By straining to absolve defendants of liability, the majority leaves our law in disarray.

#### **Contributory Infringement**

[21] We have long held that a defendant is liable for contributory infringement if it "materially contributes to the infringing conduct." Our recent opinion in *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007), canvasses the caselaw in this area and concludes that Google "could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps." Substitute "payment systems" for "search engine" in this sentence, and it describes defendants here: If a consumer wishes to buy an infringing image from one of the Stolen Content Websites, he can do so by using Visa or MasterCard, just as he can use Google to find the infringing images in the first place. My colleagues engage in wishful thinking when they claim that "Google's search engine itself assists in the distribution of infringing content to Internet users, while Defendants' payment systems do not" and that "[h]elping users to locate an image might substantially assist users to download infringing images, but processing payments does not."

[22] The majority struggles to distinguish *Amazon* by positing an “additional step in the causal chain” between defendants’ activities and the infringing conduct. According to the majority, “Google may materially contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be *profitable*, which tends to increase financial incentives to infringe, which in turn tends to increase infringement.” The majority is mistaken; there is no “additional step.” Defendants participate in every credit card sale of pirated images; the images are delivered to the buyer only after defendants approve the transaction and process the payment. This is not just an economic incentive for infringement; it’s an essential step in the infringement process.

[23] In any event, I don’t see why it matters whether there is an “additional step.” Materiality turns on how significantly the activity helps infringement, not on whether it’s characterized as one step or two steps removed from it. The majority recognizes that “Defendants make it easier for websites to profit from this infringing activity,” that defendants’ conduct “tends to increase infringement,” that defendants “have the effect of increasing ... infringement,” that “Defendants have the power to undermine the commercial viability of” the Stolen Content Websites and that they “make it easier for websites to profit from this infringing activity,” that “Defendants could likely take certain steps that may have the indirect effect of reducing infringing activity on the Internet,” and that defendants could “reduce the number of those [infringing] sales.” Taking the majority at its word, it sounds like defendants are providing very significant help to the direct infringers.

[24] My colleagues recognize, as they must, that helping consumers locate infringing content can constitute contributory infringement, but they consign the means of payment to secondary status. But why is *locating* infringing images more central to infringement than *paying* for them? If infringing images can’t be found, there can be no infringement; but if infringing images can’t be paid for, there can be no infringement either. Location services and payment services are equally central to infringement; the majority’s contrary assertion is supported largely by disparaging use of “merely,” “simply” and “only.”...

[25] The majority dismisses the significance of credit cards by arguing that “infringement could continue on a large scale [without them] because other viable funding mechanisms are available.” Of course, the same could be said about Google. As the majority admits, if Google were unwilling or unable to serve up infringing images, consumers could use Yahoo!, Ask.com, Microsoft Live Search, Ag.com or AltaVista instead. Even if none of these were available, consumers could still locate websites with infringing images through e-mails from friends, messages on discussion forums, tips via online chat, “typo-squatting,” peer-to-peer networking using BitTorrent or eDonkey, offline and online advertisements, disreputable search engines hosted on servers in far-off jurisdictions or even old-fashioned word of mouth. The majority’s claim that search engines “could effectively cause a website to disappear by removing it from their search results,” is quite a stretch...

### **Vicarious Infringement**

[26] A party infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it. There is no doubt that defendants profit from the infringing activity of the Stolen Content Websites; after all, they take a cut of virtually every sale of pirated material. The majority does not dispute this point so I need not belabor it.

[27] Defendants here also have a right to stop or limit the infringing activity, a right they have refused to exercise. As the majority recognizes, “Perfect 10 ... claims that Defendants’ rules and regulations permit them to require member merchants to cease illegal activity—presumably including copyright infringement—as a condition to their continuing right to receive credit card payments from the relevant Defendant entities.” Assuming the truth of this allegation, the cards have the authority, given to them by contract, to force the Stolen Content Websites to remove infringing images from their inventory as a condition for using

defendants' payment systems. If the merchants comply, their websites stop peddling stolen content and so infringement is stopped or limited. If they don't comply, defendants have the right—and under copyright law the duty—to kick the pirates off their payment networks, forcing them to find other means of getting paid or go out of business. In that case, too, infringement is stopped or limited...

[28] The majority toils to resist this obvious conclusion but its arguments are not persuasive. For example, it makes no difference that defendants control only the means of payment, not the mechanics of transferring the material. In a commercial environment, distribution and payment are (to use a quaint anachronism) like love and marriage—you can't have one without the other. If cards don't process payment, pirates don't deliver booty. The credit cards, in fact, control distribution of the infringing material....

[29] This is an easy case, squarely controlled by our precedent in all material respects. Fairly applying our cases to the facts alleged by *Perfect 10*, we should reverse the district court and give plaintiff an opportunity to prove its case through discovery and trial. In straining to escape the strictures of our caselaw, the majority draws a series of ephemeral distinctions that are neither required nor permitted; the opinion will prove to be no end of trouble.

## NOTES

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1. *Perfect 10 v. Amazon* holds "that a computer system operator can be held contributorily liable if it has *actual* knowledge that *specific* infringing material is available using its system, and can take simple measures to prevent further damage to copyrighted works, yet continues to provide access to infringing works." Is this holding consistent with *Fonovisa's* articulation of the test for contributory infringement? Is it consistent with *Fonovisa's* application of that test? If the two courts' accounts of contributory infringement liability—either in articulation or application—are inconsistent, is there a good reason to vary the standard as between a bricks-and-mortar enterprise like the swap meet in *Fonovisa*, and the sort of online services at issue in *Perfect 10 v. Amazon*?

2. With respect to the "control" prong of the contributory infringement standard as articulated in *Perfect 10 v. Amazon*, does Google enjoy any less "control" over infringers than the swap meet owner in *Fonovisa* did? If Google has knowledge of specific infringing activity, it could remove from its search results sites that host that infringing activity. Why does that not count as the requisite "control"?

3. We should ask the same questions about the holding in *Perfect 10 v. Visa*. The court holds that the credit card companies are not contributory infringers because they do not "materially contribute" to infringement. Can you square that holding with *Fonovisa's* approach to the "material contribution" prong of contributory infringement?

4. *Perfect 10 v. Visa* also holds that Visa does not directly benefit from infringement and therefore cannot be held vicariously liable. Do you agree with this holding? How do you square it with *Fonovisa's* determination that the swap-meet operator benefited directly from infringement?

5. If you believe that the standards for both contributory and vicarious infringement diverge between *Fonovisa* and the *Perfect 10* cases, do you have a theory for why that divergence may be occurring? Would you argue that it is justified?

6. In *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*, 718 F.3d 1006 (9th Cir. 2013), the court considered whether a venture capital firm that had invested in a website that hosted a large amount of infringing content could be held liable as secondary infringers. The court held that they could not:

UMG ... argues that the Investor Defendants "provided Veoh's necessary funding and directed its spending" on "basic operations including ... hardware, software, and employees"—"elements" [that] UMG argues "form 'the site and facilities' for Veoh's direct infringement." UMG thus attempts to liken its case to *UMG Recordings, Inc. v. Bertelsmann AG, et al.*, 222 F.R.D. 408 (N.D. Cal. 2004), where the district court denied an investor's motion to dismiss claims of contributory infringement. In *Bertelsmann*, however, the investor was Napster's only available source of funding, and thus held significant power and control over Napster's operations. Here, by contrast, there were multiple investors, and none of the Investor Defendants could individually control Veoh. Accordingly, UMG hinges its novel theory of secondary liability on the contention that the three Investor Defendants together took control of Veoh's operations by "obtain[ing] three of the five seats on Veoh's Board of Directors," and effectively provided the "site and facilities" for direct infringement by wielding their majority power to direct spending.

Even assuming that such joint control, not typically an element of contributory infringement, could satisfy Fonovisa's site and facilities requirement, UMG's argument fails on its own terms, because the complaint nowhere alleged that the Investor Defendants agreed to work in concert to this end.... [T]hree investors individually acquiring one seat apiece is not the same as agreeing to operate as a unified entity to obtain and leverage majority control.... We therefore affirm the dismissal of UMG's contributory infringement claim.

[We also] affirm the district court's dismissal of UMG's vicarious liability ... claim[.].... UMG's arguments that the Investor Defendants "distribut[e]" Veoh's services and had the right and ability to supervise the infringing users are premised on the unalleged contention that the Investor Defendants agreed to act in concert, and thus together they held a majority of seats on the Board and maintained operational control over the company. We therefore affirm the dismissal of the complaint against the Investor Defendants.

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## C. Liability of Online Service Providers, and Section 512 Safe Harbors

With the wide public adoption of the internet in the early and mid-1990s, concern grew that companies offering vital online services faced the threat of crippling liability under the traditional doctrines of secondary liability based on the prevalence of direct infringing conduct by their users. Given the scale of user infringement, the difficulty that many online service providers faced in policing that infringement, the simple reluctance of many online service providers to be involved in policing their users, and the inadequacy of indemnification and other contractual mechanisms to reduce the scale of potential secondary liability, Congress debated and eventually passed into law a set of **safe harbors** that protect online service providers against a range of possible secondary infringement claims.

The safe harbors were enacted in 1998 as part of the Digital Millennium Copyright Act, and codified in § 512 of the Copyright Act. Section 512 provides immunity from secondary infringement liability for an online "service provider" (OSP) that extends to the following activities: (1) transitory digital network communications; (2) system caching; (3) storing information on its systems at the direction of users; and (4) providing information location tools like hypertext links.

OSPs must comply with certain threshold requirements to qualify for any of the safe harbors. First, OSPs must not interfere with “standard technical measures” applied by copyright owners to protect their works. Second, OSPs must adopt and reasonably implement a policy providing for termination of repeat infringers, and they must inform their users of this policy. 17 U.S.C. § 512(i). In addition, each safe harbor has its own requirements that the OSP must meet to qualify for its protection.

The first safe harbor, set out in § 512(a), exempts an OSP from liability for transmitting or transiently storing infringing material. For it to apply, § 512(k)(1) requires that the “service provider” seeking the shelter of the safe harbor be “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.” *Id.* § 512(k)(1). In addition, eligibility is conditioned on the following requirements set out in § 512(a):

- (1) the transmission of the material was initiated by or at the direction of a person other than the service provider;*
- (2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;*
- (3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;*
- (4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and*
- (5) the material is transmitted through the system or network without modification of its content.*

The second safe harbor, set out in § 512(b), exempts OSPs from liability for caching copies of copyrighted material if the material is made available online by a person other than the OSP and transmitted from that person through the OSP’s system or network to a recipient at the recipient’s direction, and the storage by the OSP is automatic and done for the purpose of making the material available to other users of the system or network. *Id.* § 512(b). The OSP must not modify the content of the material, and it must also further comply with a set of specified conditions (including maintaining access controls, such as passwords, that may have been applied to the material). Finally, the OSP must disable access to cached material upon receiving notification that the material infringes copyright, and that either the material has been removed from the originating website or a court has ordered the removal of the material from the originating website. *Id.* § 512(b)(2).

The third and fourth safe harbors, set out in §§ 512(c)-(d), have emerged as the most crucial for OSPs. The third safe harbor exempts an OSP from liability for infringing materials, such as photographs or sound recordings, that are “hosted” on its servers on behalf of users. *Id.* § 512(c). The fourth safe harbor shelters OSPs that provide links, directories, indices, or other “information location tools” that reference or direct users to infringing material or activity. *Id.* § 512(d).

To qualify for either of these safe harbors, OSPs must designate an agent to receive notification from copyright owners claiming that specific material is infringing. OSPs must file with the Copyright Office information identifying that agent and how the agent may be reached, and must also make the information publicly available. *Id.* § 512(c)(2).

In addition, any OSP that has “actual knowledge” that specific material is infringing or “aware[ness] of facts or circumstances from which infringing activity is apparent,” is not eligible for coverage of the safe harbor unless it “acts expeditiously to remove, or disable access to, the material.” *Id.* § 512(c)(1)(A).

Additionally, OSPs are ineligible for the safe harbor if they obtain a “financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.” *Id.* § 512(c)(1)(B).

Crucially, the third and fourth safe harbors are subject to “**notice and takedown**”—a process which over the past two decades has grown to become the centerpiece of copyright enforcement online. Pursuant to this process, a copyright owner may send a notice of alleged infringement to the OSP’s designated agent. *Id.* § 512(c)(3). Detailed rules regarding the form and content of this notice are set out in § 512(c)(3). Most importantly, the notice must identify the specific material alleged to infringe, must provide information sufficient to permit the OSP to locate that specific material (typically, the website link at which it can be found), and must state that the party submitting the notification “has a good faith belief” that the material is infringing. Additionally, the notifying party must affirm under penalty of perjury that he or she is authorized to act on behalf of the copyright owner. Although none of the other required statements in the notice need be made under penalty of perjury, *see id.*, if the notifying party “knowingly materially misrepresents ... that material or activity is infringing,” a court may award damages to the alleged infringer or the affected OSP. *Id.* § 512(f).

Section 512(c)(3) provides equally detailed rules defining what OSPs must do upon receipt of such a notice. The protection of the safe harbor is conditioned upon OSPs responding with reasonable dispatch to notices and taking down the material alleged to be infringing. Under the terms of § 512(c)(1)(C), an OSP that receives a proper takedown notice is directed to respond “expeditiously to remove, or disable access to, the material that is claimed to be infringing.”

Note that for OSPs that conform to the notice and takedown process, § 512 provides an exemption from liability for “any claim based on” the OSP’s good faith takedown. *Id.* § 512(g)(1). This exemption from claims of liability by the users whose material is taken down is conditioned on the OSP “tak[ing] reasonable steps promptly to notify” the user of the takedown. *Id.* § 512(g)(2)(A).

A user who receives a takedown notification from an OSP may file a “**counter-notification**”—a notice that identifies the material taken down; states under penalty of perjury that the notifying party has a good-faith belief that the material was taken down “as a result of mistake or misidentification of the material to be removed or disabled”; and consents to the jurisdiction of the federal district court in the district of the notifying party’s contact address, or, for parties who reside outside the United States, where the OSP is located. *Id.* § 512(g)(3). Upon receipt of a proper counter-notification, an OSP must notify the complainant, and must restore the material within ten business days unless it first receives notice that a lawsuit has been filed. *Id.* § 512(g)(2). A party submitting a counter-notification who “knowingly materially misrepresents” that material was removed by mistake will be liable for damages, including costs and attorney’s fees, incurred by the copyright owner or its authorized licensee, or by the OSP. *Id.* § 512(f).

Section 512(h) authorizes federal district court clerks to issue subpoenas, upon a copyright owner’s request, ordering the identification of individuals who have posted allegedly infringing material. OSPs receiving such subpoenas must “expeditiously disclose” the information. *Id.* § 512(h).

Finally, note that although § 512 shelters an OSP from damages, it does not prevent a court from issuing injunctions and other equitable relief. *See id.* § 512(j). Note also that an OSP has the option either to comply with the requirements and shelter within the § 512 safe harbors, or to *not* comply and to rely instead on the



courts' application of the traditional secondary infringement doctrines and the other defenses that might be available to it (for example, fair use). *Id.* § 512(l).

## NOTES

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1. Section 512 has been controversial from the moment it was enacted, but it has thus far lasted for two decades without change. Do you think that § 512 represents a proper balance between the rights of copyright owners and the viability of online service providers? How should we frame a discussion of whether § 512 represents the proper balance? Is the question mostly an economic one? That is, should our inquiry focus on whether § 512 maintains adequate incentives to engage in the production of new copyrighted works while also incentivizing investment in new online services? Or is there a moral dimension to the question, and, if so, does § 512 address it? For an argument that § 512 has displaced substantive copyright law, see Matthew Sag, *Internet Safe Harbors and the Transformation of Copyright Law*, 93 NOTRE DAME L. REV. 499 (2017).

2. If you had the power, what, if anything, would you change about § 512, and why?

3. Who ought to bear the burden of detecting copyright infringement hosted or stored by OSPs: copyright owners or OSPs? For explorations of this issue, see Annemarie Bridy, *Is Online Copyright Enforcement Scalable?*, 13 VAND. J. ENT. & TECH. L. 695 (2011); Lital Helman & Gideon Parchomovsky, *The Best Available Technology Standard*, 111 COLUM. L. REV. 1194 (2011); Sonia K. Katyal & Jason M. Schultz, *The Unending Search for the Optimal Infringement Filter*, 112 COLUM. L. REV. SIDEBAR 83 (2012).

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As you read the next case, consider the number of substantial interpretive issues that even a detailed statutory provision like § 512 left for judicial interpretation and “gap filling.” Consider also the sheer size of the liability bet that Google made when it acquired YouTube, a deal made before the Second Circuit’s decision in the following case.

### **Viacom International, Inc. v. YouTube, Inc.**

676 F.3d 19 (2d Cir. 2012)

CABRANES, J.:

[1] This appeal requires us to clarify the contours of the “safe harbor” provision of the Digital Millennium Copyright Act (DMCA) that limits the liability of online service providers for copyright infringement that occurs “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.” 17 U.S.C. § 512(c).

[2] The plaintiffs-appellants in these related actions—Viacom International, Inc., The Football Association Premier League Ltd., and various film studios, television networks, music publishers, and sports leagues—appeal from an August 10, 2010 judgment of the United States District Court for the Southern District of New York, which granted summary judgment to defendants-appellees YouTube, Inc., YouTube, LLC, and Google Inc.. The plaintiffs alleged direct and secondary copyright infringement based on the public performance, display, and reproduction of approximately 79,000 audiovisual “clips” that appeared on the YouTube website between 2005 and 2008....

## BACKGROUND

### A. The DMCA Safe Harbors ...

[3] To qualify for protection under any of the safe harbors, a party must meet a set of threshold criteria. First, the party must in fact be a “service provider,” defined, in pertinent part, as “a provider of online services or network access, or the operator of facilities therefor.” 17 U.S.C. § 512(k)(1)(B). A party that qualifies as a service provider must also satisfy certain “conditions of eligibility,” including the adoption and reasonable implementation of a “repeat infringer” policy that “provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network.” *Id.* § 512(i)(1)(A). In addition, a qualifying service provider must accommodate “standard technical measures” that are “used by copyright owners to identify or protect copyrighted works.” *Id.* § 512(i)(1)(B), (i)(2).

[4] Beyond the threshold criteria, a service provider must satisfy the requirements of a particular safe harbor. In this case, the safe harbor at issue is § 512(c), which covers infringement claims that arise “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.” *Id.* § 512(c)(1). The § 512(c) safe harbor will apply only if the service provider:

- (A) (i) does not have actual knowledge that the material or an activity using the material on the system or network 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;
- (B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and
- (C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

Section 512(c) also sets forth a detailed notification scheme that requires service providers to “designate[] an agent to receive notifications of claimed infringement” and specifies the components of a proper notification, commonly known as a “takedown notice,” to that agent. Thus, actual knowledge of infringing material, awareness of facts or circumstances that make infringing activity apparent, or receipt of a takedown notice will each trigger an obligation to expeditiously remove the infringing material.

[5] With the statutory context in mind, we now turn to the facts of this case.

### B. Factual Background

[6] YouTube was founded in February 2005 by Chad Hurley, Steve Chen, and Jawed Karim, three former employees of the internet company Paypal. When YouTube announced the “official launch” of the website in December 2005, a press release described YouTube as a “consumer media company” that “allows people to watch, upload, and share personal video clips at www.YouTube.com.” Under the slogan “Broadcast yourself,” YouTube achieved rapid prominence and profitability, eclipsing competitors such as Google Video and Yahoo Video by wide margins. In November 2006, Google acquired YouTube in a stock-for-stock transaction valued at \$1.65 billion. By March 2010, at the time of summary judgment briefing in this litigation, site traffic on YouTube had soared to more than 1 billion daily video views, with more than 24 hours of new video uploaded to the site every minute.

[7] The basic function of the YouTube website permits users to “upload” and view video clips free of charge. Before uploading a video to YouTube, a user must register and create an account with the website. The registration process requires the user to accept YouTube’s Terms of Use agreement, which provides, *inter alia*, that the user “will not submit material that is copyrighted ... unless [he is] the owner of such rights or ha[s] permission from their rightful owner to post the material and to grant YouTube all of the license rights granted herein.” When the registration process is complete, the user can sign in to his account, select a video to upload from the user’s personal computer, mobile phone, or other device, and instruct the YouTube system to upload the video by clicking on a virtual upload “button.”

[8] Uploading a video to the YouTube website triggers a series of automated software functions. During the upload process, YouTube makes one or more exact copies of the video in its original file format. YouTube also makes one or more additional copies of the video in “Flash” format, a process known as “transcoding.” The transcoding process ensures that YouTube videos are available for viewing by most users at their request. The YouTube system allows users to gain access to video content by “streaming” the video to the user’s computer in response to a playback request. YouTube uses a computer algorithm to identify clips that are “related” to a video the user watches and display links to the “related” clips.

### C. Procedural History

[9] Plaintiff Viacom, an American media conglomerate, and various Viacom affiliates filed suit against YouTube on March 13, 2007, alleging direct and secondary copyright infringement based on the public performance, display, and reproduction of their audiovisual works on the YouTube website. Plaintiff Premier League, an English soccer league, and Plaintiff Bourne Co. filed a putative class action against YouTube on May 4, 2007, alleging direct and secondary copyright infringement on behalf of all copyright owners whose material was copied, stored, displayed, or performed on YouTube without authorization. Specifically at issue were some 63,497 video clips identified by Viacom, as well as 13,500 additional clips identified by the putative class plaintiffs....

[10] ... [T]he District Court ... granted summary judgment to the defendants, finding that YouTube qualified for DMCA safe harbor protection with respect to all claims of direct and secondary copyright infringement. The District Court prefaced its analysis of the DMCA safe harbor by holding that, based on the plaintiffs’ summary judgment submissions, “a jury could find that the defendants not only were generally aware of, but welcomed, copyright-infringing material being placed on their website.” However, the District Court also noted that the defendants had properly designated an agent pursuant to § 512(c)(2), and “when they received specific notice that a particular item infringed a copyright, they swiftly removed it.” Accordingly, the District Court identified the crux of the inquiry with respect to YouTube’s copyright liability as follows:

*[T]he critical question is whether the statutory phrases “actual knowledge that the material or an activity using the material on the system or network is infringing,” and “facts or circumstances from which infringing activity is apparent” in § 512(c)(1)(A)(i) and (ii) mean a general awareness that there are infringements (here, claimed to be widespread and common), or rather mean actual or constructive knowledge of specific and identifiable infringements of individual items.*

[11] After quoting at length from the legislative history of the DMCA, the District Court held that “the phrases ‘actual knowledge that the material or an activity’ is infringing, and ‘facts or circumstances’ indicating infringing activity, describe knowledge of specific and identifiable infringements of particular individual items.” “Mere knowledge of [the] prevalence of such activity in general,” the District Court concluded, “is not enough.”

[12] In a final section labeled “Other Points,” the District Court rejected two additional claims. First, it rejected the plaintiffs’ argument that the replication, transmittal and display of YouTube videos are functions that fall outside the protection § 512(c)(1) affords for “infringement of copyright by reason of ... storage at the direction of the user.” Second, it rejected the plaintiffs’ argument that YouTube was ineligible for safe harbor protection under the control provision, holding that the “right and ability to control” infringing activity under § 512(c)(1)(B) requires “item-specific” knowledge thereof, because “the provider must know of the particular case before he can control it.” ...

## DISCUSSION ...

### A. Actual and “Red Flag” Knowledge: § 512(c)(1)(A)

[13] The first and most important question on appeal is whether the DMCA safe harbor at issue requires “actual knowledge” or “aware[ness]” of facts or circumstances indicating “specific and identifiable infringements.” We consider first the scope of the statutory provision and then its application to the record in this case.

#### 1. The Specificity Requirement

[14] As in all statutory construction cases, we begin with the language of the statute. Under § 512(c)(1)(A), safe harbor protection is available only if the service provider:

- (i) does not have actual knowledge that the material or an activity using the material on the system or network 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....

As previously noted, the District Court held that the statutory phrases “actual knowledge that the material ... is infringing” and “facts or circumstances from which infringing activity is apparent” refer to “knowledge of specific and identifiable infringements.” For the reasons that follow, we substantially affirm that holding.

[15] Although the parties marshal a battery of other arguments on appeal, it is the text of the statute that compels our conclusion. In particular, we are persuaded that the basic operation of § 512(c) requires knowledge or awareness of specific infringing activity. Under § 512(c)(1)(A), knowledge or awareness alone does not disqualify the service provider; rather, the provider that gains knowledge or awareness of infringing activity retains safe-harbor protection if it “acts expeditiously to remove, or disable access to, the material.” 17 U.S.C. § 512(c)(1)(A)(iii). Thus, the nature of the removal obligation itself contemplates knowledge or awareness of specific infringing material, because expeditious removal is possible only if the service provider knows with particularity which items to remove. Indeed, to require expeditious removal in the absence of specific knowledge or awareness would be to mandate an amorphous obligation to take commercially reasonable steps in response to a generalized awareness of infringement. Such a view cannot be reconciled with the language of the statute, which requires “expeditious[]” action to remove or disable “*the material*” at issue. 17 U.S.C. § 512(c)(1)(A)(iii) (emphasis added).

[16] On appeal, the plaintiffs dispute this conclusion by drawing our attention to § 512(c)(1)(A)(ii), the so-called “red flag” knowledge provision. *See id.* § 512(c)(1)(A)(ii) (limiting liability where, “in the absence of such actual knowledge, [the service provider] is not aware of facts or circumstances from which infringing activity is apparent”). In their view, the use of the phrase “facts or circumstances” demonstrates that Congress did not

intend to limit the red flag provision to a particular type of knowledge. The plaintiffs contend that requiring awareness of specific infringements in order to establish “aware[ness] of facts or circumstances from which infringing activity is apparent,” 17 U.S.C. § 512(c)(1)(A)(ii), renders the red flag provision superfluous, because that provision would be satisfied only when the “actual knowledge” provision is also satisfied. For that reason, the plaintiffs urge the Court to hold that the red flag provision “requires less specificity” than the actual knowledge provision.

[17] This argument misconstrues the relationship between “actual” knowledge and “red flag” knowledge. It is true that we are required to disfavor interpretations of statutes that render language superfluous. But contrary to the plaintiffs’ assertions, construing § 512(c)(1)(A) to require actual knowledge or awareness of specific instances of infringement does not render the red flag provision superfluous. The phrase “actual knowledge,” which appears in § 512(c)(1)(A)(i), is frequently used to denote subjective belief. By contrast, courts often invoke the language of “facts or circumstances,” which appears in § 512(c)(1)(A)(ii), in discussing an objective reasonableness standard.

[18] The difference between actual and red flag knowledge is thus not between specific and generalized knowledge, but instead between a subjective and an objective standard. In other words, the actual knowledge provision turns on whether the provider actually or “subjectively” knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement “objectively” obvious to a reasonable person. The red flag provision, because it incorporates an objective standard, is not swallowed up by the actual knowledge provision under our construction of the § 512(c) safe harbor. Both provisions do independent work, and both apply only to specific instances of infringement....

[19] ... [W]e affirm the District Court’s holding that actual knowledge or awareness of facts or circumstances that indicate specific and identifiable instances of infringement will disqualify a service provider from the safe harbor.

## **2. The Grant of Summary Judgment**

[20] The corollary question on appeal is whether, under the foregoing construction of § 512(c)(1)(A), the District Court erred in granting summary judgment to YouTube on the record presented. For the reasons that follow, we hold that although the District Court correctly interpreted § 512(c)(1)(A), summary judgment for the defendants was premature.

### **i. Specific Knowledge or Awareness**

[21] The plaintiffs argue that, even under the District Court’s construction of the safe harbor, the record raises material issues of fact regarding YouTube’s actual knowledge or “red flag” awareness of specific instances of infringement. To that end, the plaintiffs draw our attention to various estimates regarding the percentage of infringing content on the YouTube website. For example, Viacom cites evidence that YouTube employees conducted website surveys and estimated that 75–80% of all YouTube streams contained copyrighted material. The class plaintiffs similarly claim that Credit Suisse, acting as financial advisor to Google, estimated that more than 60% of YouTube’s content was “premium” copyrighted content—and that only 10% of the premium content was authorized. These approximations suggest that the defendants were conscious that significant quantities of material on the YouTube website were infringing. But such estimates are insufficient, standing alone, to create a triable issue of fact as to whether YouTube actually knew, or was aware of facts or circumstances that would indicate, the existence of particular instances of infringement.

[22] Beyond the survey results, the plaintiffs rely upon internal YouTube communications that do refer to particular clips or groups of clips. The class plaintiffs argue that YouTube was aware of specific infringing

material because, *inter alia*, YouTube attempted to search for specific Premier League videos on the site in order to gauge their “value based on video usage.” In particular, the class plaintiffs cite a February 7, 2007 e-mail from Patrick Walker, director of video partnerships for Google and YouTube, requesting that his colleagues calculate the number of daily searches for the terms “soccer,” “football,” and “Premier League” in preparation for a bid on the global rights to Premier League content. On another occasion, Walker requested that any “clearly infringing, official broadcast footage” from a list of top Premier League clubs—including Liverpool Football Club, Chelsea Football Club, Manchester United Football Club, and Arsenal Football Club—be taken down in advance of a meeting with the heads of “several major sports teams and leagues.” YouTube ultimately decided not to make a bid for the Premier League rights—but the infringing content allegedly remained on the website.

[23] The record in the *Viacom* action includes additional examples. For instance, YouTube founder Jawed Karim prepared a report in March 2006 which stated that, “[a]s of today[,] episodes and clips of the following well-known shows can still be found [on YouTube]: Family Guy, South Park, MTV Cribs, Daily Show, Reno 911, [and] Dave Chapelle [sic].” Karim further opined that, “although YouTube is not legally required to monitor content ... and complies with DMCA takedown requests, we would benefit from *preemptively* removing content that is blatantly illegal and likely to attract criticism.” He also noted that “a more thorough analysis” of the issue would be required. At least some of the TV shows to which Karim referred are owned by Viacom. A reasonable juror could conclude from the March 2006 report that Karim knew of the presence of Viacom-owned material on YouTube, since he presumably located specific clips of the shows in question before he could announce that YouTube hosted the content “[a]s of today.” A reasonable juror could also conclude that Karim believed the clips he located to be infringing (since he refers to them as “blatantly illegal”), and that YouTube did not remove the content from the website until conducting “a more thorough analysis,” thus exposing the company to liability in the interim....

[24] Upon a review of the record, we are persuaded that the plaintiffs may have raised a material issue of fact regarding YouTube’s knowledge or awareness of specific instances of infringement.... [A] reasonable juror could conclude that YouTube had actual knowledge of specific infringing activity, or was at least aware of facts or circumstances from which specific infringing activity was apparent. *See* § 512(c)(1)(A)(i)-(ii). Accordingly, we hold that summary judgment to YouTube on all clips-in-suit, especially in the absence of any detailed examination of the extensive record on summary judgment, was premature.<sup>9</sup>

[25] We hasten to note, however, that although the foregoing e-mails were annexed as exhibits to the summary judgment papers, it is unclear whether the clips referenced therein are among the current clips-in-suit. By definition, only the current clips-in-suit are at issue in this litigation. Accordingly, we vacate the order granting summary judgment and instruct the District Court to determine on remand whether any specific infringements of which YouTube had knowledge or awareness correspond to the clips-in-suit in these actions.

## ii. “Willful Blindness”

[26] The plaintiffs further argue that the District Court erred in granting summary judgment to the defendants despite evidence that YouTube was “willfully blind” to specific infringing activity. On this issue of first impression, we consider the application of the common law willful blindness doctrine in the DMCA context.

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<sup>9</sup> We express no opinion as to whether the evidence discussed above will prove sufficient to withstand a renewed motion for summary judgment by YouTube on remand. In particular, we note that there is at least some evidence that the search requested by Walker in his February 7, 2007 e-mail was never carried out. We also note that the class plaintiffs have failed to identify evidence indicating that any infringing content discovered as a result of Walker’s request in fact remained on the YouTube website. The class plaintiffs, drawing on the voluminous record in this case, may be able to remedy these deficiencies in their briefing to the District Court on remand.

[27] The principle that willful blindness is tantamount to knowledge is hardly novel. A person is “willfully blind” or engages in “conscious avoidance” amounting to knowledge where the person was aware of a high probability of the fact in dispute and consciously avoided confirming that fact. Writing in the trademark infringement context, we have held that a service provider is not permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way.

[28] The DMCA does not mention willful blindness. As a general matter, we interpret a statute to abrogate a common law principle only if the statute speaks directly to the question addressed by the common law. The relevant question, therefore, is whether the DMCA speaks directly to the principle of willful blindness. The DMCA provision most relevant to the abrogation inquiry is § 512(m), which provides that safe harbor protection shall not be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i).” 17 U.S.C. § 512(m)(1). Section 512(m) is explicit: DMCA safe harbor protection cannot be conditioned on affirmative monitoring by a service provider. For that reason, § 512(m) is incompatible with a broad common law duty to monitor or otherwise seek out infringing activity based on general awareness that infringement may be occurring. That fact does not, however, dispose of the abrogation inquiry; as previously noted, willful blindness cannot be defined as an affirmative duty to monitor. Because the statute does not speak directly to the willful blindness doctrine, § 512(m) limits—but does not abrogate—the doctrine. Accordingly, we hold that the willful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA.

[29] The District Court cited § 512(m) for the proposition that safe harbor protection does not require affirmative monitoring, but did not expressly address the principle of willful blindness or its relationship to the DMCA safe harbors. As a result, whether the defendants made a deliberate effort to avoid guilty knowledge remains a fact question for the District Court to consider in the first instance on remand.

### **B. Control and Benefit: § 512(c)(1)(B)**

[30] Apart from the foregoing knowledge provisions, the § 512(c) safe harbor provides that an eligible service provider must “not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.” 17 U.S.C. § 512(c)(1)(B). The District Court addressed this issue in a single paragraph, quoting from § 512(c)(1)(B), the so-called “control and benefit” provision, and concluding that “[t]he ‘right and ability to control’ the activity requires knowledge of it, which must be item-specific.” For the reasons that follow, we hold that the District Court erred by importing a specific knowledge requirement into the control and benefit provision, and we therefore remand for further fact-finding on the issue of control.

#### **1. “Right and Ability to Control” Infringing Activity**

[31] On appeal, the parties advocate two competing constructions of the “right and ability to control” infringing activity. 17 U.S.C. § 512(c)(1)(B). Because each is fatally flawed, we reject both proposed constructions in favor of a fact-based inquiry to be conducted in the first instance by the District Court.

[32] The first construction, pressed by the defendants, is the one adopted by the District Court, which held that “the provider must know of the particular case before he can control it.” The Ninth Circuit recently agreed, holding that until the service provider becomes aware of specific unauthorized material, it cannot exercise its power or authority over the specific infringing item. In practical terms, it does not have the kind of ability to control infringing activity the statute contemplates. The trouble with this construction is that

importing a specific knowledge requirement into § 512(c)(1)(B) renders the control provision duplicative of § 512(c)(1)(A). Any service provider that has item-specific knowledge of infringing activity and thereby obtains financial benefit would already be excluded from the safe harbor under § 512(c)(1)(A) for having specific knowledge of infringing material and failing to effect expeditious removal. No additional service provider would be excluded by § 512(c)(1)(B) that was not already excluded by § 512(c)(1)(A). Because statutory interpretations that render language superfluous are disfavored, we reject the District Court's interpretation of the control provision.

[33] The second construction, urged by the plaintiffs, is that the control provision codifies the common law doctrine of vicarious copyright liability. The common law imposes liability for vicarious copyright infringement when the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials—even in the absence of actual knowledge that the copyright monopoly is being impaired. To support their codification argument, the plaintiffs rely on a House Report relating to a preliminary version of the DMCA: “The ‘right and ability to control’ language ... codifies the second element of vicarious liability.... Subparagraph (B) is intended to preserve existing case law that examines all relevant aspects of the relationship between the primary and secondary infringer.” H.R. REP. NO. 105-551(I), at 26 (1998). In response, YouTube notes that the codification reference was omitted from the committee reports describing the final legislation, and that Congress ultimately abandoned any attempt to “embark[] upon a wholesale clarification” of vicarious liability, electing instead “to create a series of ‘safe harbors’ for certain common activities of service providers.” S. REP. NO. 105-190, at 19.

[34] Happily, the future of digital copyright law does not turn on the confused legislative history of the control provision. The general rule with respect to common law codification is that when Congress uses terms that have accumulated settled meaning under the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of those terms. Under the common law vicarious liability standard, the ability to block infringers' access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.” To adopt that principle in the DMCA context, however, would render the statute internally inconsistent. Section 512(c) actually presumes that service providers have the ability to block access to infringing material. Indeed, a service provider who has knowledge or awareness of infringing material or who receives a takedown notice from a copyright holder is *required* to “remove, or disable access to, the material” in order to claim the benefit of the safe harbor. 17 U.S.C. § 512(c)(1)(A)(iii) & (C). But in taking such action, the service provider would—in the plaintiffs' analysis—be admitting the “right and ability to control” the infringing material. Thus, the prerequisite to safe harbor protection under § 512(c)(1)(A)(iii) & (C) would at the same time be a disqualifier under § 512(c)(1)(B)....

[35] ... [T]he foregoing tension ... is sufficient to establish that the control provision dictates a departure from the common law vicarious liability standard. Accordingly, we conclude that the “right and ability to control” infringing activity under § 512(c)(1)(B) requires something more than the ability to remove or block access to materials posted on a service provider's website. The remaining—and more difficult—question is how to define the “something more” that is required.

[36] To date, only one court has found that a service provider had the right and ability to control infringing activity under § 512(c)(1)(B). In *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002), the court found control where the service provider instituted a monitoring program by which user websites received “detailed instructions regard[ing] issues of layout, appearance, and content.” The service provider also forbade certain types of content and refused access to users who failed to comply with its instructions. Similarly, inducement of copyright infringement ... might also rise to the level of control under § 512(c)(1)(B). Both of these examples involve a service provider exerting substantial influence on the activities of users, without necessarily—or even frequently—acquiring knowledge of specific infringing activity.



[37] In light of our holding that § 512(c)(1)(B) does not include a specific knowledge requirement, we think it prudent to remand to the District Court to consider in the first instance whether the plaintiffs have adduced sufficient evidence to allow a reasonable jury to conclude that YouTube had the right and ability to control the infringing activity and received a financial benefit directly attributable to that activity.

### **C. “By Reason of” Storage: § 512(c)(1)**

[38] The § 512(c) safe harbor is only available when the infringement occurs “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.” 17 U.S.C. § 512(c)(1). In this case, the District Court held that YouTube’s software functions fell within the safe harbor for infringements that occur “by reason of” user storage. For the reasons that follow, we affirm that holding with respect to three of the challenged software functions—the conversion (or “transcoding”) of videos into a standard display format, the playback of videos on “watch” pages, and the “related videos” function. We remand for further fact-finding with respect to a fourth software function, involving the third-party syndication of videos uploaded to YouTube....

[39] The relevant case law makes clear that the § 512(c) safe harbor extends to software functions performed for the purpose of facilitating access to user-stored material.... Transcoding involves making copies of a video in a different encoding scheme in order to render the video viewable over the Internet to most users. The playback process involves delivering copies of YouTube videos to a user’s browser cache in response to a user request. The District Court correctly found that to exclude these automated functions from the safe harbor would eviscerate the protection afforded to service providers by § 512(c).

[40] A similar analysis applies to the “related videos” function, by which a YouTube computer algorithm identifies and displays “thumbnails” of clips that are “related” to the video selected by the user. The plaintiffs claim that this practice constitutes content promotion, not “access” to stored content, and therefore falls beyond the scope of the safe harbor.... [T]he related videos function serves to help YouTube users locate and gain access to material stored at the direction of other users. Because the algorithm is closely related to, and follows from, the storage itself, and is narrowly directed toward providing access to material stored at the direction of users, we conclude that the related videos function is also protected by the § 512(c) safe harbor.

[41] The final software function at issue here—third-party syndication—is the closest case. In or around March 2007, YouTube transcoded a select number of videos into a format compatible with mobile devices and “syndicated” or licensed the videos to Verizon Wireless and other companies. The plaintiffs argue—with some force—that business transactions do not occur at the “direction of a user” within the meaning of § 512(c)(1) when they involve the manual selection of copyrighted material for licensing to a third party. The parties do not dispute, however, that none of the clips-in-suit were among the approximately 2,000 videos provided to Verizon Wireless. In order to avoid rendering an advisory opinion on the outer boundaries of the storage provision, we remand for fact-finding on the question of whether any of the clips-in-suit were in fact syndicated to any other third party.

### **D. Other Arguments**

#### **1. Repeat Infringer Policy**

[42] The class plaintiffs briefly argue that YouTube failed to comply with the requirements of § 512(i), which conditions safe harbor eligibility on the service provider having “adopted and reasonably implemented ... a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers.” 17 U.S.C. § 512(i)(1)(A). Specifically, the class plaintiffs allege that YouTube “deliberately set up its identification tools to try to avoid identifying infringements of class plaintiffs’ works.” This allegation rests primarily on the assertion that YouTube

permitted only designated “partners” to gain access to content identification tools by which YouTube would conduct network searches and identify infringing material.

[43] Because the class plaintiffs challenge YouTube’s deployment of search technology, we must consider their § 512(i) argument in conjunction with § 512(m). As previously noted, § 512(m) provides that safe harbor protection cannot be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, *except to the extent consistent with a standard technical measure complying with the provisions of subsection (i).*” 17 U.S.C. § 512(m)(1) (emphasis added). In other words, the safe harbor expressly disclaims any affirmative monitoring requirement—except to the extent that such monitoring comprises a “standard technical measure” within the meaning of § 512(i). Refusing to accommodate or implement a “standard technical measure” exposes a service provider to liability; refusing to provide access to mechanisms by which a service provider affirmatively monitors its own network has no such result. In this case, the class plaintiffs make no argument that the content identification tools implemented by YouTube constitute “standard technical measures,” such that YouTube would be exposed to liability under § 512(i). For that reason, YouTube cannot be excluded from the safe harbor by dint of a decision to restrict access to its proprietary search mechanisms.

## 2. Affirmative Claims

[44] Finally, the plaintiffs argue that the District Court erred in denying summary judgment to the plaintiffs on their claims of direct infringement, vicarious liability, and contributory liability .... In granting summary judgment to the defendants, the District Court held that YouTube “qualif[ied] for the protection of ... § 512(c),” and therefore denied the plaintiffs’ cross-motion for summary judgment without comment.

[45] The District Court correctly determined that a finding of safe harbor application necessarily protects a defendant from all affirmative claims for monetary relief. 17 U.S.C. § 512(c)(1). For the reasons previously stated, further fact-finding is required to determine whether YouTube is ultimately entitled to safe harbor protection in this case. Accordingly, we vacate the order denying summary judgment to the plaintiffs and remand the cause without expressing a view on the merits of the plaintiffs’ affirmative claims....

## NOTES

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1. On remand, the district court granted summary judgment for YouTube. On the principal legal issue the Second Circuit left open—the application of the willful blindness doctrine to § 512—the district court ruled that the type of “willful blindness” that can lead to liability is willful blindness respecting a *specific* instance of infringement, as opposed to willful blindness regarding the general incidence of infringement on the service. *Viacom Int’l Inc. v. YouTube, Inc.*, 940 F. Supp. 2d 110, 116 (S.D.N.Y. 2013).

2. A threshold issue in *Viacom* was whether infringement on the service was “by reason of storage,” and therefore eligible for the § 512(c) safe harbor, or whether certain of YouTube’s functionality—such as transcoding, playback, and the presentation of “related videos”—were independent of YouTube’s storage function, and therefore any infringement committed as a result of these functions would lie outside the safe harbor. The Second Circuit found that “to exclude these automated functions from the safe harbor would eviscerate the protection afforded to service providers by § 512(c).” That may be true, but it doesn’t answer the question whether these functions should be grouped under the umbrella of “storage.” Can you find an answer to that question in the Second Circuit’s opinion? Can you think of one yourself?

3. *Viacom* distinguishes “actual knowledge” under § 512(c) from so-called “red flag” knowledge under that same section—that is, “aware[ness] of facts or circumstances from which infringing activity is apparent.” The court holds that the former is *subjective* knowledge of specific infringing activity, while the latter is *objective*

knowledge—that is, awareness of facts or circumstances that would put a reasonable person on notice of specific infringing activity. Is this right? Do you see anything in the statutory text that would suggest another reading? Is there a policy reason to prefer another reading?

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Recall that § 512(c) applies to material stored by an OSP on behalf of a user. What does it mean for storage to be “on behalf of” a user? That issue figures prominently in the next case. As you read it, consider whether there is a policy reason to treat an OSP differently based on whether it participates in the decisions that lead to storage or hosting of potentially infringing material.

## **Mavrix Photographs, LLC v. LiveJournal, Inc.**

873 F.3d 1045 (9th Cir. 2018)

PAEZ, J.:

[1] Plaintiff Mavrix Photographs appeals the district court’s summary judgment in favor of Defendant LiveJournal. Mavrix sued LiveJournal for posting twenty of its copyrighted photographs online. The district court held that the Digital Millennium Copyright Act’s § 512(c) safe harbor protected LiveJournal from liability because Mavrix’s photographs were stored at the direction of the user.

[2] To be eligible at the threshold for the § 512(c) safe harbor, LiveJournal must show that the photographs were stored at the direction of the user. Although users submitted Mavrix’s photographs to LiveJournal, LiveJournal posted the photographs after a team of volunteer moderators led by a LiveJournal employee reviewed and approved them. Whether these photographs were truly stored at the direction of the user, or instead whether LiveJournal is responsible for the photographs, depends on whether the acts of the moderators can be attributed to LiveJournal. The issue we must decide is whether the common law of agency applies to LiveJournal’s safe harbor defense. The district court ruled that the common law of agency does not apply to this analysis. We disagree and conclude that it does. As there are genuine factual disputes regarding whether the moderators are LiveJournal’s agents, we reverse the district court’s summary judgment and remand for trial.

[3] Because the district court ruled on the remaining elements of the safe harbor, we also proceed to discuss those elements in order to provide guidance to the district court and parties on remand. Finally, we vacate the district court’s order denying discovery of the moderators’ identities because the agency determination may affect this analysis.

### **I.**

#### **LiveJournal**

[4] LiveJournal is a social media platform. Among other services, it allows users to create and run thematic “communities” in which they post and comment on content related to the theme. LiveJournal communities can create their own rules for submitting and commenting on posts.

[5] LiveJournal set up three types of unpaid administrator roles to run its communities. “Moderators” review posts submitted by users to ensure compliance with the rules. “Maintainers” review and delete posts and have

the authority to remove moderators and users from the community. Each community also has one “owner” who has the authority of a maintainer, but can also remove maintainers.

[6] LiveJournal protects against copyright infringement in its communities through various mechanisms. LiveJournal follows the formal notice and takedown procedures outlined in the DMCA by designating an agent and form to report infringement, and by promptly removing infringing posts and prohibiting repeat abusers from the community. 17 U.S.C. § 512(c)(1)(C). LiveJournal’s Terms of Service instructs users not to “[u]pload, post or otherwise transmit any Content that infringes any patent, trademark, trade secret, copyright or other proprietary rights.”

### **Oh No They Didn’t! (“ONTD”)**

[7] ONTD is a popular LiveJournal community which features up-to-date celebrity news. Users submit posts containing photographs, videos, links, and gossip about celebrities’ lives. ONTD moderators review and publicly post some of the submissions....

[8] Like other LiveJournal communities, ONTD created rules for submitting and commenting on posts. ONTD’s rules pertain to both potential copyright infringement and substantive guidance for users.... ONTD’s rules also include a list of sources from which users should not copy material. The sources on the list have informally requested that ONTD stop posting infringing material. ONTD has also automatically blocked all material from one source that sent ONTD a cease and desist letter.

[9] ONTD has nine moderators, six maintainers, and one owner. ONTD users submit proposed posts containing celebrity news to an internal queue. Moderators review the submissions and publicly post approximately one-third of them. Moderators review for substance, approving only those submissions relevant to new and exciting celebrity news. Moderators also review for copyright infringement, pornography, and harassment.

[10] When ONTD was created, like other LiveJournal communities, it was operated exclusively by volunteer moderators. LiveJournal was not involved in the day-to-day operation of the site. ONTD, however, grew in popularity to 52 million page views per month in 2010 and attracted LiveJournal’s attention. By a significant margin, ONTD is LiveJournal’s most popular community and is the only community with a household name. In 2010, LiveJournal sought to exercise more control over ONTD so that it could generate advertising revenue from the popular community. LiveJournal hired a then active moderator, Brendan Delzer, to serve as the community’s full time “primary leader.” By hiring Delzer, LiveJournal intended to “take over” ONTD, grow the site, and run ads on it.

[11] As the “primary leader,” Delzer instructs ONTD moderators on the content they should approve and selects and removes moderators on the basis of their performance. Delzer also continues to perform moderator work, reviewing and approving posts alongside the other moderators whom he oversees. While Delzer is paid and expected to work full time, the other moderators are free to leave and go and volunteer their time in any way they see fit....

### **Mavrix**

[12] Mavrix is a celebrity photography company specializing in candid photographs of celebrities in tropical locations. The company sells its photographs to celebrity magazines. According to Mavrix, infringement of its photographs is particularly devastating to its business model. Since Mavrix’s photographs break celebrity news, such as the pregnancy of Beyoncé, infringing posts on sites like ONTD prevent Mavrix from profiting from the sale of the photographs to celebrity magazines.

## Procedural History

[13] Mavrix filed an action for damages and injunctive relief against LiveJournal alleging copyright infringement on the basis of twenty Mavrix photographs posted on ONTD. ONTD posted the photographs in seven separate posts between 2010 and 2014.... To the best of his recollection, Delzer did not personally approve the seven posts. LiveJournal has no technological means of determining which moderator approved any given post. Mavrix did not utilize LiveJournal's notice and takedown procedure to notify LiveJournal of the infringements. When Mavrix filed this lawsuit, LiveJournal removed the posts....

[14] LiveJournal moved for summary judgment on the basis of the § 512(c) safe harbor. The district court granted LiveJournal's motion and denied Mavrix's cross-motion for partial summary judgment, concluding that the § 512(c) safe harbor shielded LiveJournal from liability for copyright infringement. Mavrix timely appealed....

### III.

#### A. ...

[15] .... LiveJournal claimed protection from damages under the § 512(c) safe harbor for "infringement of copyright by reason of the storage [of material] at the direction of a user." 17 U.S.C. § 512(c)(1). To be eligible at the threshold for the § 512(c) safe harbor, a service provider must show that the infringing material was stored "at the direction of the user." If it meets that threshold requirement, the service provider must then show that (1) it lacked actual or red flag knowledge of the infringing material; and (2) it did not receive a "financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity." Because the § 512(c) safe harbor is an affirmative defense, LiveJournal must establish beyond controversy every essential element, and failure to do so will render LiveJournal ineligible for the § 512(c) safe harbor's protection.

#### B.

##### 1.

[15] LiveJournal must make a threshold showing that Mavrix's photographs were stored at the direction of the user. "Storage," in this context, has a unique meaning. Congress explained that "[e]xamples of such storage include providing server space for a user's web site, for a chatroom, or other forum in which material may be posted at the direction of users." S. REP. NO. 105-190, at 43 (1998). We have held that storage encompasses the access-facilitating processes in addition to storage itself. We reasoned that rather than requiring that the infringing conduct *be* storage, the statutory language allows for infringement *by reason of the storage* at the direction of a user. The district court held that although moderators screened and publicly posted all of the ONTD posts, the posts were at the direction of the user. The district court focused on the users' submission of infringing photographs to LiveJournal rather than LiveJournal's screening and public posting of the photographs. A different safe harbor, § 512(a), protects service providers from liability for the passive role they play when users submit infringing material to them. The § 512(c) safe harbor focuses on the service provider's role in making material stored by a user publicly accessible on its site. Contrary to the district court's view, public accessibility is the critical inquiry. In the context of this case, that inquiry turns on the role of the moderators in screening and posting users' submissions and whether their acts may be attributed to LiveJournal.

2.

[16] Mavrix, relying on the common law of agency, argues that the moderators are LiveJournal's agents, making LiveJournal liable for the moderators' acts. The district court erred in rejecting this argument.

[17] Statutes are presumed not to disturb the common law, unless the language of a statute is clear and explicit for this purpose. Pursuant to this principle, the Supreme Court and this court have applied common law in cases involving federal copyright law, including the DMCA. The Supreme Court has applied the common law of agency in interpreting the Copyright Act. We have applied the common law of vicarious liability in analyzing the DMCA, reasoning that Congress intended that the DMCA's limitations of liability be interpreted under existing principles of law. We have also applied the common law of agency to determine a service provider's intent to infringe under the DMCA.

[18] Along with other courts, we have applied agency law to questions much like the question of LiveJournal's liability for the moderators' acts. We applied agency law to determine whether a service provider was responsible under the DMCA for copyright infringement by its employees....We therefore have little difficulty holding that common law agency principles apply to the analysis of whether a service provider like LiveJournal is liable for the acts of the ONTD moderators.

3.

[19] In light of the summary judgment record, we conclude that there are genuine issues of material fact as to whether the moderators are LiveJournal's agents. The factual dispute is evident when we apply common law agency principles to the evidentiary record.

[20] Agency is the fiduciary relationship that arises when one person (a principal) manifests assent to another person (an agent) that the agent shall act on the principal's behalf and subject to the principal's control, and the agent manifests assent or otherwise consents so to act. For an agency relationship to exist, an agent must have authority to act on behalf of the principal and the person represented must have a right to control the actions of the agent.

[21] An agency relationship may be created through actual or apparent authority. Actual authority arises through the principal's assent that the agent take action on the principal's behalf. LiveJournal argues that it did not assent to the moderators acting on its behalf. Mavrix, however, presented evidence that LiveJournal gave its moderators explicit and varying levels of authority to screen posts. Although LiveJournal calls the moderators "volunteers," the moderators performed a vital function in LiveJournal's business model. There is evidence in the record that LiveJournal gave moderators express directions about their screening functions, including criteria for accepting or rejecting posts. Unlike other sites where users may independently post content, LiveJournal relies on moderators as an integral part of its screening and posting business model. LiveJournal also provides three different levels of authority: moderators review posts to ensure they contain celebrity gossip and not pornography or harassment, maintainers delete posts and can remove moderators, and owners can remove maintainers. Genuine issues of material fact therefore exist regarding whether the moderators had actual authority.

[22] Apparent authority arises by a person's manifestation that another has authority to act with legal consequences for the person who makes the manifestation, when a third party reasonably believes the actor to be authorized and the belief is traceable to the manifestation. The principal's manifestations giving rise to apparent authority may consist of direct statements to the third person, directions to the agent to tell something to the third person, or the granting of permission to the agent to perform acts under circumstances which create in him a reputation of authority.

[23] LiveJournal selected moderators and provided them with specific directions. Mavrix presented evidence that LiveJournal users may have reasonably believed that the moderators had authority to act for LiveJournal. One user whose post was removed pursuant to a DMCA notice complained to LiveJournal "I'm sure my entry does not violate any sort of copyright law. ... I followed [ONTD's] formatting standards and the moderators checked and approved my post." The user relied on the moderators' approval as a manifestation that the post complied with copyright law, and the user appeared to believe the moderators acted on behalf of LiveJournal. Such reliance is likely traceable to LiveJournal's policy of providing explicit roles and authority to the moderators. Accordingly, genuine issues of material fact exist regarding whether there was an apparent authority relationship.

[24] Whether an agency relationship exists also depends on the level of control a principal exerts over the agent. Evidence presented by Mavrix shows that LiveJournal maintains significant control over ONTD and its moderators....

[25] On the other hand, ONTD moderators are free to leave and go and volunteer their time in any way they see fit. In addition, the moderators can reject submissions for reasons other than those provided by the rules, which calls into question the level of control that LiveJournal exerts over their conduct. This evidence raises genuine issues of material fact regarding the level of control LiveJournal exercised over the moderators. From the evidence currently in the record, reasonable jurors could conclude that an agency relationship existed.

#### 4.

[26] We turn briefly to a related issue that the fact finder must resolve in the event there is a finding that the moderators are agents of LiveJournal. In that event, the fact finder must assess whether Mavrix's photographs were indeed stored at the direction of the users in light of the moderators' role in screening and posting the photographs. Infringing material is stored at the direction of the user if the service provider played no role in making that infringing material accessible on its site or if the service provider carried out activities that were narrowly directed towards enhancing the accessibility of the posts. Accessibility-enhancing activities include automatic processes, for example, to reformat posts or perform some technological change. Some manual service provider activities that screen for infringement or other harmful material like pornography can also be accessibility-enhancing. Indeed, § 512(m) of the DMCA provides that no liability will arise from "a service provider monitoring its service or affirmatively seeking facts indicating infringing activity."

[27] The ONTD moderators manually review submissions and publicly post only about one-third of submissions. The moderators review the substance of posts; only those posts relevant to new and exciting celebrity gossip are approved. The question for the fact finder is whether the moderators' acts were merely accessibility-enhancing activities or whether instead their extensive, manual, and substantive activities went beyond the automatic and limited manual activities we have approved as accessibility-enhancing.

\* \* \*

[28] Because the district court focused on the users' submission of Mavrix's photographs rather than on ONTD's role in making those photographs publicly accessible and rejected Mavrix's argument that unpaid moderators could be agents of LiveJournal, the district court erred in granting summary judgment to LiveJournal. Genuine issues of material fact exist as to whether the moderators were LiveJournal's agents. Accordingly, remand is warranted. In assessing LiveJournal's threshold eligibility for the § 512(c) safe harbor, the fact finder must resolve the factual dispute regarding the moderators' status as LiveJournal's agents and in light of that determination, whether LiveJournal showed that Mavrix's photographs were stored at the direction of the users....

Review § 512(g), detailed above. Section 512(g) sets out the procedures for seeking to have material that has been taken down restored. In particular, § 512(g) specifies the procedure by which a user objecting to a takedown notice may lodge a counter-notification. Section 512(g) also provides that a user whose materials are removed pursuant to a proper takedown notice cannot sue an OSP if the OSP followed the § 512(g) procedures—including promptly notifying the user whose material has been taken down, and restoring that material upon receiving a proper counter-notification. Nothing in § 512(g)—or indeed in any other part of § 512—prevents a party whose material was wrongfully taken down from suing the party that issued the takedown notice. Indeed, § 512(f) imposes liability on parties who “knowingly materially misrepresent” in a takedown notification that material is infringing, or in a counter-notification that material has been taken down by mistake. As you read the following case, consider whether § 512(f) is likely to have the effect of deterring material misstatements in notifications and counter-notifications.

### **Stephanie Lenz v. Universal Music Corp.**

815 F.3d 1145 (9th Cir. 2016)

TALLMAN, J.:

[1] Stephanie Lenz filed suit under 17 U.S.C. § 512(f)—part of the Digital Millennium Copyright Act—against Universal Music Corp., Universal Music Publishing, Inc., and Universal Music Publishing Group. She alleges Universal misrepresented in a takedown notification that her 29-second home video constituted an infringing use of a portion of a composition by the Artist known as Prince, which Universal insists was unauthorized by the law. Her claim boils down to a question of whether copyright holders have been abusing the extrajudicial takedown procedures provided for in the DMCA by declining to first evaluate whether the content qualifies as fair use. We hold that the statute requires copyright holders to consider fair use before sending a takedown notification, and that in this case, there is a triable issue as to whether the copyright holder formed a subjective good faith belief that the use was not authorized by law. We affirm the denial of the parties’ cross-motions for summary judgment.

#### I

[2] .... On February 7, 2007, Lenz uploaded to YouTube a 29-second home video of her two young children in the family kitchen dancing to the song *Let’s Go Crazy* by Prince. Available at <https://www.youtube.com/watch?v=N1KfJHFWlhQ> (last visited September 4, 2015). She titled the video “Let’s Go Crazy’ # 1.” About four seconds into the video, Lenz asks her thirteen month-old son “what do you think of the music?” after which he bobs up and down while holding a push toy.

[3] At the time Lenz posted the video, Universal was Prince’s publishing administrator responsible for enforcing his copyrights. To accomplish this objective with respect to YouTube, Robert Allen, Universal’s head of business affairs, assigned Sean Johnson, an assistant in the legal department, to monitor YouTube on a daily basis. Johnson searched YouTube for Prince’s songs and reviewed the video postings returned by his online search query. When reviewing such videos, he evaluated whether they “embodied a Prince composition” by making “significant use of ... the composition, specifically if the song was recognizable, was in a significant portion of the video or was the focus of the video.” According to Allen, “[t]he general guidelines are that ... we review the video to ensure that the composition was the focus and if it was we then notify YouTube that the video should be removed.”



[4] Johnson contrasted videos that met this criteria to those “that may have had a second or less of a Prince song, literally a one line, half line of Prince song” or “were shot in incredibly noisy environments, such as bars, where there could be a Prince song playing deep in the background ... to the point where if there was any Prince composition embodied ... in those videos that it was distorted beyond reasonable recognition.” None of the video evaluation guidelines explicitly include consideration of the fair use doctrine.

[5] When Johnson reviewed Lenz’s video, he recognized *Let’s Go Crazy* immediately. He noted that it played loudly in the background throughout the entire video. Based on these details, the video’s title, and Lenz’s query during the video asking if her son liked the song, he concluded that Prince’s song “was very much the focus of the video.” As a result, Johnson decided the video should be included in a takedown notification sent to YouTube that listed more than 200 YouTube videos Universal believed to be making unauthorized use of Prince’s songs. The notice included a “good faith belief” statement as required by 17 U.S.C. § 512(c)(3)(A)(v): “We have a good faith belief that the above-described activity is not authorized by the copyright owner, its agent, or the law.”

[6] After receiving the takedown notification, YouTube removed the video and sent Lenz an email on June 5, 2007, notifying her of the removal. On June 7, 2007, Lenz attempted to restore the video by sending a counter-notification to YouTube pursuant to § 512(g)(3). After YouTube provided this counter-notification to Universal per § 512(g)(2)(B), Universal protested the video’s reinstatement because Lenz failed to properly acknowledge that her statement was made under penalty of perjury, as required by § 512(g)(3)(C). Universal’s protest reiterated that the video constituted infringement because there was no record that “either she or YouTube were ever granted licenses to reproduce, distribute, publicly perform or otherwise exploit the Composition.” The protest made no mention of fair use. After obtaining *pro bono* counsel, Lenz sent a second counter-notification on June 27, 2007, which resulted in YouTube’s reinstatement of the video in mid-July.

## II ...

[7] On February 25, 2010, the district court granted Lenz’s partial motion for summary judgment on Universal’s six affirmative defenses, including the third affirmative defense that Lenz suffered no damages. Both parties subsequently moved for summary judgment on Lenz’s § 512(f) misrepresentation claim. On January 24, 2013, the district court denied both motions in an order that is now before us....

## IV ...

### A

[8] Section 512(c) permits service providers, e.g., YouTube or Google, to avoid copyright infringement liability for storing users’ content if—among other requirements—the service provider “expeditiously” removes or disables access to the content after receiving notification from a copyright holder that the content is infringing. Section 512(c)(3)(A) sets forth the elements that such a “takedown notification” must contain. These elements include identification of the copyrighted work, identification of the allegedly infringing material, and, critically, a statement that the copyright holder believes in good faith the infringing material “is not authorized by the copyright owner, its agent, or the law.” *Id.* § 512(c)(3)(A). The procedures outlined in § 512(c) are referred to as the DMCA’s “takedown procedures.”

[9] To avoid liability for disabling or removing content, the service provider must notify the user of the takedown. *Id.* § 512(g)(1)-(2). The user then has the option of restoring the content by sending a counter-notification, which must include a statement of “good faith belief that the material was removed or disabled as a result of mistake or misidentification....” *Id.* § 512(g)(3)(C). Upon receipt of a valid counter-notification, the service provider must inform the copyright holder of the counter-notification and restore the content

within “not less than 10, nor more than 14, business days,” unless the service provider receives notice that the copyright holder has filed a lawsuit against the user seeking to restrain the user’s infringing behavior. *Id.* § 512(g)(2)(B)–(C). The procedures outlined in § 512(g) are referred to as the DMCA’s “put-back procedures.”

[10] If an entity abuses the DMCA, it may be subject to liability under § 512(f). That section provides: “Any person who knowingly materially misrepresents under this section—(1) that material or activity is infringing, or (2) that material or activity was removed or disabled by mistake or misidentification, shall be liable for any damages....” Subsection (1) generally applies to copyright holders and subsection (2) generally applies to users. Only subsection (1) is at issue here.

## B

[11] We must first determine whether 17 U.S.C. § 512(c)(3)(A)(v) requires copyright holders to consider whether the potentially infringing material is a fair use of a copyright under 17 U.S.C. § 107 before issuing a takedown notification. Section 512(c)(3)(A)(v) requires a takedown notification to include a “statement that the complaining party has a good faith belief that the use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.” The parties dispute whether fair use is an authorization under the law as contemplated by the statute—which is so far as we know an issue of first impression in any circuit across the nation. Canons of statutory construction dictate that if the language of a statute is clear, we look no further than that language in determining the statute’s meaning. A court looks to legislative history only if the statute is unclear. We agree with the district court and hold that the statute unambiguously contemplates fair use as a use authorized by the law.

[12] Fair use is not just excused by the law, it is wholly authorized by the law. In 1976, Congress codified the application of a four-step test for determining the fair use of copyrighted works:

Notwithstanding the provisions of sections 106 and 106A, *the fair use of a copyrighted work, ... for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.* In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107 (emphasis added). The statute explains that the fair use of a copyrighted work is permissible because it is a non-infringing use....

[13] ... Universal’s sole textual argument is that fair use is not “authorized by the law” because it is an affirmative defense that excuses otherwise infringing conduct. Universal’s interpretation is incorrect as it conflates two different concepts: an affirmative defense that is labeled as such due to the procedural posture of the case, and an affirmative defense that excuses impermissible conduct. Supreme Court precedent squarely supports the conclusion that fair use does not fall into the latter camp: “[A]nyone who ... makes a fair use of the work is not an infringer of the copyright with respect to such use.” *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984).

[14] Given that 17 U.S.C. § 107 expressly authorizes fair use, labeling it as an affirmative defense that excuses conduct is a misnomer:

*Although the traditional approach is to view "fair use" as an affirmative defense, this writer, speaking only for himself, is of the opinion that it is better viewed as a right granted by the Copyright Act of 1976. Originally, as a judicial doctrine without any statutory basis, fair use was an infringement that was excused—this is presumably why it was treated as a defense. As a statutory doctrine, however, fair use is not an infringement. Thus, since the passage of the 1976 Act, fair use should no longer be considered an infringement to be excused; instead, it is logical to view fair use as a right. Regardless of how fair use is viewed, it is clear that the burden of proving fair use is always on the putative infringer.*

Bateman v. Mnemonics, Inc., 79 F.3d 1532, 1542 n. 22 (11th Cir. 1996) (Birch, J.). We agree. Cf. Lydia Pallas Loren, *Fair Use: An Affirmative Defense?*, 90 WASH. L. REV. 685, 688 (2015) ("Congress did not intend fair use to be an affirmative defense—a defense, yes, but not an affirmative defense."). Fair use is therefore distinct from affirmative defenses where a use infringes a copyright, but there is no liability due to a valid excuse, e.g., misuse of a copyright, and laches....

[15] ... Even if, as Universal urges, fair use is classified as an "affirmative defense," we hold—for the purposes of the DMCA—fair use is uniquely situated in copyright law so as to be treated differently than traditional affirmative defenses. We conclude that because 17 U.S.C. § 107 created a type of non-infringing use, fair use is "authorized by the law" and a copyright holder must consider the existence of fair use before sending a takedown notification under § 512(c).

## C

[16] We must next determine if a genuine issue of material fact exists as to whether Universal knowingly misrepresented that it had formed a good faith belief the video did not constitute fair use. This inquiry lies not in whether a court would adjudge the video as a fair use, but whether Universal formed a good faith belief that it was not. Contrary to the district court's holding, Lenz may proceed under an actual knowledge theory, but not under a willful blindness theory.

## 1

[17] Though Lenz argues Universal should have known the video qualifies for fair use as a matter of law, we have already decided a copyright holder need only form a subjective good faith belief that a use is not authorized. *Rossi v. Motion Picture Ass'n of Am. Inc.*, 391 F.3d 1000 (9th Cir. 2004). In *Rossi*, we explicitly held that "the 'good faith belief' requirement in § 512(c)(3)(A)(v) encompasses a subjective, rather than objective standard," and we observed that "Congress understands this distinction." We further held:

*When enacting the DMCA, Congress could have easily incorporated an objective standard of reasonableness. The fact that it did not do so indicates an intent to adhere to the subjective standard traditionally associated with a good faith requirement.*

*In § 512(f), Congress included an expressly limited cause of action for improper infringement notifications, imposing liability only if the copyright owner's notification is a knowing misrepresentation. A copyright owner cannot be liable simply because an unknowing mistake is made, even if the copyright owner acted unreasonably in making the mistake. Rather, there must be a demonstration of some actual knowledge of misrepresentation on the part of the copyright owner.*

.... We therefore judge Universal's actions by the subjective beliefs it formed about the video.

2

[18] Universal faces liability if it knowingly misrepresented in the takedown notification that it had formed a good faith belief the video was not authorized by the law, i.e., did not constitute fair use. Here, Lenz presented evidence that Universal did not form any subjective belief about the video's fair use—one way or another—because it failed to consider fair use at all, and knew that it failed to do so. Universal nevertheless contends that its procedures, while not formally labeled consideration of fair use, were tantamount to such consideration. Because the DMCA requires consideration of fair use prior to sending a takedown notification, a jury must determine whether Universal's actions were sufficient to form a subjective good faith belief about the video's fair use or lack thereof.<sup>3</sup>

[19] To be clear, if a copyright holder ignores or neglects our unequivocal holding that it must consider fair use before sending a takedown notification, it is liable for damages under § 512(f). If, however, a copyright holder forms a subjective *good faith* belief the allegedly infringing material does not constitute fair use, we are in no position to dispute the copyright holder's belief even if we would have reached the opposite conclusion. A copyright holder who pays lip service to the consideration of fair use by claiming it formed a good faith belief when there is evidence to the contrary is still subject to § 512(f) liability.

3

[20] We hold the willful blindness doctrine may be used to determine whether a copyright holder "knowingly materially misrepresent[ed]" that it held a "good faith belief" the offending activity was not a fair use. See 17 U.S.C. § 512(c)(3)(A)(v), (f). The willful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA. But, based on the specific facts presented during summary judgment, we reject the district court's conclusion that Lenz may proceed to trial under a willful blindness theory.

[21] To demonstrate willful blindness a plaintiff must establish two factors: (1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact. Under this formulation, a willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts. To meet [this] test, Lenz must demonstrate a genuine issue as to whether—before sending the takedown notification—Universal (1) subjectively believed there was a high probability that the video constituted fair use, and (2) took deliberate actions to avoid learning of this fair use.

[22] On summary judgment Lenz failed to meet a threshold showing of the first factor. To make such a showing, Lenz must provide evidence from which a juror could infer that Universal was aware of a high probability the video constituted fair use. But she failed to provide any such evidence. The district court therefore correctly found that "Lenz does not present evidence suggesting Universal subjectively believed either that there was a high probability any given video might make fair use of a Prince composition or her video in particular made fair use of Prince's song 'Let's Go Crazy.'" Yet the district court improperly denied Universal's motion for summary judgment on the willful blindness theory because Universal "has not shown

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<sup>3</sup> Although the panel agrees on the legal principles we discuss herein, we part company with our dissenting colleague over the propriety of resolving on summary judgment Universal's claim to subjective belief that the copyright was infringed. The dissent would find that no triable issue of fact exists because Universal did not specifically and expressly consider the fair-use elements of 17 U.S.C. § 107. But the question is whether the analysis Universal did conduct of the video was sufficient, not to conclusively establish as a matter of law that the video's use of Let's Go Crazy was fair, but to form a subjective good faith belief that the video was infringing on Prince's copyright. And under the circumstances of this case, that question is for the jury, not this court, to decide.

that it *lacked* a subjective belief.” By finding blame with Universal’s inability to show that it “*lacked* a subjective belief,” the district court improperly required Universal to meet its burden of persuasion, even though Lenz had failed to counter the initial burden of production that Universal successfully carried. Lenz may not therefore proceed to trial on a willful blindness theory.

## V

[23] Section 512(f) provides for the recovery of “any damages, including costs and attorneys fees, incurred by the alleged infringer ... who is injured by such misrepresentation, as the result of the service provider relying upon such misrepresentation in removing or disabling access to the material or activity claimed to be infringing.” We hold a plaintiff may seek recovery of nominal damages for an injury incurred as a result of a § 512(f) misrepresentation.

[24] Universal incorrectly asserts that Lenz must demonstrate she incurred “actual monetary loss.” .... Because Congress specified the recovery of “any damages,” we reject Universal’s contention that Congress did not indicate its intent to depart from the common law presumption that a misrepresentation plaintiff must have suffered a monetary loss....

[25] The district court therefore properly concluded in its 2010 order:

*The use of “any damages” suggests strongly Congressional intent that recovery be available for damages even if they do not amount to ... substantial economic damages.... Requiring a plaintiff who can [show that the copyright holder knowingly misrepresented its subjective good faith] to demonstrate in addition not only that she suffered damages but also that those damages were economic and substantial would vitiate the deterrent effect of the statute....*

[26] .... Because a jury has not yet determined whether Lenz will prevail at trial, we need not decide the scope of recoverable damages, i.e., whether she may recover expenses following the initiation of her § 512(f) suit or *pro bono* costs and attorneys’ fees, both of which arose as a result of the injury incurred.

## VI

[27] Copyright holders cannot shirk their duty to consider—in good faith and prior to sending a takedown notification—whether allegedly infringing material constitutes fair use, a use which the DMCA plainly contemplates as authorized by the law. That this step imposes responsibility on copyright holders is not a reason for us to reject it. We affirm the district court’s order denying the parties’ cross-motions for summary judgment.

**AFFIRMED. ...**

SMITH, J., concurring in part and dissenting in part:

[28] I concur in all but Part IV.C of the majority opinion. However, I disagree with the majority’s conclusion that “whether Universal’s actions were sufficient to form a subjective good faith belief about the video’s fair use or lack thereof” presents a triable issue of fact. Universal admittedly did not consider fair use before notifying YouTube to take down Lenz’s video. It therefore could not have formed a good faith belief that Lenz’s video was infringing, and its notification to the contrary was a knowing material misrepresentation. Accordingly, I would hold that Lenz is entitled to summary judgment.

[29] I agree with the majority’s conclusion that § 512(c)(3)(A)(v) requires copyright holders to consider whether potentially infringing material is a fair use before issuing a takedown notice. As the majority explains,

a takedown notice must contain “[a] statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.” Because fair use of copyrighted material is not an infringement of copyright, such use is “authorized by ... the law.” *See id.* § 107. Therefore, in order to form “a good faith belief that use of the material in the manner complained of is not authorized by ... the law,” § 512(c)(3)(A)(v), a party must consider the doctrine of fair use. I also agree with the majority that § 512(f) provides a party injured by a violation of § 512(c)(3)(A)(v) with a right of action for damages, including nominal damages.

[30] However, I part ways with the majority on two issues. First, I would clarify that § 512(f)’s requirement that a misrepresentation be “knowing[]” is satisfied when the party knows that it is ignorant of the truth or falsity of its representation. Second, I would hold that Universal’s actions were insufficient as a matter of law to form a subjective good-faith belief that Lenz’s video was not a fair use.

## I

[31] Section 512(f) requires that a misrepresentation be “knowing[]” to incur liability. In my view, when the misrepresentation concerns § 512(c)(3)(A)(v), the knowledge requirement is satisfied when the party knows that it has not considered fair use. That is, Universal need not have known that the video was a fair use, or that its actions were insufficient to form a good-faith belief about fair use. It need only have known that it had not considered fair use as such....

[32] One who asserts a belief that a work is infringing without considering fair use lacks a basis for that belief. It follows that one who *knows* that he has not considered fair use *knows* that he lacks a basis for that belief. That is sufficient “actual knowledge of misrepresentation” to meet the scienter requirement of § 512(f). Thus, to be held liable under § 512(f), Universal need only have failed to consider fair use, and known that it had failed to consider fair use.

## II

[33] It is undisputed that Universal’s policy was to issue a takedown notice where a copyrighted work was used as “the focus of the video” or “prominently featured in the video.” By Universal’s own admission, its agents were not instructed to consider whether the use was fair. Instead, Universal directed its agents to spare videos that had “a second or less of a Prince song” or where the song was “distorted beyond reasonable recognition.” And yet, from this, the majority concludes that “whether Universal’s actions were sufficient to form a subjective good faith belief about the video’s fair use or lack thereof” presents a triable issue of fact.

[34] I respectfully disagree. The Copyright Act explicitly enumerates the factors to be considered in assessing whether use of copyrighted material is fair. Universal’s policy was expressly to determine whether a video made “significant use”—not *fair* use—of the work. Nothing in Universal’s methodology considered the purpose and character of the use, the commercial or noncommercial nature of the use, or whether the use would have a significant impact on the market for the copyrighted work.<sup>4</sup> There is therefore no disputed issue of fact: Universal did *not* consider fair use before issuing a takedown notice.

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<sup>4</sup> Had Universal properly considered the statutory elements of fair use, there is no doubt that it would have concluded that Lenz’s use of *Let’s Go Crazy* was fair. *See, e.g.,* TCA Television Corp. v. McCollum, 2015 WL 9255341 (S.D.N.Y. Dec. 17, 2015) (finding on a motion to dismiss that the use in a Broadway show of one minute and seven seconds of the Abbott and Costello routine *Who’s On First?* was fair because the use was “highly transformative” and unlikely to usurp the market for the original); SOFA Entm’t, Inc. v. Dodger Prods., Inc., 709 F.3d 1273 (9th Cir. 2013) (affirming summary judgment that use of a seven-second clip of *The Ed Sullivan Show* was fair for similar reasons). Universal’s “significant use” analysis, by

[35] Moreover, Universal *knew* it had not considered fair use, because § 107 explicitly supplies the factors that “shall” be considered in determining whether a use is fair. I see no reason in law or logic to excuse copyright holders from the general principle that knowledge of the law is presumed. As explained above, that is sufficient in my view to conclude that Universal’s takedown notice was a knowing misrepresentation....

[36] The majority’s unfortunate interpretation of § 512(f) would permit a party to avoid liability with only the most perfunctory attention to fair use. Such a construction eviscerates § 512(f) and leaves it toothless against frivolous takedown notices. And, in an era when a significant proportion of media distribution and consumption takes place on third-party safe harbors such as YouTube, if a creative work can be taken down without meaningfully considering fair use, then the viability of the concept of fair use itself is in jeopardy. Such a construction of § 512(f) cannot comport with the intention of Congress.

[37] In sum: Universal represented that it had formed a good-faith belief that Lenz’s video was an infringement of copyright—that is, that the video was not fair use. Because Universal did not actually consider the factors constituting fair use, its representation was false—a misrepresentation. Because those factors are set forth in § 107 (and § 107 expressly states that a fair use “is not an infringement of copyright”), Universal’s misrepresentation was knowing. And because there is no further disputed issue of fact concerning liability, I respectfully dissent.

## NOTES

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1. Almost certainly the most important element of *Lenz* is the Ninth Circuit’s clear holding that fair use is not merely an “excuse” for infringement, but is rather—as the text of § 107 clearly states—“not an infringement.”

2. In *Lenz*, the Ninth Circuit cites its prior decision in *Rossi v. Motion Picture Ass’n of Am. Inc.*, 391 F.3d 1000 (9th Cir. 2004), which held that the “good faith belief” requirement in § 512(c)(3)(A)(v) “encompasses a subjective, rather than objective standard.” On this basis, *Lenz* holds that a complete failure to consider fair use cannot be subjective bad faith. Is that right? What if Universal persists in its apparent prior practice of not considering fair use when filing takedown notifications? Would a court be incorrect to infer in such an instance that Universal was acting in subjective bad faith?

3. After *Lenz*, do you think it will be possible to have takedown notices sent by robots, and without humans checking to determine whether a particular unauthorized use is a fair use? Could a robot make this determination? For opposing scholarly views on the issue, compare Dan L. Burk, *Algorithmic Fair Use*, 85 U. CHI. L. REV. 283 (2019), with Niva Elkin-Koren, *Fair Use by Design*, 64 UCLA L. REV. 1082 (2017).

4. Note that, at least for YouTube, the notice-and-takedown process has now been supplemented by Google’s “Content ID” system. This automated system for detecting potential infringement uses data files supplied by content owners. Content ID automatically scans video content uploaded by users against a database composed of these files to detect potential infringement. If the Content ID system finds what it believes to be a match between video content a user is attempting to upload and a copyrighted work in the Content ID database, Google gives copyright owners the option to block the video from being viewed, to monetize the video by running ads associated with it (in some cases sharing revenue with the uploader), or to track the video’s viewership statistics. Access to the Content ID program is limited to major content owners. Note that Content ID represents a substantial investment by Google and that its viability depends on cooperation by content owners. Do you think that the law should mandate automated filters like Content ID? If the law were to do so, would the need to filter content discourage the entry of new competitors to YouTube and other

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contrast, is more like determining whether a use is *de minimis*, a much more stringent test than fair use. See *Sandoval v. New Line Cinema Corp.*, 147 F.3d 215, 217 (2d Cir. 1998).

## D. Liability of Device Manufacturers

There are many devices in common usage that can be used to infringe copyrights. Every photocopier, camera, or sound recorder can be used to infringe. Of course, many of these devices can also be used to make copies that are perfectly legal—whether because the copying is authorized by the copyright owner, because the material copied is not copyrighted, or because the copying is fair use. The key question is whether the manufacturers of devices that may be used to infringe copyrights can be subject to secondary liability, and, if so, under what circumstances.

As you read the next case, pay close attention to the source of the rule that the Supreme Court announces. What are the circumstances under which the manufacturer of a device used for infringement may be sued on a theory of secondary liability? And—very importantly—pay close attention to the possible limits of that rule. What are the special features of the device at issue in this case that may make the rule appropriate?

### **Sony Corporation of America v. Universal City Studios, Inc.**

464 U.S. 417 (1984)

STEVENS, J.:

{Recall the facts of this case from Chapter VI.} ...

[1] The Copyright Act does not expressly render anyone liable for infringement committed by another. In contrast, the Patent Act expressly brands anyone who “actively induces infringement of a patent” as an infringer, 35 U.S.C. § 271(b), and further imposes liability on certain individuals labeled “contributory” infringers, *id.*, § 271(c). The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another....

[2] Respondents argue ... that supplying the “means” to accomplish an infringing activity and encouraging that activity through advertisement are sufficient to establish liability for copyright infringement. This argument rests on a gross generalization that cannot withstand scrutiny.... Petitioners in the instant case do not supply Betamax consumers with respondents’ works; respondents do. Petitioners supply a piece of equipment that is generally capable of copying the entire range of programs that may be televised: those that are uncopyrighted, those that are copyrighted but may be copied without objection from the copyright holder, and those that the copyright holder would prefer not to have copied. The Betamax can be used to make authorized or unauthorized uses of copyrighted works ....

[3] Justice Holmes stated that the producer had “contributed” to the infringement of the copyright, and the label “contributory infringement” has been applied in a number of lower court copyright cases involving an ongoing relationship between the direct infringer and the contributory infringer at the time the infringing



conduct occurred. In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the “contributory” infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner. This case, however, plainly does not fall in that category. The only contact between Sony and the users of the Betamax that is disclosed by this record occurred at the moment of sale. The District Court expressly found that “no employee of Sony ... had either direct involvement with the allegedly infringing activity or direct contact with purchasers of Betamax who recorded copyrighted works off-the-air.” And it further found that “there was no evidence that any of the copies made by ... the other individual witnesses in this suit were influenced or encouraged by [Sony’s] advertisements.”

[4] If vicarious liability is to be imposed on petitioners in this case, it must rest on the fact that they have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law.

[5] In the Patent Code both the concept of infringement and the concept of contributory infringement are expressly defined by statute. The prohibition against contributory infringement is confined to the knowing sale of a component especially made for use in connection with a particular patent. There is no suggestion in the statute that one patentee may object to the sale of a product that might be used in connection with other patents. Moreover, the Act expressly provides that the sale of a “staple article or commodity of commerce suitable for substantial noninfringing use” is not contributory infringement.

[6] When a charge of contributory infringement is predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe a patent, the public interest in access to that article of commerce is necessarily implicated. A finding of contributory infringement does not, of course, remove the article from the market altogether; it does, however, give the patentee effective control over the sale of that item. Indeed, a finding of contributory infringement is normally the functional equivalent of holding that the disputed article is within the monopoly granted to the patentee.<sup>21</sup>

[7] For that reason, in contributory infringement cases arising under the patent laws the Court has always recognized the critical importance of not allowing the patentee to extend his monopoly beyond the limits of his specific grant. These cases deny the patentee any right to control the distribution of unpatented articles unless they are unsuited for any commercial noninfringing use. Unless a commodity has no use except through practice of the patented method, the patentee has no right to claim that its distribution constitutes contributory infringement....

[8] We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible. The staple article of commerce doctrine must strike a balance between a copyright holder’s legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not

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<sup>21</sup> It seems extraordinary to suggest that the Copyright Act confers upon all copyright owners collectively, much less the two respondents in this case, the exclusive right to distribute VTR’s simply because they may be used to infringe copyrights. That, however, is the logical implication of their claim. The request for an injunction below indicates that respondents seek, in effect, to declare VTR’s contraband. Their suggestion in this Court that a continuing royalty pursuant to a judicially created compulsory license would be an acceptable remedy merely indicates that respondents, for their part, would be willing to license their claimed monopoly interest in VTR’s to petitioners in return for a royalty.

constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.

#### IV

[9] The question is thus whether the Betamax is capable of commercially significant noninfringing uses. In order to resolve that question, we need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement. Rather, we need only consider whether on the basis of the facts as found by the district court a significant number of them would be non-infringing. Moreover, in order to resolve this case we need not give precise content to the question of how much use is commercially significant. For one potential use of the Betamax plainly satisfies this standard, however it is understood: private, noncommercial time-shifting in the home. It does so both (A) because respondents have no right to prevent other copyright holders from authorizing it for their programs, and (B) because the District Court's factual findings reveal that even the unauthorized home time-shifting of respondents' programs is legitimate fair use.

{AUTHORIZED USE AND FAIR USE ANALYSES OMITTED} ...

[10] In summary, the record and findings of the District Court lead us to two conclusions. First, Sony demonstrated a significant likelihood that substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers. And second, respondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works. The Betamax is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondent's copyrights.

#### V

[11] .... One may search the Copyright Act in vain for any sign that the elected representatives of the millions of people who watch television every day have made it unlawful to copy a program for later viewing at home, or have enacted a flat prohibition against the sale of machines that make such copying possible.

[12] It may well be that Congress will take a fresh look at this new technology, just as it so often has examined other innovations in the past. But it is not our job to apply laws that have not yet been written. Applying the copyright statute, as it now reads, to the facts as they have been developed in this case, the judgment of the Court of Appeals must be reversed.

*It is so ordered.*

BLACKMUN, J., dissenting, joined by Justices Marshall, Powell, and Rehnquist: ...

[13] Sony argues that the manufacturer or seller of a product used to infringe is absolved from liability whenever the product can be put to any substantial noninfringing use.... I do not agree that this technical judge-made doctrine of patent law, based in part on considerations irrelevant to the field of copyright, should be imported wholesale into copyright law. Despite their common constitutional source, patent and copyright protections have not developed in a parallel fashion, and this Court in copyright cases in the past has borrowed patent concepts only sparingly.

[14] I recognize, however, that many of the concerns underlying the "staple article of commerce" doctrine are present in copyright law as well. As the District Court noted, if liability for contributory infringement were

imposed on the manufacturer or seller of every product used to infringe—a typewriter, a camera, a photocopying machine—the “wheels of commerce” would be blocked.

[15] I therefore conclude that if a *significant* portion of the product’s use is *noninfringing*, the manufacturers and sellers cannot be held contributorily liable for the product’s infringing uses. If virtually all of the product’s use, however, is to infringe, contributory liability may be imposed; if no one would buy the product for noninfringing purposes alone, it is clear that the manufacturer is purposely profiting from the infringement, and that liability is appropriately imposed. In such a case, the copyright owner’s monopoly would not be extended beyond its proper bounds; the manufacturer of such a product contributes to the infringing activities of others and profits directly thereby, while providing no benefit to the public sufficient to justify the infringement.

[16] The Court of Appeals concluded that Sony should be held liable for contributory infringement, reasoning that “[v]ideotape recorders are manufactured, advertised, and sold for the primary purpose of reproducing television programming,” and “[v]irtually all television programming is copyrighted material.” While I agree with the first of these propositions,<sup>42</sup> the second, for me, is problematic. The key question is not the amount of television programming that is copyrighted, but rather the amount of VTR usage that is infringing.<sup>43</sup> Moreover, the parties and their *amici* have argued vigorously about both the amount of television programming that is covered by copyright and the amount for which permission to copy has been given. The proportion of VTR recording that is infringing is ultimately a question of fact, and the District Court specifically declined to make findings on the “percentage of legal versus illegal home-use recording.” In light of my view of the law, resolution of this factual question is essential. I therefore would remand the case for further consideration of this by the District Court....

## NOTES

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1. Notice that *Sony* was a 5-4 decision. Had one vote gone in the other direction, Sony would have been exposed to potentially crippling secondary infringement liability. What do you think the market’s reaction would have been had *Sony* gone the other way? Would VCRs have been withdrawn from the market? If a case presenting the same issues as *Sony* reached the Court today, what do you think the result would be? Do you think that the Court’s decision in *Sony* to immunize the manufacturers of VCRs hurt the movie industry? What sort of evidence would you look at to arrive at an answer to that question?
2. Is *Sony*’s rule more protective of copyrighted content or content distribution technologies? What does that emphasis reflect about copyright and innovation policy?
3. How does the rule articulated in *Sony* fit into the traditional tests for secondary liability that you have studied above? Does it negate an element of secondary liability? Is it a third test apart from the traditional tests of secondary liability?

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<sup>42</sup> Although VTRs also may be used to watch prerecorded video cassettes and to make home motion pictures, these uses do not require a tuner such as the Betamax contains. The Studios do not object to Sony’s sale of VTRs without tuners. In considering the noninfringing uses of the Betamax, therefore, those uses that would remain possible without the Betamax’s built-in tuner should not be taken into account.

<sup>43</sup> Noninfringing uses would include, for example, recording works that are not protected by copyright, recording works that have entered the public domain, recording with permission of the copyright owner, and, of course, any recording that qualifies as fair use.

As you read the next case, think back to *Sony*, and ask yourself whether there is some feature of the technology in this next case that suggests that the rule developed in *Sony* should not apply. If so, what is that feature? And does it make you more or less willing to impose secondary infringement liability based on the facts of the next case?

## **A&M Records, Inc. v. Napster, Inc.**

239 F.3d 1004 (9th Cir. 2001)

BEEZER, J.:

[1] Plaintiffs are engaged in the commercial recording, distribution and sale of copyrighted musical compositions and sound recordings. The complaint alleges that Napster, Inc. is a contributory and vicarious copyright infringer.... The district court preliminarily enjoined Napster "from engaging in, or facilitating others in copying, downloading, uploading, transmitting, or distributing plaintiffs' copyrighted musical compositions and sound recordings, protected by either federal or state law, without express permission of the rights owner." ...

[2] .... We affirm in part, reverse in part and remand.

I ...

[3] Napster facilitates the transmission of MP3 files between and among its users. Through a process commonly called "peer-to-peer" file sharing, Napster allows its users to: (1) make MP3 music files stored on individual computer hard drives available for copying by other Napster users; (2) search for MP3 music files stored on other users' computers; and (3) transfer exact copies of the contents of other users' MP3 files from one computer to another via the Internet. These functions are made possible by Napster's MusicShare software, available free of charge from Napster's Internet site, and Napster's network servers and server-side software....

### **A. Accessing the System**

[4] In order to copy MP3 files through the Napster system, a user must first access Napster's Internet site and download the MusicShare software to his individual computer. Once the software is installed, the user can access the Napster system....

### **B. Listing Available Files**

[5] If a registered user wants to list available files stored in his computer's hard drive on Napster for others to access, he must first create a "user library" directory on his computer's hard drive. The user then saves his MP3 files in the library directory, using self-designated file names. He next must log into the Napster system using his user name and password. His MusicShare software then searches his user library and verifies that the available files are properly formatted. If in the correct MP3 format, the names of the MP3 files will be uploaded from the user's computer to the Napster servers. The content of the MP3 files remains stored in the user's computer.

[6] Once uploaded to the Napster servers, the user's MP3 file names are stored in a server-side "library" under the user's name and become part of a "collective directory" of files available for transfer during the time the user is logged onto the Napster system. The collective directory is fluid; it tracks users who are connected in real time, displaying only file names that are immediately accessible.

### C. Searching For Available Files ...

[7] Software located on the Napster servers maintains a "search index" of Napster's collective directory. To search the files available from Napster users currently connected to the network servers, the individual user accesses a form in the MusicShare software stored in his computer and enters either the name of a song or an artist as the object of the search. The form is then transmitted to a Napster server and automatically compared to the MP3 file names listed in the server's search index. Napster's server compiles a list of all MP3 file names pulled from the search index which include the same search terms entered on the search form and transmits the list to the searching user....

### D. Transferring Copies of an MP3 file

[8] To transfer a copy of the contents of a requested MP3 file, the Napster server software obtains the Internet address of the requesting user and the Internet address of the "host user" (the user with the available files). The Napster servers then communicate the host user's Internet address to the requesting user. The requesting user's computer uses this information to establish a connection with the host user and downloads a copy of the contents of the MP3 file from one computer to the other over the Internet, "peer-to-peer."...

[9] We ... address plaintiffs' claim that Napster is liable for contributory copyright infringement. Traditionally, one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a contributory infringer. Put differently, liability exists if the defendant engages in personal conduct that encourages or assists the infringement.

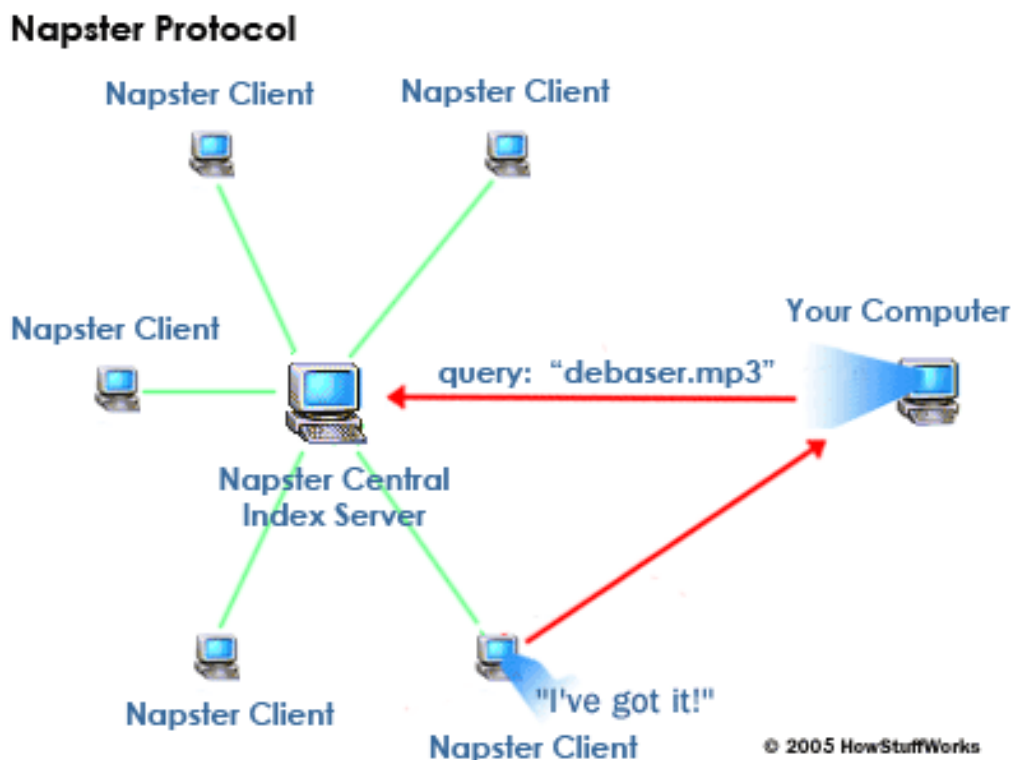


Figure 113: Napster schematic

[10] The district court determined that plaintiffs in all likelihood would establish Napster's liability as a contributory infringer. The district court did not err; Napster, by its conduct, knowingly encourages and assists the infringement of plaintiffs' copyrights.

## A. Knowledge

[11] Contributory liability requires that the secondary infringer know or have reason to know of direct infringement. The district court found that Napster had both actual and constructive knowledge that its users exchanged copyrighted music. The district court also concluded that the law does not require knowledge of specific acts of infringement and rejected Napster's contention that because the company cannot distinguish infringing from noninfringing files, it does not know of the direct infringement.

[12] It is apparent from the record that Napster has knowledge, both actual and constructive, of direct infringement. Napster claims that it is nevertheless protected from contributory liability by the teaching of *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). We disagree. We observe that Napster's actual, specific knowledge of direct infringement renders *Sony's* holding of limited assistance to Napster. We are compelled to make a clear distinction between the architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system.

[13] The *Sony* Court refused to hold the manufacturer and retailers of video tape recorders liable for contributory infringement despite evidence that such machines could be and were used to infringe plaintiffs' copyrighted television shows. *Sony* stated that if liability "is to be imposed on petitioners in this case, it must rest on the fact that *they have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material.*" The *Sony* Court declined to impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and "substantial noninfringing uses."

[14] We are bound to follow *Sony*, and will not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs' copyrights. We depart from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant noninfringing uses. The district court improperly confined the use analysis to current uses, ignoring the system's capabilities. Consequently, the district court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use. Nonetheless, whether we might arrive at a different result is not the issue here. The instant appeal occurs at an early point in the proceedings and the fully developed factual record may be materially different from that initially before the district court. Regardless of the number of Napster's infringing versus noninfringing uses, the evidentiary record here supported the district court's finding that plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users' infringement of plaintiffs' copyrights.

[15] This analysis is similar to that of *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, which suggests that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement....

[16] We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement. Conversely, absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material. To enjoin simply because a computer network allows for infringing use would, in our opinion, violate *Sony* and potentially restrict activity unrelated to infringing use.

[17] We nevertheless conclude that sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system. The record supports the district court's finding that Napster has *actual* knowledge that *specific* infringing material is available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material.

## **B. Material Contribution**

[18] Under the facts as found by the district court, Napster materially contributes to the infringing activity.... [T]he district court concluded that “[w]ithout the support services defendant provides, Napster users could not find and download the music they want with the ease of which defendant boasts.” We agree that Napster provides the site and facilities for direct infringement....

[19] We affirm the district court’s conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the contributory copyright infringement claim....

## **V**

[20] We turn to the question whether Napster engages in vicarious copyright infringement. Vicarious copyright liability is an “outgrowth” of respondeat superior. In the context of copyright law, vicarious liability extends beyond an employer/employee relationship to cases in which a defendant has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.

[21] Before moving into this discussion, we note that *Sony’s* “staple article of commerce” analysis has no application to Napster’s potential liability for vicarious copyright infringement. The issues of *Sony’s* liability under the “doctrines of ‘direct infringement’ and ‘vicarious liability’ ” were not before the Supreme Court, although the Court recognized that the “lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn.” Consequently, when the *Sony* Court used the term “vicarious liability,” it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement.

### **A. Financial Benefit**

[22] The district court determined that plaintiffs had demonstrated they would likely succeed in establishing that Napster has a direct financial interest in the infringing activity. We agree. Financial benefit exists where the availability of infringing material “acts as a ‘draw’ for customers.” Ample evidence supports the district court’s finding that Napster’s future revenue is directly dependent upon “increases in userbase.” More users register with the Napster system as the “quality and quantity of available music increases.” We conclude that the district court did not err in determining that Napster financially benefits from the availability of protected works on its system.

### **B. Supervision**

[23] The district court determined that Napster has the right and ability to supervise its users’ conduct. We agree in part.

[24] The ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise. Here, plaintiffs have demonstrated that Napster retains the right to control access to its system. Napster has an express reservation of rights policy, stating on its website that it expressly reserves the “right to refuse service and terminate accounts in [its] discretion, including, but not limited to, if Napster believes that user conduct violates applicable law ... or for any reason in Napster’s sole discretion, with or without cause.”

[25] To escape imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent. Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability.

[26] The district court correctly determined that Napster had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material. The district court, however, failed to recognize that the boundaries of the premises that Napster “controls and patrols” are limited. Put differently, Napster’s reserved “right and ability” to police is cabined by the system’s current architecture. As shown by the record, the Napster system does not “read” the content of indexed files, other than to check that they are in the proper MP3 format.

[27] Napster, however, has the ability to locate infringing material listed on its search indices, and the right to terminate users’ access to the system. The file name indices, therefore, are within the “premises” that Napster has the ability to police. We recognize that the files are user-named and may not match copyrighted material exactly (for example, the artist or song could be spelled wrong). For Napster to function effectively, however, file names must reasonably or roughly correspond to the material contained in the files, otherwise no user could ever locate any desired music. As a practical matter, Napster, its users and the record company plaintiffs have equal access to infringing material by employing Napster’s “search function.”

[28] Our review of the record requires us to accept the district court’s conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the vicarious copyright infringement claim. Napster’s failure to police the system’s “premises,” combined with a showing that Napster financially benefits from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability....

## NOTE

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1. Do you agree with *Napster* that the *Sony* rule does not apply to the technology at issue in that case? Do you agree that Napster’s continuing involvement in its users’ infringing transactions makes Napster fundamentally different from devices—such as photocopiers, VCRs, and, later, DVRs—for which manufacturers have no continuing involvement past the distribution of the device to the public. Consider in particular whether the design, manufacture, and distribution of a device, which the proprietor knows with certainty will be used by a large number of people to infringe, is categorically different from the operation of an enterprise, like Napster, that facilitates (or that at least arguably could facilitate) both infringing and non-infringing uses, but which depends on the proprietor’s continued involvement in user activities that may be infringing.

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The next case involves peer-to-peer networks that—unlike Napster—do not rely on a central server or a centralized index of content on the network. Rather, these “true peer-to-peer” services are decentralized and the owner of the network, after distributing the software that permits access, has no continuing involvement in the activities of users. In this way, the distributors of software used to access true peer-to-peer networks are more like the manufacturer of the VCR. Should they be treated the same when it comes to assessing their potential secondary liability for copyright infringement?

## **Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.**

545 U.S. 913 (2005)

SOUTER, J.:

[1] The question is under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product. We hold that one who



distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

## I

### A

[2] Respondents, Grokster, Ltd., and StreamCast Networks, Inc., defendants in the trial court, distribute free software products that allow computer users to share electronic files through peer-to-peer networks, so called because users' computers communicate directly with each other, not through central servers....

[3] .... A group of copyright holders (MGM for short, but including motion picture studios, recording companies, songwriters, and music publishers) sued Grokster and StreamCast for their users' copyright infringements, alleging that they knowingly and intentionally distributed their software to enable users to reproduce and distribute the copyrighted works in violation of the Copyright Act....

[4] .... Grokster's eponymous software employs what is known as FastTrack technology, a protocol developed by others and licensed to Grokster. StreamCast distributes a very similar product except that its software, called Morpheus, relies on what is known as Gnutella technology. A user who downloads and installs either software possesses the protocol to send requests for files directly to the computers of others using software compatible with FastTrack or Gnutella. On the FastTrack network opened by the Grokster software, the user's request goes to a computer given an indexing capacity by the software and designated a supernode, or to some other computer with comparable power and capacity to collect temporary indexes of the files available on the computers of users connected to it. The supernode (or indexing computer) searches its own index and may communicate the search request to other supernodes. If the file is found, the supernode discloses its location to the computer requesting it, and the requesting user can download the file directly from the computer located. The copied file is placed in a designated sharing folder on the requesting user's computer, where it is available for other users to download in turn, along with any other file in that folder.

[5] In the Gnutella network made available by Morpheus, the process is mostly the same, except that in some versions of the Gnutella protocol there are no supernodes. In these versions, peer computers using the protocol communicate directly with each other. When a user enters a search request into the Morpheus software, it sends the request to computers connected with it, which in turn pass the request along to other connected peers. The search results are communicated to the requesting computer, and the user can download desired files directly from peers' computers. As this description indicates, Grokster and StreamCast use no servers to intercept the content of the search requests or to mediate the file transfers conducted by users of the software, there being no central point through which the substance of the communications passes in either direction.

[6] Although Grokster and StreamCast do not therefore know when particular files are copied, a few searches using their software would show what is available on the networks the software reaches. MGM commissioned a statistician to conduct a systematic search, and his study showed that nearly 90% of the files available for download on the FastTrack system were copyrighted works. Grokster and StreamCast dispute this figure, raising methodological problems and arguing that free copying even of copyrighted works may be authorized by the rightholders. They also argue that potential noninfringing uses of their software are significant in kind, even if infrequent in practice. Some musical performers, for example, have gained new audiences by distributing their copyrighted works for free across peer-to-peer networks, and some distributors of unprotected content have used peer-to-peer networks to disseminate files, Shakespeare being an example....

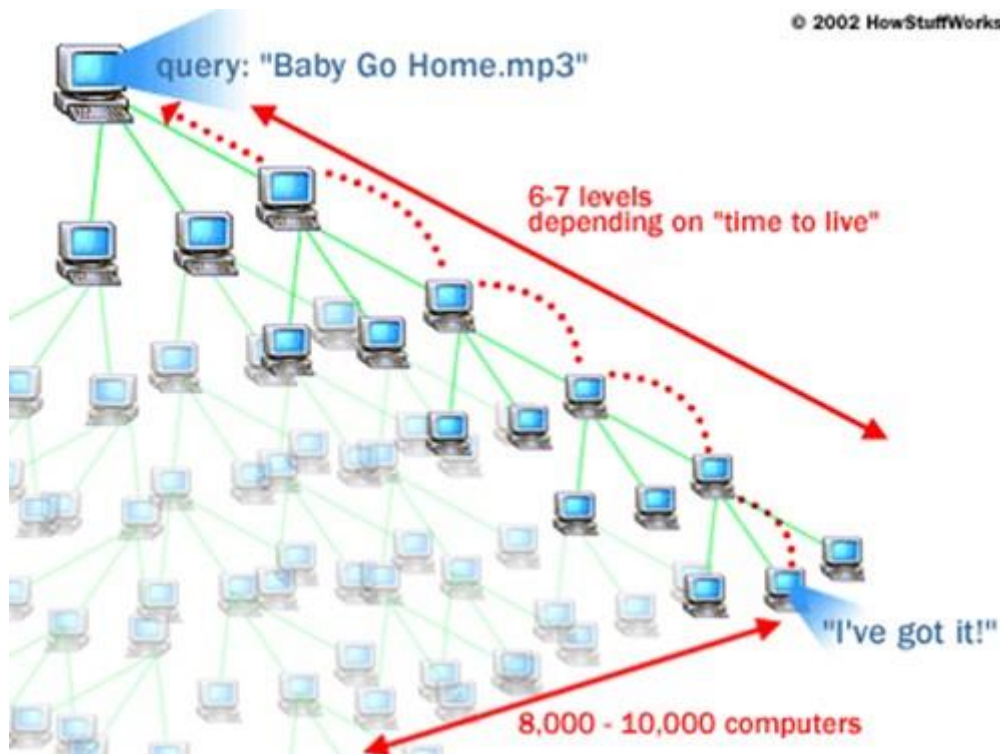


Figure 114: Grokster schematic

[7] As for quantification, the parties' anecdotal and statistical evidence entered thus far to show the content available on the FastTrack and Gnutella networks does not say much about which files are actually downloaded by users, and no one can say how often the software is used to obtain copies of unprotected material. But MGM's evidence gives reason to think that the vast majority of users' downloads are acts of infringement, and because well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the FastTrack and Gnutella networks each month, the probable scope of copyright infringement is staggering.

[8] Grokster and StreamCast concede the infringement in most downloads, and it is uncontested that they are aware that users employ their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks fail to reveal which files are being copied, and when....

[9] Grokster and StreamCast are not, however, merely passive recipients of information about infringing use. The record is replete with evidence that from the moment Grokster and StreamCast began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement.

[10] After the notorious file-sharing service, Napster, was sued by copyright holders for facilitation of copyright infringement, StreamCast gave away a software program of a kind known as OpenNap, designed as compatible with the Napster program and open to Napster users for downloading files from other Napster and OpenNap users' computers. Evidence indicates that it was always StreamCast's intent to use its OpenNap network to be able to capture email addresses of its initial target market so that it could promote its StreamCast Morpheus interface to them; indeed, the OpenNap program was engineered to leverage Napster's 50 million user base.

[11] StreamCast monitored both the number of users downloading its OpenNap program and the number of music files they downloaded. It also used the resulting OpenNap network to distribute copies of the Morpheus software and to encourage users to adopt it. Internal company documents indicate that StreamCast hoped to

attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster.... It broadcast banner advertisements to users of other Napster-compatible software, urging them to adopt its OpenNap....

[12] Thus, StreamCast developed promotional materials to market its service as the best Napster alternative. One proposed advertisement read: "Napster Inc. has announced that it will soon begin charging you a fee. That's if the courts don't order it shut down first. What will you do to get around it?" Another proposed ad touted StreamCast's software as the "# 1 alternative to Napster" and asked "[w]hen the lights went off at Napster ... where did the users go?" StreamCast even planned to flaunt the illegal uses of its software; when it launched the OpenNap network, the chief technology officer of the company averred that "[t]he goal is to get in trouble with the law and get sued. It's the best way to get in the new[s]."

[13] The evidence that Grokster sought to capture the market of former Napster users is sparser but revealing, for Grokster launched its own OpenNap system called Swaptor and inserted digital codes into its Web site so that computer users using Web search engines to look for "Napster" or "[f]ree file sharing" would be directed to the Grokster Web site, where they could download the Grokster software. And Grokster's name is an apparent derivative of Napster.

[14] StreamCast's executives monitored the number of songs by certain commercial artists available on their networks, and an internal communication indicates they aimed to have a larger number of copyrighted songs available on their networks than other file-sharing networks. The point, of course, would be to attract users of a mind to infringe, just as it would be with their promotional materials developed showing copyrighted songs as examples of the kinds of files available through Morpheus. Morpheus in fact allowed users to search specifically for "Top 40" songs, which were inevitably copyrighted. Similarly, Grokster sent users a newsletter promoting its ability to provide particular, popular copyrighted materials.

[15] In addition to this evidence of express promotion, marketing, and intent to promote further, the business models employed by Grokster and StreamCast confirm that their principal object was use of their software to download copyrighted works. Grokster and StreamCast receive no revenue from users, who obtain the software itself for nothing. Instead, both companies generate income by selling advertising space, and they stream the advertising to Grokster and Morpheus users while they are employing the programs. As the number of users of each program increases, advertising opportunities become worth more. While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking a free Decameron, and Grokster and StreamCast translated that demand into dollars.

[16] Finally, there is no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impede the sharing of copyrighted files. Although Grokster appears to have sent e-mails warning users about infringing content when it received threatening notice from the copyright holders, it never blocked anyone from continuing to use its software to share copyrighted files. StreamCast not only rejected another company's offer of help to monitor infringement, but blocked the Internet Protocol addresses of entities it believed were trying to engage in such monitoring on its networks.

## B

[17] After discovery, the parties on each side of the case cross-moved for summary judgment.... The District Court held that those who used the Grokster and Morpheus software to download copyrighted media files directly infringed MGM's copyrights, a conclusion not contested on appeal, but the court nonetheless granted summary judgment in favor of Grokster and StreamCast as to any liability arising from distribution of the

then-current versions of their software. Distributing that software gave rise to no liability in the court's view, because its use did not provide the distributors with actual knowledge of specific acts of infringement.

[18] The Court of Appeals affirmed. In the court's analysis, a defendant was liable as a contributory infringer when it had knowledge of direct infringement and materially contributed to the infringement. But the court read *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. The fact that the software was capable of substantial noninfringing uses in the Ninth Circuit's view meant that Grokster and StreamCast were not liable, because they had no such actual knowledge, owing to the decentralized architecture of their software. The court also held that Grokster and StreamCast did not materially contribute to their users' infringement because it was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place.

[19] The Ninth Circuit also considered whether Grokster and StreamCast could be liable under a theory of vicarious infringement. The court held against liability because the defendants did not monitor or control the use of the software, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement....

## II

### A...

[20] One infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it....

### B

[21] Despite the currency of these principles of secondary liability, this Court has dealt with secondary copyright infringement in only one recent case....

[22] In sum, where an article is "good for nothing else" but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe. Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce.

[23] The parties and many of the *amici* in this case think the key to resolving it is the *Sony* rule and, in particular, what it means for a product to be "capable of commercially significant noninfringing uses." MGM advances the argument that granting summary judgment to Grokster and StreamCast as to their current activities gave too much weight to the value of innovative technology, and too little to the copyrights infringed by users of their software, given that 90% of works available on one of the networks was shown to be copyrighted. Assuming the remaining 10% to be its noninfringing use, MGM says this should not qualify as "substantial," and the Court should quantify *Sony* to the extent of holding that a product used "principally" for infringement does not qualify. As mentioned before, Grokster and StreamCast reply by citing evidence that their software can be used to reproduce public domain works, and they point to copyright holders who actually encourage copying. Even if infringement is the principal practice with their software today, they argue, the noninfringing uses are significant and will grow.

[24] We agree with MGM that the Court of Appeals misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied. *Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. The Ninth Circuit has read *Sony*'s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it; it read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had "specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information." Because the Circuit found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of *Sony* that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

[25] This view of *Sony*, however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory. Because *Sony* did not displace other theories of secondary liability, and because we find below that it was error to grant summary judgment to the companies on MGM's inducement claim, we do not revisit *Sony* further, as MGM requests, to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur. It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and to leave further consideration of the *Sony* rule for a day when that may be required.

## C

[26] *Sony*'s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law. Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability.

[27] The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or entices or persuades another to infringe, as by advertising. Thus at common law a copyright or patent defendant who not only expected but invoked infringing use by advertisement was liable for infringement on principles recognized in every part of the law.

[28] The rule on inducement of infringement as developed in the early cases is no different today. Evidence of active steps taken to encourage direct infringement, such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.

[29] For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not

be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

### III

#### A ...

[30] .... Here, the summary judgment record is replete with ... evidence that Grokster and StreamCast, unlike the manufacturer and distributor in *Sony*, acted with a purpose to cause copyright violations by use of software suitable for illegal use.

[31] Three features of this evidence of intent are particularly notable. First, each company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users....

[32] Second, this evidence of unlawful objective is given added significance by MGM's showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software.... [W]e think this evidence underscores Grokster's and StreamCast's intentional facilitation of their users' infringement.<sup>12</sup>

[33] Third, there is a further complement to the direct evidence of unlawful objective. It is useful to recall that StreamCast and Grokster make money by selling advertising space, by directing ads to the screens of computers employing their software. As the record shows, the more the software is used, the more ads are sent out and the greater the advertising revenue becomes. Since the extent of the software's use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing. This evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear.

[34] The unlawful objective is unmistakable.

#### B

[35] In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement by recipients of the device, the software in this case. As the account of the facts indicates, there is evidence of infringement on a gigantic scale, and there is no serious issue of the adequacy of MGM's showing on this point in order to survive the companies' summary judgment requests....

\* \* \*

[36] In sum, this case is significantly different from *Sony* and reliance on that case to rule in favor of StreamCast and Grokster was error. *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product's

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<sup>12</sup> Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.

capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.

[37] MGM's evidence in this case most obviously addresses a different basis of liability for distributing a product open to alternative uses. Here, evidence of the distributors' words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was....

[38] The judgment of the Court of Appeals is vacated, and the case is remanded for further proceedings consistent with this opinion.

*It is so ordered.*

GINSBURG, J. concurring, joined by Chief Justice Rehnquist and Justice Kennedy:

[39] I concur in the Court's decision, ... and write separately to clarify why I conclude that the Court of Appeals misperceived, and hence misapplied, our holding in *Sony Corp. of America v. Universal City Studios, Inc.* ...

[40] In *Sony*, the Court considered Sony's liability for selling the Betamax videocassette recorder. It did so enlightened by a full trial record. Drawing an analogy to the staple article of commerce doctrine from patent law, the *Sony* Court observed that the "sale of an article ... adapted to [a patent] infringing use" does not suffice "to make the seller a contributory infringer" if the article "is also adapted to other and lawful uses."

[41] "The staple article of commerce doctrine" applied to copyright, the Court stated, "must strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." "Accordingly," the Court held, "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses." Thus, to resolve the *Sony* case, the Court explained, it had to determine "whether the Betamax is capable of commercially significant noninfringing uses."

[42] To answer that question, the Court considered whether "a significant number of [potential uses of the Betamax were] noninfringing." The Court homed in on one potential use—private, noncommercial time-shifting of television programs in the home (*i.e.*, recording a broadcast TV program for later personal viewing). Time-shifting was noninfringing, the Court concluded, because in some cases trial testimony showed it was authorized by the copyright holder, and in others it qualified as legitimate fair use. Most purchasers used the Betamax principally to engage in time-shifting, a use that "plainly satisfie[d]" the Court's standard. Thus, there was no need in *Sony* to "give precise content to the question of how much [actual or potential] use is commercially significant." Further development was left for later days and cases....

[43] Even if the absolute number of noninfringing files copied using the Grokster and StreamCast software is large, it does not follow that the products are therefore put to substantial noninfringing uses and are thus immune from liability. The number of noninfringing copies may be reflective of, and dwarfed by, the huge total volume of files shared. Further, the District Court and the Court of Appeals did not sharply distinguish between uses of Grokster's and StreamCast's software products (which this case is about) and uses of peer-to-peer technology generally (which this case is not about).

[44] In sum, when the record in this case was developed, there was evidence that Grokster's and StreamCast's products were, and had been for some time, overwhelmingly used to infringe, and that this infringement was the overwhelming source of revenue from the products. Fairly appraised, the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time. On this record, the District Court should not have ruled dispositively on the contributory infringement charge by granting summary judgment to Grokster and StreamCast.

[45] If, on remand, the case is not resolved on summary judgment in favor of MGM based on Grokster and StreamCast actively inducing infringement, the Court of Appeals, I would emphasize, should reconsider, on a fuller record, its interpretation of *Sony's* product distribution holding.

BREYER, J. concurring, joined by Justices Stevens and O'Connor:

[46] I agree with the Court that the distributor of a dual-use technology may be liable for the infringing activities of third parties where he or she actively seeks to advance the infringement. I further agree that, in light of our holding today, we need not now "revisit" *Sony Corp. of America v. Universal City Studios, Inc.* Other Members of the Court, however, take up the *Sony* question: whether Grokster's product is "capable of 'substantial' or 'commercially significant' noninfringing uses." (Ginsburg, J., concurring). And they answer that question by stating that the Court of Appeals was wrong when it granted summary judgment on the issue in Grokster's favor. I write to explain why I disagree with them on this matter.

## I

[47] The Court's opinion in *Sony* and the record evidence (as described and analyzed in the many briefs before us) together convince me that the Court of Appeals' conclusion has adequate legal support.

## A

[48] I begin with *Sony's* standard. In *Sony*, the Court considered the potential copyright liability of a company that did not itself illegally copy protected material, but rather sold a machine—a videocassette recorder (VCR)—that could be used to do so.... *Sony* knew many customers would use its VCRs to engage in unauthorized copying and library-building. But that fact, said the Court, was insufficient to make *Sony* itself an infringer. And the Court ultimately held that *Sony* was not liable for its customers' acts of infringement.

[49] In reaching this conclusion, the Court recognized the need for the law, in fixing *secondary* copyright liability, to "strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." .... The Court wrote that the sale of copying equipment, "like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. *Indeed, it need merely be capable of substantial noninfringing uses.*" The Court ultimately characterized the legal "question" in the particular case as "whether [*Sony's* VCR] is *capable of commercially significant noninfringing uses*" (while declining to give "precise content" to these terms).

[50] It then applied this standard. The Court had before it a survey (commissioned by the District Court and then prepared by the respondents) showing that roughly 9% of all VCR recordings were of the type—namely, religious, educational, and sports programming—owned by producers and distributors testifying on *Sony's* behalf who did not object to time-shifting. A much higher percentage of VCR *users* had at one point taped an authorized program, in addition to taping unauthorized programs. And the plaintiffs—not a large class of content providers as in this case—owned only a small percentage of the total available *unauthorized*



programming. But of all the taping actually done by Sony's customers, only around 9% was of the sort the Court referred to as authorized.

[51] The Court found that the magnitude of authorized programming was "significant," and it also noted the "significant potential for future authorized copying." The Court supported this conclusion by referencing the trial testimony of professional sports league officials and a religious broadcasting representative. It also discussed (1) a Los Angeles educational station affiliated with the Public Broadcasting Service that made many of its programs available for home taping, and (2) *Mr. Rogers' Neighborhood*, a widely watched children's program. On the basis of this testimony and other similar evidence, the Court determined that producers of this kind had authorized duplication of their copyrighted programs "in significant enough numbers to create a *substantial* market for a noninfringing use of the" VCR.

[52] The Court, in using the key word "substantial," indicated that these circumstances alone constituted a sufficient basis for rejecting the imposition of secondary liability. Nonetheless, the Court buttressed its conclusion by finding separately that, in any event, *unauthorized* time-shifting often constituted not infringement, but "fair use."

## B

[53] When measured against *Sony's* underlying evidence and analysis, the evidence now before us shows that *Grokster* passes *Sony's* test—that is, whether the company's product is capable of substantial or commercially significant noninfringing uses. For one thing, petitioners' (hereinafter MGM) own expert declared that 75% of current files available on *Grokster* are infringing and 15% are "likely infringing." That leaves some number of files near 10% that apparently are noninfringing, a figure very similar to the 9% or so of authorized time-shifting uses of the VCR that the Court faced in *Sony*...

[54] Importantly, *Sony* also used the word "capable," asking whether the product is "*capable of*" substantial noninfringing uses. Its language and analysis suggest that a figure like 10%, if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time. And its language also indicates the appropriateness of looking to potential future uses of the product to determine its "capability."

[55] Here the record reveals a significant future market for noninfringing uses of *Grokster*-type peer-to-peer software. Such software permits the exchange of *any* sort of digital file—whether that file does, or does not, contain copyrighted material. As more and more uncopyrighted information is stored in swappable form, it seems a likely inference that lawful peer-to-peer sharing will become increasingly prevalent....

[56] There may be other now-unforeseen noninfringing uses that develop for peer-to-peer software, just as the home-video rental industry (unmentioned in *Sony*) developed for the VCR. But the foreseeable development of such uses, when taken together with an estimated 10% noninfringing material, is sufficient to meet *Sony's* standard. And while *Sony* considered the record following a trial, there are no facts asserted by MGM in its summary judgment filings that lead me to believe the outcome after a trial here could be any different. The lower courts reached the same conclusion.

[57] Of course, *Grokster* itself may not want to develop these other noninfringing uses. But *Sony's* standard seeks to protect not the *Groksters* of this world (which in any event may well be liable under today's holding), but the development of technology more generally. And *Grokster's* desires in this respect are beside the point.

## II

[58] The real question here, I believe, is not whether the record evidence satisfies *Sony*. As I have interpreted the standard set forth in that case, it does....

[59] Instead, the real question is whether we should modify the *Sony* standard, as MGM requests, or interpret *Sony* more strictly, as I believe Justice Ginsburg's approach would do in practice.

[60] As I have said, *Sony* itself sought to "strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." Thus, to determine whether modification, or a strict interpretation, of *Sony* is needed, I would ask whether MGM has shown that *Sony* incorrectly balanced copyright and new-technology interests. In particular: (1) Has *Sony* (as I interpret it) worked to protect new technology? (2) If so, would modification or strict interpretation significantly weaken that protection? (3) If so, would new or necessary copyright-related benefits outweigh any such weakening?

## A

[61] The first question is the easiest to answer. *Sony's* rule, as I interpret it, has provided entrepreneurs with needed assurance that they will be shielded from copyright liability as they bring valuable new technologies to market.

[62] *Sony's rule is clear*. That clarity allows those who develop new products that are capable of substantial noninfringing uses to know, *ex ante*, that distribution of their product will not yield massive monetary liability. At the same time, it helps deter them from distributing products that have no other real function than—or that are specifically intended for—copyright infringement, deterrence that the Court's holding today reinforces (by adding a weapon to the copyright holder's legal arsenal).

[63] *Sony's rule is strongly technology protecting*. The rule deliberately makes it difficult for courts to find secondary liability where new technology is at issue. It establishes that the law will not impose copyright liability upon the distributors of dual-use technologies (who do not themselves engage in unauthorized copying) unless the product in question will be used *almost exclusively* to infringe copyrights (or unless they actively induce infringements as we today describe). *Sony* thereby recognizes that the copyright laws are not intended to discourage or to control the emergence of new technologies, including (perhaps especially) those that help disseminate information and ideas more broadly or more efficiently. Thus *Sony's* rule shelters VCRs, typewriters, tape recorders, photocopiers, computers, cassette players, compact disc burners, digital video recorders, MP3 players, Internet search engines, and peer-to-peer software. But *Sony's* rule does not shelter descramblers, even if one could *theoretically* use a descrambler in a noninfringing way.

[64] *Sony's rule is forward looking*. It does not confine its scope to a static snapshot of a product's current uses (thereby threatening technologies that have undeveloped future markets). Rather, as the VCR example makes clear, a product's market can evolve dramatically over time. And *Sony*—by referring to a *capacity* for substantial noninfringing uses—recognizes that fact. *Sony's* word "capable" refers to a plausible, not simply a theoretical, likelihood that such uses will come to pass, and that fact anchors *Sony* in practical reality.

[65] *Sony's rule is mindful of the limitations facing judges where matters of technology are concerned*. Judges have no specialized technical ability to answer questions about present or future technological feasibility or commercial viability where technology professionals, engineers, and venture capitalists themselves may radically disagree and where answers may differ depending upon whether one focuses upon the time of product development or the time of distribution. Consider, for example, the question whether devices can be added to Grokster's software that will filter out infringing files. MGM tells us this is easy enough to do, as do

several *amici* that produce and sell the filtering technology. Grokster says it is not at all easy to do, and not an efficient solution in any event, and several apparently disinterested computer science professors agree. Which account should a judge credit? *Sony* says that the judge will not necessarily have to decide.

[66] Given the nature of the *Sony* rule, it is not surprising that in the last 20 years, there have been relatively few contributory infringement suits—based on a product distribution theory—brought against technology providers (a small handful of federal appellate court cases and perhaps fewer than two dozen District Court cases in the last 20 years). I have found nothing in the briefs or the record that shows that *Sony* has failed to achieve its innovation-protecting objective.

## B

[67] The second, more difficult, question is whether a modified *Sony* rule (or a strict interpretation) would significantly weaken the law's ability to protect new technology. Justice GINSBURG's approach would require defendants to produce considerably more concrete evidence—more than was presented here—to earn *Sony*'s shelter. That heavier evidentiary demand, and especially the more dramatic (case-by-case balancing) modifications that MGM and the Government seek, would, I believe, undercut the protection that *Sony* now offers.

[68] To require defendants to provide, for example, detailed evidence—say, business plans, profitability estimates, projected technological modifications, and so forth—would doubtless make life easier for copyright holder plaintiffs. But it would simultaneously increase the legal uncertainty that surrounds the creation or development of a new technology capable of being put to infringing uses.... The price of a wrong guess—even if it involves a good-faith effort to assess technical and commercial viability—could be large statutory damages (not less than \$750 and up to \$30,000 *per infringed work*). 17 U.S.C. § 504(c)(1). The additional risk and uncertainty would mean a consequent additional chill of technological development.

## C

[69] The third question—whether a positive copyright impact would outweigh any technology-related loss—I find the most difficult of the three. I do not doubt that a more intrusive *Sony* test would generally provide greater revenue security for copyright holders. But it is harder to conclude that the gains on the copyright swings would exceed the losses on the technology roundabouts.

[70] For one thing, the law disfavors equating the two different kinds of gain and loss; rather, it leans in favor of protecting technology. As *Sony* itself makes clear, the producer of a technology which *permits* unlawful copying does not himself *engage* in unlawful copying—a fact that makes the attachment of copyright liability to the creation, production, or distribution of the technology an exceptional thing. Moreover, *Sony* has been the law for some time. And that fact imposes a serious burden upon copyright holders like MGM to show a need for change in the current rules of the game, including a more strict interpretation of the test.

[71] In any event, the evidence now available does not, in my view, make out a sufficiently strong case for change. To say this is not to doubt the basic need to protect copyrighted material from infringement. The Constitution itself stresses the vital role that copyright plays in advancing the “useful Arts.” No one disputes that “reward to the author or artist serves to induce release to the public of the products of his creative genius.” And deliberate unlawful copying is no less an unlawful taking of property than garden-variety theft. But these highly general principles cannot by themselves tell us how to balance the interests at issue in *Sony* or whether *Sony*'s standard needs modification. And at certain key points, information is lacking.

[72] Will an unmodified *Sony* lead to a significant diminution in the amount or quality of creative work produced? Since copyright's basic objective is creation and its revenue objectives but a means to that end, this is the underlying copyright question. And its answer is far from clear....

[73] The extent to which related production has actually and resultingly declined remains uncertain, though there is good reason to believe that the decline, if any, is not substantial.

[74] More importantly, copyright holders at least potentially have other tools available to reduce piracy and to abate whatever threat it poses to creative production. As today's opinion makes clear, a copyright holder may proceed against a technology provider where a provable specific intent to infringe (of the kind the Court describes) is present. Services like *Grokster* may well be liable under an inducement theory.

[75] In addition, a copyright holder has always had the legal authority to bring a traditional infringement suit against one who wrongfully copies. Indeed, since September 2003, the Recording Industry Association of America (RIAA) has filed thousands of suits against people for sharing copyrighted material. These suits have provided copyright holders with damages; have served as a teaching tool, making clear that much file sharing, if done without permission, is unlawful; and apparently have had a real and significant deterrent effect.

[76] Further, copyright holders may develop new technological devices that will help curb unlawful infringement. Some new technology, called "digital watermarking" and "digital fingerprinting," can encode within the file information about the author and the copyright scope and date, which "fingerprints" can help to expose infringers.

[77] At the same time, advances in technology have discouraged unlawful copying by making *lawful* copying (e.g., downloading music with the copyright holder's permission) cheaper and easier to achieve. Several services now sell music for less than \$1 per song....

[78] Finally, as *Sony* recognized, the legislative option remains available. Courts are less well suited than Congress to the task of accommodating fully the varied permutations of competing interests that are inevitably implicated by such new technology.

[79] I do not know whether these developments and similar alternatives will prove sufficient, but I am reasonably certain that, given their existence, a strong demonstrated need for modifying *Sony* (or for interpreting *Sony*'s standard more strictly) has not yet been shown. That fact, along with the added risks that modification (or strict interpretation) would impose upon technological innovation, leads me to the conclusion that we should maintain *Sony*, reading its standard as I have read it. As so read, it requires affirmance of the Ninth Circuit's determination of the relevant aspects of the *Sony* question.

\* \* \*

[80] For these reasons, I disagree with Justice Ginsburg, but I agree with the Court and join its opinion.

## NOTES

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1. The Supreme Court's opinion in *Grokster* reminded many that liability for "inducement" is an element of contributory copyright infringement liability. Perhaps that should not have been a surprise, for the inducement prong of contributory infringement liability had figured in the cases for a long time. Here's an example, from *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971): "[O]ne who, with knowledge of the infringing activity, *induces*, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." (emphasis added)

2. In *Columbia Pictures Industries v. Fung*, 710 F.3d 1020 (9th Cir. 2013), motion picture studios filed suit against Gary Fung and his company, isoHunt Web Technologies, Inc., alleging that the defendants induced third parties to download infringing copies of plaintiffs' copyrighted works. The defendants' websites would use the BitTorrent peer-to-peer file-sharing protocol to collect and distribute content. Each time a torrent file (a file containing information regarding the location of a specific piece of content) would be added to Fung's site, the site would automatically modify the torrent file to make it better able to find the specific content. The defendants also hosted an electronic message board where users could post content, and on which Fung posted comments and also moderated. The Ninth Circuit affirmed a district court opinion holding that (1) the defendants were liable for contributory copyright infringement on an inducement theory, and (2) that defendants were not entitled to safe harbor protection under the DMCA. On the inducement issue, Fung argued that because he did not develop or distribute any device—that is, the software or technology used for downloading—he is not liable under the inducement rule enunciated in *Grokster*. The Ninth Circuit disagreed, interpreting the rule in *Grokster* to apply to services as well as devices. The Ninth Circuit also found that there was substantial evidence of inducement, including that Fung had encouraged the uploading to his sites of copyrighted content by, among other things, prominently featuring a list of the highest-grossing "Box Office Movies" on his website. On the § 512 issue, the court concluded that Fung was not entitled to safe harbor under § 512(a). That safe harbor, the court held, applies to service providers who act only as conduits for the transmission of information. Fung's sites select which users will communicate with each other; as a consequence, they serve as more than "conduits" between computer users. The court further held that the defendants were not entitled to safe harbor under §§ 512(c) and (d) because safe harbor under those provisions is available only if the service provider does not have actual knowledge that the material or an activity using material on the system or network is infringing. The court stated that Fung had "red flag" knowledge of a broad range of infringing activity.

3. *Napster* and *Grokster* led to the shutdown of several popular peer-to-peer filesharing networks. But of course that did not end filesharing. The BitTorrent network is still very much alive. (Why do you think BitTorrent has not been shut down? Think about the courts' holdings in *Napster* and *Grokster*, and whether they apply to the architecture and conduct of BitTorrent.) And a lot of filesharing is now done through a technology that grew up after peer-to-peer: cyberlockers. Did content owners' campaign against filesharing work? What were the results of that campaign? Would we have gotten iTunes and Spotify and Apple Music without Napster and Grokster? For a broader look at this dynamic, see EDUARDO MOISÉS PEÑALVER & SONIA K. KATYAL, *PROPERTY OUTLAWS: HOW SQUATTERS, PIRATES, AND PROTESTERS IMPROVE THE LAW OF OWNERSHIP* (2010); KAL RAUSTIALA & CHRISTOPHER JON SPRIGMAN, *THE KNOCKOFF ECONOMY* (2012) (see particularly, *Epilogue: The Future of Music*).

