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Is There Ever A Reason to Know? A Comparison of the Contributory Liability "Knowledge" Standard for Websites Hosting Infringed Trademarked Content Versus Infringed Copyrighted Content

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**IS THERE EVER A REASON TO KNOW?
A COMPARISON OF THE CONTRIBUTORY
LIABILITY “KNOWLEDGE” STANDARD
FOR WEBSITES HOSTING INFRINGED
TRADEMARKED CONTENT VERSUS
INFRINGED COPYRIGHTED CONTENT**

RACHEL N. AGRSS*

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ABSTRACT

The doctrines of contributory copyright liability and contributory trademark liability are both based on the confluence of basic tort liability and the policy goal of encouraging innovation and commerce. Because the two concepts sometimes conflict, courts have struggled to create a comprehensive body of law to reach a reconciliation. The doctrine of contributory copyright liability evolved through a rich body of case law that was subsequently supplemented by the legislatively enacted Digital Millennium Copyright Act (DMCA). In contrast, the doctrine of contributory trademark liability is a purely common law doctrine and has not witnessed legislative intervention. This article posits that the contributory trademark doctrine has evolved in a parallel manner to the contributory copyright doctrine through judicial common law, with courts imposing liability based on the same principles and factors as those underlying findings of liability in copyright cases. Thus, the same three factors can be identified that consistently distinguish cases of liability from those cases where the courts have not held service providers and distributors liable in both copyright and trademark cases. Namely, courts reach findings of “liability” in cases where: (1) the users known to be attracted to the product/service are dubious; (2) an overriding percentage of uses are infringing; and (3) there is overt bad faith on the part of the service provider.

I. INTRODUCTION

This article proposes that the doctrines of contributory copyright and contributory trademark liability are based on the confluence of the doctrine of basic tort liability and the policy goal of encouraging innovation and vigorous commerce as new products and services are developed.¹ Because basic tort liability relies on the concept of imputed intent, and this concept sometimes conflicts with the policy goal of encouraging innovation, courts have struggled to create a comprehensive body of law to reconcile the two. Generally, and in the online context specifically, courts have come to similar outcomes in the arenas of contributory copyright and trademark liability, albeit through different paths of legal evolution. Underlying these results, three factors can be identified that consistently distinguish cases of liability from those cases where the courts have

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¹ Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 933 (2005) (citing Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 442 (1984)).

not held service providers and distributors liable.

The doctrine of contributory copyright liability evolved through a rich body of case law that was subsequently supplemented by the legislatively enacted Digital Millennium Copyright Act (DMCA).² The DMCA strove to keep copyright law intact while providing online service providers with certain “safe harbors” from liability.³ Though the legislatively imposed DMCA is said to have “shifted the burden” in the copyright context,⁴ the DMCA has been implemented by the same courts that developed the initial common law doctrine, applying the same policy goals as those underlying the initial common law. These courts have interpreted and applied the DMCA so as to form a body of case law that is consistent with the initial body of contributory infringement case law.

In contrast, the doctrine of contributory trademark liability is a purely common law doctrine and has not witnessed legislative intervention. This article posits, however, that the contributory trademark doctrine has evolved in a parallel manner to the contributory copyright doctrine through judicial common law, with courts imposing liability based on the same principles and factors as those underlying findings of liability in copyright cases. Hence, both trademark and copyright contributory liability have evolved similar doctrines, reaching congruent results when applied to recent cases in the online context.

II. THE ORIGINS OF CONTRIBUTORY INFRINGEMENT

A. *The Lanham Act—Trademark Infringement*

Section 32 of the Lanham Act prohibits any person from using another’s mark without permission “in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive”⁵ To be liable under section 32, a person must use the mark on competing or related goods in a way that creates a likelihood of confusion.⁶

B. *The Copyright Act—Copyright Infringement*

The Copyright Act states, in pertinent part:

Subject to sections 107 through 122, the owner of [a] copyright . . . has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords . . . (3) to distribute copies or

² 17 U.S.C.A. § 512 (West 2010); Digital Millennium Copyright Act, PUB. L. NO. 105–304, 112 Stat. 2860 (1998).

³ *Ellison v. Robertson*, 357 F.3d 1072, 1076–77 (9th Cir. 2004) (citations omitted).

⁴ See *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1113 (9th Cir. 2007) (“The DMCA notification procedures place the burden of policing copyright infringement—identifying the potentially infringing material and adequately documenting infringement—squarely on the owners of the copyright.”).

⁵ 15 U.S.C.A. § 1114(1)(a) (West 2005).

⁶ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 956 (C.D. Cal. 1997) (citations omitted), *aff’d*, 194 F.3d 980, 985 (9th Cir. 1999).

phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly . . .⁷

C. Basic Tort Law and Contributory Infringement: Imputed Intent

In both copyright and trademark law, even if an individual has not directly infringed upon a copyright or trademark, he may nevertheless be liable under the doctrine of contributory infringement, “a judicially created doctrine that derives from the common law of torts.”⁸ Contributory infringement stems from the notion that one who directly contributes to another’s infringement should be held accountable.⁹ An argument for imposing indirect liability is that, in certain circumstances, “it may be impossible to enforce rights in the protected work effectively against all direct infringers, [and] the only practical alternative [is] to go against the [indirect infringer] for secondary liability on a theory of contributory or vicarious infringement.”¹⁰

The Ninth Circuit in *Perfect 10, Inc. v. Amazon.com, Inc.*, notes that even though the Supreme Court in the seminal case of *MGM Studios Inc. v. Grokster, Ltd.*, initially “tells us that contribution to infringement must be intentional for liability to arise,”¹¹ *Grokster* later directs courts to analyze contributory liability in

⁷ 17 U.S.C.A. § 106 (West 2002).

⁸ *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 103 (2d Cir. 2010) (citations omitted). See *Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (“Although ‘[t]he copyright act does not expressly render anyone liable for infringement committed by another,’ these doctrines of secondary liability emerged from common law principles and are well established in the law.”) (citations omitted).

⁹ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (citing 1 NIEL BOORSTYN, BOORSTYN ON COPYRIGHT § 10.06[2], at 10–21 (1994) (“In other words, the common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor, is applicable under copyright law.”)); *Religious Tech. Ctr. (RTC) v. Netcom On-Line Commc’n Servs., Inc.*, 907 F. Supp. 1361, 1373 (N.D. Cal. 1995).

Although there is no statutory rule of liability for infringement committed by others, “the absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringement 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.”

RTC, 907 F. Supp. at 1373 (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984)).

¹⁰ *Grokster*, 545 U.S. at 929–39 (holding that there was a strong argument for imposing indirect liability in the context of software service that allowed for the downloading of infringing content) (citing *In re Aimster Copyright Litig.*, 334 F.3d 643, 645–46 (7th Cir. 2003) (“[r]ecognizing the impracticability or futility of a copyright owner’s suing a multitude of individual infringers”; also explaining that if a breach of contract can be prevented most effectively by actions taken by a third party, it makes sense to have a legal mechanism for placing liability for the consequences of the breach on the third party, as well as the party that broke the contract; and noting that a copyright license is just a type of contract)).

¹¹ *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1170 (9th Cir. 2007) (quoting *Grokster*, 545 U.S. at 930).

light of “rules of fault-based liability derived from the common law.”¹² Common law principles establish when intent may be imputed; namely, “[t]ort law ordinarily imputes to an actor the intention to cause the natural and probable consequences of his conduct,” or “consequences . . . certain, or substantially certain, to result from his act.”¹³ Thus, the underlying requisite for contributory liability under principles of tort law is “intent,” but this requisite may be satisfied by proof of actual intent or “imputed intent,” comprised of elements that amount to a proxy for intent.¹⁴

The “rule” adopted by courts for purposes of contributory liability in copyright law, in line with the principles of “imputed intent,” is that “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.”¹⁵ The “knowledge” requirement for contributory copyright infringement was further elaborated upon by courts over time to be an objective one: “it is sufficient that the defendant [know or] have reason to know that infringement is taking place.”¹⁶

Courts have adopted a similar rule in the context of contributory trademark infringement; namely, that:

[I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.¹⁷

Thus, consistent with basic tort law, contributory copyright and trademark infringers are both liable for their actions under similar standards, with language

¹² *Id.* at 1170 (quoting *Grokster*, 545 U.S. at 934–35).

¹³ *Id.* at 1171 (quoting *DeVoto v. Pac. Fid. Life Ins. Co.*, 618 F.2d 1340, 1347 (9th Cir. 1908); RESTATEMENT (SECOND) OF TORTS § 8A cmt. b (1965) (“If the actor knows that the consequences are *certain*, or *substantially certain*, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result.”) (emphasis added)).

¹⁴ *Id.*; *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 794–95 (9th Cir. 2007) (“Contributory copyright infringement is a form of secondary liability with roots in the tort-law concepts of enterprise liability and imputed intent.”) (citing *Fonovisa*, 76 F.3d at 264); *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007)).

¹⁵ *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (citation omitted); *see also Fonovisa*, 76 F.3d at 264.

¹⁶ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 487 (1984) (discussing *Screen Gems-Columbia Music, Inc. v. Mark Fi Records, Inc.*, 256 F. Supp. 399, 404–05 (S.D.N.Y. 1966) (holding individuals would be liable if “it could be demonstrated that they knew or should have known that they were dealing in illegal goods”)); *see also Cable/Home Commc’ns Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845, 846 n.29 (11th Cir. 1990) (citations omitted); *Religious Tech. Ctr. (RTC) v. Netcom On-Line Commc’n Servs., Inc.*, 907 F. Supp. 1361, 1374 (N.D. Cal. 1995) (holding knowledge is whether the secondary infringer “knew or should have known” of the infringing activity); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (using term “constructive knowledge” to describe viable alternative to actual knowledge); *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004).

¹⁷ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 (9th Cir. 1999) (“Contributory infringement occurs when the defendant either intentionally induces a third party to infringe the plaintiff’s mark or supplies a product to a third party with actual or constructive knowledge that the product is being used to infringe the service mark.”).

requiring “knowledge” or “inducement” as a proxies for intent.

D. Application of Liability to Service Providers as well as Product Providers

It should be noted that under the common law, service providers, including internet service providers, are subject to the same liability as product providers, for both contributory copyright and trademark infringement purposes, according to the principles of tort liability.¹⁸

E. Is Contributory Trademark Infringement Different from Contributory Copyright Infringement?

In dicta, the Supreme Court has interpreted the *Inwood* test to require that the contributory infringer have (1) knowledge of the *direct infringer's identity*, as opposed to mere identification of the infringing goods required by copyright law,¹⁹ and (2) knowledge that the goods are indeed “infringing” as opposed to using the trademark in a permitted way.²⁰ As a result, courts have espoused the view that the knowledge standard is harder to satisfy in trademark cases than in copyright cases.²¹

¹⁸ See *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (citing RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (1979); other citation omitted).

[T]reat[ing] trademark infringement as a species of tort and have turned to the common law to guide our inquiry into the appropriate boundaries of liability. . . . [T]he Restatement of Torts tells us that [an individual] is responsible for the torts of those it permits on its premises ‘knowing or having reason to know that the other is acting or will act tortiously. . . .’ The common law, then, imposes the same duty on landlords and licensors that the Supreme Court has imposed on manufacturers and distributors.

Id.; *Napster*, 239 F.3d at 1004 (upholding that district court’s ruling that without support services defendant provides, users could not download infringing content, and hence, that Napster as a service provider is akin to a landlord providing “the site and facilities” for direct infringement”); *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 104 (2d Cir. 2010) (“*Inwood*’s test for contributory trademark infringement applies on its face to manufacturers and distributors of goods. Courts have, however, extended the test to providers of services.”).

¹⁹ *Sony*, 464 U.S. at 439 n.19 (quoting *Inwood*, 456 U.S. at 855; emphases added) (“Sony certainly does not ‘intentionally induce[]’ its customers to make infringing uses of [the plaintiffs’] copyrights, nor does it supply its products to *identified individuals known by it* to be engaging in continuing infringement of [the plaintiffs’] copyrights. . . .”).

²⁰ *Lockheed*, 985 F. Supp. at 964 (“Contributory infringement doctrine has always treated uncertainty of infringement as relevant to the question of an alleged contributory infringer’s knowledge. . . . The existence of numerous legitimate, non-infringing uses of the term . . . further illustrates the uncertainty inherent in the question of whether [defendant] knew or had reason to know of infringing uses of domain name registrations.”).

²¹ *Sony*, 464 U.S. at 439 n.19 (“If *Inwood*’s narrow standard for contributory trademark infringement governed here, [the plaintiffs’] claim of contributory infringement would merit little discussion.”); *Lockheed*, 985 F. Supp. at 951, 966 (finding no knowledge, either actual or constructive, of potential infringing uses by domain name registrants, because of “the inherent uncertainty in defining the scope of intellectual property rights in a trademark,” and the subsequent “uncertainty inherent in any determination that use of a domain name is infringing”); *id.* at 965 (citing *Sony*, 464 U.S. at 439, n.19) (“Because the property right protected by trademark law is narrower than that protected by copyright law, liability for contributory infringement of a trademark is narrower than liability for contributory infringement of a copyright.”).

These two distinguishing issues are often moot, especially in the online context. With regard to the “additional” requirement in trademark law that the contributory infringer have knowledge of the *direct infringer’s identity*, as opposed to mere identification of the infringing goods,²² in the online context identification of the infringing goods and identification of the direct infringer’s identity are frequently compounded—occurring concurrently. For example, once a posting of an infringing good or use of an infringing domain name is identified by a service provider, the online identity of the user is also identifiable (unless, of course, the service provider has explicitly created a service that encrypts users’ identities).²³ With regard to the requirement that the contributory infringer know that goods are indeed infringing, as opposed to employing a trademark for a permitted use,²⁴ in the copyright context, a comparable type of knowledge is required. A contributory infringer is similarly required to know that a work has indeed been infringed, as opposed to being copied legally, such as under the fair use doctrine.²⁵ Thus, in a practical sense, in the online context the basic knowledge standard for contributory copyright and trademark infringement do not differ significantly.

III. WHEN CAN INTENT BE IMPUTED?

A. *Chasing Imputed Intent: A Case-By-Case Approach*

In copyright and trademark law, the courts have developed complex dicta, in an attempt to accommodate a second policy goal that, in some instances, competes with the reasoning behind the doctrine of “imputed intent” in tort law. This second policy goal is “the value of innovative technology,” or “leav[ing] breathing room for innovation and a vigorous commerce.”²⁶ When a new service with new capabilities emerges, courts are concerned with preserving potential commercial growth from that service’s non-infringing capabilities, even if these same capabilities can be put to infringing uses.²⁷ This policy goal weighs especially heavily in the online context, where new services have expansive potential uses—

²² *Sony*, 464 U.S. at 439 n.19.

²³ See generally *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003) (citations omitted) (holding that defendant can not avoid liability by using encryption software to prevent himself from learning that (maybe all) the users of his service are copyright infringers).

²⁴ *Lockheed*, 985 F. Supp. at 964.

²⁵ See *Religious Tech. Ctr. (RTC) v. Netcom On-Line Commc’n Servs., Inc.*, 907 F. Supp. 1361, 1373–74 (N.D. Cal. 1995) (denying preliminary injunction due to a material question of fact as to whether internet service provider “knew or should have known” of infringement following receipt of a notice letter stating that copyrighted work had been posted on its system, when there was a colorable question of fair use; “[w]here a[n online service] operator cannot reasonably verify a claim of infringement, either because of a possible fair use defense, the lack of copyright notices on the copies, or the copyright holder’s failure to provide the necessary documentation to show that there is a likely infringement, the operator’s lack of knowledge will be found reasonable and there will be no liability for contributory infringement for allowing the continued distribution of the works on its system.”).

²⁶ *Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 933 (2005) (citing *Sony*, 464 U.S. at 442).

²⁷ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001) (“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.’”) (quoting *Sony*, 464 U.S. at 442).

both infringing and non-infringing—that can spur prospective commercial growth. However, the opposing policy of protecting copyrights is just as strong in the online context, where “digital distribution of copyrighted material threatens copyright holders as never before[:] because every copy is identical to the original, copying is easy.”²⁸ The Supreme Court has recognized the gravity of the dilemma in balancing:

[T]he respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement. The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the tradeoff.²⁹

In balancing the doctrine of imputed intent with the goal of commercial growth, courts have slowly defined the contributory liability doctrine on a case-by-case basis by identifying instances where liability should be imposed. In contributory copyright and trademark law, generally, and in cases regarding online service providers, specifically, courts have constructed dicta that seem to significantly increase the awareness necessary to meet the “knowledge” standard in an effort to further the goal of commercial growth. From dicta, it may seem that through this process, the courts have weakened the “imputed intent doctrine” to reach findings of “no liability.”

However, a closer look at the case law reveals that the individual case outcomes are consistent with the doctrine of imputed intent, and that despite broad dicta, courts still reach findings of “liability” in cases where certain factors appear: (1) the users known to be attracted to the product or service are dubious; (2) an overriding percentage of uses is infringing; and (3) there is overt bad faith on the part of the service provider. The same courts espousing limiting dicta simply employ alternative reasoning and doctrines to reach results of “liability” in cases where the policy goal of “commercial growth” is inexorably overridden by a strong proof of “imputed intent” due to provision of a product or service to a dubious set of users, an overwhelming percentage of infringing uses, and proof of overt bad faith on the part of the service provider.

1. The Design of a Product

Regarding whether intent may be imputed purely from the design of a product, courts have made two key holdings: first, intent may be imputed, and liability may be predicated upon “distributing a product distributees use to infringe copyrights, if the product is not capable of ‘substantial’ or ‘commercially significant’ non-infringing uses.”³⁰ This rule is completely consistent with the

²⁸ *Grokster*, 545 U.S. at 928–29.

²⁹ *Id.* (citations omitted); *see also* *In re Aimster Copyright Litig.*, 334 F.3d 643, 649 (7th Cir. 2003) (“The [Supreme] Court was unwilling to allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying noninfringing consumers the benefit of the technology.”).

³⁰ *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1170 (9th Cir. 2007) (quoting *Grokster*, 545 U.S. at 942).

doctrine of imputed intent in tort law: even if the distributor did not specifically intend that his product be used for infringement, if the product or service is not capable of any substantial legal use, tort law would dictate imputing to the distributor the intention to cause infringement as the “natural and probable”³¹ consequences of his conduct.³² This rule is also completely consistent with the policy goal of furthering commercial growth: because the product (or service) has no commercially significant non-infringing uses, no legitimate commercial growth is being stymied by holding the contributory infringer liable and limiting the product’s or service’s availability.³³

Conversely, the Supreme Court held that intent may not be imputed, and liability may not arise, *merely because* a product capable of infringing use has been sold, so long as the product is also “capable of substantial non-infringing uses.”³⁴ This rule, likewise, is consistent with the doctrine of imputed intent in tort law because, so far as the service provider is concerned, infringement is not the only “natural and probable” consequence³⁵ of selling that product; non-infringing conduct is just as “natural and probable” since the product has equal capabilities for facilitating infringing and non-infringing conduct.³⁶ Consequently, in the online context, courts have held that “a computer system operator cannot be [held] liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material.”³⁷

This rule is also completely consistent with the policy goal of furthering commercial growth: because the product has commercially significant non-infringing uses, legitimate commercial growth would be obstructed by holding the contributory infringer liable and limiting the availability of the product or service.³⁸

³¹ See *id.* at 1171 (internal quotation omitted).

³² See *Grokster*, 545 U.S. at 932 (“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.”) (citations omitted).

³³ *Id.*

³⁴ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (rejecting imposition of liability based on “the fact that [Sony] sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material”).

³⁵ See *Amazon.com, Inc.*, 508 F.3d at 1171 (internal quotation marks omitted).

³⁶ *Grokster*, 545 U.S. at 932–33 (“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.”); see *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001) (citing *Sony*, 464 U.S. at 436).

³⁷ *Napster*, 239 F.3d at 1020–21 (“[We] 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.”) (citing *Sony*, 464 U.S. at 436).

³⁸ See *In re Aimster Copyright Litig.*, 334 F.3d 643, 649 (7th Cir. 2003) (“The [Supreme] Court was unwilling to allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying non-infringing consumers the benefit of the technology.”).

2. *When the Actual and Prospective Use of a Product or Service and Online Services is Known: The Implicit and Explicit Actual Knowledge Requirement*

The true quandary arises, however, when the distributor of a product or service has knowledge that his product or service will be used, or is already being used, for substantial infringing activity. As soon as the distributor knows that *the vast majority of uses* of the product are infringing or will be infringing, it becomes “certain, or substantially certain” that the product or service will be used for infringing conduct.³⁹ Under the common law doctrine of torts, it would seem that liability should be imposed and intent should be imputed, because in this case, infringement is the “natural and probable consequence[s] of [the distributor’s] conduct.”⁴⁰ However, to hold an individual liable under the imputed intent doctrine if the product is *capable* of substantial non-infringing uses, even if the product is *being used* or *will be used* almost singularly for non-infringing uses, could be perceived to quash room for innovation and vigorous commerce by creating liability for a product or service that has substantial potential for non-infringing uses.⁴¹ Additionally, there is a concern that an innocent “defendant [who] merely [intended to] sell[] a commercial product suitable for some lawful use,” will be ambushed by liability when the product is overridingly used by infringers.⁴² Thus, in this situation, the desire to protect innovation and commerce appears to conflict with the imputed intent doctrine.

Prior to *Grokster*, some lower courts touted these principles of tort law, stating that liability should be imposed on a distributor who has knowledge that most current or prospective uses of his product or service are infringing, despite the *capability* for substantial non-infringing uses, unless the distributor can demonstrate substantial *actual* non-infringing uses.⁴³ The subsequent Supreme Court language in *Grokster* read *Sony* to remove the ability to impute intent, and therefore knowledge, based on the characteristics or *uses* of a product (even if the product is used primarily or solely for infringing purposes), so long as the product or service is *capable* of substantial non-infringing uses.⁴⁴ However, it

³⁹ *Amazon.com, Inc.*, 508 F.3d at 1171 (quoting RESTATEMENT (SECOND) OF TORTS § 8A cmt. b. (1965) (“If the actor knows that the consequences are certain, or substantially certain, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result.”)).

⁴⁰ *Id.*; see *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 982, 987 (Coco-Cola claimed a rival soft drink maker had infringed Coca-Cola’s mark because bars purchasing the rival soft drink had substituted it for Coca-Cola; holding “[b]efore he can himself be held as a wrongdoer o[r] contributory infringer one who supplies another with the instruments by which that other commits a tort, must be shown to have knowledge that the other will or *can reasonably be expected* to commit a tort with the supplied instrument.”) (emphasis added).

⁴¹ *Grokster*, 545 U.S. at 933.

⁴² *Id.* at 936.

⁴³ See *In re Aimster Copyright Litig.*, 334 F.3d at 649–50, 652 (stating that “some estimate of the respective magnitudes of [] uses is necessary for a finding of contributory infringement” and holding that even though the evidence did not exclude the possibility of substantial non-infringing uses, the burden of production was on Aimster to demonstrate that its service *has* substantial non-infringing uses, not is merely capable of them) (emphasis added).

⁴⁴ *Grokster*, 545 U.S. at 933–34.

Sony barred secondary liability based on presuming or imputing intent to cause

should be noted that despite this dicta, the court officially reserved the issue “of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur.”⁴⁵

As a result of the ambiguity surrounding this issue, courts have struggled with exactly how much “knowledge” is required to impute intent. Implicit in *Grokster*’s reading of *Sony*,⁴⁶ is a limitation on the facts that can be considered in determining whether a distributor has constructive knowledge of infringement; namely, the known actual uses of a product cannot be considered in determining whether constructive knowledge (or imputed intent) exists.⁴⁷ In past cases, actual use of a product was the primary basis for inferring constructive knowledge (e.g. massive proportion of use was infringing),⁴⁸ and therefore *Grokster*’s interpretation of *Sony* effectively imposes a requirement of actual knowledge.

In light of *Grokster*, it is not surprising that in the online context, specifically in cases where the overriding majority of uses are infringing, courts have explicitly required actual knowledge, thereby deeming the constructive knowledge doctrine entirely ineffective:

For providers of Internet services, . . . a more refined test applies . . . 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.⁴⁹

These holdings seem to further whittle away the stronghold of imputed intent and extend the *Sony* ruling; whereas, at most, *Sony* eliminated only one type of

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. . . . *Sony*’s rule limits imputing culpable intent as a matter of law from the characteristics *or uses* of a distributed product.

Id. at 941. “[*Sony*] struck a balance between the interests of protection and innovation by holding that the products capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.” *Id.*

⁴⁵ *Id.* at 934 (“[W]here 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”; stressing that evidence that product *may* be put to infringing use is insufficient, in contrast to inducement, but not discussing when there is evidence that the product *has been* put to infringing use); *see id.* at 935.

⁴⁶ The relevant quote in *Sony*, that is the cause of so much deliberation, follows:

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.

Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 439 (1984).

⁴⁷ *See Grokster*, 545 U.S. at 934 (stating that the *Sony* case was “one about liability resting on imputed intent,” not one about “liability on any theory”). “*Sony*’s rule limits imputing culpable intent as a matter of law from the characteristics *or uses* of a distributed product.” *Id.*

⁴⁸ *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (finding that constructive knowledge existed when infringement took place in “massive quantities” and “routinely” at operators’ swap meet).

⁴⁹ *Miller v. Facebook, Inc.*, No. C 10–00264 WHA, 2010 WL 2198204, at *6–7 (N.D. Cal. May 28, 2010) (quoting *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 729 (9th Cir. 2007)) (internal quotations omitted) (emphasis added); *see Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1172 (9th Cir. 2007) (quoting *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001)).

constructive knowledge, holding that mere design or structure of a service (capability of being used for infringing conduct) is insufficient to impute “knowledge.”⁵⁰ *Napster* extended *Sony*, requiring actual, specific knowledge and holding that constructive knowledge is *never* sufficient, even where it stems from facts other than product design or use.⁵¹ Actual knowledge has also been explicitly required by courts in the trademark context.⁵²

3. *The Problems with Eroding “Constructive Knowledge” and the “Actual Knowledge” Requirement*

Several problems exist with eroding the “constructive knowledge” doctrine generally, and specifically, in requiring actual knowledge in the online context. First, barring courts from considering constructive knowledge (either explicitly or effectively) in their liability calculus directly eats away at an established principle of tort law—namely that if an individual has “reason to know” that he is aiding and abetting an illegal act, he should be held liable.⁵³ Furthermore, though the stated reason behind the “actual knowledge” requirement in the online context is the inability of an online service provider to examine every hyperlink for potentially defamatory material,⁵⁴ this reasoning still does not explain why a provider of an online service used overwhelmingly (or entirely) for infringing uses (with no *actual* substantial non-infringing uses), should not be held liable for continuing to offer the service, regardless of whether specific instances of infringement can be identified easily. Finally, such an approach cuts against an accumulated established body of case law holding that constructive knowledge generally, and actual and prospective use of a product or service in particular, are important

⁵⁰ *Napster*, 239 F.3d at 1021 (citing *Sony*, 464 U.S. at 436) (“[A] computer system operator cannot be liable for contributory infringement merely because the *structure* of the system allows for the exchange of copyrighted material.”).

⁵¹ *Id.* at 1021 (“[A]bsent any *specific information* which identifies infringing activity, a computer system operator cannot be held liable for contributory infringement 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.”) (citing *Religious Tech. Ctr. (RTC) v. Netcom On-Line Comm’n Servs., Inc.*, 907 F. Supp. 1361, 1374 (N.D. Cal. 1995)); *Netcom*, 907 F. Supp. at 1374 (holding that for online bulletin board operator to have sufficient knowledge, the copyright holder must “provide the necessary documentation to show that there is a likely infringement”); *Amazon.com, Inc.*, 487 F.3d at 726–27 (after stating that sale of a product with a particular design is an improper basis for imputing intent if the product is capable of substantial non-infringing use, the court did not consider if constructive knowledge could be proven in another way, and moved on to analysis of whether Google “knowingly [took] steps . . . substantially certain to result in such direct infringement”).

⁵² *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107 (2d Cir. 2010) (“[A] service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods . . . [s]ome contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”).

⁵³ *See Amazon.com, Inc.*, 508 F.3d at 1171 (“Tort law ordinarily imputes to an actor the intention to cause the natural and probable consequences of his conduct,” or “consequences [] certain, or substantially certain, to result from his act.” (quoting RESTATEMENT (SECOND) OF TORTS § 8A cmt. b. (1965))).

⁵⁴ *Napster*, 239 F.3d at 1021 (citing *Cubby, Inc. v. CompuServe, Inc.*, 776 F. Supp. 135, 141 (S.D.N.Y. 1991)).

considerations in determining liability.⁵⁵

This article proposes that though some courts have verbally stripped the constructive knowledge doctrine, and claim to disregard certain factors such as the percentage of use that is infringing and the type of users attracted to a product or service,⁵⁶ in reality (1) courts have employed other doctrines to hold individuals liable where fact patterns dictate that liability be found due to the existence of constructive knowledge; (2) recent results are consistent with prior case law, because despite dicta stating that the holdings are based on different legal doctrines, several underlying factors can be identified that consistently distinguish cases of liability from those cases where the courts have not held distributors liable;⁵⁷ and (3) the policy goals behind dicta limiting constructive knowledge have been maintained through the DMCA’s safe harbors and the common law.

4. Does It Even Matter or Is It All Just Dicta? The Shift to Alternative Doctrines

This article proposes that despite the erosion of the constructive knowledge doctrine, courts have employed alternate doctrines to hold individuals liable where key factors dictate that liability be found, all the while building and maintaining a body of case law with consistent results and comporting with the original common law doctrine of imputed intent.⁵⁸ Three such doctrines that have been used to hold individuals liable for contributory infringement are: (1) actual knowledge; (2) inducement; and (3) willful blindness.

a. Actual Knowledge

The simplest doctrine employed by courts to hold individuals liable when key factors dictate that liability should be found is the doctrine of actual knowledge.⁵⁹ To meet this doctrine in the online context, a service provider must

⁵⁵ See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261, 264 (9th Cir. 1996) (finding plaintiff adequately alleged the element of knowledge when swap-meet operators were aware of “on-going sales of infringing material” due to a letter and raids seizing 38,000 counterfeit recordings; even though operators lacked actual knowledge of specific infringing conduct or specific infringing vendors, liability was found due to fact that operators knew that premise was used substantially for sale of infringing goods, serving as proof of imputed intent); *Napster*, 239 F.3d at 1020 (reasoning that from the record, Napster had “knowledge, both actual *and* constructive,” of direct infringement, supporting a finding of liability); *In re Aimster Copyright Litig.*, 334 F.3d 643, 653 (7th Cir. 2003) (finding liability based on the failure of Aimster “to produce any evidence that its service has ever been used for a non-infringing use, let alone evidence concerning the frequency of such uses”); *Ellison v. Robertson*, 357 F.3d 1072, 1074 (9th Cir. 2004) (found “reason to know” to be basis for holding online service provider liable).

⁵⁶ See, e.g., *Napster*, 239 F.3d at 1021 (criticizing the district court for “plac[ing] undue weight on the proportion of current infringing use as compared to current and future non-infringing use”).

⁵⁷ See *Perfect 10, Inc., v. Visa Int’l Serv. Ass’n*, 494 F.3d 788 (9th Cir. 2007) (proposing that holdings in different cases are factually consistent).

⁵⁸ *Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 934–35 (2005) (“[N]othing 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.”).

⁵⁹ See *Napster*, 239 F.3d at 1020–21 (citations omitted) (relying, in its reasoning, on existence of actual knowledge for its finding of liability even though “it [wa]s apparent from the record that Napster has knowledge, both actual *and* constructive of direct infringement. . . .”); but see *Fonovisa*, 76 F.3d at

have actual knowledge that specific infringing material is available using its system and be able to take simple measures to prevent further damage to copyrighted works.⁶⁰ Courts have held that intent to assist infringement can be imputed to a service provider with such knowledge.⁶¹

b. Inducement

The second doctrine employed by courts to hold individuals liable when key factors dictate that liability should be found is the inducement doctrine. The Supreme Court adopted the concept of “inducement” from patent law, finding that “[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement” in the copyright context.⁶² In *Grokster*, the Supreme Court held that distribution with “direct evidence of unlawful purpose,” such as “statements or actions directed to promoting infringement,” may be enough to prompt liability; “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.”⁶³ The classic case of inducement is by enticing or persuading another to infringe, such as by advertising an infringing use or instructing a user how to engage in infringing use.⁶⁴

Some courts have stated that the knowledge standard must be proven independently from the inducement standard in the copyright context, based on the standard test language from *Gershwin*, that a defendant is a contributory infringer if he has “[1] knowledge of the infringing activity, [and 2] induces, causes, or materially contributes to the infringing conduct of another . . .”⁶⁵ However, in *Grokster*, no mention was made of a separate knowledge requirement; merely demonstrating inducement was sufficient. Thus, separate allegation and proof of the element of “knowledge” is not required in the copyright inducement context.⁶⁶

In the trademark context, inducement has long been established as a way to establish liability.⁶⁷ Furthermore, in trademark law, the knowledge requirement

264 (where court just stated “that plaintiff adequately alleged the element of knowledge,” but didn’t explain whether knowledge was actual or constructive, and seemingly, from the facts and reasoning based its holding on constructive knowledge since operators lacked actual knowledge of specific infringing conduct or specific infringing vendors).

⁶⁰ *Napster*, 239 F.3d at 1022.

⁶¹ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 728 (9th Cir. 2007) (“Although neither *Napster* nor *Netcom* expressly required a finding of intent . . . 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.”).

⁶² *Grokster*, 545 U.S. at 930; *Visa*, 494 F.3d at 795 (citing *Grokster*, 545 U.S. at 930).

⁶³ *Grokster*, 545 U.S. at 935–37 (emphasis added).

⁶⁴ *Id.* at 935–36.

⁶⁵ *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (citations omitted); *see Visa*, 494 F.3d 788 (stating that the knowledge element is separate from the material contribution or inducement element).

⁶⁶ *See Grokster*, 545 U.S. at 935 (court performed no separate assessment of whether “knowledge” existed; inducement standard was met without proving knowledge; “where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions direct to promoting infringement, *Sony*’s staple-article rule will not preclude liability”).

⁶⁷ *See William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 529–31 (1924) (drug

for imputing intent when a distributor continues to supply a product or service to someone whom it knows or has reason to know is engaging in trademark infringement, is clearly severed from the requirements of inducement.⁶⁸ Thus, separate allegation and proof of the element of “knowledge” is not required in the trademark inducement context.

Courts have stated that inducement is the doctrine employed when actual evidence of intent exists, and as such, intent does not have to be imputed.⁶⁹ However, because the line between proven intent and imputed intent is a fine one, several cases that fall under the category of imputed intent arguably could also be construed to meet the “proven intent” standard.⁷⁰

c. Willful Blindness

The third doctrine employed by courts to hold individuals liable when key factors dictate that liability should be found is the willful blindness doctrine. Willful blindness has been used in both the trademark and copyright context.⁷¹ Courts have held “that willful blindness is equivalent to actual knowledge for purposes of the Lanham Act.”⁷² In the trademark context, courts have explained that “[t]o be willfully blind, a person must suspect wrongdoing and deliberately

manufacturer, whose salesman suggested to distributors that prescriptions for plaintiff’s drug could be filled by substituting defendant’s drug, held liable for intentionally inducing distributors to pass off the defendant’s drug to purchasers as the plaintiff’s, either in direct terms or by suggestion or insinuation; “[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury”).

⁶⁸ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982) (the rule in the context of contributory trademark infringement is that “if a manufacturer or distributor intentionally *induces* another to infringe a trademark, *or* if it continues to supply its product to one whom it *knows or has reason to know* is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.”) (emphases added); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 983 (9th Cir. 1999) (“Contributory infringement occurs when the defendant either intentionally induces a third party to infringe the plaintiff’s mark or supplies a product to a third party with actual or constructive knowledge that the product is being used to infringe the service mark.”).

⁶⁹ *Grokster*, 545 U.S. at 934 (“[N]othing 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.”).

⁷⁰ *See, e.g., A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 n.5 (9th Cir. 2001) (court held that Napster was liable under the doctrine of “knowledge” plus “material contribution,” but noting that Napster executives “*promoted* the site with screen shots listing infringing files”) (internal quotation marks omitted) (emphasis added); *Visa*, 494 F.3d at 795 (“In an Internet context, we have found contributory liability when the defendant ‘engages in personal conduct that *encourages* or assists the infringement.’”) (citing *Napster*, 239 F.3d at 1019); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (holding that knowledge was adequately alleged, and finding sufficient evidence to show material contribution but also finding that “Cherry Auction *actively strives* to provide the environment and market for counterfeit recording sales to thrive. Its participation in the sales cannot be termed ‘passive,’ as Cherry Auction would prefer”).

⁷¹ *See Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (defining willful blindness and remanding to determine whether the evidence supports a conclusion of willful blindness); *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003) (“Willful blindness is knowledge, in copyright law [] where indeed it may be enough that the defendant *should* have known of the direct infringement.”) (citations omitted).

⁷² *Hard Rock Café*, 955 F.2d at 1149 (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)).

fail to investigate.”⁷³ However, an individual does not have an affirmative duty to take reasonable precautions against the sale of counterfeits or to seek out and prevent violations—the “reason to know” standard for contributory liability only requires an individual to understand what a reasonably prudent person would understand without further investigation.⁷⁴

Willful blindness has been given a parallel definition in the copyright context; it is also considered equivalent to knowledge in the copyright law context:

[W]here indeed it may be enough that the defendant *should* have known of the direct infringement, as it is in the law generally. . . . One who, knowing or strongly suspecting that he is involved in shady dealings, takes steps to make sure that he does not acquire full or exact knowledge of the nature and extent of those dealings is held to have a criminal intent, because a deliberate effort to avoid guilty knowledge is all that the law requires to establish a guilty state of mind.⁷⁵

Willful blindness is a doctrine where intent is imputed because a provider takes steps to make sure not to acquire information that would have led him to knowledge of direct infringement sufficient to impute intent.⁷⁶ Because the line between these two methods of imputing intent is a fine one, several cases where courts employ the doctrine of “knowledge” to hold a provider liable arguably could also be construed to meet the “willful blindness” standard.⁷⁷

d. Conclusion

The three doctrines under which courts impose contributory liability—inducement, willful blindness, and “knowledge” plus “material contribution”—are not entirely independent. These doctrines pose varying manifestations of the same concepts of intent and imputed intent derived from common tort law. Courts claim to employ the inducement standard when evidence of intent is most clear; because actual evidence of intent exists, intent does not have to be imputed.⁷⁸ In situations

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ *In re Aimster Copyright Litig.*, 334 F.3d at 650 (citations omitted) (holding that defendant can not avoid liability by using encryption software to prevent himself from learning that most (and maybe all) the users of his service are copyright infringers).

⁷⁶ *Id.*

⁷⁷ *See, e.g.*, *Ellison v. Robertson*, 357 F.3d 1072, 1077 (9th Cir. 2004) (finding liability and imputing intent under constructive knowledge doctrine; holding that AOL had reason to know of copyrighted works posted on its service because it *prevented itself from acquiring actual knowledge of infringement* by changing its contact e-mail address in unreasonable manner: it (1) failed to registering the change with the Copyright Office in a timely manner, and (2) failed “to configure the old e-mail address [for complaints] so that it would [] forward messages” to the new address or return new messages to their senders, so complaints went unheeded without notice to complainants that their messages had not been delivered); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001) (finding liability for contributory copyright infringement based on actual and constructive knowledge, but noting that “a document authored by Napster co-founder Sean Parker mentioned ‘the need to remain ignorant of users’ real names and IP addresses ‘since they are exchanging pirated music.’”); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996) (citing *Hard Rock Café*, 955 F.2d at 1149) (finding contributory trademark infringement without elaborating how knowledge standard was met, and stating that “a swap meet cannot *disregard* its vendors’ blatant trademark infringements with impunity”).

⁷⁸ *Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 934 (2005)

where evidence of intent is less prominent, courts have held that intent to assist infringement can be imputed to a service provider with actual knowledge who continues to provide access to infringing works (or, as articulated in the online context, “actual knowledge that *specific* infringing material is available using its system,” when simple measures can be taken to prevent further damage).⁷⁹ The reasoning behind imputing intent is that a passive omission (“knowing failure to prevent infringing actions”) is comparable to an act intending the infringing actions to occur.⁸⁰ Finally, under the willful blindness doctrine, intent is imputed because a provider takes steps to make sure not to acquire information that would have led him to knowledge of direct infringement sufficient to impute intent.⁸¹

Many courts attempt to delineate three distinct situations where intent or imputed intent may exist, analyzing whether liability should be imposed under any of the three separate doctrines.⁸² However, in reality all three doctrines are located along a continuous spectrum measuring the existence of “intent”; as a result, cases that are analyzed by courts under one doctrine could often be analyzed under another as well, leading some courts to blend the analysis for the different doctrines.⁸³

5. *Does it Even Matter or Is it All Just Dicta? The Three Underlying Factors*

Courts have held online service providers liable for contributory infringement under a variety of different doctrines in internet cases, making it seemingly difficult for online service providers to predict the outcome in a given lawsuit. This article considers the consolidated body of case-law concerning online contributory copyright and trademark infringement, and attempts to identify several factors that consistently distinguish cases of liability from those cases where the courts have not held internet service providers liable, even though according to case dicta, liability may have been analyzed under different legal doctrines.⁸⁴ As described below, the three factors may manifest differently in each

(“[N]othing 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.”).

⁷⁹ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 729 (9th Cir. 2007) (citing *Napster*, 239 F.3d at 1022; *Religious Tech. Ctr. (RTC) v. Netcom On-Line Comm’n Servs., Inc.*, 907 F. Supp. 1361, 1375 (N.D. Cal. 1995)); see *id.* at 727 (held that “an actor may be contributorily liable [under *Grokster*] for intentionally *encouraging* direct infringement if the actor knowingly takes steps that are *substantially certain* to result in such direct infringement”) (emphasis added).

⁸⁰ *Id.* (“Although neither *Napster* nor *Netcom* expressly required a finding of intent . . . 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.”).

⁸¹ *In re Aimster Copyright Litig.*, 334 F.3d at 650 (citations omitted) (holding that defendant can not avoid liability by using encryption software to prevent himself from learning that most (and maybe all) the users of his service are copyright infringers).

⁸² See, e.g., *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 795–802 (9th Cir. 2007) (performing separate analysis as to whether “knowledge,” “material contribution,” or “inducement” existed).

⁸³ *Id.* at 801 (noting that “the *Amazon.com* court did not bifurcate its analysis of contributory liability into ‘material contribution’ liability and ‘inducement’ liability”).

⁸⁴ See *id.* at 795 (proposing that holdings in different cases are factually consistent and

of the different doctrines of inducement, knowledge, and willful blindness.

The three factors identified by this article which consistently distinguish “liability” cases from “no liability” cases in the contributory trademark and copyright infringement contexts generally, and in the online context specifically, are: (1) whether the “users” known to be attracted to the product or service are “dubious” or not; (2) whether an overriding percentage of uses is infringing; and (3) whether there is overt bad faith on the part of the service provider. Every case does not necessarily implicate all three factors; however, in a case where, for example, only two of the factors are implicated, this article proposes that they are still predictive of the outcome.

These three factors are predictive of whether liability will be found in a given case, because the factors relate to the intersection of two competing goals underlying contributory infringement: (1) reaching results consistent with the underlying concept of “intent” or “imputed intent” based on common law tort doctrine, and (2) reaching results that further the policy goal of encouraging innovation and a vigorous commerce, as new products and services are developed.⁸⁵

a. Dubious Users

The first factor is when a distributor knows that the types of users attracted to its product or service are “dubious” or untrustworthy, and seeking to infringe; if present in a given case, this factor is predictive of a finding of liability.⁸⁶ Once a service provider knows that the types of users attracted to its product or service are dubious it is not automatically liable; rather, its level of responsibility is heightened—especially this factor conflates with either of the others. Policy-wise, this factor comports with both (1) the imputed intent doctrine (when the types of users attracted to a service/product are dubious, the “natural and probable consequence[]” of continuing to supply the service/product is infringement, and thus intent may be imputed),⁸⁷ and (2) the policy goal of encouraging innovation when new products and services are developed, and the desire to encourage vigorous commerce does not extend to services or products that attract illegal conduct.⁸⁸

distinguishing present case factually from precedent to explain the contrary holding; “viewed in isolation, the language of the tests described is quite broad, but when one reviews the details of the actual ‘cases and controversies’ before the relevant court in each of the test-defining cases and the actual holdings in those cases, it is clear that the factual circumstances in this case are not analogous”).

⁸⁵ *Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 933–34 (2005) (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984)) (“[*Sony*] struck a balance between the interests of protection and innovation . . .”).

⁸⁶ *See generally* *Getty Petroleum Corp. v. Aris Getty, Inc.*, 55 F.3d 718, 719 (1st Cir. 1995) (finding the defendant common carrier contributorily liable because it delivered unbranded gasoline to “dubious” gas stations it knew would resell the gasoline under the Getty brand name).

⁸⁷ “Tort law ordinarily imputes to an actor the intention to cause the natural and probable consequences of his conduct,” or “consequences [] certain, or substantially certain, to result from his act.” *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1171 (9th Cir. 2007) (“If the actor knows that the consequences are *certain, or substantially certain*, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result.” (quoting RESTATEMENT (SECOND) OF TORTS § 8A cmt. b. (1965) (emphasis added))).

⁸⁸ *Grokster*, 545 U.S. at 933, 941 (citing *Sony*, 464 U.S. at 442) (“[*Sony*] struck a balance between

This factor features strongly under the inducement doctrine, where a provider actively solicits users that are dubious, as opposed to merely continuing to provide a service or product that is known to attract such users.⁸⁹ The knowledge doctrine presents a more subtle manifestation of this factor: when a distributor knows generally that the types of users attracted to his product or service are dubious (constructive knowledge) or that particular dubious users are actually infringing (actual knowledge), and nevertheless continues to supply them with his unaltered product or service.⁹⁰ Conversely, for a distributor who supplies a service or product to trustworthy users, without actual knowledge of the identity of specific infringers or specific instances of infringing conduct, courts are much less likely to find liability—the more trustworthy the general user body, the more knowledge of specific instances of infringement is required to lead to a finding of liability.⁹¹ Finally, under the willful blindness doctrine, a service provider suspects that the types of users attracted to his product or service are dubious, but blocks exposure to further information that would give him knowledge of particular instances of infringement or the ability to identify and terminate infringers.⁹² Thus, liability under all three legal doctrines is predicated on the contributory infringer’s knowledge that his product or service attracts dubious users.

This factor is similarly predictive of liability when a particular subgroup of users is identified as dubious (as opposed to the general user base of a service).⁹³ This factor is also implicated in a court’s determination of whether a report of a specific instance of infringement or an infringing user, provides a distributor with

the interests of protection and innovation by holding that the product’s capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.”).

⁸⁹ See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 860–61 (1982) (White, J., concurring) (“[*Eli Lilly*] made clear that a finding of contributory infringement requires proof of either an intent to induce illegal substitution or continued sales to *particular customers* whom the manufacturer knows or should know are engaged in improper palming off.” (quoting *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924)) (emphasis added)).

⁹⁰ See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 n.5 (9th Cir. 2001) (finding knowledge and imposing liability where “users” known to be attracted to Napster service were dubious, as evidenced by company document mentioning the “need to remain ignorant of users’ real names and IP addresses since they are exchanging pirated music”) (internal quotation marks omitted).

⁹¹ See, e.g., *Inwood*, 456 U.S. 844 (finding no liability, for continuing to supply generic pills that looked like trademarked pills to pharmacists, even though some pharmacists used the pills to infringe; because pharmacists were deemed to be trustworthy users who were not inclined to infringe, defendants did not have sufficient reason to know that pharmacists would substitute generic pills for regular ones).

⁹² See *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003) (holding that defendant cannot avoid liability by using encryption software to prevent himself from learning that most (and maybe all) the users of his service are copyright infringers; “one who, knowing or strongly suspecting that he is involved in *shady* dealings, takes steps to make sure that he does not acquire full or exact knowledge of the nature and extent of those dealings is held to have a criminal intent, because a deliberate effort to avoid guilty knowledge is all that the law requires to establish a guilty state of mind”) (citations omitted) (emphasis added).

⁹³ See, e.g., *Ellison v. Robertson*, 357 F.3d 1072, 1077 (9th Cir. 2004) (finding that AOL had reason to know that infringing copies of a work were stored on its servers, due to a phone call from an AOL subscriber reporting the existence of unauthorized copies of works by various authors on a particular USENET group, “alt.binaries.e-book”; the phone call labeling that USENET group as dubious users “should have put AOL on notice of the infringing activity on the particular USENET group at issue . . .”).

adequate notice of infringement: in determining whether distributor has a “reason to know” that the use of a work was in fact infringing, courts have looked at whether the flagged individual is considered dubious.⁹⁴

Finally, this factor poses a potential explanation for the heightened requirement of “actual knowledge” in the online context,⁹⁵ as well as the stringent DMCA notice requirements in the contributory copyright infringement context, and similarly demanding common law notice requirements in the trademark context. Because so many varying individuals use online services, it is usually less feasible to label a service’s entire user-base “dubious,”⁹⁶ and hence to impute intent in the online context, than to make the same determination regarding the limited users of a physical service or product.⁹⁷ Furthermore, in the context of an online service used by numerous individuals, the second policy goal of furthering innovation and commerce is particularly strong, leaving courts reluctant to cut off a service with even potential non-infringing uses.⁹⁸

b. Percentage of Use that Is Infringing

Even though some courts claim that the percentage of use that is infringing is not to be considered in a court’s calculus as to whether to impose liability, so long as the product or service is capable of non-infringing uses;⁹⁹ in actuality, the percentage of uses that is infringing is an important factor in the outcome of a case. When the overriding percentage of uses are infringing in a given case, this factor is

⁹⁴ See, e.g., *Religious Tech. Ctr. (RTC) v. Netcom On-Line Commc’n Servs., Inc.*, 907 F. Supp. 1361, 1374–75 (N.D. Cal. 1995) (held that evidence posed an issue of fact as to whether service provider had reason to know of infringing activity, in light of the fact that reported infringer was a non-dubious, trustworthy former minister; “[in] the context of a dispute between a former minister and a church he is criticizing, [online service provider] may be able to show that its lack of knowledge that [online post] was infringing was reasonable”).

⁹⁵ See *Napster*, 239 F.3d at 1022.

⁹⁶ In many cases an online user-base constitutes a huge cross-section of the human population.

⁹⁷ *Compare Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264–65 (9th Cir. 1996) (where court found knowledge, due to the fact that swap meet operator was aware of and disregarded dubious music vendors’ blatant sales of counterfeit recordings on its premises, and as such, “actively str[o]ve[] to provide the environment and the market for counterfeit recording sales to thrive”) with *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1155, 1172 (9th Cir. 2007) (requiring that online service provider have “actual knowledge that specific infringing material is available using its system,” because Google search engine is used and available to “all websites,” “automatically access[ing] thousands of websites,” and this entire group of Google users could not be deemed “dubious”) (quoting *Napster*, 239 F.3d at 1022) .

⁹⁸ See *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d at 1170; *Napster*, 239 F.3d at 1021; *Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 931–34 (2005).

⁹⁹ See *Napster*, 239 F.3d at 1020–21 (refusing to impute requisite level of knowledge to Napster based on the fact a that large percentage of the use was infringing, because peer-to-peer file sharing technology is capable of other non-infringing uses; finding that the “district court improperly confined the use analysis to current uses, ignoring the system’s capabilities . . . [and] placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use”) (citation omitted) (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442–43 (1984) (rejecting argument that merely supplying the “‘means’ to accomplish an infringing activity” leads to imposition of liability; framing the inquiry as whether the video tape recorder is “capable of commercially significant noninfringing uses”) (emphasis added)); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 264–67 (5th Cir. 1997) (single non-infringing use implicated Sony).

predictive of a finding of liability.¹⁰⁰ Policy-wise, this factor comports with both (1) the imputed intent doctrine (when the overriding percentage of uses of service/product is dubious, the “natural and probable consequence[]” of continuing to supply the service/product is infringement, and thus intent may be imputed),¹⁰¹ and (2) the policy goal of encouraging innovation when new products and services are developed, and the desire to encourage vigorous commerce does not extend to services or products that are being primarily used for illegal conduct.¹⁰² This factor features equally in cases analyzed under the inducement, willful blindness, and knowledge doctrines.

c. Bad Faith/ Good Faith

The last factor, proof of overt bad faith on the part of the service provider, is predictive of a finding of liability.¹⁰³ Overt bad faith exists when a service provider, through acts or omissions, demonstrates disregard of the law and the intent to be complicit with and further illegal conduct, such as by refusing to cooperate with legal authorities¹⁰⁴ or flouting an existing infringement detection system.¹⁰⁵ Overt bad faith may be visible from the outset of the provision of a product or service (such as in an inducement context)¹⁰⁶ in addition to displaying overt bad faith upon initial distribution of their products, or after infringement

¹⁰⁰ See, e.g., *Napster*, 239 F.3d at 1013, 1021 (stating that it was improper to confine use analysis to current uses, ignoring the system’s capabilities, but finding liability where 87% of files available on the Napster file sharing network were copyrighted).

¹⁰¹ “Tort law ordinarily imputes to an actor the intention to cause the natural and probable consequences of his conduct,” or consequences “certain, or substantially certain, to result from his act . . .” *Amazon.com, Inc.*, 508 F.3d at 1171 (“If the actor knows that the consequences are *certain, or substantially certain*, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result.” (quoting RESTATEMENT (SECOND) OF TORTS § 8A cmt. b. (1965) (emphasis added))). The “natural consequences” of continuing to supply a product or service change based on the percentage of uses that are infringing. *C.f.* In re Aimster Copyright Litig., 334 F.3d 643, 649, 653 (7th Cir. 2003) (holding “[w]hat is true is that when a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement”; explaining that listing examples of potential noninfringing uses is not sufficient—the [relevant] question is how probable [or frequent] they are”).

¹⁰² *Grokster*, 545 U.S. at 933, 941 (citing *Sony*, 464 U.S. at 442) (“[*Sony*] struck a balance between the interests of protection and innovation by holding that the product’s capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.”).

¹⁰³ See e.g., *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261, 265 (9th Cir. 1996) (holding a swap meet “[could] not disregard its vendors’ blatant trademark infringements with impunity,” when swap meet holder reneged on its promise to legal officials to collect identifying information about vendors) (citing *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992)).

¹⁰⁴ See, e.g., *id.* at 261 (finding liability where swap meet operator failed to provide Sheriff with “identifying information from each vendor” after they had agreed to).

¹⁰⁵ See, e.g., *Ellison v. Robertson*, 357 F.3d 1072, 1077 (9th Cir. 2004) (finding liability where AOL waited approximately half a year before registering the change of its contact e-mail address for complaints about copyright infringement with the U.S. Copyright Office, and did not configure the old e-mail address so that it would forward messages to the new address or return new messages to their senders, so complaints sent during that time period went unheeded, without those complainants being notified that their messages had not been delivered).

¹⁰⁶ See, e.g., *Grokster*, 545 U.S. at 923–25 (displaying overt bad faith from the beginning of distribution, by voicing illegal objectives).

begins to occur (such as in a willful blindness or knowledge context).¹⁰⁷ Hence, the tenor of a distributor's response to the knowledge that his product is being used for infringement becomes apparent from the totality of his behavior and approach towards the law and legal authorities, and this factor is clearly relevant in a context where courts are trying to determine level of intent.

6. *Identifying the Three Factors in Seminal Cases*

a. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996)

In *Fonovisa*, the court found a swap meet operator liable based on a general "knowledge" theory (constructive versus actual knowledge was not specified).¹⁰⁸ In *Fonovisa*, the swap meet continued to provide facilities, after discovering that its facilities were attractive to dubious users; namely, the operator knew that it was creating swap meet facilities that were attracting shady, untrustworthy music vendors seeking to sell counterfeit wares.¹⁰⁹ Furthermore, though an exact number is not given, it appears that a massive percentage of the uses of the swap meet facilities were infringing.¹¹⁰ Finally, in *Fonovisa* there was overt bad faith on the part of the swap meet operator from the time when pervasive infringement was discovered pursuant to raids and its own investigation, including renegeing on its promise to legal officials to collect identifying information about vendors.¹¹¹ The presence of the three key factors is consistent with a finding of liability.

b. *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992)

In *Hard Rock Café*, the court held that the district court's current findings did not support the conclusion of contributory liability, but remanded for a determination of whether evidence could support a finding of willful blindness under the correct standard.¹¹² The court noted that relevant to whether the willful blindness standard could be met was whether the swap meet operator perceived the T-shirt vendors to be "dubious" or untrustworthy.¹¹³ The fact that the infringing

¹⁰⁷ See, e.g., *Ellison*, 357 F.3d at 1077 (flouting its existing notice system by failing to promptly register a change in e-mail address and disregarding e-mails that were sent during the interim).

¹⁰⁸ *Fonovisa*, 76 F.3d at 264–65.

¹⁰⁹ "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 trademarks and copyrights. . . ." *Id.* at 261. "Cherry Auction actively strives to provide the environment and the market for counterfeit recording sales to thrive." *Id.* at 264.

¹¹⁰ "Sheriff's Department raided the Cherry Auction swap meet and seized more than 38,000 counterfeit recordings." *Id.* at 264. "[I]t would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet." *Id.* (emphasis added).

¹¹¹ "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." *Id.* at 261 (emphasis added). "[A] swap meet cannot disregard its vendors' blatant trademark infringements with impunity." *Id.* at 265 (citing *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992)).

¹¹² *Hard Rock Café*, 955 F.2d at 1149.

¹¹³ *Id.* at 1147, 1149.

shirts had cut labels and were being sold for a cheap price (suspicious, dubious behavior) was to be weighed against the fact that the T-shirts were made by approved manufacturers and “[t]here does not seem to be any particular reason to believe that inexpensive t-shirts with cut labels are obviously counterfeit” (unsuspicious, non-dubious behavior) in determining whether or not the swap meet manager suspected infringement and hence was willfully blind in failing to investigate.¹¹⁴ Thus one could conclude that T-shirt vendors one has not been warned against trusting,¹¹⁵ are less dubious and untrustworthy than music sellers attracted to swap meets that have been extensively raided¹¹⁶ or vendors of counterfeit Louis Vuitton and Gucci.¹¹⁷

Furthermore, the other factors in this case pointed towards a lack of liability: the percentage of infringing uses of the swap meet grounds was relatively low,¹¹⁸ and there was no appearance of overt bad faith on the part of the swap meet operator after infringement was discovered. Unlike *Fonovisa*, in *Hard Rock Café* infringement was not discovered before filing suit,¹¹⁹ and the operator did not renege on a promise to legal officials to collect identifying information about vendors. Because the implicated key factors did not point clearly towards liability, it is not surprising that the court held that the evidence presented a close question of fact as to whether the swap meet operator was willfully blind to infringement.¹²⁰

c. *Ellison v. Robertson*, 357 F.3d 1072 (9th Cir. 2004)

In *Ellison*, the court found an Internet service provider, America Online (AOL), liable based on a “constructive knowledge” theory, even though Ellison lacked actual knowledge.¹²¹ In *Ellison*, AOL continued to provide services to a

¹¹⁴ *Id.* (“[Vendors] were selling t-shirts made by approved manufacturers” Despite the low price and “low quality,” T-shirts were “made by approved manufacturers,” and Hard Rock gave no warning about the sale of counterfeits prior to filing suit, and “made no effort to broadcast the information that legitimate Hard Rock t-shirts could only be found in Hard Rock Cafes.”). The Hard Rock Café court also noted the manager of the flea market saw the infringing shirts and:

[H]ad the opportunity to note that they had cut labels and were being sold cheap. Further [the manager] testified that he did not ask vendors whether their goods were counterfeit because they were sure to lie to him. One might infer from these facts that [the manager] suspected that the shirts were counterfeits but chose not to investigate. On the other hand . . . it is undisputed that Hard Rock made no effort to broadcast the information that legitimate Hard Rock t-shirts could only be found in Hard Rock Cafes. Moreover, there does not seem to be any particular reason to believe that inexpensive t-shirts with cut labels are obviously counterfeit, no matter what logo they bear.

Id. at 1149.

¹¹⁵ *Id.* at 1147 (“At no point before filing suit did Hard Rock warn [the defendant] . . . that the shirts were counterfeits.”).

¹¹⁶ See *Fonovisa*, 76 F.3d at 261, which the court labeled a clear case of liability.

¹¹⁷ *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989) (holding genuine Vuitton and Gucci bags are unlikely to display poor workmanship or purple vinyl linings).

¹¹⁸ *Hard Rock Café*, 955 F.2d at 1146 (“Before this case there [had] been [only] a few seizures of counterfeit goods at Swap-O-Rama flea markets.”).

¹¹⁹ *Id.* at 1147 (“At no point before filing suit did Hard Rock warn [defendant] that the shirts were counterfeits.”).

¹²⁰ *Id.* at 1149.

¹²¹ *Ellison v. Robertson*, 357 F.3d 1072, 1077 (9th Cir. 2004).

particular USENET group, after being put on notice that the particular group “alt.binaries.e-books” was attractive to dubious users; namely, users who were posting unauthorized copies of works by various authors.¹²² Furthermore, the evidence showed that the overriding percentage of uses of this particular USENET group was infringing.¹²³ Finally, AOL demonstrated overt bad faith by changing its contact e-mail address for receiving complaints and reports of copyright infringement in an unreasonable manner that showed blatant disregard for reports of illegal activity.¹²⁴ The presence of the three key factors is consistent with the finding that AOL had “reason to know” that infringing copies of Ellison’s work were stored on its USENET service, and hence was contributorily liable.

d. Religious Technology Center (RTC) v. Netcom On-line Communication Services Inc., 907 F. Supp. 1361 (N.D. Cal. 1995)

In *RTC*, the court denied motions for a preliminary injunction¹²⁵ and summary judgment, finding that the evidence posed an issue of fact as to whether an online service operator had reason to know of infringing activity, in light of the fact that the reported infringer was a non-dubious, trustworthy former minister criticizing a church whose use was likely a fair one.¹²⁶ Percentage of infringing uses was inapposite as a factor in *RTC* because there was only one potential infringing use identified. Arguably, Netcom did demonstrate overt bad faith by failing to even look at postings upon receiving notice of potential infringement, in line with their investigative policies.¹²⁷ Thus, because the two implicated factors cut in opposite directions regarding whether liability should be found,¹²⁸ it is not surprising that the court held that the evidence presented a close question of fact as to whether Netcom knew or should have known that the minister had infringed plaintiff’s copyright.¹²⁹

¹²² *Id.* at 1077 (stating that a phone call from AOL subscriber to AOL, “should have put AOL on notice of infringing activity on the particular USENET group at issue in this case, ‘alt.binaries.e-book.’ [The caller] contacted AOL to report the existence of unauthorized copies of works by various authors.”).

¹²³ *Id.* at 1075 (“The USENET news-group at issue in this case was used *primarily* to exchange unauthorized digital copies of works by famous authors, including Ellison.”) (emphasis added).

¹²⁴ *Id.* at 1077. AOL waited approximately six months before registering the change of its contact e-mail address with the U.S. Copyright Office, and did not configure the old e-mail address so that it would forward messages to the new address or return new messages to their senders, so complaints sent during that time period went unheeded, without those complainants being notified that their messages had not been delivered. *Id.* at 1077.

¹²⁵ Religious Tech. Ctr. (RTC) v. Netcom On-Line Commc’n Servs., Inc., 907 F. Supp. 1361, 1383 (N.D. Cal. 1995). “[T]here is little evidence that Netcom . . . knew or should have known that Erlich was engaged in copyright infringement of plaintiffs’ works and was not entitled to a fair use defense” *Id.* at 1374.

¹²⁶ *Id.* at 1374–75 (“Given the context of a dispute between a former minister and a church he is criticizing, [online service provider] may be able to show that its lack of knowledge that [the online post] was infringing was reasonable.”).

¹²⁷ *Id.* at 1374–75 (“Netcom admits that it did not even look at the postings once given notice and that had it looked at the copyright notice and statements regarding authorship, it would have triggered an investigation into whether there was infringement.”).

¹²⁸ A non-dubious user cuts in favor of finding no liability, and potential acts of overt bad faith cut in favor of a finding of liability.

¹²⁹ *Id.* at 1374.

e. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982)

In *Inwood*, the court held that a drug manufacturer was not contributorily liable for creating a generic pill similar in appearance to a trademarked drug, which pharmacists subsequently mislabeled, because the trademark holder had not shown that the manufacturer intentionally induced the pharmacists to mislabel generic drugs or continued to supply the drug to pharmacists who the manufacturer knew or should have known were mislabeling generic drugs.¹³⁰ Pharmacists are not generally viewed as dubious or untrustworthy users who are seeking to infringe; in fact the district court found that “to the extent mislabeling had occurred . . . it resulted from pharmacists’ misunderstanding of the requirements of the New York Drug Substitution Law, rather than from deliberate attempts” to infringe,¹³¹ or profit from substitution.¹³² Furthermore, the district court found that incidents of infringement were infrequent, and thus the percentage of infringing uses was low.¹³³ Finally, the court found no overt evidence of bad faith, as the manufacturer’s behavior reflected normal industry practice,¹³⁴ and use of the same color for brand names and their generic equivalents had a functional purpose.¹³⁵ The absence of the three key factors is consistent with a finding of no liability.

f. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 956 (C.D. Cal. 1997) (citations omitted), *aff’d*, *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 985 (9th Cir. 1999)

In *Lockheed*, the court found that an online service provider, NSI, was not liable for accepting registrations of domain names similar to Lockheed’s trademark and refusing to cancel them in response to Lockheed’s demands.¹³⁶ Though the case was affirmed by the appellate court on other grounds, the district court held that NSI lacked knowledge of infringement of Lockheed’s mark.¹³⁷ In *Lockheed*, a massive number of varied users were registering domain names with NSI, and thus

¹³⁰ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854–55 (1982).

¹³¹ *Id.* at 853.

¹³² *Id.* at 856 n.16.

¹³³ *Id.* at 852–53.

[The] trial court . . . considered evidence of actual *instances* of mislabeling by pharmacists, since frequent improper substitutions of a generic drug for [a brand name drug] could provide circumstantial evidence that the petitioners, merely by making available imitative drugs in conjunction with comparative price advertising, implicitly had suggested that pharmacists substitute improperly. After reviewing the evidence of incidents of mislabeling, the district court concluded that such incidents occurred too *infrequently* to justify the inference that petitioners’ catalogs and use of imitative colors had ‘impliedly invited’ druggists to mislabel.

Id. at 852–53 (emphases added). “[O]nly a ‘few instances,’ rather than a substantial number, of mislabelings occurred.” *Id.* at 857 n.17.

¹³⁴ “The marketing methods used by Ives reflect normal industry practice.” *Id.* at 847.

¹³⁵ *Id.* at 853, 857 n.20 (“[O]ffer[ing] a legitimate reason for producing an imitative product.”).

¹³⁶ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980 (9th Cir. 1999).

¹³⁷ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 967 (C.D. Cal. 1997) (“[E]vidence does not show that NSI . . . knew or had reason to know that its services were being used to infringe Lockheed’s service mark.”).

the product was not specifically attractive to dubious users.¹³⁸ Because of the large number of users, and the difficulty in determining when use of a trademark is in fact infringing,¹³⁹ the percentage of infringing uses was not calculable.¹⁴⁰ Finally, NSI did not demonstrate overt bad faith or a disregard for the law, and in fact implemented reasonable notice procedures with which Lockheed failed to comply.¹⁴¹ The absence of the three key factors is consistent with a finding of no liability.

g. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)

In *Napster*, the court found a peer-to-peer software (P2P) provider, Napster, liable based on actual and constructive knowledge.¹⁴² Napster, from the outset, took clear affirmative actions to attract dubious users to its product, such as promoting the availability of infringing files,¹⁴³ and continued to provide its unaltered services after discovering that its facilities were attractive to dubious users who wanted to download illegal music.¹⁴⁴ Evidence indicated that an overriding percentage of uses of Napster, eighty-seven percent, were infringing.¹⁴⁵ Finally, Napster demonstrated overt bad faith with Napster executives displaying open disregard for the law by downloading copyrighted songs,¹⁴⁶ articulating the

¹³⁸ “At the time of argument on this appeal, NSI was receiving approximately 130,000 registrations per month, although evidence indicates that the number of monthly registrations has been increasing steadily and is possibly much larger today.” *Lockheed*, 194 F.3d at 982.

¹³⁹ *Lockheed*, 985 F. Supp at 951, 966 (noting “the inherent uncertainty in defining the scope of intellectual property rights in a trademark,” and the subsequent “uncertainty inherent in any determination that use of a domain name is infringing”).

¹⁴⁰ *Id.* at 967 (The court found that “knowledge of infringement [could not] be imputed to NSI because of the inherent uncertainty of trademark protection in domain names.”).

¹⁴¹ *Lockheed*, 194 F.3d at 982–83.

NSI [] maintain[s] a post-registration dispute-resolution procedure. Anyone who feels that his or her rights are violated by the domain-name combination maintained by a registrant can submit a certified copy of a trademark registration to NSI. NSI then requires the registrant to obtain a declaratory judgment of the right to maintain the domain-name combination. If the registrant fails to do so, its registration is terminated. . . . Lockheed sent two letters, on May 7 and June 18, 1996 . . . NSI took no action on Lockheed’s requests, informing Lockheed by letter that Lockheed had failed to comply with the terms of NSI’s dispute resolution policy.

Id.

¹⁴² *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

¹⁴³ “Napster executives . . . have promoted the site with ‘screen shots listing infringing files.’” *Id.* at 1020 n.5.

¹⁴⁴ *Perfect 10, Inc., v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 801 (9th Cir. 2007) (“The software systems in Napster and Grokster were engineered, disseminated, and promoted explicitly for the purpose of facilitating piracy of copyrighted music and reducing legitimate sales of such music to that extent. Most Napster and Grokster users understood this and primarily used those systems to purloin copyrighted music.”); *Napster*, 239 F.3d at 1013–14 (district court found that “evidence establishe[d] that a majority of Napster users use the service to download and upload copyrighted music”).

¹⁴⁵ *Napster*, 239 F.3d at 1013 (“[T]he record supports the district court’s determination that ‘as much as eighty-seven percent of the files available on Napster may be copyrighted and more than seventy percent may be owned or administered by plaintiffs.’”).

¹⁴⁶ “Napster executives . . . downloaded copyrighted songs from the system” *Id.* at 1020 n.5.

need to remain ignorant of infringers’ identities,¹⁴⁷ and failing to fully remove specifically identified infringing content.¹⁴⁸ The strong presence of the three key factors is thus consistent with a finding of liability.

h. *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 933 (2005)

In *Grokster*, the Court found StreamCast and Grokster, two P2P providers, liable based on an inducement theory.¹⁴⁹ StreamCast and Grokster took clear affirmative actions at the outset of distribution to attract dubious users to their product by gearing and promoting their product towards a known group of users seeking to infringe—Napster users.¹⁵⁰ The Court noted explicit evidence manifesting StreamCast and Grokster’s intent to attract and recruit dubious Napster users as their “initial target market.”¹⁵¹ Pursuant to StreamCast and Grokster’s behavior, an overriding percentage of the uses of their products were infringing.¹⁵² Though the Court concluded that no one could say how often the software was used to obtain copies of unprotected material, “MGM’s evidence [that nearly 90% of the files available for download on the system were copyrighted works] gives reason to think that the vast majority of users’ downloads are acts of infringement, and . . . the probable scope of copyright infringement is staggering.”¹⁵³

Finally, StreamCast and Grokster displayed overt bad faith from the time when their products were first distributed by voicing illegal objectives, not merely

¹⁴⁷ “[A] document authored by Napster co-founder Sean Parker mentioned ‘the need to remain ignorant of users’ real names and IP addresses ‘since they are exchanging pirated music’” *Id.* at 1020 n.5.

¹⁴⁸ The RIAA “informed Napster of more than 12,000 infringing files, some of which are still available.” *Id.* at 1020 n.5. “Although Napster, Inc. purportedly terminated the users offering these files, the songs are still available using the Napster service.” *Id.* at 1022 n.6.

¹⁴⁹ *Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

¹⁵⁰ *Id.* at 924. It was well-known that Napster users were “dubious” because Napster was then under attack in the courts for facilitating massive infringement, and thus, it was clear that Napster users were “of a mind to infringe.” *Id.* at 926, 937.

[I]nternal communication indicates [Grokster] 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 promotional materials developed showing copyrighted songs as example of the kinds of files available. . . .

Id. at 925–26 (emphasis added).

¹⁵¹ Namely: (1) Streamcast and Grokster gave away programs compatible with Napster (and hence desirable to Napster users), and then promoted their own interface to the individuals who showed interested in the Napster-compatible programs, in an effort to “leverage Napster’s 50 million user base;” (2) Internal company documents and e-mails verbalized the goal to attract large numbers of former Napster users if Napster was shut down (by court order or otherwise), and to have a larger number of copyrighted songs available on their networks than other file sharing networks; and (3) Messages to advertisers and potential advertisers, broadcast banner advertisements to users of other Napster-compatible software, and promotional materials all espoused the view that Grokster and StreamCast “planned to be the next Napster.” *Id.* at 924–25 (internal quotation marks omitted); *Perfect 10, Inc., v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 801 (9th Cir. 2007) (“Further, the Grokster operators explicitly targeted the then-current users of the Napster program by sending them ads for its OpenNap Program.”).

¹⁵² *Grokster*, 545 U.S. at 922–23

¹⁵³ *Id.* In fact, the court stated that “[t]he argument for imposing indirect liability in this case is . . . a powerful one, given the number of infringing downloads that occur every day.” *Id.* at 929.

after massive infringement occurred.¹⁵⁴ In addition to displaying overt bad faith upon initial distribution of their products, StreamCast and Grokster displayed further overt bad faith after it became apparent that their products were primarily being used by infringing users, such as rejecting another company's offer to help monitor infringement, blocking IP addresses of entities it believed were trying to engage in such monitoring, and answering e-mails about using illegal content.¹⁵⁵ Thus, because *Grokster* was a case where all three key factors were unmistakably present, it predictably resulted in a finding of liability.

i. Sony Corporation of America v. Universal City Studios, Inc., 464 U.S. 417 (1984)

In *Sony*, the Court found that Sony, a home video recorder (HVR) distributor, was not liable for contributory infringement based on a lack of imputed intent or knowledge.¹⁵⁶ Though the Court made broad statements *in dicta* about when intent may or may not be imputed, the holding in *Sony* is clearly in line with other case law; all three key factors were lacking, pointing to a finding of no liability. In *Sony*, the distributor took no affirmative actions to attract dubious users to its product at the outset (such as advertising infringing uses),¹⁵⁷ and was never presented with information that its product was specifically attracting dubious purchasers seeking to use the HVRs to infringe. Furthermore, the percentage of uses that were infringing was not overwhelming: "evidence showed that the principle use of the VCR was . . . to be a fair, not an infringing use."¹⁵⁸

¹⁵⁴ The court explicitly noted that "[t]he 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*." *Id.* at 923–24 (emphasis added). For example, "StreamCast [] 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 into the new[s].'" *Id.* at 925.

¹⁵⁵ First, upon learning that the "substantive volume [of users' demand was] a function of free access to copyrighted work," the companies attempted to translate that demand into advertising dollars. *Id.* at 926. Second, there was "no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impede the sharing of copyrighted files" even after receiving notice and acquiring knowledge of such infringement. *Id.* at 923 ("[I]t is uncontested that [defendants] are aware that users employ their software primarily to download copyrighted files, even if the decentralized [] networks fail to reveal which files are being copied and when."). And after receiving notices, Grokster sent warning e-mails, but never blocked anyone from continuing to use its software to share copyrighted files, "*rejected another company's offer of help to monitor infringement, [and] blocked IP addresses of entities it believed were trying to engage in such monitoring on its networks*." *Id.* at 926–27. Also "neither company attempted to develop filtering tools." *Id.* at 939. And lastly, the companies responded with guidance to e-mails from users who had questions about using illegal content. *Id.* at 923 ("[M]oreover, the companies have learned about their users' infringement directly, as from users who have sent e-mail to each company with questions about playing copyrighted movies they had downloaded, to whom the companies have responded with guidance.").

¹⁵⁶ Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984).

¹⁵⁷ "Although Sony's advertisements urged consumers to buy the VCR to 'record favorite shows' or 'build a library' of recorded programs, neither of these uses was necessarily infringing." *Grokster*, 545 U.S. at 931 (discussing *Sony*, 464 U.S. 417).

¹⁵⁸ *Id.* (citing *Sony*, 464 U.S. at 423–24); see also *In re Aimster Copyright Litig.*, 334 F.3d 643, 651 (7th Cir. 2003) (citing *Sony*, 464 U.S. at 421) ("Court [] thought it important to say the Betamax was used 'principally' for time shifting."). The Court remarked that in *Sony*, "the plaintiffs owned only

Finally, the distributor in *Sony* did not display overt bad faith or disregard of the law. Thus, lacking these three factors, no actual or imputed intent could be proven,¹⁵⁹ and the Court found that Sony was not contributorily liable.

j. *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003)

In *In re Aimster*, the court found Aimster, a P2P software provider, liable based on a willful blindness theory.¹⁶⁰ Aimster and Madster took clear affirmative actions from the outset of distribution to attract dubious users to their product, gearing their one income-generating product towards users seeking infringing content.¹⁶¹ Furthermore, according to the evidence, uses of Aimster were almost entirely infringing or entirely infringing.¹⁶² Finally, Aimster demonstrated overt bad faith and disregard for the law by creating an encryption function in order to evade liability under case law¹⁶³ and using infringing files in a tutorial on how to use Aimster software.¹⁶⁴ Thus, because *In re Aimster* was a case where all three key factors were unmistakably present, it predictably resulted in a finding of liability.

B. *The Continuation of Common Law Principles in the DMCA*

This article argues that despite the DMCA’s statutory origins, the DMCA is actually consistent with the three-factor paradigm of contributory infringement from the common law. “Congress enacted the DMCA in 1998 to comply with international copyright treaties and to update domestic copyright law for the online world.”¹⁶⁵ Specifically, Congress enacted Title II of the DMCA, the Online

a small percentage of the total amount of copyrighted television programming and it was unclear how many of the other owners objected to home taping.” *Id.* (citing *Sony*, 464 U.S. at 443).

¹⁵⁹ “On th[e] facts [of *Sony*, there was] no evidence of stated or indicated intent to promote infringing uses.” *Grokster*, 545 U.S. at 931 (citing *Sony*, 464 U.S. at 439).

¹⁶⁰ *In re Aimster Copyright Litig.*, 334 F.3d 643.

¹⁶¹ Club Aimster, the means by which Aimster is financed, enables paying members to download with a single click the music most often shared by Aimster users, which is copyrighted. *Id.* at 651–52 (“Club Aimster lists only the 40 songs that are currently the most popular among its members; invariably these are under copyright.”). It could also be argued that Aimster and Madster promoted their product towards a known group of users seeking to infringe—Napster users, with the names, Aimster and Madster made to sound like a spin off on “Napster.” *Id.* at 645.

¹⁶² *Id.* at 649, 653 (holding Aimster liable for “fail[ing] to produce any evidence that its service has ever been used for a noninfringing use, let alone evidence concerning the frequency of such uses”). “[W]hen a supplier is offering a product or service that has non-infringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement.” *Id.* at 649.

¹⁶³ *Id.* at 650 (holding that defendant could not use encryption software “to prevent himself from learning what surely he strongly suspects to be the case: that the users of his service—maybe all the users of his service—are copyright infringers”). “Aimster failed to . . . present evidence that the provision of an encryption capability *effective against the service provider itself* added important value to the service or saved significant cost. Aimster blinded itself in the hope that by doing so it might come within the rule of the *Sony* decision.” *Id.* at 653.

¹⁶⁴ *Id.* at 651 (“In explaining how to use the Aimster software, the tutorial gives as its *only* examples of file sharing the sharing of [notice given] copyrighted music The tutorial is [an] invitation to infringement.”).

¹⁶⁵ *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004) (citing DMCA, Pub. L. No. 105–304, 112 Stat. 2860 (1998); 3 NIMMER ON COPYRIGHT § 12A.02[A] (2003); DAVID W. QUINTO, LAW OF

Copyright Infringement Liability Limitation Act (OCILLA), to facilitate cooperation among internet service providers and copyright owners “to detect and deal with copyright infringements that take place in the digital networked environment.”¹⁶⁶ Through this statute, Congress attempted “to provide ‘greater certainty to service providers concerning their legal exposure for infringements that [might] occur in the course of their activities.’”¹⁶⁷

The DMCA did not rewrite or attempt to clarify copyright law for the online world.¹⁶⁸ Rather, Congress opted to leave current law and instead create a series of safe harbors, to limit service provider’s liability for claims of copyright infringement when a “provider is found to be liable *under existing principles of law*.”¹⁶⁹ Thus, a claim against a service provider for contributory copyright infringement is evaluated just as it would be in the non-online context; only after it is determined whether common law liability exists, does the court make an evaluation as to whether a DMCA safe harbor applies, absolving liability.¹⁷⁰

1. Provisions Under 17 U.S.C. § 512(i)

“To be eligible for any of the four safe harbor limitations of liability, a service provider must meet the conditions for eligibility set forth in OCILLA.”¹⁷¹ Namely, the safe harbors only apply to a service provider who meets certain threshold requirements, including that the service provider:

(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider’s system or network of, 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; and

(B) accommodates and does not interfere with standard technical measures.¹⁷²

Courts have interpreted DMCA § 512(i)(A) to contain a three prong requirement: a service provider must “(1) adopt a policy that provides for the termination of service access for repeat copyright infringers in appropriate circumstances; (2) implement that policy in a reasonable manner; and (3) inform its subscribers of the policy.”¹⁷³ A service provider “implements” a policy if it (a) has a working notification system, (b) has a procedure for dealing with DMCA-compliant notifications, and (c) does not actively prevent copyright owners from collecting

INTERNET DISPUTES § 6.02 (2002)).

¹⁶⁶ *Id.* (citing 17 U.S.C.A. § 512 (West 2003) and quoting S. REP. NO. 104–190, at 20 (1998); H.R. REP. NO. 105–551, pt. 2, at 49 (1998)).

¹⁶⁷ *Id.*

¹⁶⁸ *Id.* at 1077.

¹⁶⁹ *Id.* at 1076–77 (quoting S. REP. NO. 105–109, at 19) (citing 17 U.S.C.A. §§ 512(a)–(d) (West 2003)).

¹⁷⁰ *Id.*

¹⁷¹ *Id.* at 1080 (citation omitted).

¹⁷² 17 U.S.C.A. § 512(i) (West 2003).

¹⁷³ Ellison, 357 F.3d at 1080 (citing 17 U.S.C.A. § 512(i) (West 2003)).

information needed to issue such notifications.¹⁷⁴ Implementation is “reasonable” if, under “appropriate circumstances,” the service provider terminates users who repeatedly or blatantly infringe copyright.¹⁷⁵

2. Provisions Under 17 U.S.C. § 512(c)

Section 512(c) of the DMCA “limits the liability of qualifying service providers for claims of direct, vicarious, and contributory infringement for 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.”¹⁷⁶ Under § 512(c)(1), a service provider qualifies for safe harbor if it meets the requirements of § 512(i) and:

(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) 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.¹⁷⁷

Under the § 512(c)(1)(A)(ii) “red flag” doctrine, “a service provider may lose immunity if it fails to take action with regard to infringing material when it is ‘aware of facts or circumstances from which infringing activity is apparent.’ Notice that fails to substantially comply with § 512(c)(3), however, cannot be deemed to impart such awareness.”¹⁷⁸

3. Identifying the Three Factors in the DMCA

According to the legislative history of the DMCA, 17 U.S.C. § 512 requisites that must be met in order for a service provider to be afforded a safe harbor are separate and independent from the contributory infringement requirements, and shift the burden to the copyright owner.¹⁷⁹ However, in reality, the same three key factors (attraction of dubious users, percentage of infringing uses, and bad faith)

¹⁷⁴ Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102, 1109 (9th Cir. 2007) (citing Ellison, 357 F.3d at 1080).

¹⁷⁵ *Id.* at 1109–10 (citing Corbis Corp. v. Amazon.com, Inc., 351 F. Supp. 2d 1090, 1102 (W.D. Wa. 2004)).

¹⁷⁶ *Id.* at 1117 (internal quotation marks omitted).

¹⁷⁷ 17 U.S.C.A. § 512(c) (West 2003).

¹⁷⁸ *CCBill*, 488 F.3d at 1114 (quoting § 512(c)(1)(A)(ii)) (citing §§ 512(c)(3)(B)(i) & (ii)) (holding that names of websites containing words such as “illegal” or “stolen” or fact that website was used for “password-hacking” were insufficient to constitute red-flags of infringement).

¹⁷⁹ *See id.* at 1113 (“The DMCA notification procedures place the burden of policing copyright infringement—identifying the potentially infringing material and adequately documenting infringement—squarely on the owners of the copyright.”).

that arise in the context of common law contributory liability are implicated in the determination of eligibility for a safe harbor.

A § 512(i) repeat infringer policy that is reasonably implemented facilitates the identification and termination of acknowledged infringers. An online service with a functioning and enforced repeat infringer policy is unlikely to attract “dubious users” seeking a forum conducive to infringement. It is similarly unlikely that an online service provider with such a policy will find itself overwhelmingly used for infringing purposes. Furthermore, the continuous effort required to maintain and reasonably implement a viable repeat infringer policy demonstrates regard for the law, and a lack of bad faith.¹⁸⁰ Conversely, a failure to maintain and reasonably implement a repeat infringer policy, demonstrating bad faith and disregard for the law, causes the online service provider to lose the protection of the DMCA safe harbors.¹⁸¹

Section 512(c) is similarly consistent with the body of common law and principles behind it. Section 512(c) provides that if a service provider lacks statutorily compliant notice, and has no other means of actual knowledge or “red flags” (constructive knowledge) of infringement, and meets all other DMCA requirements, then he is protected by the DMCA safe harbors. The actual and constructive knowledge portions of § 512(c) mirror the actual and constructive knowledge requirements in common law. As for the requirement of statutorily compliant notice, and disqualification of notices that are not statutorily compliant for the purposes of imparting knowledge,¹⁸² under common law, courts have refused to hold distributors liable if the distributor put into place a reporting policy and notice was not compliant with that policy.¹⁸³ Similarly, the § 512(c)(iii) provision provides a safe harbor to online service providers who act expeditiously

¹⁸⁰ See *CCBill*, 488 F.3d at 1110 (finding that CCBill reasonably implemented a repeat infringer policy when it made a good faith effort to record; record did not reflect a failure “to record webmasters associated with allegedly infringing websites,” where the e-mail address and/or name of most webmasters were routinely recorded in a log and chart).

¹⁸¹ In re *Aimster Copyright Litig.*, 334 F.3d 643, 655 (7th Cir. 2003) (holding Aimster liable for attempting to evade the law under *Sony*, finding that Aimster did not reasonably implement its stated repeat infringer policy because the encryption on Aimster rendered it impossible to ascertain which users were transferring which files; “far from doing anything to discourage repeat infringers of the plaintiff’s copyrights, Aimster invited them to do so, showed them how they could do so with ease using its system, and by teaching its users how to encrypt their unlawful distribution of copyrighted materials disabled itself from doing anything to prevent infringement”).

¹⁸² See *CCBill*, 488 F.3d at 1114.

¹⁸³ See, e.g., *Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 982–83 (9th Cir. 1999) (refusing to hold NSI liable for contributory infringement despite letters from Lockheed claiming that two registrations were infringing its trademark, because NSI maintained a reasonable dispute resolution procedure with which Lockheed failed to comply).

NSI [] maintain[s] a post-registration dispute-resolution procedure. Anyone who feels that his or her rights are violated by the domain-name combination maintained by a registrant can submit a certified copy of a trademark registration to NSI. NSI then requires the registrant to obtain a declaratory judgment of the right to maintain the domain-name combination. If the registrant fails to do so, its registration is terminated. . . . Lockheed sent two letters, on May 7 and June 18, 1996 . . . NSI took no action on Lockheed’s requests, informing Lockheed by letter that Lockheed had failed to comply with the terms of NSI’s dispute resolution policy.

Id.

to remove or disable access to infringing material upon obtaining knowledge or awareness of it, comports with the “bad faith” inquiry performed by courts under the common copyright law and parallel trademark law;¹⁸⁴ when a distributor demonstrates willingness to cooperate with the law, courts have consistently been reluctant to impose liability.¹⁸⁵

Thus, although the DMCA is legislative in origin, it implicates the same factors and policies underlying the common law. If a distributor gears his product towards dubious users, the overriding percentage of uses of his service are infringing, and he displays a bad faith attitude towards compliance of the law. Accordingly, it is highly unlikely that the distributor will be sheltered by the DMCA safe harbors from liability.

4. *The Policy Goals Behind Limiting Constructive Knowledge Upheld Through the DMCA*

In their *dicta* limiting the constructive knowledge doctrine, courts aimed to protect “defendant[s] [who] merely sell[] a commercial product suitable for some lawful use,” but subsequently the product is overwhelmingly used by infringers.¹⁸⁶ Courts have been reluctant to impose liability on such a defendant because such infringing uses were not his initial intent, and courts did not want to discourage prospective innovators from offering new products and services, chilling commercial growth.¹⁸⁷ The DMCA’s safe harbor provisions protect such defendants who, upon becoming aware of infringing uses, implement a reasonable policy to terminate repeat infringers.¹⁸⁸ Thus, per the DMCA, even if intent is imputed from knowledge that a service is being overwhelmingly used for infringing uses, the defendant is only liable if he *continues* to provide services and takes no steps to prevent infringement using his service or product.

¹⁸⁴ See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 106 (2d Cir. 2010) (holding that eBay was not liable for contributory infringement because “to the extent the [notices] that Tiffany submitted gave eBay reason to know that particular listings were for counterfeit goods, eBay did not continue to carry those listings once it learned that they were specious . . . eBay’s practice was promptly to remove the challenged listing from its website . . .”).

¹⁸⁵ *But see Metro-Goldwyn-Meyers (MGM) Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 1022 n.6 (2005) (holding Napster liable for not removing identified infringing content in a timely manner; “although Napster, Inc. purportedly terminated the users offering these files, the songs are still available using the Napster service”).

¹⁸⁶ *Id.* at 936.

¹⁸⁷ *Viacom, Inc. v. Youtube, Inc.*, 718 F. Supp. 2d 514, 519 (S.D.N.Y. 2010) (“[W]ithout clarification of their liability, service providers may hesitate to make the necessary investment in the expansion of the speed and capacity of the internet.”) (internal quotation marks omitted).

¹⁸⁸ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 714 (9th Cir. 2007) (quoting *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004)) (“Congress enacted title II of the DMCA ‘to provide greater certainty to service providers concerning their legal exposure for infringements that may occur in the course of their activities.’”).

IV. A LOOK AT TWO RECENT 2010 CASES IN LIGHT OF THE THREE FACTORS

A. *A Recent Contributory Trademark Infringement Case: Tiffany (NJ) Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010)*

In *Tiffany v. eBay*, the court found that eBay was not contributorily liable for infringement of Tiffany products being sold on its website.¹⁸⁹ This “no liability” ruling is consistent with the previous body of case law when assessed in light of the three previously identified factors. First, eBay attracts a massive number of varied sellers, and thus, the eBay service is not specifically attractive to dubious users.¹⁹⁰ Furthermore, within the subgroup of “Tiffany sellers,” it is difficult to distinguish between trustworthy users selling second-hand Tiffany goods from dubious users selling counterfeit Tiffany’s goods.¹⁹¹ Secondly, even within the subgroup of “Tiffany sellers,” the district court found that the percentage of uses that were infringing, though significant, were not overriding.¹⁹² Finally, eBay did not display overt bad faith or disregard of the law. To the contrary, the district court found that eBay acted in “good faith,” established and implemented reasonable rules and procedures against infringers, and spent a significant amount of money, resources, and time screening for infringers generally—and Tiffany infringers specifically.¹⁹³ Thus, because *Tiffany* was a case where all three key factors were conspicuously absent, it predictably resulted in a finding of “no liability.”

¹⁸⁹ *Tiffany*, 600 F.3d 93.

¹⁹⁰ *Id.* at 97 (“eBay has been enormously successful. More than six million new listings are posted on its site daily. At any given time it contains some 100 million listings.”) (internal quotation marks omitted).

¹⁹¹ *See id.* at 97–98 (“[Tiffany] does not—nor can it, for that matter—control the legitimate secondary market in authentic Tiffany silver jewelry. Even had [eBay] been able to inspect the goods, moreover, in many instances it likely would not have had the expertise to determine whether they were counterfeit.”) (internal quotation marks omitted).

¹⁹² Though evidence based on surveys performed by Tiffany found 73.1% of the purported Tiffany goods purchased in 2004 and 75.5% of the goods purchased in 2005 were counterfeit, the district court discounted this evidence because the surveys were “methodologically flawed and [hence] of questionable value,” and “provided limited evidence as to the total percentage of counterfeit goods available on eBay at any time.” *Id.* (citations omitted). Instead, the court found that although “a significant portion of the Tiffany sterling silver jewelry listed on the eBay website . . . was counterfeit,” and that “eBay knew that some portion of the Tiffany goods sold on its website might be counterfeit . . . however, [] a substantial number of authentic Tiffany goods are [also] sold on eBay.” *Id.* at 98.

¹⁹³ “eBay spends as much as \$20 million each year on tools to promote trust and safety on its website,” and implemented a “fraud engine” computer program principally dedicated to finding “illegal listings,” with “Tiffany-specific filters,” and a notice and takedown system, removing reported listing within twenty-four hours of receiving a notice form. *Id.* at 98–99. “eBay never refused to remove a reported Tiffany listing, acted in good faith in responding to Tiffany’s notices, and always provided Tiffany with the seller’s contact information.” *Id.* at 99. eBay implemented “special warning messages when a seller attempted to list a Tiffany item,” cancelled particular suspicious transactions, employed a “three strikes rule” for suspending vendors, and delayed the ability of buyers to view listings of certain brand names, including Tiffany’s, to give rights holders, such as Tiffany, more time to review those listings. *Id.* at 99–100.

B. A Recent Contributory Trademark Infringement Case: Viacom International Inc. v. Youtube, Inc., 718 F. Supp. 2d 514 (S.D.N.Y. 2010)

In *Viacom v. YouTube*, the court found that YouTube was not contributorily liable for the infringement of Viacom’s works reproduced on its website. This “no liability” ruling is consistent with the previous body of case law, when assessed in light of the three previously identified factors. First, unlike the P2P cases, YouTube attracts a massive number of varied uploading users, and thus, the YouTube service is not specifically attractive to dubious users.¹⁹⁴ Secondly, the district court found that the percentage of uses that were infringing could not even be established.¹⁹⁵ Finally, YouTube did not display overt bad faith or disregard of the law; to the contrary, YouTube has a designated agent who swiftly removes infringing content in response to DMCA notices.¹⁹⁶ Thus, despite *dicta* stating that the application of *Grokster* “to the particular subset of service providers protected by the DMCA is strained,” a consistent thread runs between the results of the common law copyright cases and the DMCA cases. Because *YouTube* was a case where all three key factors were conspicuously absent, it predictably resulted in a finding of “no liability.”

V. CONCLUSION

Analyzing the often contradictory *dicta* in contributory trademark and copyright cases, especially as applied in the online context, it is easy to conclude that this is an area of law where standards are constantly shifting. However, a closer look reveals consistent results both within the bodies of contributory copyright infringement cases and contributory trademark infringement cases, respectively, as well as underlying commonalities between the two doctrines. The same three factors consistently predict liability under both doctrines, carrying through in the DMCA context as well.

¹⁹⁴ Despite Viacom’s contentions that YouTube “welcomed [the posting of] copyright—infringing material . . . on their website” because “[s]uch material was attractive to users, whose increased usage enhanced defendant’s income from advertising,” it is not clear that the site specifically attracts dubious users or that the majority of uses of the site are infringing. *Viacom, Inc. v. Youtube, Inc.*, 718 F. Supp. 2d 514, 518 (S.D.N.Y. 2010). “Presently, over 24 hours of new video-viewing time is uploaded to the YouTube website every minute.” *Id.*

¹⁹⁵ “[T]he infringing works in suit may be only a small fraction of millions of works posted by others on the service’s platform.” *Id.* at 524.

¹⁹⁶ *Compare, id.* at 519 (“[YouTube] designated an agent, and when they received specific notice that a particular item infringed a copyright, they swiftly removed it. It is uncontroverted that all clips in suit are off the YouTube website . . .”) with *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 n.5, 1022 n.6 (9th Cir. 2001) (stating the RIAA “informed Napster of more than 12,000 infringing files, some of which are still available Although Napster, Inc. purportedly terminated the users offering these files, the songs are still available using the Napster service”).