

## NOTES

# NEW PROTECTIONS FOR INTERNET SERVICE PROVIDERS: AN ANALYSIS OF “THE ONLINE COPYRIGHT INFRINGEMENT LIABILITY LIMITATION ACT”

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*"Because new technology is constantly changing, it is difficult to legislate intelligently. We want to be on the cutting edge, but not the bleeding edge of new technology."*<sup>1</sup>

## I. Introduction

In the summer of 1998, the United States Congress was presented with an abundance of high technology legislation.<sup>2</sup> Despite this legislative congestion, the "Online Copyright Infringement Liability Limitation Act" (Act) was passed into law on October 28, 1998.<sup>3</sup> The main purpose of the Act is to provide limits on the liability of Internet "service providers"<sup>4</sup> for online copyright infringement under certain circumstances.<sup>5</sup> However, Congress has been criticized for acting prematurely and for unnecessarily interfering with the development of judicial precedent on the relevant issues.<sup>6</sup> Those who believed that legislation was necessary argue that the Act does not embody an appropriate balance between the competing interests of service providers and copyright owners.<sup>7</sup>

This note will explore the issues leading up to passage of the Act and analyze the legal implications of its provisions. Part IIA is intended as a general introduction to the economic and social significance of the Internet and the copyright issues that surround

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<sup>1</sup> Senator Orrin G. Hatch, *Toward a Principled Approach to Copyright Legislation at the Turn of the Millennium*, 59 U. PITT. L. REV. 719, 727 (1998).

<sup>2</sup> See Wendy R. Leibowitz, *Cram Course in Tech Legislation: Senate Stuffs Bills Into One Week*, NAT'L. L. J., May 18, 1998, at B11. Congressional subjects of debate included digital signatures and electronic authentication, Internet filtering by schools and libraries, Internet taxation, and a host of copyright issues on the Internet. See *id.*

<sup>3</sup> Digital Millennium Copyright Act, Title II, Pub. L. No. 105-304, §§ 201-203, 112 Stat. 2860, 2877-2886 (1998).

<sup>4</sup> The term "service provider" refers to a provider of online services or network access that facilitates transitory communication, stores information on networks or systems at the direction of users, engages in system caching, or operates information location tools. See The Digital Millennium Copyright Act of 1998: U. S. Copyright Office Summary, at 8 (visited Jan. 1, 1999) <<http://lcweb.loc.gov/copyright/>>.

<sup>5</sup> See *infra* Part IV.

<sup>6</sup> See *infra* Part IIIA.

<sup>7</sup> See *infra* Part IIIA.

it.<sup>8</sup> Part IIB will survey judicial application of copyright law to the Internet prior to passage of the Act.<sup>9</sup> Part IIIA explores whether legislation on this issue was unnecessary or possibly inappropriate.<sup>10</sup> Part IIIB outlines the parameters Congress must observe in passing copyright legislation.<sup>11</sup> Part IIIC examines the legislative history of the Act from its introduction as a bill to its passage.<sup>12</sup> Part IV contains an analysis of the Act and a discussion of its practical ramifications.<sup>13</sup> Finally, this note discusses the purpose and constitutional authority for the Act and whether Congress has successfully effectuated this purpose within its constitutional mandates.<sup>14</sup>

## II. Background

### A. Copyrighted Works on the Internet

The Internet is quickly becoming one of the world's most commonly utilized means of communication and expression.<sup>15</sup> It has been reported that an average of over ninety million web pages are viewed per day<sup>16</sup> and that Internet "newsgroups"<sup>17</sup> receive approximately 100,000 new messages daily.<sup>18</sup> The Internet is rapidly becoming a meaningful forum for discussion and the

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<sup>8</sup> See *infra* Part IIA.

<sup>9</sup> See *infra* Part IIB.

<sup>10</sup> See *infra* Part IIIA.

<sup>11</sup> See *infra* Part IIIB.

<sup>12</sup> See *infra* Part IIIC.

<sup>13</sup> See *infra* Part IV.

<sup>14</sup> See *infra* Part V.

<sup>15</sup> See *Electronic Commerce: The Marketplace of the 21<sup>st</sup> Century: Hearings on Electronic Commerce Before the House Commerce Committee*, 105th Cong. 2 (Apr. 4, 1998) (written testimony of George Vradenburg III, Senior Vice-President and General Counsel, American Online, Inc.). By 1998, over 100 million persons globally maintained an Internet connection and some suggest that the number will soon increase to over 1 billion. See *id.* Experts project that the number of persons expected to use the Internet will double every 100 days. See *id.*

<sup>16</sup> See *id.*

<sup>17</sup> A newsgroup is an online collection of open exchanges and discussions on a particular topic. See *American Civil Liberties Union v. Reno*, 929 F. Supp. 824, 834 (E.D. Penn. 1996).

<sup>18</sup> See *Reno*, 929 F. Supp. at 835. In 1996, it was estimated that there were over 15,000 different newsgroups in existence. See *id.* at 842.

free exchange of ideas.<sup>19</sup> Due to the ease of Internet navigation, effective use of the Internet is not limited to either highly educated or scientifically inclined individuals.<sup>20</sup> Nor is Internet usage confined to those with the financial resources to purchase personal computers.<sup>21</sup> Access to the Internet is widely available in public libraries, schools, and many business establishments.<sup>22</sup>

The Internet has significantly benefited the national economy<sup>23</sup> and has facilitated positive business opportunities for merchants of all kinds.<sup>24</sup> In particular, merchants dealing in copyrighted works<sup>25</sup> have an increasing interest in use of the

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<sup>19</sup> See *id.* at 835. Although the Internet was once limited to government, scientific, and academic personnel, it is now easily accessible by businesses, non-profit organizations, and individuals. See *id.* at 836. Anyone may connect to the Internet provided that they have access to a personal computer and means for connecting to the Internet. See *id.* at 833. Once connected, Internet technology permits multiple users to converse with each other in "real time." See *id.* at 835.

<sup>20</sup> See *id.* at 836. The technology bridging the gap between the user and the Internet utilizes a computer language known as hypertext markup language (HTML). See *id.* HTML permits users to simply "point and click" at a desired resource in order to obtain that resource. See *id.*

<sup>21</sup> See *id.* at 832-33.

<sup>22</sup> See *id.* Free access is also available through many employers and local community groups. See *id.*

<sup>23</sup> See testimony of George Vradenburg III, *supra* note 15, at 3. Internet commerce generates over eight percent of America's gross domestic product. See *id.* In addition, Internet industries have created approximately 7.4 million jobs and another 1.3 million are expected to be created within the next 10 years. See *id.* The United States is considered to be the leader in the Internet from both an economic and technological viewpoint. See *Hearings on H.R.2180 & 2281 Before the House Judiciary Committee Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 1 (Sept. 16, 1997) (written statement of Allee Willis, Songwriter, Broadcast Music, Inc.) Approximately 70% of Internet traffic begins and ends in the U.S. alone. See *id.*

<sup>24</sup> See testimony of George Vradenburg III, *supra* note 15, at 5. Benefits to business include reduced retail space costs, reduced warehousing costs, reduced advertising and marketing costs, increased U.S. competitiveness and increased international opportunities. See *Hearings on The Online Copyright Liability Limitation Act (H.R. 2180) Before the House Judiciary Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 3 (Sept. 16, 1997) (testimony of Ken Wasch, President, Software Publishers Association). Shopping may now be conducted online by those without access to the physical premises of the merchant. See testimony of George Vradenburg III, *supra* note 15, at 5. In addition, consumers have the ability to make more informed purchase decisions due to the wealth of information available on the Internet. See *id.*

<sup>25</sup> According to section 102(a) of the Copyright Act of 1976, "[c]opyright protection subsists in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a

Internet for the marketing, sale, and distribution of their products.<sup>26</sup> Consumers may now purchase music, software, books, and video broadcasts via the Internet.<sup>27</sup> Although the bulk of intellectual property<sup>28</sup> is still commonly used and easily available in hard copy formats, there is an increasing demand for copyrighted works on the Internet.<sup>29</sup>

Copyright holders<sup>30</sup> fear that the Internet will facilitate global piracy of entertainment and software products.<sup>31</sup> This is due to the fact that resources on the Internet are extremely vulnerable to unauthorized copying.<sup>32</sup> Piracy is already a problem in the "physical world" and will soon make a comfortable transition to

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machine or device. . . ." 17 U.S.C. § 102(a) (1998).

<sup>26</sup> See *Hearings on WIPO Copyright Treaties Implementation Act and the Online Copyright Liability Limitation Act Before the House Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 1 (Sept. 16, 1997) (testimony of Jack Valenti, President and CEO, Motion Picture Association of America). "[T]his new technology will allow [the copyright industries] to reach more markets faster, with a greater diversity of products, and with less expense and hassle. In the long run—and, very probably sooner than we think, digital networks will be an incredible bonanza for the American consumer." *Id.*

Copyright industries make a substantial contribution to our nation's economy and copyrighted works are quickly becoming America's most valuable export. *See id.* The domestic copyright industry contributes 250 billion dollars to our Gross Domestic Product each year and approximately three million Americans are directly dependent on the industry for employment. *See id.* These industries also account for more than \$50 billion in foreign sales and exports, as entertainment and computer software are "America's most wanted export. . ." *See id.*

<sup>27</sup> See John Simons, *Congress Passes Copyright Law For Internet Items*, WALL ST. J., Oct. 13, 1998, at B13.

<sup>28</sup> "Intellectual property" is a broad term which encompasses various intangible property interests including copyrights, trademarks, and patents. *See e.g.* CRAIG JOYCE, ET AL., COPYRIGHT LAW 3-14, §1.02 (1998).

<sup>29</sup> See *Hearings on H.R. 2180, the On-Line Copyright Liability Limitation Act Before the House Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 1 (Sept. 16, 1997) (testimony of Ronald G. Dunn, President, Information Industry Association).

<sup>30</sup> "Copyright holders" are also known as "content providers." *See Hearings on H.R. 2180 & 2281 Before the House Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 1 (Sept. 16, 1997) (testimony of John Bettis, Songwriter, American Society of Composers, Authors, and Publishers).

<sup>31</sup> See Simons, *supra* note 27, at B13. A recent survey reveals that software piracy is one of the top concerns of over 800 senior executives and CEOs in copyright related industries. *See* testimony of Ken Wasch, *supra* note 24, at 1.

<sup>32</sup> See *Hearings on H.R. 2281 & 2180 Before the House Judiciary Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 3 (Sept. 16, 1997) (testimony of Robert W. Holleyman II, President, Business Software Association). "Works in digital form can be duplicated virtually without effort or cost. The resulting copy is perfect. . ." *Id.*

“cyberspace.”<sup>33</sup> In addition, it is likely that high consumer demand for pirated properties will exist because many people have become accustomed to free content on the Internet.<sup>34</sup> However, despite the problem of Internet piracy, many content providers will continue to exploit the commercial potentials of the Internet in hopes of a lucrative reward.<sup>35</sup>

In addition to the vast supply of content on the Internet, users of the Internet also demand affordable, reliable, and high-speed access to that content.<sup>36</sup> Although these access demands have traditionally been satisfied by programs underwritten by government subsidies, private industry has increasingly contributed to the growth of the Internet.<sup>37</sup> Internet service

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<sup>33</sup> See testimony of Jack Valenti *supra* note 26, at 2. “Cyberspace is a popular term for the world of electronic communications over computer networks.” Religious Technology Center v. Netcom On-Line Communication Services, Inc., 907 F. Supp. 1361, 1365 n.1 (N.D. Cal. 1995) (citing Trotter Hardy, *The Proper Legal Regime for Cyberspace*, 55 U. PITT. L. REV. 993, 994 (1994)).

Pirate activities conducted in the “physical world” are controlled to some degree because pirates are faced with significant obstacles to distribution. See testimony of Jack Valenti, *supra* note 26, at 2. Such obstacles include smuggling the product across borders, safely warehousing the goods, and finding a steady flow of clientele to purchase the “bootlegged” product. See *id.* Digital piracy will eliminate these problems because a single digital copy can be uploaded to the Internet and thousands of perfect copies can be created and distributed with ease. See *id.*

At the present time, Internet piracy is generally limited to computer software and recorded music. See *id.* This is due to the fact that these types of works can be downloaded quickly. See *id.* However, it is expected that as technology advances and as Internet information retrieval speeds grow quicker, movies and videos will also become the object of pirate activities. See *id.* Video pirates around the world steal over \$2 billion dollars in intellectual property per year. See *id.* Furthermore, 27% of packaged business software in the United States is illegal. See *WIPO Copyright Treaties Implementation Act: Hearings on H.R. 2281 Before the House Subcommittee on Telecommunications Trade & Consumer Protection*, 105<sup>th</sup> Cong. 3 (June 5, 1998) (testimony of Robert W. Holleyman, II, President & CEO, Business Software Alliance). This has resulted in a loss of \$5.3 billion in wages, almost \$1 billion in tax revenues, and approximately 130,000 jobs. See *id.* It is estimated that if software piracy is eliminated by the year 2005, an additional 216,000 jobs, \$1.6 billion in tax revenues, and \$8.8 billion in wages would be created. See *id.*

<sup>34</sup> See Monica P. McCabe, et. al., *Internet Copyright Infringement: Congress, Courts Address Liability of Third Parties*, N.Y.L.J., Aug. 10, 1998, at S1.

<sup>35</sup> See testimony of Ken Wasch, *supra* note 24, at 3. A 1996 survey indicated that nearly 1,000 software companies will continue to use the Internet and that 48% are expecting to electronically distribute software over the Internet. See *id.*

<sup>36</sup> See testimony of Robert W. Holleyman, II, *supra* note 32, at 8.

<sup>37</sup> See testimony of George Vradenburg III, *supra* note 15, at 4.

providers now handle enormous volumes of communication<sup>38</sup> and the expected increase in the commercial availability of high-speed cable modems for the home will lead to a further increase in the volume of communications handled by private service providers.<sup>39</sup>

Private industry is continuing to manage Internet communications and service providers have become increasingly concerned about copyright piracy.<sup>40</sup> Such concerns are implicated because many acts conducted in the normal course of service provider operations could potentially expose service providers to liability for copyright infringement.<sup>41</sup> Consequently, many service providers including bulletin board services (BBS),<sup>42</sup> search engines,<sup>43</sup> and access providers<sup>44</sup> are concerned about their potential liability.<sup>45</sup>

### B. Common Law Development of Service Provider Liability

An analysis of the development of service provider liability in the federal courts<sup>46</sup> prior to passage of the Act is critical because it

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<sup>38</sup> See McCabe, *supra* note 34, at S1. For example, America Online, one of the world's leading service providers, is responsible for over 14 million customers worldwide. See testimony of George Vradenburg III, *supra* note 15, at 1-2. There are over 800 million visits to the World Wide Web every day via America Online alone. See *id.*

<sup>39</sup> See testimony of Allee Willis, *supra* note 23, at 6.

<sup>40</sup> See S. REP. NO. 105-190, at 8 (1998).

<sup>41</sup> See *id.* For example, service providers cannot avoid making incidental copies of a resource during the process of bringing it to the users. See *id.* In addition, many service providers, acting in the capacity of search engines, direct the user to sites that knowingly or unknowingly possess infringing materials. See *id.*

<sup>42</sup> A bulletin board system (BBS) is a dial-in computer in which subscribers can exchange information and ideas. See *American Civil Liberties Union v. Reno*, 929 F. Supp. 824, 833 (E.D. Penn 1996). A BBS usually consists of one or more computers hosting the "bulletin board" connected to one or more phone lines. See *id.*

<sup>43</sup> A search engine is a service designed to help users search the Internet using keywords. See *Reno*, 929 F. Supp. at 837. Many content providers on the Internet rely on search engines to help users find their web site. See *id.*

<sup>44</sup> Access providers are businesses that connect aspiring users to the Internet's global network with the aid of the user's telephone line, modem, and personal computer. See *Reno*, 929 F. Supp. at 833. The major access providers include local and long distance phone companies, as well as companies such as America Online. See S. REP. NO. 105-190, at 8-9 (1998).

<sup>45</sup> See S. REP. NO. 105-190, at 8.

<sup>46</sup> Federal courts have original jurisdiction to hear copyright claims. See 28 U.S.C. § 1338(a) (1998).

will continue to provide the applicable legal standards when the conditions for the Act's limitations on liability are not met.<sup>47</sup> Service provider liability for infringement has become an issue of first impression in many jurisdictions,<sup>48</sup> and judicial application of any one particular standard is currently lacking.<sup>49</sup> However, most courts have predicated their analysis on the traditional interpretations of copyright law, and have enlisted the aid of the doctrines of contributory and vicarious liability.<sup>50</sup>

The starting point for judicial decision-making in this arena is the Copyright Act of 1976 (Copyright Act).<sup>51</sup> The Copyright Act extends copyright protection to various forms of intellectual property including computer software, music, photography, and other "works of authorship."<sup>52</sup> Copyright holders are entitled to protection from the unauthorized reproduction, distribution, adaptation, public performance, public display, and digital transmission of their works.<sup>53</sup> Any act encroaching on one of these exclusive rights constitutes an infringement,<sup>54</sup> subject to certain limitations contained within the statute.<sup>55</sup>

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<sup>47</sup> See The Digital Millennium Copyright Act of 1998: *U. S. Copyright Office Summary*, at 9 (visited Jan. 1, 1999) <<http://lcweb.loc.gov/copyright/>>. See also *infra* Part IVA.

<sup>48</sup> See e.g. *Religious Technology Center v. Netcom On-line Communication Services, Inc.*, 907 F. Supp. 1361, 1365 (N.D. Cal. 1995).

<sup>49</sup> See S. REP. NO. 105-190, at 19 (1998).

<sup>50</sup> See *id.*; see also *infra* Part IIB for a discussion of contributory and vicarious liability.

<sup>51</sup> 17 U.S.C. §§ 101-803 (1998).

<sup>52</sup> See 17 U.S.C. § 102(a). Copyright protection extends to: "(1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works." *Id.* The Copyright Act provides protection for computer software because software falls within the scope of "literary works." See *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1247 (3d Cir. 1983) (citing H.R. REP. NO. 94-1476, 2d Sess. 54).

<sup>53</sup> See 17 U.S.C. § 106 (1998). The public performance right only extends to dramatic, literary, choreographic and musical works, audiovisual works including motion pictures, and pantomimes. See 17 U.S.C. § 106(4). The public display right only applies to dramatic, literary, choreographic and musical works, pantomimes, "and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work." *Id.* § 106(5). The digital transmission right only applies to sound recordings. See 17 U.S.C. § 106(6).

<sup>54</sup> See 17 U.S.C. § 501(a).

<sup>55</sup> See generally 17 U.S.C. §§ 107-121. For example, a defendant found to be liable for an infringing act will be exempt if he or she can show that the infringing act



The first case to apply the Copyright Act to an online service provider was *Playboy Enterprises, Inc. v. Frena*.<sup>56</sup> The defendant in *Frena* was the operator of a subscription bulletin board service (BBS)<sup>57</sup> that contained adult photographs.<sup>58</sup> Over 170 of the photographs were copies of Playboy's original photographs.<sup>59</sup> A membership with the defendant's BBS allowed users to download<sup>60</sup> and upload<sup>61</sup> photographs for future viewing.<sup>62</sup>

In holding the defendant liable for infringement, the court concluded that the BBS had, in fact, "copied" Playboy's photographs because the BBS had violated Playboy's exclusive rights to public display and distribution.<sup>63</sup> The court reasoned that a violation of the right of public display<sup>64</sup> could not be

constituted a "fair use" of the copyrighted work. See 17 U.S.C § 107. See *infra* note 67 for a discussion of "fair use."

<sup>56</sup> 839 F. Supp. 1552 (M.D. Fl. 1993). This opinion was delivered in response to the plaintiff's motion for summary judgement. See *id.* at 1554.

<sup>57</sup> A subscription BBS is a BBS that charges a fee in exchange for access to its contents. See *id.* at 1554.

<sup>58</sup> See *id.* at 1554.

<sup>59</sup> See *id.* at 1552. The photographs were allegedly taken from plaintiff's own subscription BBS. See *id.*

<sup>60</sup> Downloading is the process of transferring information such as an image, from a bulletin board to a personal computer. See *id.* at 1554 n.1.

<sup>61</sup> Uploading is the process of transferring information such as an image, from a personal computer to a bulletin board. See *id.* at 1554 n.3.

<sup>62</sup> See *Frena*, 839 F. Supp. at 1554.

<sup>63</sup> See *id.* at 1559. "Copying" is shown when the plaintiff proves that: (1) the defendant had "access" to the plaintiff's copyrighted work; (2) the defendant's work is "substantially similar" to the plaintiff's; and (3) one of the exclusive rights enumerated in 17 U.S.C. § 106 are implicated. See *id.* at 1556. In this case, "substantial similarity" was stipulated by both parties and "access" was presumed because Playboy sold over 3.4 million copies of its publication per month in the U.S. alone. See *id.*

<sup>64</sup> "To 'display' a work means to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images nonsequentially." 17 U.S.C. § 101 (1998).

To perform or display a work "publicly" means - (1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintance is gathered; or (2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by the means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same

ameliorated simply because access to the defendant's BBS was limited to paying customers.<sup>65</sup> Furthermore, the court stated that the exclusive right of public display prohibits any unauthorized transmission of a copyrighted work from one computer to another.<sup>66</sup> In defense of his actions, the defendant argued that his exploitation of the photographs constituted a "fair use."<sup>67</sup> The court rejected this argument concluding that permitting a successful fair use defense was not justified under these circumstances.<sup>68</sup>

Integral to the *Frena* decision was the court's application of the theory of direct liability.<sup>69</sup> Direct liability has special significance because it permits liability despite the absence of intent or knowledge of copying on the part of the defendant.<sup>70</sup> As

place or in separate places and at the same time or at different times.

*Id.*

<sup>65</sup> See *Frena*, 839 F. Supp. at 1557 (citing Melville B. Nimmer, NIMMER ON COPYRIGHT § 8.14[C], at 8-169 n.36 (1993)).

<sup>66</sup> See *id.* (citing H.R. REP. NO. 1476, 94<sup>th</sup> Cong., 2d Sess. 80 (Sept. 3, 1976)).

<sup>67</sup> See *id.* "Fair use" is an affirmative defense to copyright infringement. See 17 U.S.C. §107 (1998). It is most commonly appropriate in cases involving new reporting, comment, criticism, scholarship, teaching and research. See *id.* The defense "permits and requires courts to avoid the rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster." Religious Technology Center, Inc. v. Netcom On-Line Communication Services, Inc., 907 F. Supp. 1361, 1378 (N.D. Cal. 1995) (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994)).

The issue of fair use poses a mixed question of law and fact. See *Frena*, 839 F. Supp. at 1557. In determining if a particular use constitutes a fair use, the trier of fact must consider:

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

17 U.S.C. § 107 (1998).

<sup>68</sup> See *id.* at 1559. The court rejected the fair use defense for these two reasons: (1) the defendant's use was a commercial use; and (2) the use would work a detrimental effect to plaintiff's ability to successfully exploit the potential market for the photographs. See *id.* at 1558-59.

<sup>69</sup> See *id.* Other theories include contributory and vicarious liability. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1983).

<sup>70</sup> See *Frena*, 839 F. Supp. at 1559. The court noted that a finding of lack of

a result, the *Frena* court did not attempt to establish the scienter of the defendant BBS.<sup>71</sup> The automatic application of direct liability to defendant service providers has been the object of criticism<sup>72</sup> and has not been utilized in any other judicial determinations of service provider liability since *Frena*.<sup>73</sup>

The most significant case decided in this area so far, however, has been *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*<sup>74</sup> In *Netcom*, the plaintiff asserted a claim of copyright infringement against a BBS that hosted excerpts of the plaintiff's protected works.<sup>75</sup> Netcom On-Line Communication Services (NOCS) was also named as a defendant because it connected the BBS to the Internet.<sup>76</sup> The plaintiff claimed that both NOCS, as well as the BBS, were directly liable for copyright infringement, or in the alternative, that defendants were liable based on a theory of either contributory or vicarious liability.<sup>77</sup> In delivering its opinion,<sup>78</sup> the court articulated what it believed to be the appropriate application of the law to both

intent or knowledge may be considered when fixing the amount of statutory damages under a direct liability claim. *See id.* (citing *D.C. Comics, Inc. v. Mini Gift Shop*, 912 F.2d 29 (2d Cir. 1990)).

<sup>71</sup> *See id.*

<sup>72</sup> *See Religious Technology Center, Inc. v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361, 1371 n.16 (N.D. Cal. 1995). For example, the *Netcom* court disagreed with the holding in *Frena* "that the mere possession of a digital copy on a BBS that is accessible to some members of the public constitutes direct infringement by the BBS operator." *Id.* at 1372.

<sup>73</sup> *See infra* Part IIB.

<sup>74</sup> 907 F. Supp. 1361 (N.D. Cal. 1995). According to the Register of Copyrights, the "Online Copyright Infringement Liability Limitation Act" is in some ways a codification of *Netcom*. *See Hearings on H.R. 2180 & 2281 Before the House Judiciary Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 10 (Sept. 16, 1997) (testimony of Marybeth Peters, Register of Copyrights).

<sup>75</sup> *See id.* at 1365-66.

<sup>76</sup> *See id.* at 1366. Two other parties were also named as defendants. The first additional defendant was Dennis Erlich, the party who uploaded the allegedly infringing excerpts of the plaintiff's works to the newsgroup, "alt.religion.scientology." The second additional defendant was Thomas Klemesrud, the party who operated the BBS, "support.com," which hosted "alt.religion.scientology." *See id.* at 1365-66. NOCS was one of the largest access providers in the United States in 1995. *See id.* at 1366.

<sup>77</sup> *See id.* at 1367.

<sup>78</sup> The court's opinion was in answer to the defendants' motions for summary judgement. *See id.* at 1366.

NOCS and the BBS.<sup>79</sup>

In response to the plaintiff's claim that the theory of direct liability should apply, NOCS argued that they did not take any affirmative steps to copy the plaintiff's works.<sup>80</sup> NOCS asserted that their computer software merely facilitated the automatic and indiscriminate transportation of information through the Internet.<sup>81</sup> The court found that NOCS's implementation of this software did not create a strong enough causal connection to hold NOCS directly liable for infringement.<sup>82</sup> The court stated that because NOCS's involvement was that of a mere "passive carrier" of information, it was more appropriate to analyze their potential liability under the theory of contributory liability.<sup>83</sup>

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<sup>79</sup> See *Netcom*, 907 F. Supp. at 1381-82. In doing so, the court assumed that an unauthorized reproduction had, in fact, been made by the BBS subscriber when the photographs were uploaded to the BBS. See *id.* at 1368. The court stated that its finding that a copy was made would not be refuted due to allegations of inadequate "fixation." See *id.* U.S. copyright law only protects works of authorship once they are "fixed in any tangible medium of expression." 17 U.S.C. § 102(a) (1998). However, it has been argued that the temporary storage of information on a computer does not satisfy this element of fixation. See *Netcom*, 907 F. Supp. at 1368 (quoting *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9<sup>th</sup> Cir. 1993)). Such copying has been found to be adequately fixed because it is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." *Id.* (quoting 17 U.S.C. § 101).

<sup>80</sup> See *id.* at 1367-68.

<sup>81</sup> See *id.* The court's opinion articulated how this process works. See *id.* First, BBS subscribers would post information to the BBS where the information would be automatically stored. See *id.* at 1367. Then, due to a prearranged program on NOCS's computer, an automatic copy of the information would be made and then saved on NOCS's computer. See *id.* The copy would automatically remain on NOCS's computer on a temporary basis for the purpose of facilitating the ease of downloading by others with access to the Internet. See *id.* Unlike other access providers such as CompuServe, Prodigy or America Online, NOCS doesn't create, control or monitor its content. See *id.* at 1368.

<sup>82</sup> See *id.* at 1368-69. The court suggested that a service provider should be no more liable for an infringing transmission than a phone company should be for an infringing fax or for an infringing audio message on a voice mail system. See *id.* at 1368 n.12. In fact, other types of passive carriers of information are already exempt from infringement liability provided that they have no control over the selection and content of the primary transmission they are carrying. See *id.* at 1369 n.12 (citing 17 U.S.C. § 111). These parties do nothing more than what is essential to implement the technology necessary to make the Internet function. See *id.* at 1369-70. To hold otherwise would make every member of the network a direct infringer capable of incurring liability without scienter. See *id.* at 1369.

<sup>83</sup> See *id.* at 1369. By analogy, the court stated that those who use a photocopy machine to infringe on another's copyright should be liable for direct infringement.

Liability for contributory infringement is appropriate when a defendant "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another."<sup>84</sup> In addition to knowledge, NOCS must have also substantially participated in the activities that led to the infringement of the work's copyright.<sup>85</sup> This requirement could be satisfied if the plaintiff could show that NOCS continued to allow transmission of the infringing work through its computers, after it discovered that the excerpts were protected by copyright.<sup>86</sup>

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*See id.* However, the question of the machine owner's liability is more akin to an analysis under the doctrine of contributory liability. *See id.*

<sup>84</sup> *Netcom*, 907 F. Supp. at 1373 (quoting *Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159, 1162 (2d Cir. 1971)). Contributory liability for copyright infringement is based on "the common law doctrine that one who knowingly participates or furthers a tortious act is jointly and severally liable with the prime tortfeasor." *Gershwin*, 443 F.2d at 1162 (quoting *Screen Gems-Columbia Music, Inc. v. Mark Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966)). The Copyright Act does not expressly authorize the imposition of liability on a party not directly responsible for the infringement. *See Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 435 (1983). However, the lack of express authority does not preclude liability for contributory infringement because a finding of contributory liability "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." *Id.*

The court concluded that NOCS may have possessed the degree of knowledge required to be held liable for contributory infringement. *See Netcom*, 907 F. Supp. at 1374. It may have been the case that the plaintiff's notice of infringement created the requisite degree of knowledge on the part of NOCS. *See id.* at 1374-75. When the plaintiff had notified NOCS that NOCS was acting as a carrier for infringing material, NOCS refused to block access to the infringing subscriber's transmissions. *See id.* at 1366. NOCS would only do so if the plaintiff would furnish proof of ownership, but the plaintiff did not as it believed the request to be unreasonable. *See id.* In response, the court stated that requiring proof of registration would be impractical and would work an impediment to the protection of the plaintiff's copyright. *See id.* at 1374.

<sup>85</sup> *See id.* (citing *Apple Computers, Inc. v. Microsoft Corp.*, 821 F. Supp. 616, 625 (N.D. Cal. 1993)).

<sup>86</sup> *See id.* at 1375. NOCS stated that to block access to the infringing subscriber, it would have to block access to the entire BBS. *See id.* at 1366. However, NOCS did admit that the technology was available, though not implemented in their system, to screen out information coming from particular individuals or containing certain words. *See id.* at 1368. In addition, NOCS made the argument that its relationship with the infringing subscriber was analogous to a landlord's relationship with an infringing tenant. *See id.* at 1373. Such a relationship has been previously held to not constitute "substantial participation." *See id.* at 1375 (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1496 (E.D. Ca 1994)). However, the court rejected NOCS's analogy stating that unlike a landlord, NOCS retained some control by continually providing services. *See id.* at 1373. According to the court, a

The court ultimately found that that NOCS could be held liable for contributory liability and that there was an issue of fact to be tried by jury.<sup>87</sup>

The court then examined NOCS's potential liability under the theory of vicarious liability.<sup>88</sup> To be held vicariously liable, the plaintiff must show that the defendant service provider had a "right and ability to control the infringing actions," as well as, a "direct financial interest" in the exploitation of the infringing works.<sup>89</sup> Significantly, vicarious liability does not require the defendant to possess intent or knowledge to copy the protected material.<sup>90</sup> Although NOCS satisfied the element of control,<sup>91</sup> the

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better analogy would be to compare NOCS to the radio stations of the 1940's that were held liable if they rebroadcasted an infringing broadcast. *See id.* at 1375 (citing *Select Theaters Corp. v. Ronzoni Macaroni Corp.*, 59 U.S.P.Q. 288, 291 (S.D.N.Y. 1943)).

<sup>87</sup> *See id.* at 1383.

<sup>88</sup> *See id.* at 1375. However, the court did not discuss vicarious liability with regard to defendant BBS because the complaint did not plead a claim for vicarious liability against the BBS. *See id.* at 1382.

<sup>89</sup> *Shapiro, Bernstein & Co. v. H.L. Green, Inc.*, 316 F.2d 304, 307 (2d Cir. 1963) (citing *De Acosta v. Brown*, 146 F.2d 408 (2d Cir. 1944)). Vicarious liability is founded on agency law principles of respondeat superior. *See Gershwin*, 443 F.2d at 1162. The policy behind the application of vicarious liability to the issue of copyright infringement is to hold the "beneficiary of the exploitation" liable. *See Shapiro*, 316 F.2d at 307. As a result, it must be determined on an ad hoc basis whether a vicarious liability standard is appropriate. *See id.* Vicarious liability for copyright infringement is commonly imposed upon printers, publishers, and other vendors of copyrighted materials. *See id.*

<sup>90</sup> *See Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159, 1162 (2d Cir. 1971) (citing *Shapiro*, 316 F.2d at 304).

<sup>91</sup> *See Netcom*, 907 F. Supp. at 1376. The terms of NOCS's agreement with its subscribers reserved the right to enforce remedial actions against its subscribers. *See id.* at 1375. The court did point out, however, that NOCS's subscriber was the BBS and not the individual who posted the infringing excerpts, hence any relationship between NOCS and the directly infringing party was highly attenuated. *See id.* at 1375 n.22. Despite the terms of the agreement, NOCS's argument that it couldn't possibly screen all messages on its system was not persuasive as a matter of fact. *See id.* at 1375. Vicarious liability may be imposed in attenuated relationships so long as there is a right and ability to control coupled with a direct financial interest. *See id.* It is not necessary for an employer-employee relationship to exist. *See Gershwin*, 443 F.2d at 1162. Parties have been held vicariously liable for tenuous relationships based upon having their name on a store's liquor license identifying them as manager, *see Polygram International Publishing, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1328 (D. Mass 1994) (citing *Broadcast Music, Inc. v. Larkin*, 672 F. Supp. 531, 534 (D. Me. 1987)); writing a letter stating that they were policing the infringer's activities, *see id.* at 1328 (citing *RCA/Ariola Intern., Inc., v. Thomas & Grayston, Co.*, 845 F.2d 773, 781 (8<sup>th</sup> Cir. 1988)); and being responsible for day to

claim was dismissed because the court found that the plaintiff had failed to produce enough evidence to show "direct financial interest."<sup>92</sup>

Invoking the First Amendment, NOCS asserted that service provider liability should be barred as a matter of law, and that to hold otherwise would chill free speech.<sup>93</sup> The court found this argument unpersuasive, stating that First Amendment issues are not implicated for copyright infringement where liability would be "otherwise appropriate," because the limited scope of existing copyright law already accounts for the burden on free speech.<sup>94</sup>

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day operations, *see id.* at 1328 (citing *Fermata Intern. Melodies v. Champions Golf Club*, 712 F. Supp. 1257, 1262 (S.D. Tex. 1989)).

<sup>92</sup> *See id.* at 1377. For the benefit to be "direct," it has traditionally meant that the defendant's income must be proportional to the success or level of activity of the direct infringer. *See id.* at 1376 (citing *Shapiro*, 316 F.2d at 306). For example, a landlord that has the ability to supervise its tenants' activities is vicariously liable when the amount of rent paid is proportional to the sale of infringing goods conducted on the landlord's premises by the tenant. *See id.* However, even if a landlord has the right to supervise her tenants, vicarious liability will not be found if she only collects fixed amounts of rent. *See id.* (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1496 (E.D. Ca 1994)).

The plaintiff argued that NOCS received a direct financial benefit by maintaining a policy of refusing to discipline infringers, and that this policy attracted infringers to NOCS's service as opposed to that of others. *See id.* at 1377. Hence, NOCS would receive additional subscription fees. *See id.* The court found this argument unpersuasive. *See id.* There was also no evidence that the direct infringer's activities on NOCS's network made NOCS's service more attractive to other potential customers. *See id.*

<sup>93</sup> *See id.* NOCS asserted that if service providers were forced to screen every message coming through their system, it "could have a serious chilling effect on what some say may turn out to be the best public forum for free speech yet devised." *Id.* at 1377-78 (citing Jerry Berman & Daniel J. Weitzner, *Abundance and User Control: Renewing the Democratic Heart of the First Amendment in the Age of Interactive Media*, 104 YALE L.J. 1619, 1624 (1995)). NOCS argued that such a holding would also have a chilling effect on the availability of Internet browser technologies. *See id.* at 1378 n.25.

<sup>94</sup> *See id.* The court stated that First Amendment protections have already been taken into account, in that copyright law only protects the expression of an idea, not the idea itself. *See id.*

In addition to its First Amendment argument, NOCS asserted the fair use defense. *See supra* note 67 for a discussion of "fair use." The court held that a finding of fair use is more appropriately determined by the trier of fact. *See Netcom*, 907 F. Supp. at 1378-81. Although the "purpose and character" of NOCS's potentially infringing activity was commercial in nature, the court observed that NOCS's financial incentive was unrelated to the infringing activity. *See id.* at 1378-79. For these reasons and because the functionality of the Internet may demand uses such as NOCS's, the court opined that the first fair use factor weighed in NOCS's

Although there is often no clear distinction between direct, vicarious, and contributory infringement,<sup>95</sup> the use of three separate standards arguably creates a more equitable means of holding an alleged infringer accountable based on the factual circumstances of a particular case.<sup>96</sup> This three-standard approach has been consistently followed by the handful of cases that have succeeded *Netcom*.<sup>97</sup>

*Sega Enterprises Ltd. v. Maphia*, one of the first cases to come after *Netcom*, presented the question of BBS infringement liability for the posting of computer games.<sup>98</sup> As in *Netcom*, the plaintiff was not able to succeed on a theory of direct liability because the defendant BBS had not directly caused the copying of the protected works.<sup>99</sup> However, the court applied two different approaches in holding the defendant liable for contributory infringement.<sup>100</sup> The court first postulated that the BBS could be

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favor. *See id.* The court then held that the second fair use factor, "the nature of the copyrighted work," was irrelevant in the context of a service provider defendant. *See id.* at 1379.

In considering "the amount and substantiality" of the protected work that was copied, the court noted that copying a work in its entirety usually negates the availability of the fair use defense, however, it is not a *per se* rule. *See id.* at 1379 (citing *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 449-50 (1983)). The court held that the failure of a service provider defendant to tip this factor in its favor should not be taken to "defeat an otherwise valid defense." *Id.* at 1380. The court also found that the fourth factor may favor either party as it is uncertain whether NOCS's infringing use would work a detriment to the potential market exploitation of the infringed work. *See id.* This uncertainty was due to the fact that plaintiff's works were religious texts. *See id.*

<sup>95</sup> *See Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 435 n.17 (1983) (quoting *Sony Corp. of America v. Universal City Studios*, 480 F. Supp 429, 457-58 (C.D. Cal. 1979)).

<sup>96</sup> *See id.* at 435.

<sup>97</sup> *See infra* Part IIB.

<sup>98</sup> 948 F. Supp. 923, 926 (N.D. Cal. 1996). Approximately 400 users were routinely linked to the BBS to upload and download various Sega games onto the defendant's BBS. *See id.* at 927. At the time of the *ex parte* seizure, there were 28 unauthorized Sega games on the defendant's BBS. *See id.* at 928. The games were downloaded by subscribers onto a floppy drive, which was then connected to the game console via a "copier machine." *See id.* at 929. This "copier machine" is a necessary intermediary because the game console by itself can only be used with cartridges, not floppy disks. *See id.* at 929.

<sup>99</sup> *See id.* at 932. Although the BBS subscribers created infringing copies when they uploaded and downloaded the games, the defendant had not committed these acts himself. *See id.*

<sup>100</sup> *See id.* at 933.



held liable because it knowingly allowed its site and facilities to be used for infringing activities.<sup>101</sup> The court also found that the BBS could be held contributorily liable under the *Netcom* standard of "substantial participation."<sup>102</sup> Unfortunately, the court did not articulate what it believed to be the appropriate standard for contributory liability; it merely stated the BBS could be held liable under both approaches.<sup>103</sup>

In *Playboy Enterprises, Inc. v. Hardenburgh*,<sup>104</sup> the defendant was a subscription BBS<sup>105</sup> that had made available to its subscribers

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<sup>101</sup> See *id.* (quoting *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996)). The defendant provided, operated, and monitored the BBS hardware, software, and phone lines which were essential to the process of uploading and downloading information. See *id.*

<sup>102</sup> See *Maphia*, 948 F. Supp. at 933. A defendant may be held liable if he or she possesses knowledge of the infringing activity and substantially participates "by inducing, causing or materially contributing" to the direct infringer's conduct. *Id.* (citing *Netcom*, 907 F. Supp. at 1382). The defendant was held liable under this theory on the grounds that it operated the BBS and sold the copier machines. See *id.* Sale of such machines has been held to constitute contributory infringement. See *id.* (citing *Nintendo of America, Inc. v. Computer and Entertainment, Inc.*, 1996 WL 511619, \*4 (W.D. Wash. 1996)).

<sup>103</sup> See *id.* Furthermore, the court felt it unnecessary to address a theory of vicarious liability due to its finding of contributory liability. See *id.*

*Marobie-FL, Inc. v. National Association of Fire Equipment Distributors* was the next case that dealt with the issue of service provider liability. 983 F. Supp. 1167 (N.D. Ill. 1997). In *Marobie*, the court held that the correct standard to ascertain contributory liability was the "substantial participation" standard. *Id.* at 1178 (citing *Fonovisa*, 76 F.3d at 264 and *Apple Computers, Inc. v. Microsoft Corp.*, 821 F. Supp. 616, 625 (N.D. Cal. 1993)). Plaintiff was the copyright owner of three volumes of clip art that were used by persons within the fire service industry. See *id.* at 1171. The National Association of Fire Equipment Distributors (NAFED) obtained an authorized copy of the clip art and posted it on its web site. See *id.* Defendant Northwest Nexus Inc. (Northwest) was the access provider that linked the NAFED web site to the Internet. See *id.* The *Marobie* court applied the same standard for vicarious liability that was articulated in *Netcom*. See *id.* at 1179. Although it was in dispute as to how much control Northwest had over the contents of the NAFED web page, Northwest was not found liable under vicarious liability because there was no direct financial benefit from the infringement. See *id.* The NAFED paid a one time set up fee of \$20 and a fixed service fee of \$67.50 per quarter that included unlimited access to the Internet. See *id.* Northwest's fee was not contingent on the success or profit of the NAFED web site. See *id.* The court also agreed with *Netcom* that a defendant access provider could not be subject to direct liability. See *id.* at 1178. Northwest "only provided the means to copy, distribute or display plaintiff's works, much like the owner of a public copying machine used by a third party to copy protected material." *Id.*

<sup>104</sup> 982 F. Supp. 503 (N.D. Ohio 1997).

<sup>105</sup> See *id.* at 505. For a set fee, subscribers were given access to download a set

over 412 of Playboy's copyrighted photographs.<sup>106</sup> The court agreed with *Netcom's* holding that a theory of direct infringement should not be applied to "passive providers."<sup>107</sup> However, the court reasoned that a BBS should be treated as a direct infringer where it actively participates in an infringing activity.<sup>108</sup> Consequently, the court held that the defendant BBS was liable for direct infringement due to its direct acts in violation of Playboy's exclusive distribution and public display rights under the Copyright Act.<sup>109</sup> This imposition of direct liability occurred despite the defendant's policy arguments against it.<sup>110</sup>

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amount of information per week. *See id.* The defendant BBS maintained over 40,000 adult photographs on its bulletin board at any time. *See id.* at 505-06. To expand its collection, the BBS offered its subscribers the ability to download extra photographs if they would upload adult photographs in exchange. *See id.*

<sup>106</sup> *See id.* at 509.

<sup>107</sup> *See id.* at 512-13.

<sup>108</sup> *See id.* The court agreed with *Netcom* in that a finding of direct liability is only appropriate if the defendant has engaged in some direct action or participation. *See id.* In order to constitute direct action or participation, the court held that the defendant must have directly caused a violation of one of the plaintiff's exclusive rights protected by the Copyright Act. *See id.* at 512 (citing 17 U.S.C. §106 (1998)). In support of *Netcom*, the court stated that there would be no purpose to dividing the imposition of liability into different standards if "any remote casual connection" to the infringement could lead to direct liability. *See id.* at 513.

<sup>109</sup> *See Hardenburgh*, 982 F. Supp. at 513. "[T]he facts in this case, unlike *Frena*, [*Maphia*], and *Netcom*, are sufficient to establish that Defendants *themselves* engaged in two of the activities reserved to copyright owners under 17 U.S.C. § 106." *Id.* This determination was made because the defendant BBS had a policy of encouraging the uploading of photographs, and it screened all photographs prior to making them available for the viewing and downloading by other subscribers. *See id.* Although the defendant was screening the photographs only for the purpose of eliminating those that might contain child pornography, the court held that the defendant still retained the ultimate control over which photographs were discarded and which were posted on the BBS. *See id.* In the alternative, the court also found the BBS liable under a theory of contributory liability. *See id.* at 514. The court applied the same "substantial participation" test for contributory infringement that had been used in *Netcom*. *See id.*

<sup>110</sup> *See id.* at 510. The court reached its ultimate holding despite the defendant's argument that having required the BBS to screen for infringement would have placed an excessive burden on the First Amendment. *See id.* In addition, the defendant argued that the cost of having to screen would have to be passed on to the consumer, and that such a task would work an advantage to national service providers over local providers. *See id.* This would arguably lead to the eventual extinction of local service providers, which would work a detriment to copyright's primary goal to "not reward the labor of authors, but '[t]o promote the progress of Science and the useful Arts.'" *Id.* at 510 (quoting *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 449 U.S. 340, 349 (1991)). The court was more willing to accept

### III. Legislative History

#### A. The Necessity for Legislation

Many service providers were concerned about their potential for liability as a result of the constantly fluctuating and uncertain judicial standards of service provider liability for online copyright infringement.<sup>111</sup> Consequently, service providers argued that immediate legislation was necessary in order to clearly establish

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plaintiff's argument that the costs of preventing infringement should lie on the party providing the system that facilitates the infringement, as opposed to the innocent copyright owner. *See id.*

The court in *Playboy Enterprises, Inc. v. Webworld, Inc.* also agreed with the *Netcom* court's approach of exempting passive providers from direct liability. 991 F. Supp. 543, 552 (N.D. Tex. 1997). In this case, the defendant was a subscription BBS service that charged a monthly fee of \$11.95. *See id.* at 550. Subscription to the BBS included the access and ability to view and download approximately 40 to 70 thousand adult photographs on any given day. *See id.* A number of these photographs included unauthorized reproductions of the plaintiff's protected photographs. *See id.* at 551. Prior to posting a new photograph, defendant BBS used a computer program entitled "ScanNews" to eliminate any identifying text from the photographs. *See id.* at 549.

Like the *Hardenburgh* court, this court found that the defendant BBS had engaged in activities that directly infringed upon the plaintiff's exclusive rights in their photographs. *See id.* at 551-53. The court articulated the distinction between holding the defendant liable for direct infringement in this case versus exempting the defendant from direct infringement in *Netcom*. *See id.* First, the defendant in *Netcom* was a "mere conduit[]" for unaltered information," while in this case, the defendant "exercised total dominion over the content of its site." *Id.* at 552. Second, while the *Netcom* defendant was selling access, the BBS in this case was selling the infringing photographs. *See id.* The court in this case held that the plaintiff's exclusive rights of reproduction, distribution and public display had all been directly violated by actions of the defendant. *See id.* at 551-52.

In addition, the *Webworld* court used the doctrine of vicarious liability to "pierce the corporate veil" and hold the majority of *Webworld's* principals jointly and severally liable for the direct infringement. *See id.* at 553-54. Defendant Bentley Ives was held liable because he owned 100% of *Webworld's* outstanding stock, collected "25% of *Webworld's* net profits," and was *Webworld's* director and president. *Id.* at 554. Defendant Benjamin Ellis was held liable because he had control of *Webworld's* day-to-day operations, he had created the ScanNews software and he "collected 50% of *Webworld's* net profits." *Id.* Defendant James Gurkin was not held liable despite the fact that he received 25% of the net profits. *See id.* Gurkin only worked three to five hours per day as a customer service representative and had no authority to supervise or make decisions. *See id.*

<sup>111</sup> *See Hearings on H.R. 2281 & 2180 Before the House Subcommittee on the Courts and Intellectual Property Committee on the Judiciary*, 105<sup>th</sup> Cong. 1 (Sept. 16, 1997) (statement of The Honorable Howard Coble, Chairman).

the appropriate standards of liability for copyright infringement by Internet service providers.<sup>112</sup> Service provider industries argued that the traditional notions of direct, contributory, and vicarious liability should be abandoned due to the rapid advancement of complex communication technologies such as the Internet.<sup>113</sup> They argued that in the absence of legislation, American consumers would bear additional costs associated with Internet access because access would not be as widely and indiscriminately available due to the uncertainty of judicially created liability standards.<sup>114</sup> They also feared that service providers would be hesitant to invest in Internet services and technologies in the absence of clear legislation.<sup>115</sup> As a result, service provider industries lobbied for wide exemptions from liability.<sup>116</sup>

There was also concern among the academic community that provide a variety of online services.<sup>117</sup> Online activities are often

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<sup>112</sup> See *id.* The United States Telephone Association (USTA) has taken the position that "to promote the progress of knowledge on the Internet, those who are building the Net itself need fair and predictable ground rules." *Hearings on H.R. 2281 & 2180 Before the House Judiciary Committee Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 8 (Sept. 16, 1997) (testimony of Roy Neel, on behalf of the USTA). USTA represents over 1,400 telephone companies, almost every one is also an Internet service provider.

See *id.* at 1.

<sup>113</sup> See testimony of Ronald Dunn, *supra* note 29, at 2.

<sup>114</sup> See testimony of Roy Neel, *supra* note 112, at 1. This is a problem of particular importance in rural areas. See *id.* Unfortunately, providing access to the more rural areas of the country only avails service providers of a narrow profit margin. See *id.* In the event that the service providers must bear the cost of infringement on the Internet, service to these areas may be jeopardized. See *id.* This is problematic because Internet access often presents the only opportunity that individuals in rural areas may have to engage in certain forms of commerce and expression. See *id.*

<sup>115</sup> See S. REP. NO. 105-190, at 8 (1998).

<sup>116</sup> See testimony of Ronald Dunn, *supra* note 29, at 2. Service providers have sought exemptions regardless of their level of knowledge, control, or involvement in the acquisition or transmission of infringing material. See *id.*

<sup>117</sup> See *Hearings on H.R. 2180 Before the House Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 2 (Sept. 16, 1997) (testimony of M.R.C. Greenwood on behalf of the Association of American Universities, the National Association of State Universities and Land-Grant Colleges, the American Council on Education, the National Association of Independent Colleges and Universities, the American Association of State Colleges and Universities, the American Association of Community Colleges, EDUCOM, and the University of Continuing Education). The eight educational associations that Mr. Greenwood testified for collectively represent nearly all of the colleges and universities in the United States. See *id.* at 1.

conducted without supervision<sup>118</sup> and schools strongly felt that it would be inappropriate to hold a school liable for any possible online infringements perpetrated by its academic community.<sup>119</sup> Furthermore, many schools set up internal procedures for copyright infringement and they did not want this to be interpreted by a court to mean that they had exercised control over the availability of content on their online systems.<sup>120</sup>

Advocates of service provider legislation stated that such legislation was necessary in order for the law to continually evolve in a manner that would keep pace with technological advances.<sup>121</sup> In addition, they argued that any new legislation must maintain a balance between protections for copyrighted works and the facilitation of access to such properties.<sup>122</sup>

The majority of the copyright industry, however, argued that passing legislation on the issue of service provider liability was premature.<sup>123</sup> Many members of the copyright industries asserted

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<sup>118</sup> See *id.* For example, school librarians assemble online library collections, students create their own websites, and adult students from various communities log onto campus systems in order to take courses. See *id.* Most schools provide Internet access to its professors, researchers and entire student body. See *id.*

<sup>119</sup> See *id.* at 3. The imposition of liability on schools for such activities would place a burden on a school's ability to allow the Internet to be a creative academic forum unconstrained by authoritative inquiry. See *id.*

<sup>120</sup> See *id.* Most schools have set up internal procedures in order to obtain copyright clearance from authors prior to school use of the author's work. See *id.* In addition, many schools already disseminate information about copyright law to their faculty and student body. See *id.*

<sup>121</sup> See testimony of Chairman Howard Coble, *supra* note 111, at 1. Copyright law has been struggling to keep pace with technology ever since the invention of the piano roll in the 1900's. See S. REP. NO. 105-190, at 2 (1998) (citing *White-Smith Music Publishing Co. v. Apollo Co.*, 209 U.S. 1 (1908)). Much like the agricultural and industrial revolutions of the past, the digital revolution has led to economic and social change that demands the accommodation of new law. See H.R. REP. NO. 105-551, Pt. 2, at 21 (1998).

<sup>122</sup> See testimony of Chairman Howard Coble, *supra* note 111, at 1. Copyright law must protect intellectual property rights in a way that promotes the use of the Internet by both subscribers and content providers. See S. REP. NO. 105-190, at 65 (1998). The growth of the Internet requires this, otherwise copyright holders will be unwilling to publish their material online, which would impede the public's access to creative works. See *id.* Moreover, the law must adapt so that the Internet becomes a safe place for the exploitation and public dissemination of protected works. See H.R. REP. NO. 105-551, Pt. 1, at 9 (1998).

<sup>123</sup> See testimony of Ken Wasch, *supra* note 24, at 4; testimony of Jack Valenti, *supra* note 26, at 3-4; testimony of John Bettis, *supra* note 30, at 3. Electronic commerce and the online distribution of copyrighted works is still in its early stages

that legislation was unnecessary because the courts had clearly ascertained and equitably applied the doctrines of service provider liability.<sup>124</sup> In addition, the copyright industry as a whole seemed to champion the evolving judicial approach to analyzing liability in terms of the three standards of direct, contributory, and vicarious liability.<sup>125</sup> Although some in the copyright industry acknowledged that an uncertain standard of service provider liability may have had a potential chilling effect on the growth of the Internet,<sup>126</sup> others argued that such a conclusion was merely speculative and that legislation would create more problems than it would solve.<sup>127</sup>

### *B. Parameters for Copyright Legislation*

The regulation of the unauthorized downloading, uploading, and posting of infringing material is preempted by federal

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of development. See testimony of Ken Wasch, *supra* note 24, at 4. Technology and the structure of business models within the service provider industry are constantly changing at a rapid pace. See testimony of Allee Willis, *supra* note 23, at 5. Although the proponents of new legislation argued that legislation was necessary to prevent vexatious litigation on the issue of service provider liability, there had only been a few cases disputing this issue. See testimony of Jack Valenti, *supra* note 26, at 3. Furthermore, service providers were only held liable if they were aware of infringing activity. See *id.* Enactment of new legislation on this issue has been compared to a “solution in search of a problem.” *Hearings on H.R. 2180 & 2281 Before the House Subcommittee on Courts and Intellectual Property*, 105<sup>th</sup> Cong. 4 (Sept. 17, 1997) (testimony of Michael K. Kirk, Executive Director, on behalf of the American Intellectual Property Law Association).

<sup>124</sup> See testimony of John Bettis, *supra* note 30, at 3. The software industry argued that any new legislation, though not desirable, should make as few changes to the existing law as possible. See testimony of Robert W. Holleyman II, *supra* note 32, at 2.

<sup>125</sup> See testimony of Ronald Dunn, *supra* note 29, at 2; testimony of Ken Wasch, *supra* note 24, at 1; testimony of Jack Valenti, *supra* note 26, at 3-4; testimony of John Bettis, *supra* note 30, at 3.

<sup>126</sup> See testimony of Robert W. Holleyman II, *supra* note 32, at 8. The Business Software Alliance is “sensitive to the chilling effect it could have on network-based commercial activity to hold liable for copyright infringement every single person—for example, developers of multi-purpose search engines, web browsers, or communications protocols—who had a role, however tenuous, in making such piracy possible.” *Id.*

<sup>127</sup> See testimony of Kirk, *supra* note 123, at 4. Although future court rulings against Internet service providers may have a chilling effect, these “purely speculative concerns may result in a remedy that is far worse than the ill it aims to cure.” *Id.*

copyright law,<sup>128</sup> and Congress' authority to regulate it must be limited in scope according to the dictates of the Copyright Clause contained within the Constitution.<sup>129</sup> Congress may craft copyright legislation that furthers the progress of the arts.<sup>130</sup> Any incidental benefits to copyright holders may only be considered as secondary and subordinate to furthering the progress of the arts.<sup>131</sup> Consequently, Congress may consider society's competing interest in the "free flow of ideas, information, and commerce."<sup>132</sup>

Congress has the ultimate authority in determining to what degree it should legislate because the language of the Copyright Clause is permissive.<sup>133</sup> It is the view of the United States Supreme Court that the judiciary should refrain from expanding copyright protections in the absence of explicit legislative guidance.<sup>134</sup> The Court has consistently held this to be sound policy, because Congress alone possesses the institutional ability to fully accommodate the competing interests and recurring issues in copyright law.<sup>135</sup> Fortunately, Congress has chosen to amend

<sup>128</sup> See *Ohio v. Perry*, 697 N.E.2d 624, 626 (Ohio Sup. Ct. 1998).

The federal copyright laws expressly preempt any state law actions which govern "legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by §106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103. . . ."

*Id.* at 626 (quoting 17 U.S.C. §301(a)).

<sup>129</sup> See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 428-29 (1983). The Constitution provides that: "The Congress shall have [the] Power to Promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . ." U.S. CONST. art. I, § 8, cl. 8.

<sup>130</sup> See *id.* at 429.

<sup>131</sup> See *id.* Congress has traditionally promoted the arts by providing limited monopolies to authors for their works as an incentive to create. See *id.* The public good that results from providing these incentives, must outweigh the evils inherent to the monopoly granted to the author's creative expression. See *id.* at 429 n.10 (quoting H.R. REP. NO. 60-2222 at 7 (1909)).

<sup>132</sup> *Id.* at 429.

<sup>133</sup> See *id.* at 456 (quoting *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530 (1972)).

<sup>134</sup> See *Sony*, 464 U.S. at 431.

<sup>135</sup> See *id.* When advances in technology have rendered the Copyright Act's terms ambiguous, the courts have nothing more than the statute's Constitutional purpose to guide them in interpreting the statute. See *id.* at 432.

copyright laws on numerous occasions in order to accommodate and keep pace with significant advances in technology.<sup>136</sup>

Senator Orrin G. Hatch (R-UT) has suggested a few guidelines that Congress should consider when enacting copyright legislation involving technology.<sup>137</sup> First, Congress should refrain from addressing "high-tech" copyright legislation until it is truly necessary.<sup>138</sup> Second, any new legislation should only address those issues linked to the identified problem.<sup>139</sup> Congress should also articulate new legislation in a manner that does not restrict the freedom of technology to develop in any direction.<sup>140</sup> Finally, Senator Hatch suggests that Congress should take into account both the arguments raised by special interest groups, as well as the viewpoint of the "general public good."<sup>141</sup> More specifically, Senator Hatch argues that it is important to consider these two factors because the balance between the two has traditionally defined "the scope of the property right" granted to copyright holders.<sup>142</sup>

### C. *Passage of the Act*

The process of updating U.S. copyright law to address digital transmission technologies such as the Internet, began with the formation of the Information Infrastructure Task Force (IITF) in February 1993.<sup>143</sup> The IITF established the "Working Group on

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<sup>136</sup> See *id.* at 430. For example, the Copyright Act of 1909 was enacted shortly after the invention of player pianos; the Sound Recording Amendment of 1971 provided additional protections against record piracy; and the Copyright Act of 1976 contained special provisions to account for innovations in copying techniques and provisions that set copyright standards for the retransmission of broadcasts. See *id.* at 430 n.11.

<sup>137</sup> See Hatch, *supra* note 1, at 727.

<sup>138</sup> See Hatch, *supra* note 1, at 727. Senator Hatch himself has taken a cautious approach to Internet legislation. See *id.* at 757. Although he believes that some Internet legislation is inevitable, he believes that at this point it should be left to develop on its own wherever possible. See *id.*

<sup>139</sup> See Hatch, *supra* note 1, at 727.

<sup>140</sup> See Hatch, *supra* note 1, at 727.

<sup>141</sup> See Hatch, *supra* note 1, at 727-28.

<sup>142</sup> Hatch, *supra* note 1, at 728. Senator Hatch suggests that a "zeal for authors' rights must always be tempered by the practicalities of commercial exploitation of copyrighted works." *Id.* at 757.

<sup>143</sup> See S. REP. NO. 105-190, at 2 (1998) (citing INFORMATION INFRASTRUCTURE TASK FORCE, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE



Intellectual Property Rights” (Working Group) to analyze the effects of new technologies on intellectual property, and to recommend changes to existing U.S. law and intellectual property policy.<sup>144</sup> In 1995, the Working Group published its recommendations in a report entitled the “White Paper.”<sup>145</sup>

In September 1995, Senators Orrin Hatch and Patrick Leahy (D-VT) co-sponsored the “NII Copyright Protection Act of 1995”<sup>146</sup> to codify the recommendations of the Working Group.<sup>147</sup> Simultaneously, Congressman Bob Goodlatte (R-6<sup>th</sup> Dist. VA) initiated a series of negotiations between the copyright and service provider industries concerning issues of service provider liability for online copyright infringement.<sup>148</sup> Many of the issues raised during these negotiations were left unresolved, and as a result, legislative action on the “NII Copyright Protection Act of 1995” came to a standstill.<sup>149</sup>

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REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS 1 (1995)). The IITF was established “to implement the Administration’s vision for the National Information Infrastructure (NII).” *Id.* The “National Information Infrastructure” includes currently available digital services, such as the Internet, as well as those digital services contemplated for the future. *See id.* at n.3.

<sup>144</sup> *See id.* In November 1993, the Working Group heard four days of public testimony and accepted over 1,500 pages of written comments from over 150 organizations and individuals on the issue of digital transmissions. *See id.* at 3 (citing Notice of Hearings and Request for Comments on Preliminary Draft of the Report of the Working Group on Intellectual Property Rights, 59 Fed. Reg. 42,819 (Aug. 19, 1994); Extension of Deadline for Comments on Preliminary Draft of the Report of the Working Group On Intellectual Property Rights, 59 Fed. Reg. 50,222 (Oct. 3, 1994)).

<sup>145</sup> *See* INFORMATION INFRASTRUCTURE TASK FORCE, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE: THE REPORT OF THE WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS 2 (1995). The Working Group recommended that the Copyright Act be amended to expressly provide that the exclusive rights of a copyright holder could be infringed in the online environment. *See generally id.* at 223-38. Specifically, the Working Group suggested methods for ascertaining an online infringement of the exclusive rights of reproduction, distribution and public performance. *See id.*

<sup>146</sup> NII Copyright Protection Act of 1995, S. 1284, 104<sup>th</sup> Cong. (1995).

<sup>147</sup> *See* S. REP. NO. 105-190, at 3 (1998).

<sup>148</sup> *See id.* at 4.

<sup>149</sup> *Id.* The “standstill” was largely due to a debate on how far the scope of the Act’s protections for service providers should extend. *See id.* However, this bill eventually led to the drafting of S. 1121, which “later became the basis for Title 1 of the Digital Millennium Copyright Act in the Senate Judiciary Committee.” *Id.* at 5. “Congressman Coble introduced identical legislation in the House as H.R. 2281 on July 29, 1997.” *Id.*

In December 1996, the World Intellectual Property Organization (WIPO) held a conference in Geneva, Switzerland, leading to the creation of two treaties which were ultimately adopted by the United States.<sup>150</sup> Although these treaties originally included provisions relating to service provider liability, the provisions were removed before the final drafts were completed.<sup>151</sup> However, Congress continued to consider the issue of service provider liability despite the fact that it was not required to do so by the terms of the two treaties.<sup>152</sup>

Two new bills concerning the issue of service provider liability were introduced in 1997. In the House, the "On-Line Copyright Liability Limitation Act"<sup>153</sup> was introduced by Congressman Howard Coble (R-6<sup>th</sup> Dist. NC) in July 1997.<sup>154</sup> In the Senate, the "Digital Copyright Clarification and Technology Education Act of 1997"<sup>155</sup> was introduced by Senator John Ashcroft (R-MO) in September 1997.<sup>156</sup> Both bills proposed amendments to the Copyright Act that would provide limitations on the liability of service providers for online copyright infringement.<sup>157</sup> After

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<sup>150</sup> See *id.* at 5. The treaties were entitled, the "WIPO Performance and Phonograms Treaty" and the "WIPO Copyright Treaty." See *id.* Both treaties were approved by the consensus of 160 countries. See *id.*

<sup>151</sup> See testimony of Jack Valenti, *supra* note 26, at 4. "The WIPO Copyright Treaty originally contained a provision...which would have defined the term 'reproduction' of a copyrighted work to include any direct or indirect reproduction whether permanent or temporary, in any manner or form." S. REP. NO. 105-190, at 5 (1998) (citing World Intellectual Property Organization, Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works to Be Considered by the Diplomatic Conference, art. 7(1) (Aug. 30, 1996)).

<sup>152</sup> See generally testimony of Jack Valenti, *supra* note 26, at 4.

<sup>153</sup> On-Line Copyright Liability Limitation Act, H.R. 2180, 105<sup>th</sup> Cong. (1997).

<sup>154</sup> See S. REP. NO. 105-190, at 5 (1998).

<sup>155</sup> Digital Copyright Clarification and Technology Education Act of 1997, S. 1146, 105<sup>th</sup> Cong. (1997).

<sup>156</sup> See S. REP. NO. 105-190, at 5 (1998).

<sup>157</sup> See *id.* Shortly after the introduction of these bills, both houses conducted extensive hearings on the issues surrounding service provider liability. See *id.* at 5-7. On September 4, 1997, the Senate Judiciary Committee heard the testimony of five organizations representing parties in the service provider industries, the copyright industries, and the academic community. See *id.* at 5-6. On September 16 and 17, 1997, the Subcommittee on Courts and Intellectual Property of the House Judiciary Committee heard the testimony of 22 persons representing interested parties in the service provider industries, the copyright industries, and the academic community. See *id.* at 6-7. Testimony was also introduced by Bruce Lehman, Assistant Secretary

negotiations, the House Judiciary Committee and the House Committee on Commerce Subcommittee on Telecommunications, Trade, and Consumer Protection, favorably recommended the "Digital Millennium Copyright Act" (Digital Act),<sup>158</sup> which was approved by the entire House on August 4, 1998.<sup>159</sup>

The Senate was simultaneously working on legislation

of Commerce and Commissioner of Patents and Trademarks, Patent and Trademark Office, and by Marybeth Peters, Register of Copyrights, Copyright Office of the United States, Library of Congress. *See id.*

The United States Register of Copyrights suggested that any new legislation on the issue of service provider liability: "(1) should be calibrated to particular degrees of [service provider] involvement and responsibility; (2) should not contain mandatory extra-judicial procedural requirements for copyright owners to be able to enforce their rights; and (3) should not create incentives [for service providers] to avoid knowledge of infringement." Testimony of Marybeth Peters, *supra* note 74, at 11.

<sup>158</sup> *See* Digital Millennium Copyright Act, H.R. 2281, 105<sup>th</sup> Cong. (1998). In February 1998, Congressman Coble reintroduced H.R. 2180 as the "On-Line Copyright Infringement Liability Limitation Act" (H.R. 3209). *See* S. REP. NO. 105-190, at 7 (1998); *see also* On-Line Copyright Infringement Liability Limitation Act, H.R. 3209, 105<sup>th</sup> Cong. (1997). As of February 26, 1998, further congressional action on H.R. 2180 was discontinued in lieu of H.R. 3209. *See* United States Congress, *Bill Summary & Status for the 105<sup>th</sup> Congress for H.R. 2180* (visited Jan. 1, 1998) <<http://thomas.loc.gov/cgi-bin/bdquery>>.

The House was also considering the Digital Act at that time. *See* S. REP. NO. 105-190, at 5. At the time of its original conception, the Digital Act was primarily intended to implement the two "WIPO" treaties. *See id.* On Apr. 1, 1998, H.R. 3209 was sent to the House Judiciary Committee to be considered for insertion as an amendment into the text of the Digital Act. *See* H.R. REP. NO. 105-551, Pt. 1, at 13 (1998). The House Judiciary Committee reported the amendment favorably on May 22, 1998. *See* H.R. REP. NO. 105-551, Pt. 2, at 21 (1998). The House Committee on the Judiciary predicated Constitutional authority for the Digital Act on the Copyright Clause. *See* H.R. REP. NO. 105-551, Pt. 1, at 15; *see also* U.S. CONST. art. I, § 8, cl. 8.

The Digital Act, including the amendment, was then referred to the House Committee on Commerce. *See* H.R. REP. NO. 105-551, Pt. 2, at 21. On June 5, 1998, the House Committee on Commerce Subcommittee on Telecommunications, Trade and Consumer Protection heard testimony on the Digital Act. *See id.* at 22. The Digital Act was recommended favorably by the House Committee on Commerce on July 22, 1998. *See id.* at 1. The House Committee on Commerce predicated Constitutional authority for the bill on the Commerce Clause. *See id.* at 35. The Commerce Clause states that "Congress shall have Power...[t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes". U.S. CONST. art. I, § 8, cl. 3.

<sup>159</sup> *See* 144 CONG. REC. H7103 (daily ed. Aug. 4, 1998).

comparable to the Digital Act.<sup>160</sup> In January 1998, Senator Hatch initiated further negotiations between the copyright and service provider industries in hopes of finalizing the unresolved issues in Congressman Goodlatte's negotiations.<sup>161</sup> After completing these negotiations, Senator Hatch drafted a set of provisions concerning online service provider liability and included them with his proposals for the Senate version of the Digital Act.<sup>162</sup> The Senate Committee on the Judiciary recommended these provisions on May 11, 1998,<sup>163</sup> and on May 14, 1998, the Senate's version of the Digital Act was approved by the full Senate.<sup>164</sup>

A Joint Conference was held to discuss the alternate versions of the Digital Millennium Copyright Act.<sup>165</sup> The Joint Conference Committee recommended the provisions of the House version of the Digital Act that concerned issues of service provider liability.<sup>166</sup> These recommendations were first adopted by the Senate<sup>167</sup> and later adopted by the House.<sup>168</sup> The President signed The Digital Millennium Copyright Act into law on October 28, 1998.<sup>169</sup>

#### *IV. Analysis of the Act*

##### *A. Generally Applicable Provisions*

The Online Copyright Infringement Liability Limitation Act (Act), which became effective immediately upon its passage into

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<sup>160</sup> See generally S. REP. NO. 105-190, at 7-8 (1998).

<sup>161</sup> See *id.* at 7.

<sup>162</sup> See *id.*; see also Digital Millennium Copyright Act, S. 2037, 105<sup>th</sup> Cong. (1998).

<sup>163</sup> See S. REP. NO. 105-190, at 1 (1998).

<sup>164</sup> See H.R. REP. NO. 105-551, Pt. 1, at 21 (1998).

<sup>165</sup> See generally H.R. REP. NO. 105-796, (1998).

<sup>166</sup> See *id.* at 73. The Senate receded to H.R. 2281 with some modification. See *id.* The Conference Committee reported on October 8, 1998. See *id.* at 1.

<sup>167</sup> See 144 CONG. REC. S11887 (daily ed. Oct. 8, 1998). The Conference Committee's recommendations were adopted by the Senate on October 8, 1998. See *id.*

<sup>168</sup> See 144 CONG. REC. H10615 (daily ed. Oct. 12, 1998). The Conference Committee's recommendations were adopted by the House on October 12, 1998. See *id.*

<sup>169</sup> Digital Millennium Copyright Act, Pub. L. No. 105-304, §§ 201-203, 112 Stat. 2860, 2877-2886 (Oct. 28, 1998).

law,<sup>170</sup> amends the Copyright Act to include a new section.<sup>171</sup> The new section provides for “safe harbors” from monetary damages that service providers may avail themselves of under certain circumstances.<sup>172</sup> These safe harbors give service providers greater certainty as to when they may be subject to liability for copyright infringement.<sup>173</sup> In addition, the Act provides strong incentives for copyright owners and service providers to work together in order to deal with copyright infringement.<sup>174</sup>

The Act’s safe harbor provisions are broken into four distinct categories.<sup>175</sup> Each category provides a limitation on liability based on the particular conduct that gave rise to potential liability.<sup>176</sup> Each section is intended to be mutually exclusive of the other, and each section describes separate and distinct functions.<sup>177</sup> Furthermore, a service provider may avail itself of any or all of the four safe harbor provisions provided it meets the criteria for that provision.<sup>178</sup>

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<sup>170</sup> See *id.* § 203.

<sup>171</sup> See *id.* § 202. The Act added a new section 512 to the Copyright Act. See *id.* The Fairness in Musical Licensing Act also added a new section 512 to the Copyright Act. See The Fairness in Musical Licensing Act, Title II, Pub. L. No. 105-298, 112 Stat. 2827, 2830-2834 (Oct. 27, 1998). “A technical amendments bill is needed to correct this duplication of section numbers.” *U.S. Copyright Office Summary, supra* note 4, at 8 n.3.

<sup>172</sup> See S. REP. NO. 105-190, at 67 (1998). A service provider may still be subject to injunctive remedies, even if it meets all of the conditions for limited liability that a particular safe harbor requires. See 17 U.S.C. § 512(j); see also *infra* Part IVE.

<sup>173</sup> See H.R. REP. NO. 105-796, at 72 (1998).

<sup>174</sup> See *id.*

<sup>175</sup> See *U.S. Copyright Office Summary, supra* note 4, at 8. The Act provides an additional limitation on liability for those who comply with notice and take-down procedures. See *infra* text Part IVD.

<sup>176</sup> See *U.S. Copyright Office Summary, supra* note 4, at 8.

<sup>177</sup> See H.R. REP. NO. 105-551, Pt. 2, at 65 (1998). “Subsections (a), (b), (c) and (d) describe separate and distinct functions for purposes of applying this section.” 17 U.S.C § 512(n).

<sup>178</sup> See *id.* “Whether a service provider qualifies for the limitation on liability in any one of those subsections shall be based solely on the criteria in that subsection, and shall not affect a determination of whether that service provider qualifies for the limitations on liability under any other subsection.” *Id.*

For example, a service provider may link a user to a website containing infringing material and then cache the material on its own network in order to facilitate user access to the materials. See *id.* The service provider in this case might be engaging in at least three of the distinct functions specified by the Act. See *id.* Provided that the service provider meets the criteria for each of the three safe harbors, it may avail itself of any of the three. See *id.* However, the appropriate

As a preliminary matter, a service provider must first comply with two overall conditions before it is eligible for any of the Act's limitations on liability.<sup>179</sup> First, the service provider must have adopted and reasonably implemented a policy for the termination of services as it applies to those subscribers who repeatedly engage in infringing activity online.<sup>180</sup> Second, service providers must accommodate and refrain from interfering with any "standard technical measures" designed to protect or identify copyrighted works.<sup>181</sup> The particular requirements of this second provision are to be specifically defined by a consensus of the copyright and service provider industries.<sup>182</sup>

Another one of the Act's provisions, which is generally

provision for the service provider to take advantage of is ultimately determined by what infringing function the plaintiff claims occurred. *See id.*

<sup>179</sup> *See U.S. Copyright Office Summary, supra* note 4, at 9.

<sup>180</sup> *See* H.R. REP. NO. 105-551, Pt. 2, at 61 (1998). The limitations on liability only apply to a service provider who "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." 17 U.S.C. § 512(i)(1)(A).

The term "subscriber" is intended to include "account holders that have a business relationship with the service provider that justifies treating them as subscribers. . . even if no formal subscription agreement exists." H.R. REP. NO. 105-551, Pt. 2, at 61 n.3 (1998). Examples include: a student who is granted access to a university network; an employee who is granted access to its employer's network; or a household member who is granted access to an online service as the result of a subscription agreement with some other member of that household. *See id.*

<sup>181</sup> *See* H.R. REP. NO. 105-551, Pt. 2, at 61 (1998). The limitations on liability only apply to a service provider who "accommodates and does not interfere with standard technical measures." 17 U.S.C. § 512(i)(1)(B). Such standard technical measures must also avoid placing substantial burdens or costs on service providers, and they must be available on reasonable, nondiscriminatory terms. *See U.S. Copyright Office Summary, supra* note 4, at 9-10. The statute states:

[T]he term "standard technical measures" means technical measures that are used by copyright owners to identify or protect copyrighted works and - (A) have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process; (B) are available to any person on reasonable and nondiscriminatory terms; and (C) do not impose substantial costs on service providers or substantial burdens on their systems or networks.

17 U.S.C. § 512(i)(2).

<sup>182</sup> *See U.S. Copyright Office Summary, supra* note 4, at 9.

applicable to the whole Act, concerns the issue of online privacy.<sup>183</sup> The Act expressly states that it should not be construed in such a manner that it requires service providers to police either its services or the content that may at one point or another travel through its network or system.<sup>184</sup> The purpose and effect of this mandate is to ensure some degree of protection to the privacy of Internet users in their online communications.<sup>185</sup> However, if a service provider does choose to monitor its services for infringing conduct, courts should not conclude that this is a *per se* bar of the service provider's ability to invoke the liability limitations of the Act.<sup>186</sup>

Finally, it should be noted that the Act does not contain the full range of law pertaining to service provider liability for copyright infringement.<sup>187</sup> A copyright holder must first demonstrate that the service provider infringed on one of the copyright holder's exclusive rights.<sup>188</sup> After this is successfully demonstrated, then a service provider may raise one of the Act's limitations in its defense.<sup>189</sup> Furthermore, if the service provider fails to qualify for a limitation, it is not necessarily liable for infringement because it may still avail itself of one of the traditional defenses to copyright infringement.<sup>190</sup>

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<sup>183</sup> See H.R. REP. NO. 105-551, Pt. 2, at 64 (1998).

<sup>184</sup> See *id.* at 64-65. Nothing in the Act should be interpreted to condition the applicability of its liability limitations on:

- (1) a service provider monitoring its services or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i); or
- (2) a service provider gaining access to, removing, or disabling access to material in cases in which such conduct is prohibited by law.

17 U.S.C. § 512(m).

<sup>185</sup> See *U.S. Copyright Office Summary*, *supra* note 4, at 9. Furthermore, a mandate requiring service providers to police its service and content may conflict with the provisions of the Electronic Communications Privacy Act. See *id.*

<sup>186</sup> See H.R. REP. NO. 105-796, at 73 (1998).

<sup>187</sup> See H.R. REP. NO. 105-551, Pt. 2, at 64 (1998). The Act "does not define what is actionable copyright infringement in the on-line environment." *Id.*

<sup>188</sup> See *id.* The Act "does not create any new exceptions to the exclusive rights under copyright law" and infringement of copyright holder's exclusive rights may be shown under the doctrines of direct, contributory and vicarious liability. *Id.*

<sup>189</sup> See *U.S. Copyright Office Summary*, *supra* note 4, at 9.

<sup>190</sup> See H.R. REP. NO. 105-551, Pt. 2, at 64 (1998). "The failure of a service

### B. *Limitations on Liability for Infringing Activities*

The first type of service provider activities that are protected by the Act are those that merely function as “passive conduits” for the transmission of online digital information.<sup>191</sup> These types of activities commonly take place in the course of telephone systems operations.<sup>192</sup> Under certain circumstances, a passive conduit is exempt from monetary damages due to the “intermediate and transitory” storage of infringing material.<sup>193</sup>

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provider’s conduct to qualify for [a] limitation of liability under this section shall not bear adversely upon the consideration of a defense by the service provider that the service provider’s conduct is not infringing under this title or any other defense.” 17 U.S.C. § 512(l).

<sup>191</sup> See *id.* at 63 (citing 17 USC § 512(a)). For the purpose of this Note, “passive conduits” will refer to those service providers whose actions merely facilitate transitory digital network communications, as discussed in Section 512(a) of the statute.

Activities covered by subsection (a) are those that only function in the capacity of passive conduit. See *id.* at 64. Service providers that perform functions outside the scope of this definition may still be included in this definition, so long as the activity that allegedly led to an infringement was an activity confined to the definition. See *id.* For example, a website would not qualify as a “service provider” for the purposes of subsection (a). See *id.*

The definition section of the Act provides that the term “service provider,” as used in subsection (a), “means an entity offering the transmission, routing, or providing of connections for digital online communication, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.” 17 U.S.C. § 512(k)(1)(A). This definition was based on the definition of “telecommunications” as found in the Communications Act of 1934, however in this case, it only applies to communication that are both “online” and “digital.” See H.R. REP. NO. 105-551, Pt. 2, at 63 (1998). These terms were included to express the intent of Congress that the Act should not afford protections to cable television systems, satellite television systems or “over-the-air broadcasting.” See *id.*

<sup>192</sup> See testimony of Robert W. Holleyman II, *supra* note 32, at 9.

<sup>193</sup> See H.R. REP. NO. 105-551, Pt. 2, at 50 (1998). “For example, in the course of moving packets of information across digital on-line networks, many intermediate and transient copies of the information may be made in routers and servers along the way. Such copies are created as an automatic consequence of the transmission process.” *Id.* In this context, the terms “intermediate and transient” refers to unauthorized copies that are created or stored in the course of a transmission, as opposed to unauthorized copies that are created at the point where the transmission was either initiated or received. See *id.* at 50-51.

To qualify for the Act’s limits on liability, activities that function as a passive conduit must satisfy five criteria. See 17 U.S.C. § 512(a). First, the transmission of the allegedly infringing material must be initiated by or at the direction of a person besides the service provider. See *id.* § 512(a)(1). Second, any unauthorized copying by the service provider must be solely the result of an “automatic technical process”



The Act also provides limitations on liability for service provider<sup>194</sup> acts of system caching.<sup>195</sup> System caching is the process of retaining unauthorized copies for limited times so that material may be made available for transmission to a subscriber at the discretion of the service provider.<sup>196</sup> The limitation on liability

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in which the service provider did not select the material to be transmitted. *See id.* § 512(a)(2). An “automatic technical process” refers to the computerized method of indiscriminately responding to the command or request of an Internet user, another network, or an information location tool. *See H.R. REP. NO. 105-551, Pt. 2, at 51 (1998).*

Third, the service provider may not select the recipients of the material except as an “automatic response to the request of another.” 17 U.S.C. § 512(a)(3). An “automatic response to the request of another” is intended to include a passive conduit’s responses to the requests of Internet users or other networks. H.R. REP. NO. 105-551, Pt. 2, at 51 (1998). Examples of such requests include the forwarding of e-mail or the routing of messages to newsgroups. *See id.*

Fourth, none of the stored unauthorized copies may be made “ordinarily accessible” to anyone other than the material’s anticipated recipients. *See* 17 U.S.C. § 512(a)(4). Moreover, the unauthorized copies may not be stored by the service provider longer than necessary for the successful communication of the material. *See id.* The term “ordinarily accessible” is intended to refer to stored material that is routinely available to third parties. *See H.R. REP. NO. 105-551, Pt. 2, at 51 (1998).* For example, the fact that the material may be illegally obtained by an intruder would not fall within the scope of the meaning of “ordinarily accessible.” *See id.* Furthermore, a service provider has not made the material “ordinarily accessible” by permitting access to law enforcement officials or access to service provider personnel for the purpose of system maintenance. *See id.* Any copies made by the service provider for the “purpose of making the material available to other users” is outside the scope of the meaning of “ordinarily accessible,” and such copying is governed by the Act’s limitations on liability for system caching contained in subsection (b). *Id.* (citing 17 U.S.C. § 512(b)).

Finally, the service provider must transmit the material without modifying its content. *See* 17 U.S.C. § 512(a)(5). Although a passive conduit may not alter the content of the information that it transmits, it may modify its form. *See H.R. REP. NO. 105-551, Pt. 2, at 51 (1998).* For example, if a service provider is requested to deliver an e-mail message that contains bold or italicized text, the service provider will not lose its limitation on liability simply because the e-mail was delivered with unbolded or unitalicized text. *See id.*

<sup>194</sup> For the purposes of system caching, a service provider is defined as a “provider of online service or network access, or the operators of facilities therefor [sic]” and may include those service providers that are also passive conduits. 17 U.S.C. § 512(k)(1)(B).

<sup>195</sup> *See U.S. Copyright Office Summary, supra* note 4, at 10 (citing 17 U.S.C. § 512(b)).

<sup>196</sup> *See U.S. Copyright Office Summary, supra* note 4, at 10 (citing 17 U.S.C. § 512(b)). Caching is a process used by some service providers to avoid Internet congestion and delays to popular websites. *See H.R. REP. NO. 105-551, Pt. 2, at 52 (1998).*

applies to “acts of intermediate and temporary storage, when carried out through an automatic technical process for the purpose of making the material available to subscribers who subsequently request it.”<sup>197</sup> A service provider may avail itself of the protections for server caching under certain enumerated circumstances.<sup>198</sup>

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<sup>197</sup> See *U.S. Copyright Office Summary, supra* note 4, at 11 (citing 17 U.S.C. § 512(b)). A service provider may attempt to qualify its activities as acts of “system caching” if:

(A) the material is made available online by a person other than the service provider; (B) the material is transmitted from the person described in subparagraph (A) through the system or network to a person other than the person described in subparagraph (A) at the direction of that other person; and (C) the storage is carried out through an automatic technical process for the purpose of making the material available to users of the system or network who, after the material is transmitted as described in subparagraph (B), request access to the material from the person described in subparagraph (A). . . .

17 U.S.C. § 512(b)(1).

<sup>198</sup> See 17 U.S.C. § 512(b)(2). The service provider must satisfy five criteria in order to avail itself of this limitation. See *id.* First, the service provider must not modify the content of the retained material. See *U.S. Copyright Office Summary, supra* note 4, at 11; see also 17 U.S.C. § 512(b)(2)(A). Second, the service provider must comply with the “refreshing” rules as specified by “generally accepted industry standard data communications protocol.” *U.S. Copyright Office Summary, supra* note 4, at 11.

Refreshing is the process of replacing the retained copies with new material from the original location where the original material was obtained from. See *id.* A service provider does not have to comply with this requirement if the original source making the material available is unfairly exploiting of the rules of “refreshing” in a manner meant to impede system caching. See 17 U.S.C. § 512(b)(2)(B). Often times, a website will change the advertising that it displayed on its site. See H.R. REP. NO. 105-551, Pt. 2, at 52 (1998). The purpose of this provision is to assure that service providers will only send retained material to subsequent users if the advertising contained within that material is updated. See *id.* The Congressional conferees expect that standard setting organizations in the Internet industries will act promptly to establish what will constitute generally accepted industry standard data communications protocol. See H.R. REP. NO. 105-796, at 73 (1998). Standard protocol is currently in its early stages of development, and the conferees suggested that the responsibility for establishing such protocol should lie with organizations such as the World Wide Web Consortium and the Internet Engineering Task Force. See *id.*

The third criteria that the service provider must satisfy is that it may not interfere with technology that requires the service provider’s system to send return information back to the original source of the cached material. See H.R. REP. NO. 105-551, Pt. 2, at 52 (1998); see also 17 U.S.C. § 512(b)(2)(C). For example, a service provider must send “hit” information back to the source of the original material. See H.R. REP. NO. 105-551, Pt. 2, at 52 (1998). Service providers engaging in acts of

In addition, the Act provides limitations on liability for service providers<sup>199</sup> who have information stored on their network

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system caching must only comply with this third requirement if the return technology meets certain enumerated standards. See 17 USC § 512(b)(2)(C). A service provider must comply with this limitation requirement only if the return technology:

- (i) does not significantly interfere with the performance of the provider's system or network or with the intermediate storage of the material; (ii) is consistent with generally accepted industry standard communications protocol; and (iii) does not extract information from the provider's system or network other than the information that would have been available to the [original source of material] if the subsequent users had gained access to the material directly from that [source].

17 U.S.C. § 512(b)(2)(C).

Fourth, the service provider must limit access to the retained material in accordance with the original source's conditions on access, such as payment of a fee or the entry of a password. See *U.S. Copyright Office Summary*, *supra* note 4, at 11; see also 17 U.S.C. § 512(b)(2)(D). Finally, the service provider must have expeditiously removed retained material from its system cache upon receiving notification of its allegedly infringing nature. See *U.S. Copyright Office Summary*, *supra* note 4, at 11; see also 17 U.S.C. § 512(b)(2)(E). Because the act of system caching is automatic, a service provider's system will make copies of a source's materials without human intervention. See H.R. REP. NO. 105-551, Pt. 2, at 52 (1998). This may be problematic because a caching system will automatically continue to copy material, even if the source website of that material has received notice that the material is allegedly infringing. See *id.*

There are specific extra-judicial procedures involving notice and removal of allegedly infringing material. See *infra* Part IVD. A service provider need only comply with the notice procedures of § 512(c)(3) if:

- (i) the material has previously been removed from the originating site or access to it has been disabled, or a court has ordered that the material be removed from the originating site or that access to the material on the originating site be disabled; and (ii) the party giving the notification includes in the notification a statement confirming that the material has been removed from the originating site or access to it has been disabled or that a court has ordered that the material be removed from the original site or that access to the material on the originating site be disabled.

17 U.S.C. § 512(b)(2)(E). The notification requirements of section (ii) are in addition to the general notice provisions of § 512(c)(3). See H.R. REP. NO. 105-551, Pt. 2, at 52 (1998); see *infra* Part IVD for an in-depth discussion of notice and take-down.

<sup>199</sup> For the purposes of service providers who have information stored at the direction of a user, a service provider is defined as a "provider of online service or network access, or the operators of facilities thereof," and may include those service

at the direction of an Internet user.<sup>200</sup> These activities are commonly engaged in by BBSs, websites, chatrooms, and “other forums in which material may be posted at the direction of a user.”<sup>201</sup> The limitations on liability for these activities are first conditioned upon the service provider’s designation of an agent to receive notification of claimed infringements.<sup>202</sup> The service provider must also satisfy three criteria.<sup>203</sup>

First, the service provider must not possess a certain threshold of knowledge in reference to the infringing material

providers that are also passive conduits. 17 U.S.C. § 512(k)(1)(B).

<sup>200</sup> See H.R. REP. NO. 105-551, Pt. 2, at 53 (1998) (citing 17 U.S.C. § 512(c)). This section is intended to limit the liability of service providers from claims of direct, contributory and vicarious infringement. See *id.* at 53.

<sup>201</sup> *Id.* at 53.

<sup>202</sup> See 17 U.S.C. § 512(c)(2). Specifically:

The limitations on liability established in this subsection apply to a service provider only if the service provider has designated an agent to receive notification of claimed infringement described in [section 512(c)(3)], by making available through its service, including on its website in a location accessible to the public, and by providing to the Copyright Office, substantially the following information: (A) the name, address, phone number, and electronic mail address of the agent[; and] (B) other contact information which the Register of Copyrights deems appropriate.

*Id.*

The Register of Copyrights is required to maintain a current directory of service provider agents available for public inspection. See *id.* The directory must be in hard copy and electronic formats. See *id.* The Copyright Office’s list of agents may be found at the Copyright Office website at <http://www.loc.gov/copyright/onlinesp/list/>. See Designation by Service Provider of Agent for Notification of Claims of Infringement, at 1 (visited Jan. 1, 1999) <<http://lcweb.loc.gov/copyright/onlinesp/>>. The Copyright Office also provides service providers with a suggested form for designating an agent at the address <http://www.loc.gov/copyright/onlinesp/>. See *U.S. Copyright Office Summary*, *supra* note 4, at 11.

The Copyright Office has promulgated specific requirements for how a service provider may designate its agent. See Designation by Service Provider of Agent for Notification of Claims of Infringement, at 1 (visited Jan. 1, 1999) <<http://lcweb.loc.gov/copyright/onlinesp/>>. The Copyright Office will not be examining designations of agents for compliance with the Act, and the fact that the Copyright Office has accepted a service provider’s written designation of an agent should not be interpreted as a judgement by the Copyright Office as to sufficiency of the designation. See *id.* The fee for a designation of an agent is currently \$20. See *id.*

<sup>203</sup> See *U.S. Copyright Office Summary*, *supra* note 4, at 11; see also 17 U.S.C. § 512(c)(1).

posted or activity conducted by the Internet user.<sup>204</sup> Second, a

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<sup>204</sup> See U.S. Copyright Office Summary, *supra* note 4, at 11; see also 17 U.S.C. § 512(c)(1)(A). In order to satisfy this scienter requirement, the service provider must not have actual knowledge of the infringing material or activity. See 17 U.S.C. § 512(c)(1)(A)(i). The term “activity” refers to the wrongful activity “that is occurring at the sight . . . [where] the material resides, regardless of whether copyright infringement is technically deemed to occur at that sight or at the location where the material is received.” H.R. REP. NO. 105-551, Pt. 2, at 53 (1998). For example, in the case of a pirate website offering music, it is irrelevant whether “copying” occurred when an unauthorized copy was uploaded to the website or whether “copying” occurred when the website initiated a transmission of an unauthorized public performance. See *id.*

In addition, the service provider must not be aware of circumstances or facts that make the infringing activity apparent. See 17 U.S.C. § 512(c)(1)(A)(ii). This section has been coined as the “red flag” test. See H.R. REP. NO. 105-551, Pt. 2, at 53 (1998). Once a service provider is aware of a “red flag” that points to infringing activity, it will lose its liability limitation if it takes no action. See *id.* The standard for determining if a service provider passed the red flag test is both objective and subjective. See *id.* The determination whether the facts or circumstances constitute a red flag is made objectively. See *id.* In other words, a court must consider whether the infringing activity would have been evident to a reasonable person under the circumstances. See *id.* However, a court must consider the subjective state of mind of the service provider in ascertaining whether the service provider was in fact aware of the red flag. See *id.*

The service provider must also expeditiously remove or discontinue access to the material once it obtains actual knowledge or awareness of the infringement. See 17 U.S.C. § 512(c)(1)(A)(iii). Service providers do not automatically lose their limitations on liability once they possess actual knowledge of infringing activity or awareness of a “red flag.” See H.R. REP. NO. 105-551, Pt. 2, at 53 (1998). Service providers have the opportunity to expeditiously remove or discontinue access before they lose the limitation. See *id.* Congress chose not to set a specific time limit for removal, because it believed that the technical restrictions and factual circumstance of each case will differ. See *id.* at 53-54.

Out of all of the Act’s provisions, these standards for “knowledge” have received the most heated criticisms. See testimony of Roy Neel, *supra* note 112, at 4. “The single biggest issue in this whole debate is what level of knowledge should incur service provider liability. . .” *Id.* This section codifies *Netcom* and overrules *Frena* in that it eliminates the possibility of finding direct liability for service providers. See H.R. REP. NO. 105-551, Pt. 1, at 11 (1998). It has been asserted that the Act has preserved the traditional doctrine of contributory liability because liability under the doctrine presumes a degree of knowledge anyway. See testimony of Ronald Dunn, *supra* note 29, at 4. However, some have argued that the knowledge provisions make the criteria for contributory liability harder to satisfy. See H.R. REP. NO. 105-551, Pt. 1, at 11 (1998).

Critics of the knowledge provisions argue that it is imperative to the copyright industries that service provider liability extend beyond circumstances of “actual knowledge.” See testimony of Robert Holleyman II, *supra* note 32, at 10. They argue that if “actual knowledge” is the only standard, then service providers would have an incentive to ignore suspicious websites, rather than investigate their legitimacy. See *id.* Furthermore, the way in which courts interpret the meaning of the term

service provider may not receive a direct financial benefit from the infringing activity if the service provider has the ability and right to control the activity.<sup>205</sup> Finally, a service provider is required to expeditiously remove or disable access to infringing materials or activities upon notification of its allegedly infringing nature.<sup>206</sup>

The Act also provides limitations on liability for service providers<sup>207</sup> that are infringing on a copyright by reason of the service provider's linking or referring users to an Internet location, which contains infringing material or infringing activity.<sup>208</sup> To qualify for this provision, such linking must be accomplished by the use of "information location tools," including a reference, index, directory, hypertext link, or pointer.<sup>209</sup> Under certain circumstances, service providers engaging in these activities may avail themselves of the Act's limitations on liability.<sup>210</sup>

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"awareness" will have a substantial influence on whether it is found that the liability limitation will apply to an act triggering service provider liability. *See id.*

<sup>205</sup> *See* 17 U.S.C. § 512(c)(1)(B). This is a codification of the doctrine of vicarious liability. *See* H.R. REP. NO. 105-551, Pt. 1, at 11 (1998). In determining if the service provider has received a direct financial benefit, courts should look to see if the value of services provided subsisted in "providing access to infringing material." H.R. REP. NO. 105-551, Pt. 2, at 54 (1998). Congress has encouraged the courts to take a common sense, fact sensitive approach; not one which is formalistic. *See id.* A payment of a one-time subscription fee coupled with periodic payments should not be construed as a direct financial benefit. *See id.* Moreover, payments that are proportional to either connect time or the length of a message do not qualify as "direct financial benefits." *See id.*

<sup>206</sup> *See* 17 U.S.C. § 512(c)(1)(C). There are specific extra-judicial procedures involving notice and removal of allegedly infringing material. *See infra* Part D.

<sup>207</sup> For the purposes of this safe harbor, a service provider is defined as a "provider of online service or network access, or the operators of facilities thereof," and may include those service providers that are also passive conduits. 17 U.S.C. § 512(k)(1)(B).

<sup>208</sup> *See* H.R. REP. NO. 105-551, Pt. 2, at 56 (1998) (citing 17 U.S.C. § 512(d)).

<sup>209</sup> *See* 17 U.S.C. § 512(d). "Information location tools" include indexes or directories of Internet materials or websites. *See* H.R. REP. NO. 205-551 Pt. 2, at 56-57 (1998). For example, this may include a search engine that recognizes pages by specific criteria, a list that recommends websites, or hypertext links that facilitate user access to the material without entering its address. *See id.*

<sup>210</sup> *See U.S. Copyright Office Summary, supra* note 4, at 12-13. The service provider must meet three criteria. *See id.* First, the service provider must have satisfied certain requirements concerning knowledge. *See* 17 U.S.C. § 512(d)(1). The knowledge requirements for acts conducted by information location tools are the same as that for those acts involving information residing on a network at the

### C. Special Provisions Applicable to Schools

The Act provides special protections, under certain circumstances, to “public or other nonprofit institution[s] of higher education” that are acting in the capacity of a service provider.<sup>211</sup> The bill provides two advantages to service providers

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direction of a user. See *U.S. Copyright Office Summary*, *supra* note 4, at 13. The liability limitation does not apply if the service provider has actual knowledge. See 17 U.S.C. § 512(d)(1)(A). The liability limitation does not apply if the service provider is aware of circumstances indicative of infringement. See *id.* § 512(d)(1)(B). The liability limitation also does not apply if the service provider does not expeditiously remove or discontinue access to infringing material once it obtains knowledge or awareness of such activity. See *id.* § 512(d)(1)(C).

The service provider industry was concerned that it would fail to satisfy the knowledge requirement under this section of the Act by virtue of the fact that it had viewed the infringing Internet site. See H.R. REP. NO. 105-551, Pt. 2, at 57 (1998). Service providers were fearful that they would be “disqualified from the information location tools safe harbor” as the result of the fact that they commonly employ human reviewers and editors to view and classify Internet sites. *Id.* These concerns are significant because online directories perform an invaluable task in helping Internet users locate the information they seek. See *id.*

Service providers are not required to seek out infringing activity, however they must still satisfy the “red flag test.” See *id.*; see also *supra* note 204. For example, if the copyright owner shows that the infringing site was clearly a pirate site at the time when the service provider viewed it, then the service provider has failed to qualify for the limitation on liability. See H.R. REP. NO. 105-551, Pt. 2, at 57-58 (1998). On the other hand, if the plaintiff merely shows that the service provider saw photographs of celebrities, then the service provider may still qualify for the limitation on liability. See *id.* This is because service providers can not be expected, during its brief course of cataloging the site, to ascertain whether the photograph was infringing, not protected by copyright, an authorized licensed use, or a use protected by the fair use defense. See *id.*

One intention of this provision is to “promote the development of information location tools.” H.R. REP. NO. 105-551, Pt. 2, at 58 (1998). Another intention is to omit from the safe harbors, any acts linking users to sophisticated pirate directories. See *id.* Such sites are often obviously infringing in a manner that can be easily ascertained by catalogers in their brief and casual viewing of the site. See *id.* The red flag test strikes the right balance between these two purposes. See *id.*

The second condition that a service provider must satisfy is that it must not receive a direct financial benefit as a result of the infringing activities, in cases when it had the “right and ability to control such activity.” 17 U.S.C. § 512(d)(2). This is a codification of the doctrine of vicarious liability. See H.R. REP. NO. 105-551, Pt. 1, at 11 (1998). Finally, upon a notification of claimed infringement, the service provider must act expeditiously to remove or discontinue access to the allegedly infringing material and infringing activities. See 17 U.S.C. § 512(d)(3). There are specific extra-judicial procedures involving notice and removal of allegedly infringing material. See *infra* Part IVD.

<sup>211</sup> 17 U.S.C. § 512(e)(1). All of Act’s provisions apply to school networks just as they would to other nonacademic service providers. See H.R. REP. NO. 105-796, at 74-

when either a faculty member or a graduate student employed by the school is performing a teaching or research function.<sup>212</sup> First, where the service provider school is engaging in acts akin to those of passive conduits or of system caching, the graduate student and the faculty member shall be treated as persons separate from the school.<sup>213</sup> Second, where the service provider school is engaging in acts regarding the storage of material at the direction of a user, or acts akin to an information location technology, the graduate student's and the faculty member's awareness or knowledge is not attributed to the school.<sup>214</sup> In order for the school to avail itself of the protections of this section, the school must satisfy certain requirements.<sup>215</sup>

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75 (1998). However, Congress has recognized that a scholastic environment creates a special circumstance, and as a result, has afforded special protections to schools for the infringing actions of their graduate researchers and faculty members. *See id.*

<sup>212</sup> *See* 17 U.S.C. § 512(e)(1). This provision provides no additional protections for schools when graduate researchers or faculty members are performing acts outside the scope of teaching or research. *See* H.R. REP. NO. 105-796, at 74 (1998). For example, this provision does not apply when a faculty member or a graduate researcher is engaging in administrative responsibilities or executing operational responsibilities in regards to the school's capacity as a service provider. *See id.* For the additional protections of this provision to apply, the research must be a "genuine academic exercise." *See id.*

<sup>213</sup> *See* 17 U.S.C. § 512(e)(1). The doctrine of respondeat superior usually imputes knowledge from an employee to his or her employer. *See* H.R. REP. NO. 105-796, at 74 (1998). However, a special relationship exists between a school and their graduate researchers and faculty members that is outside the scope of the traditional employer-employee relationship. *See id.*

<sup>214</sup> *See id.*

<sup>215</sup> *See* U.S. Copyright Office Summary, *supra* note 4, at 13 (citing 17 U.S.C. § 512(e)(1)). The school and its staff must satisfy three criteria to avail itself of the Act's special protections for schools. *See id.* First, any infringing activities conducted by the graduate student or faculty member must not involve the providing of network access to any instructional materials that were "required or recommended" in the preceding three years. *See* 17 U.S.C. § 512(e)(1)(A). The phrase "providing network access" is intended to include the sending of materials via e-mail. *See* H.R. REP. NO. 105-796, at 75 (1998). The phrase "required or recommended" is intended to include materials that have been "formally and specifically identified in a list of course materials that is provided to all students enrolled in the course for credit." *Id.* The phrase "required or recommended" does not refer to any materials that the graduate student or faculty member may informally and incidentally bring to students for their consideration throughout the semester. *See id.*

Second, the school must not have received more than two notifications of infringement regarding a specific graduate student or faculty member within the preceding three years. *See* 17 U.S.C. § 512(e)(1)(B); *see also infra* Part IVD (for a discussion on notification and extra-judicial procedures). In order for a school to



Nothing contained within this provision should be construed to establish new liability for schools where liability does not now exist.<sup>216</sup> This provision does not alter any of the existing exclusive rights of a copyright holder nor does it eliminate any of a school's available defenses such as fair use.<sup>217</sup> This provision of the Act only extends protections to a school in its capacity as a service provider.<sup>218</sup>

#### D. Notice & Take-Down

The Act will require service providers other than passive conduits, under certain circumstances, to expediently remove or disable access to material upon notification of the material's allegedly infringing nature.<sup>219</sup> However, such removal of material is conditioned upon the fact that the content of the notification was in substantial compliance with the Act's requirements.<sup>220</sup> Notification of a claimed infringement must be articulated in a written communication and delivered to the service provider's

lose its protections under this section, it is required that the two notifications alleging infringement did not contain misrepresentations as provided by § 512(f) of the Act. *See* H.R. REP. NO. 105-796, at 75 (1998). If a school loses its special protections under this section, the school may only be held responsible for the infringing acts of the particular person that had been the subject of the two notifications. *See id.*

Third, the school must provide informational materials to all of its system users to promote compliance and accurately describe the copyright law. *See* 17 U.S.C. § 512(e)(1)(C). For example, faculty, students, and administrative employees must all receive informational materials. *See* H.R. REP. NO. 105-796, at 75 (1998). Furthermore, the Act permits, but does not require, the schools to use the informational publications promulgated by the U.S. Copyright Office. *See id.*

<sup>216</sup> *See* H.R. REP. NO. 105-796, at 75 (1998). This subsection does not interfere with common law principles of liability as applicable to schools. *See id.* For example, the doctrines of respondeat superior and contributory liability remain unchanged by this provision. *See id.*

<sup>217</sup> *See id.* This provision is not designed to alter the fair use doctrine as applied in a university setting. *See id.*

<sup>218</sup> *See id.* at 76.

<sup>219</sup> *See* 17 U.S.C. § 512(b)(2)(E); § 512(c)(3); § 512(d)(3).

<sup>220</sup> *See id.* § 512(c)(3). The purpose of the "substantial compliance standard" is not to disqualify copyright owners and service providers who only fail to comply as the result of mere "technical errors." *See* H.R. REP. NO. 105-551, Pt. 2, at 56 (1998). Examples of technical errors include "misspelling a name, supplying an outdated area code if the phone number is accompanied by an accurate address, [and] supplying an outdated name if accompanied by an e-mail address that remains valid for the successor of the prior . . . agent." *Id.*

designated agent.<sup>221</sup> The notification must also include six particular pieces of information in order for it to be in substantial compliance with the Act.<sup>222</sup> Generally, the courts may not consider notification that is not in substantial compliance when ascertaining the service provider's awareness or knowledge of infringing materials or activity.<sup>223</sup>

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<sup>221</sup> See H.R. REP. NO. 105-551, Pt. 2, at 55 (1998).

<sup>222</sup> See 17 U.S.C. § 512(c)(3)(A). First, the notification must include the physical or electronic signature of the copyright owner or an authorized agent. See *id.* at § 512(c)(3)(A)(i). This signature is necessary to validate the notification's sworn statements. See H.R. REP. NO. 105-551, Pt. 2, at 55 (1998). Second, it must identify the copyrighted works that have allegedly been infringed upon. See 17 U.S.C. § 512(c)(3)(A)(ii). The identification of the copyrighted materials may be a "representative list" if the claim is that multiple works are being infringed upon at one site. See H.R. REP. NO. 105-551, Pt. 2, at 55 (1998). For example, in the case of an unauthorized "jukebox site," if a copyright holder notifies the site that it is infringing on an entire collection of copyrighted works, then the copyright holder would only need to include a representative list of the works, which was sufficient for the operator of the site to "understand the nature and scope of the infringement being claimed." *Id.*

Third, the notification must: (1) identify the posted material that is claimed to be infringing; (2) include information that is reasonably sufficient to help the service provider locate the material; and (3) demand either removal of that material or access to that material. See 17 U.S.C. § 512(c)(3)(A)(iii). A copyright holder can satisfy this requirement by enclosing a description or copy of the service provider's infringing material and the online address of the web page that contains the infringing material. See H.R. REP. NO. 105-551, Pt. 2, at 55 (1998). In the event that the service provider is an information location tool, the copyright holder must identify the infringing link, and information sufficient to help the service provider locate the link. See 17 U.S.C. § 512(d)(3).

Fourth, the notifying party must enclose information that is reasonably sufficient to allow the service provider to contact them or their agent. See H.R. REP. NO. 105-551, Pt. 2, at 55 (1998) (citing 17 U.S.C. § 512(c)(3)(A)(iv)). Such information may include a physical mailing address, an electronic mailing address or a telephone number. See 17 U.S.C. § 512(c)(3)(A)(iv). Fifth, the complaining party must state that they have a good faith belief that the manner in which the service provider is using the material "is not authorized by the copyright holder, its agent, or the law." *Id.* § 512(c)(3)(A)(v).

Finally, the complaining party must state, under penalty of perjury, that the information contained within the notification is accurate. See *id.* § 512(c)(3)(A)(vi). If the complaining party is a person other than the copyright holder, they must also state, under penalty of perjury, that they are authorized to act on behalf of the copyright holder. See *id.* The term "perjury" is intended to have the same meaning as found throughout the entirety of the United States Code. See H.R. REP. NO. 105-551, Pt. 2, at 56 (1998).

<sup>223</sup> See H.R. REP. NO. 105-551, Pt. 2, at 56 (1998) (citing 17 U.S.C. § 512(c)(3)(B)(i)). This general rule is subject to an exception. See 17 U.S.C. § 512(c)(3)(B)(ii). A complainant may have "sufficiently" notified a service provider

The Act contains provisions that specifically limit the liability of service providers who remove allegedly infringing material upon proper notification.<sup>224</sup> The Act also protects service

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if the notification merely failed to include the party's signature, the statement of good faith, or the statement asserting accuracy of information and authorization to act. *See id.* Under such circumstances, a service provider is obligated to promptly attempt contact with the complaining party in order to get the information that was lacking on the notification. *See id.* If the service provider can not contact the copyright holder or its agent, it is also required to take "other reasonable steps" to secure a proper notification. *See id.* If the service provider fails to do so, then a court may consider the defective notification in ascertaining the service provider's awareness or knowledge of the infringing materials or activities. *See id.*

<sup>224</sup> *See* 17 U.S.C. § 512(g)(1). The purpose of this provision is to protect service providers from liability for third party claims. *See* H.R. REP. NO. 105-551, Pt. 2, at 59 (1998). The Act states that:

[A] service provider shall not be liable to any person for any claim based on the service provider's good faith disabling of access to, or removal of, material or activity claimed to be infringing or based on facts or circumstances from which infringing activity is apparent, regardless of whether the material or activity is ultimately determined to be infringing.

17 U.S.C. § 512(g)(1).

However, where a service provider is acting at the direction of a user with regard to information residing on its network, there are three specific requisite conditions for "take-down" protections. *See id.* § 512(g)(2); *see also* H.R. REP. NO. 105-551, Pt. 2, at 59 (1998). First, the service provider must take reasonable steps to promptly notify the subscriber that it has removed or discontinued access to the material. *See* 17 U.S.C. § 512(g)(2)(A). It is intended that such "reasonable steps" should include, for example, sending notice to an e-mail address that is associated with a posting or to an e-mail address that was associated with the subscriber at the time the subscription was initiated. *See* H.R. REP. NO. 105-551, Pt. 2, at 59-60 (1998). The service provider is not required to search beyond the posting of the material or the service provider's own records. *See id.* Furthermore, a service provider does not fail to satisfy the "reasonable steps" requirement if it has relied on false identification information that had been provided by the subscriber. *See id.*

Second, upon the receipt of proper "counter notification" from the subscriber, the service provider must furnish the copyright holder with a copy of the counter notification and a statement indicating that the service provider must "replace the removed material or cease disabling access to it in 10 business days." 17 U.S.C. § 512(g)(2)(B). The purpose of the counter notification requirement is to protect against erroneous or fraudulent notifications. *See U.S. Copyright Office Summary, supra* note 4, at 12. A "counter notification" is a written communication that substantially includes the following:

- (A) A physical or electronic signature of the subscriber[;]
- (B) Identification of the material that has been removed or to which access has been disabled and the location at which the material appeared before it was removed or access to it was disabled[;]
- (C) A statement under penalty

providers against claims of infringement that are the result of the service provider's replacement of materials that had been taken down.<sup>225</sup> In addition, the Act creates two causes of actions for fraud, which are intended to protect service providers against material misrepresentations made in either the notification or the counter notification.<sup>226</sup>

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of perjury that the subscriber has a good faith belief that the material was removed or disabled as a result of mistake or misidentification of the material to be removed or disabled[; and] (D) The subscriber's name, address, and telephone number, and a statement that the subscriber consents to the jurisdiction of Federal District Court for the judicial district in which the address is located, or if the subscriber's address is outside of the United States, for any judicial district in which the service provider may be found, and that the subscriber will accept service of process from the person who provided [proper] notification. . . or an agent of such person.

17 U.S.C. § 512(g)(3).

Finally, after receipt of proper counter notification, the service provider must replace or enable access to the material within 10 to 14 business days. *See id.* § 512(g)(2)(C). However, the service provider is not required to re-enable access to the material if it first receives a communication from the complainant stating that a court action for an injunction has been filed against the allegedly infringing subscriber. *See id.* § 512(g)(2)(C).

<sup>225</sup> *See* 17 U.S.C. § 512(g)(4). The intent of this provision is it to make it clear that the copyright holder is not afforded an opportunity for another infringement action against the service provider simply by virtue of the fact that the service provider has once again made the allegedly infringing material accessible online. *See* H.R. REP. NO. 105-551, Pt. 2, at 60 (1998).

<sup>226</sup> *See id.* § 512(f). This section is intended to deter the making of "knowingly false allegations" against service providers, because such allegations are detrimental to the interests of service providers, rights holders and Internet users. *See* H.R. REP. NO. 105-551, Pt. 2, at 59 (1998). In the event that a service provider suffers damages as a result of such misrepresentations, it may argue a claim for a host of potential damages against the party who made the misrepresentations. *See* 17 U.S.C. §512(f). Any person who makes allegations that contain a knowingly material misrepresentation:

[S]hall be liable for any damages, including costs and attorneys' fees, incurred by the alleged infringer, by any copyright owner or copyright owner's authorized licensee, or by a service provider, who is injured by such misrepresentation, as the result of the service provider relying upon such misrepresentation in removing or disabling access to the material or activity claimed to be infringing, or in replacing the removed material or ceasing to disable access to it.

*Id.*

### E. Remedies

Injunctive relief may still be afforded to a plaintiff in cases where a defendant service provider has successfully availed itself of one of the Act's limitations on liability.<sup>227</sup> An application for an injunction is generally guided by the Copyright Act,<sup>228</sup> however, the provisions of the Online Copyright Infringement Liability Limitation Act further specify the parameters for injunctive relief when dealing with an online service provider.<sup>229</sup> The available forms of injunctive relief are limited to those articulated in the Act and vary depending on what type of service provider activity gave rise to liability.<sup>230</sup> The Act does not provide limitations on the

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<sup>227</sup> See *id.* §512(j).

<sup>228</sup> Section 502 of the Copyright Act states in part:

(a) Any court having jurisdiction of a civil action arising under this title may . . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright. (b) Any such injunction may be served anywhere in the United States on the person enjoined; it shall be operative throughout the United States and shall be enforceable . . . by any United States court having jurisdiction of that person.

<sup>229</sup> See *id.* § 512(j). Injunctions mandated by the Act are subject to existing principles of remedial relief. See H.R. REP. NO. 105-551, Pt. 2, at 62 (1998).

<sup>230</sup> See 17 U.S.C. § 512(j). If a service provider had been acting in the capacity of a passive conduit, it may be subject to two types of injunctions. See *id.* § 512(j)(1)(B). First, the court may order a service provider to terminate the accounts or subscriptions of those who are using the service provider's system to engage in infringing activities. See *id.* § 512(j)(1)(B)(1). Second, the court may order the service provider to take reasonable steps to block access to identified and specific locations outside the United States. See *id.* § 512(j)(1)(B)(2). This second type of injunction is not available when the infringing activity took place at a site which is located within "the United States or its territories." H.R. REP. NO. 105-551, Pt. 2, at 63 (1998).

A service provider may be subject to three types of injunctive relief if it was acting in the capacity of either a system cache, an information location tool, or a network hosting information at the direction of a user. See 17 U.S.C. § 512(j)(1)(A). The court may choose to award one or all of the three types of injunctive relief. See *id.* First, the court may enjoin the service provider from providing access to the infringing material or access, whether the material or activity is occurring at a particular online site or on the service provider's own network. See *id.* § 512(j)(1)(A)(i). Second, the court may order the service provider to terminate accounts or subscriptions it has with the entities engaging in infringing activities. See *id.* § 512(j)(1)(A)(ii). Finally, the court may issue any injunctive relief that it believes is necessary to restrain or prevent infringement. See *id.* § 512(j)(1)(A)(iii). Of all comparably effective injunctions, the court must choose the one that is the

type of injunctive relief that may be enforced against schools.<sup>231</sup> In addition, the court must consider four enumerated factors when it is issuing an injunction against any type of service provider.<sup>232</sup>

The Act also limits *ex parte* relief.<sup>233</sup> Injunctions are reserved for those situations where the service provider has received service of process and has had an opportunity to appear before the court.<sup>234</sup> A court may only issue an *ex parte* order if it is for the purpose of preserving evidence or if it will have no “material adverse effect” on the operations of the service provider’s network.<sup>235</sup>

The Act also outlines the requisite procedure for obtaining from a service provider the identity of the subscriber or account

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least burdensome on the service provider. See H.R. REP. NO. 105-551, Pt. 2, at 62 (1998).

<sup>231</sup> See *id.* § 512(e)(2).

<sup>232</sup> See *id.* § 512(j)(2). These considerations also must be taken into account when issuing an injunction against a school in its capacity as a service provider. See *id.* § 512(e)(2). These additional considerations are mandatory because they concern “factors of particular significance” in the online environment. See H.R. REP. NO. 105-551, Pt. 2, at 63 (1998). First, the court must consider whether the injunction would significantly burden either the operation of the service provider’s system or the service provider itself. See 17 U.S.C. § 512(j)(2)(A). In doing so, the court must consider the existence of other existing injunctions against the service provider. See *id.*

Second, the court must consider the magnitude of harm that the copyright holder will suffer in the online environment in the absence of injunctive relief. See *id.* § 512(j)(2)(B). When considering the magnitude of harm to the copyright holder and the burden that would be placed on the service provider, one commentator has argued that the court should take an approach of “economic reasonableness” and weigh the two consideration against each other. See testimony of Michael K. Kirk, *supra* note 123, at 6. For example, it may not be economically reasonable for a service provider to incur substantial costs in order to block access to an infringing excerpt from an obscure journal article. See *id.* However, it might be economically reasonable for a service provider to incur substantial costs in the removal of an infringing copy of a motion picture that has not yet been released. See *id.*

Third, the court must consider whether the implementation of its contemplated injunction is technically feasible and effective. See 17 U.S.C. § 512(j)(2)(C). The court must also consider whether the only way to implement the injunction is to interfere with user access to non-infringing material. See *id.* Finally, the court must consider whether less burdensome, but comparably effective, injunctions are available to restrain or prevent access to the infringing material. See *id.* § 512(j)(2)(D).

<sup>233</sup> See 17 U.S.C. § 512(j)(3).

<sup>234</sup> See *id.*

<sup>235</sup> See *id.*

that has engaged in allegedly infringing activities.<sup>236</sup> To do so, the copyright holder must properly file a request for a subpoena.<sup>237</sup> The subpoena would order a service provider to expeditiously reveal to the copyright holder any information that is “sufficient to identify the alleged infringer of the material described in the notification to the extent such information is available to the service provider.”<sup>238</sup>

## V. Conclusion

The issue of service provider liability for copyright infringement highlights the tension between intellectual property and electronic commerce. It is critical to the success of electronic commerce that legislation be enacted to clarify the online risks of service provider liability. However, it is equally critical to ensure copyright holders the adequate protections necessary to encourage placement of their works online. It is the position of Congress that “these goals are mutually supportive” and that the Act strikes an appropriate balance between the two.<sup>239</sup> It is apparent, however, that Congress’ constitutional authority for the

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<sup>236</sup> See H.R. REP. NO. 105-551, Pt. 2, at 60 (1998). Except as otherwise noted by the Act, the “Federal Rules of Civil Procedure” shall govern to the greatest extent possible, the “issuance, service, and enforcement” of the subpoena. 17 U.S.C. § 512(h)(6).

<sup>237</sup> See 17 U.S.C. § 512(h)(4). It is intended that the issuance of the subpoena be performed with the utmost swiftness. See H.R. REP. NO. 105-551, Pt. 2, at 61 (1998). A proper request for a subpoena must include:

(A) a copy of the notification [which had been sent to the service provider]; (B) a proposed subpoena; and (C) a sworn declaration to the effect that the purpose for which the subpoena is sought is to obtain the identity of an alleged infringer and that such information will only be used for the purpose of protecting its rights under [the Act].

17 U.S.C. § 512(h)(2)

<sup>238</sup> *Id.* § 512(h)(3). Service providers must comply with the subpoena regardless of whether they had responded to the copyright holder’s initial notification. See *id.* § 512(h)(5). It is the intent of this provision to require a service provider to only disclose information that is in its possession. See H.R. REP. NO. 105-551, Pt. 2, at 61 (1998). Service providers are not required to conduct information searches of other networks in order to comply with its disclosure obligation. See *id.*

<sup>239</sup> See H.R. REP. NO. 105-551, Pt. 2, at 23.

Act skirts a fine line between its power to regulate commerce and intellectual property.

The question of whether Congress has succeeded in creating legislation that accomplishes its purpose is wholly dependent on how that purpose is defined. However, the intent of Congress in drafting the "Online Copyright Infringement Liability Limitation Act" is not entirely clear. The House Committee on the Judiciary predicated the Act's constitutional authority on the Copyright Clause,<sup>240</sup> but the House Committee on Commerce predicated the Act's constitutional authority on the Commerce Clause.<sup>241</sup>

Where Congress creates new legislation under the Copyright Clause of the Constitution, that legislation must serve the purpose of promoting the "progress of the arts."<sup>242</sup> Thus, the House Committee on the Judiciary must have concluded that affording extra protections to service providers would ultimately promote the progress of the arts. This conclusion can only be reached on some highly speculative level that presumes that such protections will lead to the qualitative or quantitative public dissemination of greater degrees of artistry.

Arguably, the Act actually places a limitation on incentives to create new works of authorship because the Act limits the extent of judicial relief afforded to authors whose works have been infringed upon. In addition, the Act also hinders the progress of the arts because its provisions do not provide any incentives for service providers to prevent infringement. The Act merely requires service providers to stop infringements that come to their attention, provided that it is not overly "burdensome."<sup>243</sup> Furthermore, Congress has removed disincentives for service providers to commit copyright infringement by limiting their liability under existing law.

As the language of the Copyright Clause is permissive, it is ultimately up to Congress alone to decide to what extent it will legislate to promote the arts.<sup>244</sup> However, the Act appears to be more consistent with the Commerce Clause. More protections for

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<sup>240</sup> See *supra* note 158.

<sup>241</sup> See *supra* note 158.

<sup>242</sup> See *supra* note 130.

<sup>243</sup> See *supra* note 232.

<sup>244</sup> See *supra* note 133.



service providers will naturally lead to more investment in Internet technologies and will inevitably facilitate the growth and success of electronic commerce. If the past is an indication of the future, investments in the Internet may lead to further advancements in electronic communication technologies that will be appreciated by the entire online community, including the copyright industries.

Congress advances a strong argument that the facilitation of electronic commerce and the promotion of progress in the arts are goals that are "mutually supportive." Although the policy decision had to be made one way or the other as to who would bear the burden of online infringement, Congress did so in a manner that accounts for the long-term health of both the copyright and the service provider industries. For example, the ability to download video at high-speeds will arguably lead to greater consumer demand for the online purchase and downloading of copyright protected video. As a result, copyright holders will realize substantial savings by cutting costs associated with the physical distribution of videotapes.<sup>245</sup> Ultimately, the decrease in costs may be passed to consumers. Not only does this facilitate electronic commerce, but it both rewards copyright holders and promotes the public dissemination of copyrighted works.

Another issue that inevitably arises in this debate is the issue of fairness. Specifically, who should ultimately bear the burden of online copyright infringement? From one point of view, it seems appropriate to limit the liability of service providers because copyright holders are in a better position to absorb the costs associated with online protection. While a copyright holder can easily keep track of the legal status of their own works, it would be exceedingly burdensome to require a service provider to keep track of every copyrighted work and party that is authorized to exploit it. Moreover, it might require service providers to

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<sup>245</sup> The costs associated with Internet distribution are currently greater than the costs associated with the physical distribution. See Interview with Prof. Brenda Saunders-Hampden, Associate Professor of Law, Seton Hall University School of Law (Mar. 16, 1999). This is largely due to front-loaded technology costs and the costs associated with protecting online works from electronic piracy. See *id.* It is anticipated that the cost of Internet distribution will decrease below the cost of physical distribution in the near future. See *id.*

constantly police their services to prevent infringement. If this were the case, service providers would incur substantial monitoring costs that would most likely be passed on to the consuming public. In addition, constitutionally protected expression might suffer a chilling effect.

On the other hand, it seems inequitable for innocent copyright holders to bear the cost of preventing copyright piracy alone when it is the service providers who are in fact facilitating copyright infringement. Although service providers may not receive direct benefits from online piracy, they often profit from subscription fees paid by consumers who receive protected works via the Internet. Ultimately, it will be up to the copyright and service provider industries, as well as the public at large, to determine whether Congress has made the correct policy decision.