

**Seminario Derecho e Internet
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Intermediarios y Libertad de Expresión: Apuntes para una conversación
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I. INTERMEDIARIOS Y EL RIESGO DE SOBREPOTECCIÓN

Atrás quedan los días en que concebíamos al entorno digital interconectado como uno absolutamente excepcional, completamente inmune al alcance de los gobiernos y del derecho.¹ Hoy resulta incuestionable que nuestra actividad en internet se regula cotidianamente pues, como cuestión práctica, existe el poder de estructurar ese entorno tecnológico mediante, entre otras cosas, el derecho.²

Y es que la red no existe en el abstracto—depende de entidades intermediarias que hacen posible la comunicación y que están bajo la jurisdicción legal y el alcance de gobiernos que tendrán a su disposición mecanismos coercitivos convencionales para lograr sus objetivos. La conducta en internet se regula cada vez más a través de *intermediarios de conexión* como los Proveedores de Servicio de Internet, *intermediarios de información* como los motores de búsqueda, *intermediarios financieros* como tarjetas de crédito y PayPal,³ entre otros.⁴

El rol de los intermediarios en la regulación es vital en nuestros días. En la medida que gobiernos persigan objetivos políticos (legítimos o no) en internet, los blancos de ataque poco a poco dejarán de ser los individuos cuya actividad preocupa al Estado, sino aquellas entidades que proveen los medios tecnológicos para esa actividad. Después de todo, será más económico y sencillo dirigirse contra unas pocas entidades sujetas a la jurisdicción del Estado que contra miles de individuos en ocasiones difíciles de identificar o imposibles de alcanzar.

En este contexto, una de las formas más efectivas de regular a través de intermediarios es sujetándoles a responsabilidad (civil o criminal) por los actos de sus clientes o usuarios.

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Elaboré reflexiones similares en un escrito previo, preparado para el Seminario en Latinoamérica de Teoría Constitucional y Política (SELA), junio 2011, titulado *Tecnopolítica y Derechos de Autor*. Una versión anterior de este escrito fue presentada en el Taller sobre Libertad de Expresión e Internet celebrado en la Universidad de Palermo, en Septiembre 2011, como comentario a “*Responsabilidad de los Proveedores de Servicios de Internet (ISPs) en relación con el ejercicio al derecho a la Libertad de Expresión en Latinoamérica*” por Claudio Ruiz Gallardo y J. Carlos Lara Gálvez.

¹ Jonathon W. Penney, *Understanding the New Virtualist Paradigm*, Journal of Internet Law, Vol. 12, No. 8 (2009).

² LAWRENCE LESSIG, CODE AND OTHER LAWS OF CYBERSPACE (1999).

³ See, eg, Troy Wolverton, *N.Y. subpoenas PayPal over gambling*, http://news.cnet.com/N.Y.-subpoenas-PayPal-over-gambling/2100-1017_3-943533.html (July 12, 2002).

⁴ JACK GOLDSMITH AND TIM WU, WHO CONTROLS THE INTERNET: ILLUSIONS OF A BORDERLESS WORD (2006).

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La idea de esta estrategia es lograr que estas entidades sientan en su bolsillo presión por el acto potencialmente ilegal de sus clientes y, de esta forma, utilicen sus recursos tecnológicos (así como la oportunidad y superior información que se da en virtud de su relación con sus clientes) para supervisar, castigar o delatar a los usuarios.

Y este no es un componente exclusivo del ambiente digital actual. La reglamentación a través de terceros es una estrategia común, especialmente cuando se refiere a la expresión.⁵ Exponer a los intermediarios a responsabilidad (y convertirlos en guardianes o porteros) para así reclutar su ayuda para hacer cumplir compromisos normativos ocurre en situaciones en que imponer responsabilidad en un infractor directamente no disuadiría la mala conducta o resultaría costoso.

Pero el riesgo principal con la estrategia es la probabilidad de sobreprotección y el impacto de esta sobreprotección sobre valores vinculados a la libertad de expresión. En la medida que los intermediarios y los usuarios tienen intereses divergentes, un intermediario no va a tener necesariamente en cuenta el valor expresivo que tiene para el usuario la actividad objeto de reglamentación, sino que racionalmente va a maximizar su bienestar, buscando reducir el costo esperado de responsabilidad. El problema, en fin, es que al sopesar los costos privados de la responsabilidad frente a sus beneficios, en su concepción racional de lo que constituye su bienestar, el intermediario no considerará los intereses individuales del usuario (o los intereses sociales de que el usuario realice actividad presumiblemente protegida por la libertad de expresión).

En este ensayo, examino el fenómeno de la reglamentación de intermediarios en el contexto de los derechos de autor, la pornografía infantil y los ataques a la honra, intimidad y dignidad (tales como la difamación), y el potencial impacto de esta reglamentación sobre la libertad de expresión. A tales fines, y en lugar de desarrollar prescripciones en torno a cómo resolver estos riesgos de sobreprotección detalladamente, esbozo algunos apuntes para definir la agenda de investigación—teórica y práctica— de manera que podamos forjar estrategias de política pública sensible y dirigir estratégicamente los esfuerzos de la sociedad civil donde sea más efectivo. En fin, planteo algunos puntos de partida para continuar la conversación.

II. CONTEXTOS DE LIBERTAD DE EXPRESIÓN

El primer punto de partida para esta discusión es que cualquier alternativa de regulación, deberá contar con mecanismos legales particulares a cada contexto expresivo. Es decir, debemos cuidarnos de soluciones universales aplicables a todo tipo de contexto.

Proteger los derechos de autor en línea, atajar la pornografía infantil y proteger contra ataques abusivos a la honra y vida privada constituyen objetivos gubernamentales

⁵ Seth Kreimer, *Censorship by Proxy- the First Amendment Internet Intermediaries and the Problem of the Weakest Link*, 155 U. PA. L. REV. 11 (2007). Ver *NAACP v. Alabama ex rel. Patterson*, 357 US 449 (1958) (invalidando requerimiento gubernamental de listas del NAACP de Alabama); *New York Times v. Sullivan*, 376 US 254 (1964); *Bantham Books v. Sullivan*, 372 US 58 (1963).

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legítimos en América Latina. Asimismo, su regulación a través de intermediarios, si bien puede resultar importante, presenta los riesgos de sobreprotección antes mencionados. Y es por ello que debemos seleccionar mecanismos legales de regulación que, mientras atiendan estas preocupaciones estatales, reduzcan lo más posible estos riesgos nocivos contra la libertad de expresión. Sin embargo, cada uno de estos objetivos gubernamentales presenta retos particulares en atención a los diversos intereses de expresión que están potencialmente afectados. Puesto que los riesgos de sobreprotección afectan valores de expresión distintos, los mecanismos de regulación serán probablemente diferentes para cada uno.

Así, las reglas de responsabilidad de intermediarios deben variar de acuerdo al tipo de acto comunicativo que atendamos y, por ello, es necesaria una conceptualización sustantiva más precisa de los valores sociales presentes en estos entornos expresivos (qué tipo de difamación es tolerable, en qué circunstancias los derechos de autor deben ceder ante reclamos de libertad de expresión, etc). De modo que podamos recomendar cuáles son las medidas más razonables para atender los riesgos de la reglamentación por intermediarios, debemos primero adentrarnos en terrenos escabrosos y definir los contornos de los valores de expresión que deseamos proteger. Y en ese proceso, realizar juicios valorativos sobre problemas de difícil solución.

En este sentido, es necesario comprender qué distingue a los intereses expresivos de un usuario no autorizado de obras protegidas por derechos de autor, de los intereses de quien se expresa sobre otra persona de una manera que, concebiblemente, afecte el buen nombre y honra de ese otro. ¿Son similares estos intereses? O visto del otro lado de la moneda, ¿es equivalente el daño alegado por un autor cuya obra se usa sin permiso, al daño alegado por una persona que alega ser difamada? Como un segundo paso, si no son similares estos intereses expresivos (los del usuario no autorizado de obras y el difamador—o el pornógrafo), entonces ¿serán necesarios diferentes tipos de reglamentación de los intermediarios que facilitan estas conductas? ¿En qué medida serán diferentes? Investigación subsiguiente debe tomar estas preguntas como punto de partida de manera sistemática. Sólo ofrezco unas sugerencias.

Claramente, los intereses de expresión son diferentes en cada caso y se enfrentan a intereses colectivos e individuales distintos.

Por un lado, la expresión que potencialmente afecte la honra y vida privada de alguien podría encontrar su límite en un interés por preservar las reglas de civismo que configuran condiciones de cohesión social, así como el respeto a la dignidad humana que, por igual, todos ostentamos. Por ejemplo, el régimen constitucional Interamericano permite limitar la expresión difamatoria contra personas privadas, pero más difícil cuando se trata de funcionarios públicos (por el valor que se le impone a la participación en el debate público).⁶ En cualquier caso, no hay una regla mágica que pueda definir con

⁶ Kimel v Argentina, Sentencia 2 de mayo de 2008, Corte Interamericana de Derechos Humanos, párrafo 86. (“Respecto al derecho a la honra, las expresiones concernientes a la idoneidad de una persona para el desempeño de un cargo público o a los actos realizados por funcionarios públicos en el desempeño de sus labores gozan de mayor protección, de manera tal que se propicie el debate democrático. La Corte ha

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precisión qué constituye un ataque abusivo contra la honra y reputación de otro aunque habrán razones poderosas para proteger la expresión en muchos casos (como por ejemplo cuando se refiere a figuras públicas). La falta de certeza en cuanto a qué distingue la expresión legítima de la que no, produce en el intermediario el mencionado riesgo de sobreprotección; particularmente cuando las sanciones son altas, lo cual incide sobre su análisis de riesgo.

De otro lado, el uso no autorizado de obras realizadas por otros (y protegidas por derechos de autor), no debe demonizarse de entrada como “robo” o “piratería”; este uso puede responder a intereses individuales y colectivos relacionados con la expresión política, social y artística. El uso no autorizado de obras puede ser parte de lo que Fisher llama “democracia semiótica”⁷—la descentralización del poder para atribuir significado a elementos de nuestra cultura. Estos usos se destacan hoy en el contexto de tecnologías digitales pues las condiciones materiales para la producción y manipulación de productos culturales permiten identificarnos, y experimentar personalmente, con ellos como participantes activos de procesos culturales y no como receptores pasivos de información.⁸ Si embargo, los derechos de autor balancean estos intereses expresivos con otros dos intereses (individuales y colectivos): (a) los derechos de autor son justificados como moralmente merecidos, a partir de la mezcla del trabajo de un autor con recursos comunes o a partir de la conexión personal entre el autor y su obra y (b) con el interés en maximizar el bienestar social brindando incentivos suficientes a productores de información mediante la privatización de recursos intelectuales (a la vez que se quiere limitar ese derecho para evitar que la obra sea subutilizada).⁹ De ahí que conjugar estos intereses resulte complejo, contextual e indeterminado y no basta con alegar que alguien tiene un derecho de propiedad absoluto sobre una obra, sin considerar los intereses de expresión que pueden estar siendo afectados, pero tampoco basta decir que un individuo tiene derecho a todo tipo de uso de la obra sin autorización (ignorando los intereses sociales e individuales que justifican el monopolio). Así, necesitamos criterios normativos para ayudarnos trazar estos balances; criterios que serán diferentes a los utilizados en la protección de la honra (por ejemplo, criterios pertinentes aquí son: la naturaleza comercial -o personal- del uso, o si se trata de uso sólo para consumo o si es productivo, por ejemplo; criterios que nada tienen que ver con las otras instancias de expresión examinadas).

Finalmente, aunque los intereses de expresión sobre material sexualmente explícito pueden ser más controversiales, es muy difícil —si no imposible— justificar la pornografía infantil. Lo que sí es difícil, en muchos casos, es deslindar lo que es

señalado que en una sociedad democrática los funcionarios públicos están más expuestos al escrutinio y la crítica del público. Este diferente umbral de protección se explica porque se han expuesto voluntariamente a un escrutinio más exigente. Sus actividades salen del dominio de la esfera privada para insertarse en la esfera del debate público.”)

⁷ WILLIAM W. FISHER III, PROMISES TO KEEP: TECHNOLOGY, LAW AND THE FUTURE OF ENTERTAINMENT 30-31 (Stanford 2004)

⁸ Yochai Benkler, *From Consumers to Users: Shifting the Deeper Structures of Regulation Toward Sustainable Commons and User Access*, 52 FED. COMM. L. J. 561 (2000).

⁹ Hiram Meléndez Juarbe, *Tecnopolítica y Derechos de Autor*, disponible en http://www.law.yale.edu/documents/pdf/sela/SELA11_Melendez_PV_Sp_20110802.pdf

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pornografía infantil de lo que no es. Son notorios casos en que empleados de establecimientos de fotografía han reportado a las autoridades a personas que someten películas para ser reveladas con fotos de sus propios hijos menores, en contextos habituales a la niñez, que aunque técnicamente podrían considerarse pornográficas, no se generan con interés lascivo;¹⁰ y casos en que los y las modelos adultos aparenten ser menores de edad.¹¹ En estos casos, debemos examinar los intereses de expresión subyacentes a la pornografía no-infantil—intereses que podrían estar relacionados con la autonomía individual y el desarrollo de la personalidad.

Así, pues, cada uno de los entornos expresivos, reflejan problemas internos (y diversos balances de intereses) y generan ambigüedad en determinar cuál es exactamente la conducta a evitarse. Precisamente esta ambigüedad (en algunos casos más que en otros) es un factor importante para el mencionado riesgo de sobreprotección: el riesgo de que el intermediario, por evitar su responsabilidad, se dirija contra la conducta reprochable, pero que en el camino se lleve por el medio a conducta socialmente valiosa. La incertidumbre en torno a si la conducta que el intermediario facilita es lícita (y por ende la incertidumbre en torno a si será responsable o no) le inducirá a ser conservador en torno a qué actividad permitir. Pero el tipo de ambigüedad y las razones para ella variará en cada caso. Y en el esquema de responsabilidad de intermediario que escojamos ante esta incertidumbre, habrá una juicio valorativo subyacente sobre los intereses de expresión involucrados.

En el fondo, la selección de mecanismos que expongan más o menos a intermediarios a responsabilidad reflejará una estimación de riesgos que considere la magnitud de los costos de la sobreprotección (es decir, una determinación subyacente de los valores de expresión que queremos proteger y a cuál grado). Así, si poco nos importan los riesgos de que un intermediario se exceda evitando el tráfico de pornografía infantil, tal vez podemos tolerar cierto tipo de reglamentación de intermediario, con obligaciones policíacas más onerosas, que no toleraríamos para el caso de los derechos de autor o la protección de la honra. La sobreprotección en estos últimos dos casos presenta riesgos de supresión de expresión política, de interés público o cultural que tal vez no ocurre en el primero (o que ocurre en menor grado). Esta evaluación sustantiva es, me parece, el primer paso conceptual que debemos hacer antes de proponer soluciones concretas.

III. MODOS DE REGULACIÓN

Con ello en mente es que luego debemos considerar los diversos tipos de reglamentación que están disponibles. Para balancear los diversos intereses en juego, en cada contexto, podemos pensar en cuatro formas principales mediante las que el derecho se dirige a los intermediarios con varios regímenes posibles.

Primero, podríamos estructurar un sistema de *inmunidad absoluta* a los intermediarios, tal y como ocurre en los Estados Unidos mediante la sección 230 del Communications

¹⁰ ABC News, *Photo Labs Part of Fight Against Child Porn?*, <http://abcnews.go.com/2020/story?id=132673>, visitado el 19 de septiembre de 2011.

¹¹ *Ashcroft v. Free Speech Coalition*, 535 U.S. 234 (2002).

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Decency Act¹² con relación a la responsabilidad de intermediarios en internet por daños a la honra y reputación ocasionados por terceros. Demás está decir que esta alternativa, si bien es apoyada por amplios sectores como necesaria para fomentar el debate público y el desarrollo empresarial en la internet,¹³ es sumamente controversial y abundan sectores críticos que preferirían modificaciones que impongan a intermediarios deberes *ex ante* o *ex post*.¹⁴ En el fondo, cabe resaltar, un régimen de irresponsabilidad como el descrito revela una valoración sustantiva muy alta de los intereses de expresión en juego (frente a los intereses de privacidad) de tal forma que el riesgo de la sobreprotección resulte intolerable.

Segundo, podríamos concebir un sistema de *responsabilidad estricta*, que atribuya responsabilidad por razones independientes a la diligencia del intermediario o su conocimiento del ilícito, obligándole a reparar el daño que se produzca por usuarios del servicio en todo caso.¹⁵ Sin embargo, como señalan Ruiz Gallardo y Lara Gálvez, esta no parece ser la tendencia en América Latina¹⁶ y, añadido, un régimen de este tipo exacerbaría el riesgo de sobreprotección. En casos extremos, elevaría el costo esperado de responsabilidad del intermediario a tal grado que estos costos superarían los beneficios de incurrir en esa actividad económica, induciéndole a no proveer ese servicio en primera instancia.

Tercero, podemos pensar en sistemas de *responsabilidad subjetiva* de modo que el intermediario sea responsable por culpa o dolo, tras, por ejemplo, incumplir un deber de actuar con diligencia luego de haber tenido conocimiento o cuando debió haber conocido del acto ilícito. Al momento, este modelo parece predominar en países como Argentina y Chile para atentados contra el honor y la honra.¹⁷

Finalmente, el sistema que predomina para la protección de derechos de autor en varias jurisdicciones en la región y en el mundo, tenemos regímenes de *inmunidad condicionada* al cumplimiento de diversas obligaciones, algunas más preocupantes que otras. Así, tenemos regímenes de “notificación y bajada” que reclutan a intermediarios para ayudar facilitar la bajada de contenido tras la notificación por un alegado titular de derechos de autor o un tribunal (según sea el caso) y que, en principio, están incorporados en acuerdos de libre comercio en la región como el futuro Acuerdo de Asociación Trans-Pacífico de Libre Comercio¹⁸ y el Tratado de Libre Comercio entre Colombia y Estados Unidos,¹⁹ este último sirviendo de base para la recientemente propuesta de ley de

¹² 47 USC § 230.

¹³ Ver por ejemplo, *Zeran v. America Online, Inc.*, 129 F.3d 327 (4th Cir. 1997).

¹⁴ SAUL LEVMORE & MARTHA NUSSBAUM, *THE OFFENSIVE INTERNET: SPEECH, PRIVACY, AND REPUTATION* (2011).

¹⁵ Ver, en este tomo, Claudio Ruiz Gallardo y J. Carlos Lara Gálvez, *Responsabilidad de los Proveedores de Servicios de Internet (ISPs) en relación con el ejercicio al derecho a la Libertad de Expresión en Latinoamérica*.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ Ver discusión en Ruiz Gallardo y Lara Gálvez, *Ibid.*

¹⁹ Ver <http://www.ustr.gov/trade-agreements/free-trade-agreements/colombia-fta/final-text>

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responsabilidad de intermediarios de Colombia.²⁰ Dentro de esta opción de inmunidad condicionada, los detalles harán la diferencia: habrá que definir qué condiciones tienen que cumplir los intermediarios para ganarse la inmunidad (qué obligaciones de supervisión tienen o si deben fungir como policías activos, por ejemplo), si se contempla la retirada de contenido o la cancelación de cuentas de usuarios, y qué tipo de procedimientos legales o privados precederán la bajada de contenido.²¹

De otro lado, al implementar estos regímenes—particularmente en los regímenes de responsabilidad subjetiva y de inmunidad condicionada—en el derecho encontramos mecanismos que imponen obligaciones de diversa índole. Siguiendo a Reinier Kraakman²² y a Jonathan Zittrain²³ propongo considerar dos tipos de esquemas generales: porteros y chaperones.

Los intermediarios actúan como *porteros* cuando atienden la conducta no deseada bloqueando de plano, cerrando una puerta, negándose a tener relación con el presunto malhechor. Un portero de esta naturaleza generalmente podrá excluir a individuos cumpliendo con un deber de supervisión preciso y muy limitado (como pedir identificación para verificar edad antes de vender alcohol o, en el contexto de ISPs, cortar acceso a internet a usuarios luego que un tribunal lo ordene, o bajar el contenido con sólo recibir una notificación dentro de un esquema de notificación y bajada).

Pero cuando los intermediarios detectan y limitan conducta de usuarios durante el transcurso de una relación continua, actúan más como *chaperones* y, en esa función, realizan tareas de monitoreo más complejas que responden a deberes más difusos que los que tienen los porteros (por ejemplo, un deber de cuidado de tomar medidas cautelares, como filtros). En muchos casos el derecho impone estas obligaciones y genera porteros y chaperones directamente. En otros casos, los intermediarios se autorregulan y constituyen sus propios regímenes.

La pregunta es si en cada uno de los renglones de expresión que hemos visto (derechos de autor, pornografía infantil y ataques a la honra) hay razones para preferir mecanismos de responsabilidad objetiva, subjetiva, inmunidad condicionada y, dentro de ellos, sistemas de chaperón o de portero o si, en cambio, hay razones para no imponer responsabilidad alguna al ISP.

No hay contestaciones sencillas a esta pregunta, pero algunos factores deben inclinar la balanza.

²⁰ Sobre el proyecto colombiano ver Carolina Botero, *Proyecto de Ley sobre infracciones al derecho de autor en Internet* (5 de abril 2011) en <http://www.karisma.org.co/carobotero/index.php/2011/04/05/proyecto-de-ley-sobre-infracciones-al-derecho-de-autor-en-internet/>

²¹ La ley chilena requiere intervención judicial para ordenar bajar el contenido. Ley de Derechos de Autor de Chile, Ley 17336 2 de octubre 1970, según enmendada 4 de mayo de 2010, Ley 20435; disponible en <http://www.leychile.cl/Navegar?idNorma=28933&idVersion=2010-05-04>

²² Reinier H. Kraakman, *Gatekeepers: The Anatomy of a Third-Party Enforcement Strategy*, 2 J. L. ECON. & ORG. 53 (1986).

²³ Jonathan Zittrain, *A History of Online Gatekeeping*, 19 HARV. J. L. & TECH. 253 (2006).

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Entre ellos, debemos considerar:

- (a) Primordialmente, el valor que la sociedad está dispuesta a atribuirle a la conducta del usuario y que está sujeta al potencial de sobreprotección (en términos de su valor para la libertad de expresión) para de esa forma evaluar los riesgos de las medidas del intermediario;
- (b) el costo de las medidas de monitoreo o de portería, y cuán factible es para el intermediario realizar la actividad exigida por la ley;
- (c) crucialmente, el nivel de certeza o incertidumbre en cuanto a si la conducta del usuario es constitucionalmente protegida;
- (d) el nivel de ambigüedad en el deber del portero o chaperón;
- (e) el costo para el intermediario de ser encontrado incurso en responsabilidad;
- (f) el impacto de la supervisión del intermediario sobre otros intereses, como el anonimato y la privacidad.

Y es que, mientras más difícil resulte dilucidar si la conducta del usuario es ilegal o constitucionalmente protegida, mientras más alto es el costo de la potencial responsabilidad del intermediario, y mientras más valoremos la conducta expresiva vulnerable, mayor es el riesgo de que se sobreprotejan intereses estatales en detrimento de valores expresivos importantes. Por su importancia en el cálculo costo beneficio del intermediario, de todos estos factores me detendré en el efecto que tiene el nivel de incertidumbre en torno a si la conducta es constitucionalmente protegida o, en cambio, si puede proscribirse.

IV. EL ROL DE LA AMBIGÜEDAD

Nótese el rol que juega la ambigüedad en todo esto. El riesgo de sobreprotección no depende exclusivamente de que el intermediario tenga deberes especiales de supervisión (tales como en sistemas de portería *notice and takedown*, o que se le imponga un deber afirmativo de supervisar e identificar usuarios malhechores).

Como se ha dicho, un sistema de responsabilidad objetiva presenta graves riesgos ante la dificultad para un intermediario conocer *ex ante* si lo que facilita es legal o no. Pero el problema no se limita a ese tipo de responsabilidad. Basta un sistema de responsabilidad subjetiva convencional, unido a la incertidumbre sobre la extensión de la protección constitucional, para que los riesgos de sobreprotección se materialicen.

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Esto es así pues, si es difícil deslindar lo nocivo de lo constitucionalmente protegido, cualquier notificación de un supuesto perjudicado bastará para amedrentar al intermediario con la mera posibilidad de un litigio costoso, generando el riesgo de sobreprotección.

Por ejemplo, los casos de Argentina²⁴ y Chile²⁵ sobre la protección a la honra sugieren un estándar de culpa o negligencia convencional de responsabilidad (no objetiva) que, en la práctica, imponen implícitamente un deber de supervisión constante, tipo *chaperón*, en la medida en que el ISP es responsable tan pronto conozca (o cuando debió haber conocido) la existencia de actividades nocivas. En Chile, este sistema produce un deber (en la primera vida del caso *Entel*) de tomar providencias necesarias para identificar a usuarios responsables de las expresiones difamatorias aunque, en apelación, el impacto de este deber es mitigado por el igualmente ambiguo principio de “libertad de la información que circula en la red”. Un deber de cuidado razonable como éste se puede traducir en una obligación de tomar medidas preventivas o de tomar acción *ex post* tras una notificación. Una vez informado del alegado ilícito, esa notificación (por deficiente que sea) torna al intermediario en un portero por lo imposible (o costoso) que resulta evaluar la legitimidad del reclamo *ex ante*.

De esta forma, cuando hay ambigüedad, un sistema tipo chaperón en un régimen de responsabilidad subjetiva, tiene el potencial de transformarse en un sistema de portería *de facto* al estilo de notificación y bajada: cualquier notificación será suficiente para configurar el elemento subjetivo de conocimiento, motivando la bajada inmediata. Y, dependiendo de nuestra valoración sobre los intereses constitucionales en juego, estos riesgos pueden resultar inaceptables.

En otros casos, sin embargo, cuando la ambigüedad en la ilegalidad de la conducta es menor, y los riesgos contra expresión que valoramos son más tolerables, un sistema tipo portero puede ser adecuado; como posiblemente con la pornografía infantil. De hecho, así es en Brasil, al proveerse un sistema de notificación oficial y bajada.²⁶

Pero en la mayoría de los casos no hay mucha ocasión para tirar rayas nítidas y cristalinas que permitan sistemas de portería a bajo costo, ni para sistemas de chaperones que no generen incentivos de sobreprotección. Por ejemplo, en los sistemas de notificación y bajada en el caso de derechos de autor (para servicios de alojamiento),

²⁴ Cámara Nacional de Apelaciones en lo Civil, sala D, Expte. N° 99.620/2006 “D. C. V. c/ Yahoo de Argentina SRL y otros/ Daños y Perjuicios” Recurso N° 541.482. Juzgado N° 75. Ver discusión en este tomo, Claudio Ruiz Gallardo y J. Carlos Lara Gálvez, *Responsabilidad de los Proveedores de Servicios de Internet (ISPs) en relación con el ejercicio al derecho a la Libertad de Expresión en Latinoamérica*.

²⁵ Corte de Apelaciones de Concepción, sentencia sobre recurso de apelación, causa Paulina Fuentes Almendra y otro con ENTEL S.A.; Carmen Gloria Yáñez Vargas, rol 1223-2003, sentencia de 21 de diciembre de 2007. Ver discusión en este tomo, Claudio Ruiz Gallardo y J. Carlos Lara Gálvez, *Responsabilidad de los Proveedores de Servicios de Internet (ISPs) en relación con el ejercicio al derecho a la Libertad de Expresión en Latinoamérica*.

²⁶ Estatuto de la Niñez, artículo 241-A (Inciso II). Ver discusión en este tomo, Claudio Ruiz Gallardo y J. Carlos Lara Gálvez, *Responsabilidad de los Proveedores de Servicios de Internet (ISPs) en relación con el ejercicio al derecho a la Libertad de Expresión en Latinoamérica*.

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precisamente porque no es fácil determinar cuándo es que se violan derechos propietarios, la única opción razonable para el intermediario es bajar el contenido inmediatamente, con el alto riesgo de afectar intereses de expresión. Y esa predecible reacción del ISP, además, provee ocasión para una estrategia perversa de parte de alegados titulares de derechos pues genera incentivos para someter notificaciones fatuas: un estudio encontró que 30% de los requerimientos para retirar contenido eran solicitudes basadas en reclamos legales débiles, y que muy pocos usuarios se aprovechan del procedimiento de respuesta provisto por la ley.²⁷ Asimismo, se ha visto que titulares de derechos regularmente envían notificaciones a intermediarios sobre supuestos participantes en redes *peer-to-peer* aun cuando éstos no descargan o comparten contenido con nadie.²⁸

En este sentido, al menos en los casos de difamación y derechos de autor, por su ambigüedad, cualquier sistema que delegue (directa o indirectamente) la supervisión a los intermediarios (cuyos intereses son diferentes a los de usuarios), será problemático.²⁹

Entonces, si el problema es la ambigüedad, dos serán las opciones viables en términos generales: (a) se exime de responsabilidad absolutamente al ISP (como con la difamación online en EEUU) o (b) se genera un mecanismo de desambiguación, transfiriendo la responsabilidad de precisar a organismos capaces de considerar los intereses libertarios del usuario (deslindando lo constitucionalmente protegido de la actividad ilegal) en tribunales de justicia u otros organismos administrativos, mediados por garantías procesales apropiadas (como, por ejemplo la ley de derechos de autor de Chile donde se requiere intervención judicial para ordenar bajar el contenido).³⁰

V. HACIA UN MODELO DE INMUNIDAD CONDICIONADA REFORMADO

Tras la anterior discusión, resulta claro que al menos dos de los cuatro tipos de reglamentación mencionados (inmunidad absoluta, inmunidad condicionada, responsabilidad objetiva y la subjetiva), tienen elementos desfavorecedores en aquellos casos en que la ambigüedad prevalece. De un lado, el sistema de responsabilidad

²⁷ Jennifer Urban, *Efficient Process or 'Chilling Effects'? Takedown Notices under Section 512 of the Digital Millennium Copyright Act*, 22 SANTA CLARA COMP. & HIGH TECH L. JOURNAL 621 (2006).

²⁸ Michael Piatek, Tadayoshi Kohno & Arvind Krishnamurthy, *Challenges and Directions for Monitoring P2p File Sharing Networks -or- Why My Printer Received a DMCA Takedown Notice Why My Printer Received a DMCA Takedown Notice*, University of Washington Technical Report, UW-CSE-08-06-01. <http://dmca.cs.washington.edu/> (En dos estudios separados en 2007 y 2008 investigadores introdujeron “usuarios” con direcciones IP de la Universidad de Washington, tales como impresoras, en redes Bit-Torrent para monitorear el tráfico. Aun cuando esos “usuarios” no descargaron archivos, más de 400 notificaciones fueron recibidas).

²⁹ Incluso en EEUU aun para los casos de ISPs que no tienen funciones de alojamiento y cuya inmunidad está casi garantizada, recientemente las principales compañías (AT&T, Cablevision, Comcast, Time Warner Cable y Verizon) establecieron un sistema de supervisión privada que consiste de “copyright alerts” y “medidas de mitigación”, como disminuir la velocidad de la conexión, o suspender servicio sujeto a que el usuario contacte al ISP—medidas que potencialmente afectan derechos de expresión. <http://www.copyrightinformation.org/alerts>

³⁰ Ley de Derechos de Autor de Chile, Ley 17336 2 de octubre 1970, según enmendada 4 de mayo de 2010, Ley 20435.

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objetiva presenta riesgos muy altos de sobreprotección y, de otro, el sistema de responsabilidad subjetiva tiene el riesgo de convertirse en un modelo de notificación y bajada al presentarse cualquier notificación en situaciones de incertidumbre (la generalidad de los casos).

Ante ello, nos quedan los modelos de inmunidad absoluta o de inmunidad condicionada. El primero, como he sugerido, tal vez conviene sólo si es que se entiende que los riesgos de una determinación errónea son demasiado altos con respecto a la libertad de expresión como es el caso de los Estados Unidos y la sección 230 del Communications Decency Act que exime absolutamente de toda responsabilidad a intermediarios por actos difamatorios por usuarios. Personalmente favorezco esta alternativa para el caso de la responsabilidad del intermediario por difamación y ataques abusivos a la honra, pues el riesgo de que se menoscabe expresión valiosa es muy alto. Pero esta determinación dependerá de los balances de valores sustantivos que hagamos en América Latina en torno al choque de intereses de expresión y dignidad humana en esos casos, para lo cual no hay consenso universal.

Así pues, si entendemos que la inmunidad absoluta no está disponible será necesario un mecanismo independiente para desambiguar y con ello evitar los problemas de sobreprotección que presenta delegar al intermediario la supervisión de la actividad en línea. Para ello, el sistema judicial tiene una función vital que cumplir. Después de todo, si los derechos individuales están en juego, y si el riesgo de una retirada de contenido puede afectar la libertad de expresión, corresponderá a los tribunales tomar cualquier decisión que pretenda balancear los intereses del Estado que motivan la reglamentación con los intereses de expresión.

El modelo de inmunidad condicionada (mediado por intervención judicial previo a cualquier retirada de contenido) puede ajustarse para estos fines, pero sólo si se complementa con procesos respetuosos de derechos individuales, como la privacidad, el debido proceso de ley, y el derecho a acceso a información. Algunos modelos de reforma se han propuesto, los que noto al margen,³¹ enfatizando entre otras cosas elementos que provean al usuario la oportunidad real de cuestionar (antes de la retirada de contenido) reclamos de personas alegadamente afectadas y la imposición de sanciones a aquellos que abusen del sistema ante reclamaciones deficientes.

VI. CONCLUSIÓN

En América Latina y en el resto del mundo debemos asumir con seriedad que, si bien tecnologías de información contemporáneas traen consigo un potencial expresivo abarcador, este potencial viene acompañado de oportunidades de control Estatal y privado muy efectivo.

³¹ Ver Dena Chen, Musetta Durkee, Jared Friend, and Jennifer Urban, *Copyright Reform Act: Updating 17 USC § 512's Notice and Takedown Procedure for Innovators, Creators, and Consumers* (2011), disponible en <http://www.publicknowledge.org/files/docs/cranoticetakedown.pdf>; Wendy Seltzer, *Free Speech Unmoored in Copyright's Safe Harbor: Chilling Effects of the DMCA on the First Amendment*, 24 HARV. J.L. & TECH 171 (2010).

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Entender el alcance de ambas—tanto las posibilidades de expresión así como su potencial reglamentación—es esencial para el ejercicio pleno de nuestras libertades civiles en la red. Por ello, dejarse seducir acríticamente por la promesa de nuevas tecnologías, nos expone a que se enraícen limitaciones contemporáneas a nuestros derechos de expresión en el *estatus quo*. Pero tampoco debemos asumir al ambiente tecnológico como abrumador y distópico y, con esa actitud, rechazar esfuerzos razonables por balancear libertades civiles con aquellos intereses sociales que motivan ciertos esfuerzos por reglamentar nuestra conducta en la red.

En este sentido es importante entender cómo sacamos provecho del potencial liberador que encierran las tecnologías de información, a la vez que atendemos preocupaciones serias para reglamentar alguna conducta en línea a fines de proteger objetivos estatales importantes tales como la protección de los derechos de autor, limitar la pornografía infantil y atender atentados contra el honor, la honra y la vida privada. Ese balance debe servir de guía a la hora de proponer reformas legales y de política pública en el entorno digital interconectado.

FONOVISA, INC. v. CHERRY AUCTION, INC., 76 F.3d 259 (9th Cir. 1996)

Before: SCHROEDER and ALARCON, Circuit Judges, and PANNER,[\[n*\]](#) District Court Judge.

SCHROEDER, Circuit Judge:

[1] This is a copyright and trademark enforcement action against the operators of a swap meet, sometimes called a flea market, where third-party vendors routinely sell counterfeit recordings that infringe on the plaintiff's copyrights and trademarks. The district court dismissed on the pleadings, holding that the plaintiffs, as a matter of law, could not maintain any cause of action against the swap meet for sales by vendors who leased its premises. The district court's decision is published. *Fonovisa Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492 (E.D. Cal. 1994). We reverse.

[2] *Background*

[3] The plaintiff and appellant is Fonovisa, Inc., a California corporation that owns copyrights and trademarks to Latin/Hispanic music recordings. Fonovisa filed this action in district court against defendant-appellee, Cherry Auction, Inc., and its individual operators (collectively "Cherry Auction"). For purposes of this appeal, it is undisputed that Cherry Auction operates a swap meet in Fresno, California, similar to many other swap meets in this country where customers come to purchase various merchandise from individual vendors. *See generally, Flea Market Owner Sued for Trademark Infringement*, 4 No. 3 J. Proprietary Rts. 22 (1992). The vendors pay a daily rental fee to the swap meet operators in exchange for booth space. Cherry Auction supplies parking, conducts advertising and retains the right to exclude any vendor for any reason, at any time, and thus can exclude vendors for patent and trademark infringement. In addition, Cherry Auction receives an entrance fee from each customer who attends the swap meet.

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

[5] Fonovisa filed its original complaint in the district court on February 25, 1993, and on March 22, 1994, the district court granted defendants' motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6). In this appeal, Fonovisa does not challenge the district court's dismissal of its claim for direct copyright infringement, but does appeal the dismissal of its claims for contributory copyright infringement, vicarious copyright infringement and contributory trademark infringement.

[6] The copyright claims are brought pursuant to [17 U.S.C. § 101](#) *et seq.* Although the Copyright Act does not expressly impose liability on anyone other than direct infringers, courts have long recognized that in certain circumstances, vicarious or contributory liability will be imposed. *See Sony Corp. of America v. Universal City Studios, Inc.*, [464 U.S. 417](#), 435 (1984) (explaining that "vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying circumstances in which it is just to hold one individually accountable for the actions of another").

[7] Similar principles have also been applied in the trademark field. *See Inwood Laboratories v. Ives Laboratories*, [456 U.S. 844](#), 102 S.Ct. 2182, 2184 (1982). The Seventh Circuit, for example, has upheld the imposition of liability for contributory trademark infringement against the owners of a flea market similar to the swap meet operated by Cherry Auction. *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992). The district court in this case, however, expressly rejected the Seventh Circuit's reasoning on the contributory trademark infringement claim. Contributory and vicarious copyright infringement, however, were not addressed in *Hard Rock Cafe*, making this the first case to reach a federal appeals court raising issues of contributory and vicarious copyright infringement in the context of swap meet or flea market operations.

[8] We analyze each of the plaintiff's claims in turn.

[9] *Vicarious Copyright Infringement*

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

[11] The *Shapiro* court looked at the two lines of cases it perceived as most clearly relevant. In one line of cases, the landlord-tenant cases, the courts had held that a landlord who lacked knowledge of the infringing acts of its tenant and who exercised no control over the leased premises was not liable for infringing sales by its tenant. *See e.g. Deutsch v. Arnold*, 98 F.2d 686 (2d Cir. 1938); *c.f. Fromott v. Aeolina Co.*, 254 F.2d 592 (S.D.N.Y. 1918). In the other line of cases, the so-called "dance hall cases," the operator of an entertainment venue was held liable for infringing performances when the operator (1) could control the premises and (2) obtained a direct financial benefit from the audience, who paid to enjoy the infringing performance. *See e.g. Buck v. Jewell-LaSalle Realty Co.*, 238 U.S. 191, 198-199 (1931); *Dreamland Ballroom, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929).

[12] From those two lines of cases, the *Shapiro* court determined that the relationship between the store owner and the concessionaire in the case before it was closer to the dance-hall model than to the landlord-tenant model. It imposed liability even though the defendant was unaware of the infringement. *Shapiro* deemed the imposition of vicarious liability neither unduly harsh nor unfair

because the store proprietor had the power to cease the conduct of the concessionaire, and because the proprietor derived an obvious and direct financial benefit from the infringement. 316 F.2d at 307. The test was more clearly articulated in a later Second Circuit case as follows: "even in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities." *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). *See also* 3 Melville Nimmer & David Nimmer, *Nimmer on Copyright* 1204(A)[1], at 1270-72 (1995). The most recent and comprehensive discussion of the evolution of the doctrine of vicarious liability for copyright infringement is contained in Judge Keeton's opinion in *Polygram Intern. Pub., Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314 (D. Mass. 1984).

[13] The district court in this case agreed with defendant Cherry Auction that Fonovisa did not, as a matter of law, meet either the control or the financial benefit prong of the vicarious copyright infringement test articulated in *Gershwin, supra*. Rather, the district court concluded that based on the pleadings, "Cherry Auction neither supervised nor profited from the vendors' sales." 847 F. Supp. at 1496. In the district court's view, with respect to both control and financial benefit, Cherry Auction was in the same position as an absentee landlord who has surrendered its exclusive right of occupancy in its leased property to its tenants.

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

[15] In *Shapiro*, for example, the court focused on the formal licensing agreement between defendant department store and the direct infringer-concessionaire. There, the concessionaire selling the bootleg recordings had a licensing agreement with the department store (H. L. Green Company) that required the concessionaire and its employees to "abide by, observe and obey all regulations promulgated from time to time by the H. L. Green Company," and H. L. Green Company had the "unreviewable discretion" to discharge the concessionaires' employees. 316 F.2d at 306. In practice, H. L. Green Company was not actively involved in the sale of records and the concessionaire controlled and supervised the individual employees. *Id.* Nevertheless, H. L. Green's ability to police its concessionaire - which parallels Cherry Auction's ability to police its vendors under Cherry Auction's similarly broad contract with its vendors - was sufficient to satisfy the control requirement. *Id.* at 308.

[16] In *Gershwin*, the defendant lacked the formal, contractual ability to control the direct infringer. Nevertheless, because of defendant's "pervasive participation in the formation and direction" of the direct infringers, including promoting them (i.e. creating an audience for them), the court found that defendants were in a position to police the direct infringers and held that the control element was satisfied. 443 F.2d at 1163. As the promoter and organizer of the swap meet, Cherry Auction wields the same level of control over the direct infringers as did the *Gershwin* defendant. *See also Polygram*, 855 F. Supp. at 1329 (finding that the control requirement was satisfied because the defendant (1) could control the direct infringers through its rules and regulations; (2) policed its booths to make sure

the regulations were followed; and (3) promoted the show in which direct infringers participated).

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

[18] We next consider the issue of financial benefit. The plaintiff's allegations encompass many substantive benefits to Cherry Auction from the infringing sales. These include the payment of a daily rental fee by each of the infringing vendors; a direct payment to Cherry Auction by each customer in the form of an admission fee, and incidental payments for parking, food and other services by customers seeking to purchase infringing recordings.

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

[20] Our conclusion is fortified by the continuing line of cases, starting with the dance hall cases, imposing vicarious liability on the operator of a business where infringing performances enhance the attractiveness of the venue to potential customers. In *Polygram*, for example, direct infringers were participants in a trade show who used infringing music to communicate with attendees and to cultivate interest in their wares. 855 F. Supp. at 1332. The court held that the trade show participants "derived a significant financial benefit from the attention" that attendees paid to the infringing music. *Id.*; See also *Famous Music Corp. v. Bay State Harness Horse Racing and Breeding Ass'n*, 554 F.2d 1213, 1214 (1st Cir. 1977) (race track owner vicariously liable for band that entertained patrons who were not "absorbed in watching the races"); *Shapiro*, 316 F.2d at 307 (dance hall cases hold proprietor liable where infringing "activities provide the proprietor with a source of customers and enhanced income"). In this case, the sale of pirated recordings at the Cherry Auction swap meet is a "draw" for customers, as was the performance of pirated music in the dance hall cases and their progeny.

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

[22] *Contributory Copyright Infringement*

[23] Contributory infringement originates in tort law and stems from the notion that one who directly contributes to another's infringement should be held accountable. See *Sony v. Universal City*, 464 U.S. at 417; 1 Niel Boorstyn, *Boorstyn On Copyright* 10.06[2], at 10-21 (1994) ("In other words, the common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor, is applicable under copyright law"). Contributory infringement has been described as an outgrowth of enterprise liability, see 3 Nimmer 1204[a][2], at 1275; *Demetrigdes v. Kaufmann*, 690 F. Supp. 289, 292 (S.D.N.Y. 1988), and imposes liability where one person knowingly contributes to the infringing conduct of another. The classic statement of the

doctrine is in *Gershwin*, 443 F.2d 1159, 1162: "[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." See also *Universal City Studios v. Sony Corp. of America*, 659 F.2d 963, 975 (9th Cir. 1981), *rev'd on other grounds*, [464 U.S. 417](#) (1984) (adopting *Gershwin* in this circuit).

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

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

[26] The district court apparently took the view that contribution to infringement should be limited to circumstances in which the defendant "expressly promoted or encouraged the sale of counterfeit products, or in some manner protected the identity of the infringers." 847 F. Supp. 1492, 1496. Given the allegations that the local sheriff lawfully requested that Cherry Auction gather and share basic, identifying information about its vendors, and that Cherry Auction failed to comply, the defendant appears to qualify within the last portion of the district court's own standard that posits liability for protecting infringers' identities. Moreover, we agree with the Third Circuit's analysis in *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 800 F.2d 59 (3rd Cir. 1986) that providing the site and facilities for known infringing activity is sufficient to establish contributory liability. See 2 William F. Patry, Copyright Law & Practice 1147 ("Merely providing the means for infringement may be sufficient" to incur contributory copyright liability).

[27] *Contributory Trademark Infringement*

[28] Just as liability for copyright infringement can extend beyond those who actually manufacture or sell infringing materials, our law recognizes liability for conduct that assists others in direct trademark infringement. In *Inwood Laboratories*, [456 U.S. 844](#), 102 S.Ct. 2182, the Court said that contributory trademark liability is applicable if defendant (1) intentionally induces another to infringe on a trademark or (2) continues to supply a product knowing that the recipient is using the product to engage in trademark infringement. *Inwood* at 854-55. As Cherry Auction points out, the *Inwood* case involved a manufacturer-distributor, and the *Inwood* standard has generally been applied in such cases. The Court in *Inwood*, however, laid down no limiting principle that would require defendant to be a manufacturer or distributor.

[29] The defendant in *Inwood* distributed drugs to a pharmacist, knowing that the pharmacist was mislabeling the drugs with a protected trademark rather than a generic label. In this case, plaintiffs correctly point out that while Cherry Auction is not alleged to be supplying the recordings

themselves, it is supplying the necessary marketplace for their sale in substantial quantities.

[30] In *Hard Rock Cafe*, 955 F.2d 1143, the Seventh Circuit applied the *Inwood* test for contributory trademark liability to the operator of a flea market. In that case, there was no proof that the flea market had actual knowledge of the sale by vendors of counterfeit Hard Rock Cafe trademark merchandise, but the court held that contributory liability could be imposed if the swap meet was "willfully blind" to the ongoing violations. *Hard Rock Cafe*, 955 F.2d at 1149. It observed that while trademark infringement liability is more narrowly circumscribed than copyright infringement, the courts nevertheless recognize that a company "is responsible for the torts of those it permits on its premises `knowing or having reason to know that the other is acting or will act tortiously. . . ." *Id.* quoting Restatement (Second) of Torts 877(c) & cmt.d (1979).

[31] *Hard Rock Cafe's* application of the *Inwood* test is sound; a swap meet can not disregard its vendors' blatant trademark infringements with impunity. Thus, Fonovisa has also stated a claim for contributory trademark infringement.

[32] The judgment of the district court is REVERSED and the case is REMANDED FOR FURTHER PROCEEDINGS.

* Honorable Owen M. Panner, Senior United States District Judge for the District of Oregon, sitting by designation.

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

A&M RECORDS, INC., a corporation; GEFLEN RECORDS, INC., a corporation; INTERSCOPE RECORDS; SONY MUSIC ENTERTAINMENT, INC.; MCA RECORDS, INC.; ATLANTIC RECORDING CORP.; ISLAND RECORDS, INC.; MOTOWN RECORD CO.; CAPITOL RECORDS, INC., Plaintiffs-Appellees,

v.

NAPSTER, INC., Defendant-Appellant.

JERRY LEIBER, individually and doing business as, JERRY LEIBER MUSIC; MIKE STOLLER and FRANK MUSIC CORP., on behalf of themselves and all others similarly situated, Plaintiffs-Appellees,

v.

NAPSTER, INC., Defendant-Appellant.

Nos. 00-16401, 00-16403

**UNITED STATES COURT OF APPEALS FOR THE NINTH
CIRCUIT**

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[Copyrighted Material Omitted][Copyrighted Material Omitted][Copyrighted Material Omitted][Copyrighted Material Omitted]

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Appeal from the United States District Court for the Northern District of California Marilyn Hall Patel, Chief District Judge, Presiding. D.C. No. CV-00-00074-MHP D.C.

« up No. CV-99-05183-MHP
 Before: SCHROEDER, Chief Judge, BEEZER and PAEZ, Circuit Judges.
 BEEZER, Circuit Judge:

1 Plaintiffs are engaged in the commercial recording, distribution and sale of
 copyrighted musical compositions and sound recordings. The complaint alleges that
 Napster, Inc. ("Napster") is a contributory and vicarious copyright infringer. On
 July 26, 2000, the district court granted plaintiffs' motion for a preliminary
 injunction. The injunction was slightly modified by written opinion on August 10,
 2000. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).
 The district court preliminarily enjoined Napster "from engaging in, or facilitating
 others in copying, downloading, uploading, transmitting, or distributing plaintiffs'
 copyrighted musical compositions and sound recordings, protected by either federal
 or state law, without express permission of the rights owner." *Id.* at 927. Federal
 Rule of Civil Procedure 65(c) requires successful plaintiffs to post a bond for
 damages incurred by the enjoined party in the event that the injunction was
 wrongfully issued. The district court set bond in this case at \$5 million.

2 We entered a temporary stay of the preliminary injunction pending resolution of
 this appeal. We have jurisdiction pursuant to 28 U.S.C. § 1292(a)(1). We affirm in
 part, reverse in part and remand.

3 * We have examined the papers submitted in support of and in response to the
 injunction application and it appears that Napster has designed and operates a
 system which permits the transmission and retention of sound recordings
 employing digital technology.

4 In 1987, the Moving Picture Experts Group set a standard file format for the
 storage of audio recordings in a digital format called MPEG-3, abbreviated as
 "MP3." Digital MP3 files are created through a process colloquially called "ripping."
 Ripping software allows a computer owner to copy an audio compact disk ("audio
 CD") directly onto a computer's hard drive by compressing the audio information
 on the CD into the MP3 format. The MP3's compressed format allows for rapid
 transmission of digital audio files from one computer to another by electronic mail
 or any other file transfer protocol.

5 Napster facilitates the transmission of MP3 files between and among its users.
 Through a process commonly called "peer-to-peer" file sharing, Napster allows its
 users to: (1) make MP3 music files stored on individual computer hard drives
 available for copying by other Napster users; (2) search for MP3 music files stored
 on other users' computers; and (3) transfer exact copies of the contents of other
 users' MP3 files from one computer to another via the Internet. These functions are
 made possible by Napster's Music Share software, available free of charge from
 Napster's Internet site, and Napster's network servers and server-side software.
 Napster provides technical support for the indexing and searching of MP3 files, as
 well as for its other functions, including a "chat room," where users can meet to
 discuss music, and a directory where participating artists can provide information
 about their music.

A. Accessing the System

« up In order to copy MP3 files through the Napster system, a user must first access Napster's Internet site and download¹ the MusicShare software to his individual computer. See <http://www.Napster.com>. Once the software is installed, the user can access the Napster system. A first-time user is required to register with the Napster system by creating a "user name" and password.

B. Listing Available Files

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

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

C. Searching For Available Files

9 Napster allows a user to locate other users' MP3 files in two ways: through Napster's search function and through its "hotlist" function.

10 Software located on the Napster servers maintains a "search index" of Napster's collective directory. To search the files available from Napster users currently connected to the network servers, the individual user accesses a form in the MusicShare software stored in his computer and enters either the name of a song or an artist as the object of the search. The form is then transmitted to a Napster server and automatically compared to the MP3 file names listed in the server's search index. Napster's server compiles a list of all MP3 file names pulled from the search index which include the same search terms entered on the search form and transmits the list to the searching user. The Napster server does not search the contents of any MP3 file; rather, the search is limited to "a text search of the file names indexed in a particular cluster. Those file names may contain typographical errors or otherwise inaccurate descriptions of the content of the files since they are designated by other users." Napster, 114 F. Supp. 2d at 906.

11 To use the "hotlist" function, the Napster user creates a list of other users' names from whom he has obtained MP3 files in the past. When logged onto Napster's servers, the system alerts the user if any user on his list (a "hotlisted user") is also logged onto the system. If so, the user can access an index of all MP3 file names in a particular hotlisted user's library and request a file in the library by selecting the file name. The contents of the hotlisted user's MP3 file are not stored on the Napster system.

D. Transferring Copies of an MP3 file

12 To transfer a copy of the contents of a requested MP3 file, the Napster server

« up software obtains the Internet address of the requesting user and the Internet address of the "host user" (the user with the available files). See generally *Brookfield Communications, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1044 (9th Cir. 1999) (describing, in detail, the structure of the Internet). The Napster servers then communicate the host user's Internet address to the requesting user. The requesting user's computer uses this information to establish a connection with the host user and downloads a copy of the contents of the MP3 file from one computer to the other over the Internet, "peer-to-peer." A downloaded MP3 file can be played directly from the user's hard drive using Napster's MusicShare program or other software. The file may also be transferred back onto an audio CD if the user has access to equipment designed for that purpose. In both cases, the quality of the original sound recording is slightly diminished by transfer to the MP3 format.

- 13 This architecture is described in some detail to promote an understanding of transmission mechanics as opposed to the content of the transmissions. The content is the subject of our copyright infringement analysis.

II

- 14 We review a grant or denial of a preliminary injunction for abuse of discretion. *Gorbach v. Reno*, 219 F.3d 1087, 1091 (9th Cir. 2000) (en banc). Application of erroneous legal principles represents an abuse of discretion by the district court. *Rucker v. Davis*, 237 F.3d 1113, 1118-19 (9th Cir.2001) (en banc). If the district court is claimed to have relied on an erroneous legal premise in reaching its decision to grant or deny a preliminary injunction, we will review the underlying issue of law de novo. *Id.* at *4 (citing *Does 1-5 v. Chandler*, 83 F.3d 1150, 1152 (9th Cir. 1996)).

- 15 On review, we are required to determine, "whether the court employed the appropriate legal standards governing the issuance of a preliminary injunction and whether the district court correctly apprehended the law with respect to the underlying issues in the case." *Id.* "As long as the district court got the law right, 'it will not be reversed simply because the appellate court would have arrived at a different result if it had applied the law to the facts of the case.'" *Gregorio T. v. Wilson*, 59 F.3d 1002, 1004 (9th Cir. 1995) (quoting *Sports Form, Inc. v. United Press, Int'l*, 686 F.2d 750, 752 (9th Cir. 1982)).

- 16 Preliminary injunctive relief is available to a party who demonstrates either: (1) a combination of probable success on the merits and the possibility of irreparable harm; or (2) that serious questions are raised and the balance of hardships tips in its favor. *Prudential Real Estate Affiliates, Inc. v. PPR Realty, Inc.*, 204 F.3d 867, 874 (9th Cir. 2000). "These two formulations represent two points on a sliding scale in which the required degree of irreparable harm increases as the probability of success decreases." *Id.*

III

- 17 Plaintiffs claim Napster users are engaged in the wholesale reproduction and distribution of copyrighted works, all constituting direct infringement.² The district court agreed. We note that the district court's conclusion that plaintiffs have presented a prima facie case of direct infringement by Napster users is not presently appealed by Napster. We only need briefly address the threshold requirements.

« up A. Infringement

- 18 Plaintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106. See 17 U.S.C. § 501(a) (infringement occurs when alleged infringer engages in activity listed in § 106); see also *Baxter v. MCA, Inc.*, 812 F.2d 421, 423 (9th Cir. 1987); see, e.g., *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 n.3 (9th Cir. 1989) ("The word 'copying' is shorthand for the infringing of any of the copyright owner's five exclusive rights . . ."). Plaintiffs have sufficiently demonstrated ownership. The record supports the district court's determination that "as much as eighty-seven percent of the files available on Napster may be copyrighted and more than seventy percent may be owned or administered by plaintiffs." *Napster*, 114 F. Supp. 2d at 911.
- 19 The district court further determined that plaintiffs' exclusive rights under § 106 were violated: "here the evidence establishes that a majority of Napster users use the service to download and upload copyrighted music. . . . And by doing that, it constitutes the uses constitute direct infringement of plaintiffs' musical compositions, recordings." *A&M Records, Inc. v. Napster, Inc.*, Nos. 99-5183, 00-0074, 2000 WL 1009483, at *1 (N.D. Cal. July 26, 2000) (transcript of proceedings). The district court also noted that "it is pretty much acknowledged . . . by Napster that this is infringement." *Id.* We agree that plaintiffs have shown that Napster users infringe at least two of the copyright holders' exclusive rights: the rights of reproduction, § 106(1); and distribution, § 106(3). Napster users who upload file names to the search index for others to copy violate plaintiffs' distribution rights. Napster users who download files containing copyrighted music violate plaintiffs' reproduction rights.
- 20 Napster asserts an affirmative defense to the charge that its users directly infringe plaintiffs' copyrighted musical compositions and sound recordings.
- B. Fair Use
- 21 Napster contends that its users do not directly infringe plaintiffs' copyrights because the users are engaged in fair use of the material. See 17 U.S.C. § 107 ("[T]he fair use of a copyrighted work . . . is not an infringement of copyright."). Napster identifies three specific alleged fair uses: sampling, where users make temporary copies of a work before purchasing; space-shifting, where users access a sound recording through the Napster system that they already own in audio CD format; and permissive distribution of recordings by both new and established artists.
- 22 The district court considered factors listed in 17 U.S.C. § 107, which guide a court's fair use determination. These factors are: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the "amount and substantiality of the portion used" in relation to the work as a whole; and (4) the effect of the use upon the potential market for the work or the value of the work. See 17 U.S.C. § 107. The district court first conducted a general analysis of Napster system uses under § 107, and then applied its reasoning to the alleged fair uses identified by Napster. The district court concluded that Napster users are not fair users.³ We agree. We first address the court's overall fair use analysis.

« up 1. Purpose and Character of the Use

- 23 This factor focuses on whether the new work merely replaces the object of the original creation or instead adds a further purpose or different character. In other words, this factor asks "whether and to what extent the new work is 'transformative.'" See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994).
- 24 The district court first concluded that downloading MP3 files does not transform the copyrighted work. *Napster*, 114 F. Supp. 2d at 912. This conclusion is supportable. Courts have been reluctant to find fair use when an original work is merely retransmitted in a different medium. See, e.g., *Infinity Broadcast Corp. v. Kirkwood*, 150 F.3d 104, 108 (2d Cir. 1994) (concluding that retransmission of radio broadcast over telephone lines is not transformative); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 351 (S.D.N.Y.) (finding that reproduction of audio CD into MP3 format does not "transform" the work), certification denied, 2000 WL 710056 (S.D.N.Y. June 1, 2000) ("Defendant's copyright infringement was clear, and the mere fact that it was clothed in the exotic webbing of the Internet does not disguise its illegality.").
- 25 This "purpose and character" element also requires the district court to determine whether the allegedly infringing use is commercial or noncommercial. See *Campbell*, 510 U.S. at 584-85. A commercial use weighs against a finding of fair use but is not conclusive on the issue. *Id.* The district court determined that Napster users engage in commercial use of the copyrighted materials largely because (1) "a host user sending a file cannot be said to engage in a personal use when distributing that file to an anonymous requester" and (2) "Napster users get for free something they would ordinarily have to buy." *Napster*, 114 F. Supp. 2d at 912. The district court's findings are not clearly erroneous.
- 26 Direct economic benefit is not required to demonstrate a commercial use. Rather, repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute a commercial use. See *Worldwide Church of God v. Philadelphia Church of God*, 227 F.3d 1110, 1118 (9th Cir. 2000) (stating that church that copied religious text for its members "unquestionably profit[ed]" from the unauthorized "distribution and use of [the text] without having to account to the copyright holder"); *American Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 922 (2d Cir. 1994) (finding that researchers at for-profit laboratory gained indirect economic advantage by photocopying copyrighted scholarly articles). In the record before us, commercial use is demonstrated by a showing that repeated and exploitative unauthorized copies of copyrighted works were made to save the expense of purchasing authorized copies. See *Worldwide Church*, 227 F.3d at 1117-18; *Sega Enters. Ltd. v. MAPHIA*, 857 F. Supp. 679, 687 (N.D. Cal. 1994) (finding commercial use when individuals downloaded copies of video games "to avoid having to buy video game cartridges"); see also *American Geophysical*, 60 F.3d at 922. Plaintiffs made such a showing before the district court.⁴
- 27 We also note that the definition of a financially motivated transaction for the purposes of criminal copyright actions includes trading infringing copies of a work for other items, "including the receipt of other copyrighted works." See *No Electronic Theft Act ("NET Act")*, Pub. L. No. 105-147, 18 U.S.C. § 101 (defining "Financial Gain").

« up 2. The Nature of the Use

28 Works that are creative in nature are "closer to the core of intended copyright protection" than are more fact-based works. See *Campbell*, 510 U.S. at 586. The district court determined that plaintiffs' "copyrighted musical compositions and sound recordings are creative in nature . . . which cuts against a finding of fair use under the second factor." *Napster*, 114 F. Supp. 2d at 913. We find no error in the district court's conclusion.

3. The Portion Used

29 "While 'wholesale copying does not preclude fair use per se,' copying an entire work 'militates against a finding of fair use.'" *Worldwide Church*, 227 F.3d at 1118 (quoting *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 796 F.2d 1148, 1155 (9th Cir. 1986)). The district court determined that Napster users engage in "wholesale copying" of copyrighted work because file transfer necessarily "involves copying the entirety of the copyrighted work." *Napster*, 114 F. Supp. 2d at 913. We agree. We note, however, that under certain circumstances, a court will conclude that a use is fair even when the protected work is copied in its entirety. See, e.g., *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 449-50 (1984) (acknowledging that fair use of time-shifting necessarily involved making a full copy of a protected work).

4. Effect of Use on Market

30 "Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied." *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566-67 (1985). "[T]he importance of this [fourth] factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors." *Campbell*, 510 U.S. at 591 n.21. The proof required to demonstrate present or future market harm varies with the purpose and character of the use:

31 A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work. . . . If the intended use is for commercial gain, that likelihood [of market harm] may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.

32 *Sony*, 464 U.S. at 451 (emphases added).

33 Addressing this factor, the district court concluded that Napster harms the market in "at least" two ways: it reduces audio CD sales among college students and it "raises barriers to plaintiffs' entry into the market for the digital downloading of music." *Napster*, 114 F. Supp. 2d at 913. The district court relied on evidence plaintiffs submitted to show that Napster use harms the market for their copyrighted musical compositions and sound recordings. In a separate memorandum and order regarding the parties' objections to the expert reports, the district court examined each report, finding some more appropriate and probative than others. *A&M Records, Inc. v. Napster, Inc.*, Nos. 99-5183 & 00-0074, 2000 WL 1170106 (N.D. Cal. August 10, 2000). Notably, plaintiffs' expert, Dr. E. Deborah Jay, conducted a survey (the "Jay Report") using a random sample of college and university students to track their reasons for using Napster and the impact Napster

« up ad on their music purchases. Id. at *2. The court recognized that the Jay Report focused on just one segment of the Napster user population and found "evidence of lost sales attributable to college use to be probative of irreparable harm for purposes of the preliminary injunction motion." Id. at *3.

34 Plaintiffs also offered a study conducted by Michael Fine, Chief Executive Officer of Soundscan, (the "Fine Report") to determine the effect of online sharing of MP3 files in order to show irreparable harm. Fine found that online file sharing had resulted in a loss of "album" sales within college markets. After reviewing defendant's objections to the Fine Report and expressing some concerns regarding the methodology and findings, the district court refused to exclude the Fine Report insofar as plaintiffs offered it to show irreparable harm. Id. at *6.

35 Plaintiffs' expert Dr. David J. Teece studied several issues ("Teece Report"), including whether plaintiffs had suffered or were likely to suffer harm in their existing and planned businesses due to Napster use. Id. Napster objected that the report had not undergone peer review. The district court noted that such reports generally are not subject to such scrutiny and overruled defendant's objections. Id.

36 As for defendant's experts, plaintiffs objected to the report of Dr. Peter S. Fader, in which the expert concluded that Napster is beneficial to the music industry because MP3 music file-sharing stimulates more audio CD sales than it displaces. Id. at *7. The district court found problems in Dr. Fader's minimal role in overseeing the administration of the survey and the lack of objective data in his report. The court decided the generality of the report rendered it "of dubious reliability and value." The court did not exclude the report, however, but chose "not to rely on Fader's findings in determining the issues of fair use and irreparable harm." Id. at *8.

37 The district court cited both the Jay and Fine Reports in support of its finding that Napster use harms the market for plaintiffs' copyrighted musical compositions and sound recordings by reducing CD sales among college students. The district court cited the Teece Report to show the harm Napster use caused in raising barriers to plaintiffs' entry into the market for digital downloading of music. *Napster*, 114 F. Supp. 2d at 910. The district court's careful consideration of defendant's objections to these reports and decision to rely on the reports for specific issues demonstrates a proper exercise of discretion in addition to a correct application of the fair use doctrine. Defendant has failed to show any basis for disturbing the district court's findings.

38 We, therefore, conclude that the district court made sound findings related to Napster's deleterious effect on the present and future digital download market. Moreover, lack of harm to an established market cannot deprive the copyright holder of the right to develop alternative markets for the works. See *L.A. Times v. Free Republic*, 54 U.S.P.Q.2d 1453, 1469-71 (C.D. Cal. 2000) (stating that online market for plaintiff newspapers' articles was harmed because plaintiffs demonstrated that "[defendants] are attempting to exploit the market for viewing their articles online"); see also *UMG Recordings*, 92 F. Supp. 2d at 352 ("Any allegedly positive impact of defendant's activities on plaintiffs' prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs' copyrighted works."). Here, similar to *L.A. Times* and *UMG Recordings*, the record supports the district court's finding that the "record

« up company plaintiffs have already expended considerable funds and effort to commence Internet sales and licensing for digital downloads." 114 F. Supp. 2d at 915. Having digital downloads available for free on the Napster system necessarily harms the copyright holders' attempts to charge for the same downloads.

39 Judge Patel did not abuse her discretion in reaching the above fair use conclusions, nor were the findings of fact with respect to fair use considerations clearly erroneous. We next address Napster's identified uses of sampling and space-shifting.

5. Identified Uses

40 Napster maintains that its identified uses of sampling and space-shifting were wrongly excluded as fair uses by the district court.

41 a. Sampling

42 Napster contends that its users download MP3 files to "sample" the music in order to decide whether to purchase the recording. Napster argues that the district court: (1) erred in concluding that sampling is a commercial use because it conflated a noncommercial use with a personal use; (2) erred in determining that sampling adversely affects the market for plaintiffs' copyrighted music, a requirement if the use is noncommercial; and (3) erroneously concluded that sampling is not a fair use because it determined that samplers may also engage in other infringing activity.

43 The district court determined that sampling remains a commercial use even if some users eventually purchase the music. We find no error in the district court's determination. Plaintiffs have established that they are likely to succeed in proving that even authorized temporary downloading of individual songs for sampling purposes is commercial in nature. See *Napster*, 114 F. Supp. 2d at 913. The record supports a finding that free promotional downloads are highly regulated by the record company plaintiffs and that the companies collect royalties for song samples available on retail Internet sites. *Id.* Evidence relied on by the district court demonstrates that the free downloads provided by the record companies consist of thirty-to-sixty second samples or are full songs programmed to "time out," that is, exist only for a short time on the downloader's computer. *Id.* at 913-14. In comparison, Napster users download a full, free and permanent copy of the recording. *Id.* at 914-15. The determination by the district court as to the commercial purpose and character of sampling is not clearly erroneous.

44 The district court further found that both the market for audio CDs and market for online distribution are adversely affected by Napster's service. As stated in our discussion of the district court's general fair use analysis: the court did not abuse its discretion when it found that, overall, Napster has an adverse impact on the audio CD and digital download markets. Contrary to Napster's assertion that the district court failed to specifically address the market impact of sampling, the district court determined that "[e]ven if the type of sampling supposedly done on Napster were a non-commercial use, plaintiffs have demonstrated a substantial likelihood that it would adversely affect the potential market for their copyrighted works if it became widespread." *Napster*, 114 F. Supp. 2d at 914. The record supports the district court's preliminary determinations that: (1) the more music that sampling users download, the less likely they are to eventually purchase the recordings on audio

« up D; and (2) even if the audio CD market is not harmed, Napster has adverse effects on the developing digital download market.

45 Napster further argues that the district court erred in rejecting its evidence that the users' downloading of "samples" increases or tends to increase audio CD sales. The district court, however, correctly noted that "any potential enhancement of plaintiffs' sales . . . would not tip the fair use analysis conclusively in favor of defendant." *Id.* at 914. We agree that increased sales of copyrighted material attributable to unauthorized use should not deprive the copyright holder of the right to license the material. See *Campbell*, 510 U.S. at 591 n.21 ("Even favorable evidence, without more, is no guarantee of fairness. Judge Leval gives the example of the film producer's appropriation of a composer's previously unknown song that turns the song into a commercial success; the boon to the song does not make the film's simple copying fair."); see also *L.A. Times*, 54 U.S.P.Q.2d at 1471-72. Nor does positive impact in one market, here the audio CD market, deprive the copyright holder of the right to develop identified alternative markets, here the digital download market. See *id.* at 1469-71. We find no error in the district court's factual findings or abuse of discretion in the court's conclusion that plaintiffs will likely prevail in establishing that sampling does not constitute a fair use.

46 b. Space-Shifting

47 Napster also maintains that space-shifting is a fair use. Space-shifting occurs when a Napster user downloads MP3 music files in order to listen to music he already owns on audio CD. See *id.* at 915-16. Napster asserts that we have already held that space-shifting of musical compositions and sound recordings is a fair use. See *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999) ("Rio [a portable MP3 player] merely makes copies in order to render portable, or 'space-shift,' those files that already reside on a user's hard drive. . . . Such copying is a paradigmatic noncommercial personal use."). See also generally *Sony*, 464 U.S. at 423 (holding that "time-shifting," where a video tape recorder owner records a television show for later viewing, is a fair use).

48 We conclude that the district court did not err when it refused to apply the "shifting" analyses of *Sony* and *Diamond*. Both *Diamond* and *Sony* are inapposite because the methods of shifting in these cases did not also simultaneously involve distribution of the copyrighted material to the general public; the time or space-shifting of copyrighted material exposed the material only to the original user. In *Diamond*, for example, the copyrighted music was transferred from the user's computer hard drive to the user's portable MP3 player. So too *Sony*, where "the majority of VCR purchasers . . . did not distribute taped television broadcasts, but merely enjoyed them at home." *Napster*, 114 F. Supp. 2d at 913. Conversely, it is obvious that once a user lists a copy of music he already owns on the Napster system in order to access the music from another location, the song becomes "available to millions of other individuals," not just the original CD owner. See *UMG Recordings*, 92 F. Supp. 2d at 351-52 (finding space-shifting of MP3 files not a fair use even when previous ownership is demonstrated before a download is allowed); cf. *Religious Tech. Ctr. v. Lerma*, No. 95-1107A, 1996 WL 633131, at *6 (E.D. Va. Oct. 4, 1996) (suggesting that storing copyrighted material on computer disk for later review is not a fair use).

49 c. Other Uses

« up Permissive reproduction by either independent or established artists is the final fair use claim made by Napster. The district court noted that plaintiffs did not seek to enjoin this and any other noninfringing use of the Napster system, including: chat rooms, message boards and Napster's New Artist Program. *Napster*, 114 F. Supp. 2d at 917. Plaintiffs do not challenge these uses on appeal.

51 We find no error in the district court's determination that plaintiffs will likely succeed in establishing that Napster users do not have a fair use defense. Accordingly, we next address whether Napster is secondarily liable for the direct infringement under two doctrines of copyright law: contributory copyright infringement and vicarious copyright infringement.

IV

52 We first address plaintiffs' claim that Napster is liable for contributory copyright infringement. Traditionally, "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); see also *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996). Put differently, liability exists if the defendant engages in "personal conduct that encourages or assists the infringement." *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d 693, 706 (2d Cir. 1998).

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

A. Knowledge

54 Contributory liability requires that the secondary infringer "know or have reason to know" of direct infringement. *Cable/Home Communication Corp. Network Prods., Inc.*, 902 F.2d 829, 845 & 846 n.29 (11th Cir. 1990); *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1373-74 (N.D. Cal. 1995) (framing issue as "whether Netcom knew or should have known of" the infringing activities). The district court found that Napster had both actual and constructive knowledge that its users exchanged copyrighted music. The district court also concluded that the law does not require knowledge of "specific acts of infringement" and rejected Napster's contention that because the company cannot distinguish infringing from noninfringing files, it does not "know" of the direct infringement. 114 F. Supp. 2d at 917.

55 It is apparent from the record that Napster has knowledge, both actual and constructive,⁵ of direct infringement. Napster claims that it is nevertheless protected from contributory liability by the teaching of *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). We disagree. We observe that Napster's actual, specific knowledge of direct infringement renders Sony's holding of limited assistance to Napster. We are compelled to make a clear distinction between the architecture of the Napster system and Napster's conduct in relation to the operational capacity of the system.

« up The Sony Court refused to hold the manufacturer and retailers of video tape recorders liable for contributory infringement despite evidence that such machines could be and were used to infringe plaintiffs' copyrighted television shows. Sony stated that if liability "is to be imposed on petitioners in this case, it must rest on the fact that they have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material." *Id.* at 439 (emphasis added). The Sony Court declined to impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and "substantial noninfringing uses." *Id.* at 442 (adopting a modified "staple article of commerce" doctrine from patent law). See also *Universal City Studios, Inc. v. Sony Corp.*, 480 F. Supp. 429, 459 (C.D. Cal. 1979) ("This court agrees with defendants that their knowledge was insufficient to make them contributory infringers."), *rev'd*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984); Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 *Geo. L.J.* 1833, 1874 & 1893 n.210 (2000) (suggesting that, after Sony, most Internet service providers lack "the requisite level of knowledge" for the imposition of contributory liability).

57 We are bound to follow Sony, and will not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs' copyrights. See 464 U.S. at 436 (rejecting argument that merely supplying the "'means' to accomplish an infringing activity" leads to imposition of liability). We depart from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant noninfringing uses. See *Napster*, 114 F. Supp. 2d at 916, 917-18. The district court improperly confined the use analysis to current uses, ignoring the system's capabilities. See generally *Sony*, 464 U.S. at 442-43 (framing inquiry as whether the video tape recorder is "capable of commercially significant noninfringing uses") (emphasis added). Consequently, the district court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use. See generally *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 264-67 (5th Cir. 1997) (single noninfringing use implicated Sony). Nonetheless, whether we might arrive at a different result is not the issue here. See *Sports Form, Inc. v. United Press Int'l, Inc.*, 686 F.2d 750, 752 (9th Cir. 1982). The instant appeal occurs at an early point in the proceedings and "the fully developed factual record may be materially different from that initially before the district court . . ." *Id.* at 753. Regardless of the number of Napster's infringing versus noninfringing uses, the evidentiary record here supported the district court's finding that plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users' infringement of plaintiffs' copyrights.

58 This analysis is similar to that of *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, which suggests that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement. 907 F. Supp. at 1371. *Netcom* considered the potential contributory copyright liability of a computer bulletin board operator whose system supported the posting of infringing material. *Id.* at 1374. The court, in denying *Netcom's* motion for summary judgment of noninfringement and plaintiff's motion for judgment on the pleadings, found that a disputed issue of fact existed as to whether the operator had sufficient knowledge of

« up infringing activity. *Id.* at 1374-75.

59 The court determined that for the operator to have sufficient knowledge, the copyright holder must "provide the necessary documentation to show there is likely infringement." 907 F. Supp. at 1374; cf. *Cubby, Inc. v. CompuServe, Inc.*, 776 F. Supp. 135, 141 (S.D.N.Y. 1991) (recognizing that online service provider does not and cannot examine every hyperlink for potentially defamatory material). If such documentation was provided, the court reasoned that Netcom would be liable for contributory infringement because its failure to remove the material "and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation" in distribution of copyrighted material. *Id.*

60 We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement. See *Netcom*, 907 F. Supp. at 1374. Conversely, absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material. See *Sony*, 464 U.S. at 436, 442-43. To enjoin simply because a computer network allows for infringing use would, in our opinion, violate *Sony* and potentially restrict activity unrelated to infringing use.

61 We nevertheless conclude that sufficient knowledge exists to impose contributory liability when linked to demonstrated infringing use of the Napster system. See *Napster*, 114 F. Supp. 2d at 919 ("Religious Technology Center would not mandate a determination that Napster, Inc. lacks the knowledge requisite to contributory infringement."). The record supports the district court's finding that Napster has actual knowledge that specific infringing material is available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material. See *Napster*, 114 F. Supp. 2d at 918, 920-21.⁶

B. Material Contribution

62 Under the facts as found by the district court, Napster materially contributes to the infringing activity. Relying on *Fonovisa*, the district court concluded that "[w]ithout the support services defendant provides, Napster users could not find and download the music they want with the ease of which defendant boasts." *Napster*, 114 F. Supp. 2d at 919-20 ("Napster is an integrated service designed to enable users to locate and download MP3 music files."). We agree that Napster provides "the site and facilities" for direct infringement. See *Fonovisa*, 76 F.3d at 264; cf. *Netcom*, 907 F. Supp. at 1372 ("Netcom will be liable for contributory infringement since its failure to cancel [a user's] infringing message and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation."). The district court correctly applied the reasoning in *Fonovisa*, and properly found that Napster materially contributes to direct infringement.

63 We affirm the district court's conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the contributory copyright infringement claim. We will address the scope of the injunction in part VIII of this opinion.

« up We turn to the question whether Napster engages in vicarious copyright infringement. Vicarious copyright liability is an "outgrowth" of respondeat superior. *Fonovisa*, 76 F.3d at 262. In the context of copyright law, vicarious liability extends beyond an employer/employee relationship to cases in which a defendant "has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities." *Id.* (quoting *Gershwin*, 443 F.2d at 1162); see also *Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1325-26 (D. Mass. 1994) (describing vicarious liability as a form of risk allocation).

65 Before moving into this discussion, we note that Sony's "staple article of commerce" analysis has no application to Napster's potential liability for vicarious copyright infringement. See *Sony*, 464 U.S. at 434-435; see generally Anne Hiarling, *Copyright Infringement Issues on the Internet*, 617 *PLI/Pat* 455, 528 (Sept. 2, 2000) (indicating that the "staple article of commerce" doctrine "provides a defense only to contributory infringement, not to vicarious infringement"). The issues of Sony's liability under the "doctrines of 'direct infringement' and 'vicarious liability'" were not before the Supreme Court, although the Court recognized that the "lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn." *Id.* at 435 n.17. Consequently, when the Sony Court used the term "vicarious liability," it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement. *Id.* at 435 ("[V]icarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another."); see also *Black's Law Dictionary* 927 (7th ed. 1999) (defining "vicarious liability" in a manner similar to the definition used in Sony).

A. Financial Benefit

66 The district court determined that plaintiffs had demonstrated they would likely succeed in establishing that Napster has a direct financial interest in the infringing activity. *Napster*, 114 F. Supp. 2d at 921-22. We agree. Financial benefit exists where the availability of infringing material "acts as a 'draw' for customers." *Fonovisa*, 76 F.3d at 263-64 (stating that financial benefit may be shown "where infringing performances enhance the attractiveness of a venue"). Ample evidence supports the district court's finding that Napster's future revenue is directly dependent upon "increases in userbase." More users register with the Napster system as the "quality and quantity of available music increases." 114 F. Supp. 2d at 902. We conclude that the district court did not err in determining that Napster financially benefits from the availability of protected works on its system.

B. Supervision

67 The district court determined that Napster has the right and ability to supervise its users' conduct. *Napster*, 114 F. Supp. 2d at 920-21 (finding that Napster's representations to the court regarding "its improved methods of blocking users about whom rights holders complain . . . is tantamount to an admission that defendant can, and sometimes does, police its service"). We agree in part.

68 The ability to block infringers' access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise. See *Fonovisa*, 76 F.3d at 262 ("Cherry Auction had the right to terminate vendors for any reason whatsoever

« up nd through that right had the ability to control the activities of vendors on the premises."); cf. *Netcom*, 907 F. Supp. at 1375-76 (indicating that plaintiff raised a genuine issue of fact regarding ability to supervise by presenting evidence that an electronic bulletin board service can suspend subscriber's accounts). Here, plaintiffs have demonstrated that Napster retains the right to control access to its system. Napster has an express reservation of rights policy, stating on its website that it expressly reserves the "right to refuse service and terminate accounts in [its] discretion, including, but not limited to, if Napster believes that user conduct violates applicable law . . . or for any reason in Napster's sole discretion, with or without cause."

69 To escape imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent. Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability. See, e.g., *Fonovisa*, 76 F.3d at 261 ("There is no dispute for the purposes of this appeal that Cherry Auction and its operators were aware that vendors in their swap meets were selling counterfeit recordings."); see also *Gershwin*, 443 F.2d at 1161-62 (citing *Shapiro, Bernstein & Co. v. H.L. Greene Co.*, 316 F.2d 304 (2d Cir. 1963), for the proposition that "failure to police the conduct of the primary infringer" leads to imposition of vicarious liability for copyright infringement).

70 The district court correctly determined that Napster had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material. The district court, however, failed to recognize that the boundaries of the premises that Napster "controls and patrols" are limited. See, e.g., *Fonovisa*, 76 F.2d at 262-63 (in addition to having the right to exclude vendors, defendant "controlled and patrolled" the premises); see also *Polygram*, 855 F. Supp. at 1328-29 (in addition to having the contractual right to remove exhibitors, trade show operator reserved the right to police during the show and had its "employees walk the aisles to ensure 'rules compliance'"). Put differently, Napster's reserved "right and ability" to police is cabined by the system's current architecture. As shown by the record, the Napster system does not "read" the content of indexed files, other than to check that they are in the proper MP3 format.

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

72 Our review of the record requires us to accept the district court's conclusion that plaintiffs have demonstrated a likelihood of success on the merits of the vicarious copyright infringement claim. Napster's failure to police the system's "premises," combined with a showing that Napster financially benefits from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability. We address the scope of the injunction in part VIII of this opinion.

VI

« up We next address whether Napster has asserted defenses which would preclude the entry of a preliminary injunction.

74 Napster alleges that two statutes insulate it from liability. First, Napster asserts that its users engage in actions protected by § 1008 of the Audio Home Recording Act of 1992, 17 U.S.C. § 1008. Second, Napster argues that its liability for contributory and vicarious infringement is limited by the Digital Millennium Copyright Act, 17 U.S.C. § 512. We address the application of each statute in turn.

A. Audio Home Recording Act

The statute states in part:

75 No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.

76 17 U.S.C. § 1008 (emphases added). Napster contends that MP3 file exchange is the type of "noncommercial use" protected from infringement actions by the statute. Napster asserts it cannot be secondarily liable for users' nonactionable exchange of copyrighted musical recordings.

77 The district court rejected Napster's argument, stating that the Audio Home Recording Act is "irrelevant" to the action because: (1) plaintiffs did not bring claims under the Audio Home Recording Act; and (2) the Audio Home Recording Act does not cover the downloading of MP3 files. *Napster*, 114 F. Supp. 2d at 916 n.19.

78 We agree with the district court that the Audio Home Recording Act does not cover the downloading of MP3 files to computer hard drives. First, "[u]nder the plain meaning of the Act's definition of digital audio recording devices, computers (and their hard drives) are not digital audio recording devices because their 'primary purpose' is not to make digital audio copied recordings." *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1078 (9th Cir. 1999). Second, notwithstanding Napster's claim that computers are "digital audio recording devices," computers do not make "digital music recordings" as defined by the Audio Home Recording Act. *Id.* at 1077 (citing S. Rep. 102-294) ("There are simply no grounds in either the plain language of the definition or in the legislative history for interpreting the term 'digital musical recording' to include songs fixed on computer hard drives.").

B. Digital Millennium Copyright Act

79 Napster also interposes a statutory limitation on liability by asserting the protections of the "safe harbor" from copyright infringement suits for "Internet service providers" contained in the Digital Millennium Copyright Act, 17 U.S.C. § 512. See *Napster*, 114 F. Supp. 2d at 919 n.24. The district court did not give this statutory limitation any weight favoring a denial of temporary injunctive relief. The court concluded that Napster "has failed to persuade this court that subsection 512(d) shelters contributory infringers." *Id.*

« up We need not accept a blanket conclusion that § 512 of the Digital Millennium copyright Act will never protect secondary infringers. See S. Rep. 105-190, at 40 (1998) ("The limitations in subsections (a) through (d) protect qualifying service providers from liability for all monetary relief for direct, vicarious, and contributory infringement."), reprinted in Melville B. Nimmer & David Nimmer, *Nimmer on Copyright: Congressional Committee Reports on the Digital Millennium Copyright Act and Concurrent Amendments* (2000); see also Charles S. Wright, *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement Into the Digital Millennium Copyright Act of 1998*, 75 Wash. L. Rev. 1005, 1028-31 (July 2000) ("[T]he committee reports leave no doubt that Congress intended to provide some relief from vicarious liability").

81 We do not agree that Napster's potential liability for contributory and vicarious infringement renders the Digital Millennium Copyright Act inapplicable per se. We instead recognize that this issue will be more fully developed at trial. At this stage of the litigation, plaintiffs raise serious questions regarding Napster's ability to obtain shelter under § 512, and plaintiffs also demonstrate that the balance of hardships tips in their favor. See *Prudential Real Estate*, 204 F.3d at 874; see also *Micro Star v. Formgen, Inc.* 154 F.3d 1107, 1109 (9th Cir. 1998) ("A party seeking a preliminary injunction must show . . . 'that serious questions going to the merits were raised and the balance of hardships tips sharply in its favor.'").

82 Plaintiffs have raised and continue to raise significant questions under this statute, including: (1) whether Napster is an Internet service provider as defined by 17 U.S.C. § 512(d); (2) whether copyright owners must give a service provider "official" notice of infringing activity in order for it to have knowledge or awareness of infringing activity on its system; and (3) whether Napster complies with § 512(i), which requires a service provider to timely establish a detailed copyright compliance policy. See *A&M Records, Inc. v. Napster, Inc.*, No. 99-05183, 2000 WL 573136 (N.D. Cal. May 12, 2000) (denying summary judgment to Napster under a different subsection of the Digital Millennium Copyright Act, § 512(a)).

83 The district court considered ample evidence to support its determination that the balance of hardships tips in plaintiffs' favor:

84 Any destruction of Napster, Inc. by a preliminary injunction is speculative compared to the statistical evidence of massive, unauthorized downloading and uploading of plaintiffs' copyrighted works as many as 10,000 files per second by defendant's own admission. See *Kessler Dec.* ¶ 29. The court has every reason to believe that, without a preliminary injunction, these numbers will mushroom as Napster users, and newcomers attracted by the publicity, scramble to obtain as much free music as possible before trial.

85 114 F. Supp. 2d at 926.

VII

86 Napster contends that even if the district court's preliminary determinations that it is liable for facilitating copyright infringement are correct, the district court improperly rejected valid affirmative defenses of waiver, implied license and copyright misuse. We address the defenses in turn.

« up A. Waiver

87 "Waiver is the intentional relinquishment of a known right with knowledge of its existence and the intent to relinquish it." *United States v. King Features Entm't, Inc.*, 843 F.2d 394, 399 (9th Cir. 1988). In copyright, waiver or abandonment of copyright "occurs only if there is an intent by the copyright proprietor to surrender rights in his work." 4 Melville B. Nimmer & David Nimmer, *Nimmer On Copyright* ¶ 13.06 (2000); see also *Micro Star v. Formgen, Inc.*, 154 F.3d 1107, 1114 (9th Cir. 1998) (discussing abandonment).

88 Napster argues that the district court erred in finding that plaintiffs knowingly provided consumers with technology designed to copy and distribute MP3 files over the Internet and, thus, waived any legal authority to exercise exclusive control over creation and distribution of MP3 files. The district court, however, was not convinced "that the record companies created the monster that is now devouring their intellectual property rights." *Napster*, 114 F. Supp. 2d at 924. We find no error in the district court's finding that "in hastening the proliferation of MP3 files, plaintiffs did [nothing] more than seek partners for their commercial downloading ventures and develop music players for files they planned to sell over the Internet." *Id.*⁷

B. Implied License

89 Napster also argues that plaintiffs granted the company an implied license by encouraging MP3 file exchange over the Internet. Courts have found implied licenses only in "narrow" circumstances where one party "created a work at [the other's] request and handed it over, intending that [the other] copy and distribute it." *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms., Inc.*, 211 F.3d 21, 25 (2d Cir. 2000) (quoting *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 558 (9th Cir. 1990)), cert. denied, 121 S. Ct. 173 (2000). The district court observed that no evidence exists to support this defense: "indeed, the RIAA gave defendant express notice that it objected to the availability of its members' copyrighted music on Napster." *Napster*, 114 F. Supp. 2d at 924-25. The record supports this conclusion.

C. Misuse

90 The defense of copyright misuse forbids a copyright holder from "secur[ing] an exclusive right or limited monopoly not granted by the Copyright Office." *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 977-79 (4th Cir. 1990), quoted in *Practice Mgmt. Info. Corp. v. American Med. Ass'n*, 121 F.3d 516, 520 (9th Cir.), amended by 133 F.3d 1140 (9th Cir. 1997). Napster alleges that online distribution is not within the copyright monopoly. According to Napster, plaintiffs have colluded to "use their copyrights to extend their control to online distributions."

91 We find no error in the district court's preliminary rejection of this affirmative defense. The misuse defense prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly. See *Lasercomb*, 911 F.2d 970 at 976-77; see also *Religious Tech. Ctr. v. Lerma*, No. 95-1107A, 1996 WL 633131, at *11 (E.D. Va. Oct. 4, 1996) (listing circumstances which indicate improper leverage).⁸ There is no evidence here that plaintiffs seek to control areas outside of their grant of monopoly. Rather, plaintiffs seek to control

« up reproduction and distribution of their copyrighted works, exclusive rights of copyright holders. 17 U.S.C. § 106; see also, e.g., UMG Recordings, 92 F. Supp. 2d at 351 ("A [copyright holder's] 'exclusive' rights, derived from the Constitution and the Copyright Act, include the right, within broad limits, to curb the development of such a derivative market by refusing to license a copyrighted work or by doing so only on terms the copyright owner finds acceptable."). That the copyrighted works are transmitted in another mediumMP3 format rather than audio CDhas no bearing on our analysis. See id. at 351 (finding that reproduction of audio CD into MP3 format does not "transform" the work).

VIII

- 92 The district court correctly recognized that a preliminary injunction against Napster's participation in copyright infringement is not only warranted but required. We believe, however, that the scope of the injunction needs modification in light of our opinion. Specifically, we reiterate that contributory liability may potentially be imposed only to the extent that Napster: (1) receives reasonable knowledge of specific infringing files with copyrighted musical compositions and sound recordings; (2) knows or should know that such files are available on the Napster system; and (3) fails to act to prevent viral distribution of the works. See *Netcom*, 907 F. Supp. at 1374-75. The mere existence of the Napster system, absent actual notice and Napster's demonstrated failure to remove the offending material, is insufficient to impose contributory liability. See *Sony*, 464 U.S. at 442-43.
- 93 Conversely, Napster may be vicariously liable when it fails to affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index. Napster has both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files.
- 94 The preliminary injunction which we stayed is overbroad because it places on Napster the entire burden of ensuring that no "copying, downloading, uploading, transmitting, or distributing" of plaintiffs' works occur on the system. As stated, we place the burden on plaintiffs to provide notice to Napster of copyrighted works and files containing such works available on the Napster system before Napster has the duty to disable access to the offending content. Napster, however, also bears the burden of policing the system within the limits of the system. Here, we recognize that this is not an exact science in that the files are user named. In crafting the injunction on remand, the district court should recognize that Napster's system does not currently appear to allow Napster access to users' MP3 files.
- 95 Based on our decision to remand, Napster's additional arguments on appeal going to the scope of the injunction need not be addressed. We, however, briefly address Napster's First Amendment argument so that it is not reasserted on remand. Napster contends that the present injunction violates the First Amendment because it is broader than necessary. The company asserts two distinct free speech rights: (1) its right to publish a "directory" (here, the search index) and (2) its users' right to exchange information. We note that First Amendment concerns in copyright are allayed by the presence of the fair use doctrine. See 17 U.S.C. § 107; see generally *Nihon Keizai Shimbun v. Comline Business Data, Inc.*, 166 F.3d 65, 74 (2d Cir. 1999); *Netcom*, 923 F. Supp. at 1258 (stating that the Copyright Act balances First Amendment concerns with the rights of copyright

« up olders). There was a preliminary determination here that Napster users are not fair users. Uses of copyrighted material that are not fair uses are rightfully enjoined. See *Dr. Seuss Enters. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1403 (9th Cir. 1997) (rejecting defendants' claim that injunction would constitute a prior restraint in violation of the First Amendment).

IX

96 We address Napster's remaining arguments: (1) that the court erred in setting a \$5 million bond, and (2) that the district court should have imposed a constructive royalty payment structure in lieu of an injunction.

A. Bond

97 Napster argues that the \$5 million bond is insufficient because the company's value is between \$1.5 and \$2 billion. We review objections to the amount of a bond for abuse of discretion. *Walczak v. EPL Prolong, Inc.*, 198 F.3d 725 (9th Cir. 1999).

98 We are reluctant to dramatically raise bond amounts on appeal. See *GoTo.com, Inc. v. The Walt Disney Co.*, 202 F.3d 1199, 1211 (9th Cir. 2000); see also *Fed. R. Civ. P. 65(c)*. The district court considered competing evidence of Napster's value and the deleterious effect that any injunction would have upon the Napster system. We cannot say that Judge Patel abused her discretion when she fixed the penal sum required for the bond.

B. Royalties

99 Napster contends that the district court should have imposed a monetary penalty by way of a compulsory royalty in place of an injunction. We are asked to do what the district court refused.

100 Napster tells us that "where great public injury would be worked by an injunction, the courts might . . . award damages or a continuing royalty instead of an injunction in such special circumstances." *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) (quoting 3 Melville B. Nimmer & David Nimmer, *Nimmer On Copyright* § 14.06[B] (1988)), *aff'd*, 495 U.S. 207 (1990). We are at a total loss to find any "special circumstances" simply because this case requires us to apply well-established doctrines of copyright law to a new technology. Neither do we agree with Napster that an injunction would cause "great public injury." Further, we narrowly construe any suggestion that compulsory royalties are appropriate in this context because Congress has arguably limited the application of compulsory royalties to specific circumstances, none of which are present here. See 17 U.S.C. § 115.

101 The Copyright Act provides for various sanctions for infringers. See, e.g., 17 U.S.C. §§ 502 (injunctions); 504 (damages); and 506 (criminal penalties); see also 18 U.S.C. § 2319A (criminal penalties for the unauthorized fixation of and trafficking in sound recordings and music videos of live musical performances). These statutory sanctions represent a more than adequate legislative solution to the problem created by copyright infringement.

102 .

« up Imposing a compulsory royalty payment schedule would give Napster an "easy out" of this case. If such royalties were imposed, Napster would avoid penalties for any future violation of an injunction, statutory copyright damages and any possible criminal penalties for continuing infringement. The royalty structure would also grant Napster the luxury of either choosing to continue and pay royalties or shut down. On the other hand, the wronged parties would be forced to do business with a company that profits from the wrongful use of intellectual properties. Plaintiffs would lose the power to control their intellectual property: they could not make a business decision not to license their property to Napster, and, in the event they planned to do business with Napster, compulsory royalties would take away the copyright holders' ability to negotiate the terms of any contractual arrangement.

X

104 We affirm in part, reverse in part and remand.

105 We direct that the preliminary injunction fashioned by the district court prior to this appeal shall remain stayed until it is modified by the district court to conform to the requirements of this opinion. We order a partial remand of this case on the date of the filing of this opinion for the limited purpose of permitting the district court to proceed with the settlement and entry of the modified preliminary injunction.

106 Even though the preliminary injunction requires modification, appellees have substantially and primarily prevailed on appeal. Appellees shall recover their statutory costs on appeal. See Fed. R. App. P. 39(a)(4) ("[i]f a judgment is affirmed in part, reversed in part, modified, or vacated, costs are taxed only as the court orders.>").

107 AFFIRMED IN PART, REVERSED IN PART AND REMANDED.

Notes:

¹ "To download means to receive information, typically a file, from another computer to yours via your modem The opposite term is upload, which means to send a file to another computer." *United States v. Mohrbacher*, 182 F.3d 1041, 1048 (9th Cir. 1999) (quoting Robin Williams, *Jargon, An Informal Dictionary of Computer Terms* 170-71 (1993)).

² Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party. *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1371 (N.D. Cal. 1995) ("[T]here can be no contributory infringement by a defendant without direct infringement by another."). It follows that Napster does not facilitate infringement of the copyright laws in the absence of direct infringement by its users.

³ Napster asserts that because plaintiffs seek injunctive relief, they have the burden of showing a likelihood that they would prevail against any affirmative defenses raised by Napster, including its fair use defense under 17 U.S.C. § 107. See *Atari Games Corp. v. Nintendo*, 975 F.2d 832, 837 (Fed. Cir. 1992) (following Ninth Circuit law, and stating that plaintiff must show likelihood of success on prima facie copyright infringement case and likelihood that it would overcome copyright misuse defense); see also *Dr. Seuss*

« up

Enters. v. Penguin Books USA, 924 F. Supp. 1559, 1562 (S.D. Cal. 1996) ("The plaintiff's burden of showing a likelihood of success on the merits includes the burden of showing a likelihood that it would prevail against any affirmative defenses raised by the defendant."), aff'd, 109 F.3d 1394 (9th Cir. 1997); Religious Tech. Ctr. v. Netcom On-Line Communication Servs., 923 F. Supp. 1231, 1242 n.12 (1995) (same); 2 William W. Schwarzer et al., California Practice Guide, Federal Civil Procedure Before Trial ¶ 13:47 (2000) (advising that when a preliminary injunction is sought "plaintiff must demonstrate a likelihood of prevailing on any affirmative defense as well as on plaintiff's case in chief"). But see Fair Use of Copyrighted Works, H.R. Rep. 102-836 n.3 (criticizing a Northern District of New York case in which "the district court erroneously held that where the copyright owner seeks a preliminary injunction, the copyright owner bears the burden of disproving the [fair use] defense"); see also 1 William F. Patry, Copyright Law & Practice, 725, 725 n.27 (1994) (citing cases placing burden on defendant at preliminary injunction stage).

The district court stated that "defendant bears the burden of proving . . . affirmative defenses." Napster, 114 F. Supp. 2d at 912. Plaintiffs assert that the district court did not err in placing the burden on Napster. We conclude that even if plaintiffs bear the burden of establishing that they would likely prevail against Napster's affirmative defenses at the preliminary injunction stage, the record supports the district court's conclusion that Napster users do not engage in fair use of the copyrighted materials.

⁴ Napster counters that even if certain users engage in commercial use by downloading instead of purchasing the music, space-shifting and sampling are nevertheless noncommercial in nature. We address this contention in our discussion of these specific uses, *infra*.

⁵ The district court found actual knowledge because: (1) a document authored by Napster co-founder Sean Parker mentioned "the need to remain ignorant of users' real names and IP addresses 'since they are exchanging pirated music'"; and (2) the Recording Industry Association of America ("RIAA") informed Napster of more than 12,000 infringing files, some of which are still available. 114 F. Supp. 2d at 918. The district court found constructive knowledge because: (a) Napster executives have recording industry experience; (b) they have enforced intellectual property rights in other instances; (c) Napster executives have downloaded copyrighted songs from the system; and (d) they have promoted the site with "screen shots listing infringing files." *Id.* at 919.

⁶ As stated by the district court:

Plaintiff[s] . . . demonstrate that defendant had actual notice of direct infringement because the RIAA informed it of more than 12,000 infringing files. See Creighton 12/3/99 Dec., Exh. D. Although Napster, Inc. purportedly terminated the users offering these files, the songs are still available using the Napster service, as are the copyrighted works which the record company plaintiffs identified in Schedules A and B of their complaint. See Creighton Supp. Dec. PP 3-4.

114 F. Supp. 2d at 918.

⁷ Napster additionally asserts that the district court improperly refused to allow additional discovery into affirmative defenses and also erroneously failed to hold an evidentiary hearing. The denial of an evidentiary hearing is reviewed for abuse of discretion, *Kenneally v. Lungren*, 967 F.2d 329, 335 (9th Cir. 1992), as is the court's decision to deny further discovery. See *Sablan v. Dep't of Finance*, 856 F.2d 1317, 1321 (9th Cir. 1988) (stating that decision to deny discovery will not be disturbed except upon a clear showing "that the denial of discovery results in actual and substantial prejudice"). We

« up conclude that the court did not abuse its discretion in denying further discovery and refusing to conduct an evidentiary hearing.

⁸ The district court correctly stated that "most of the cases" that recognize the affirmative defense of copyright misuse involve unduly restrictive licensing schemes. See *Napster*, 114 F. Supp. 2d at 923; see also *Lasercomb*, 911 F.2d at 973 (stating that "a misuse of copyright defense is inherent in the law of copyright"). We have also suggested, however, that a unilateral refusal to license a copyright may constitute wrongful exclusionary conduct giving rise to a claim of misuse, but assume that the "desire to exclude others . . . is a presumptively valid business justification for any immediate harm to consumers." See *Image Tech. Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1218 (9th Cir. 1997). But see *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1362 (Fed. Cir. 1999) ("[M]arket power does not 'impose on the intellectual property owner an obligation to license the use of that property to others.'" (quoting United States Dep't of Justice & Fed. Trade Comm'n, *Antitrust Guidelines for the Licensing of Intellectual Property* 4 (1995))).



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METRO-GOLDWYN-MAYER STUDIOS INC. et al. v. GROKSTER, LTD., et al.

certiorari to the united states court of appeals for the ninth circuit

No. 04-480. Argued March 29, 2005--Decided June 27, 2005

Respondent companies distribute free software that allows computer users to share electronic files through peer-to-peer networks, so called because the computers communicate directly with each other, not through central servers. Although such networks can be used to share any type of digital file, recipients of respondents' software have mostly used them to share copyrighted music and video files without authorization. Seeking damages and an injunction, a group of movie studios and other copyright holders (hereinafter MGM) sued respondents for their users' copyright infringements, alleging that respondents knowingly and intentionally distributed their software to enable users to infringe copyrighted works in violation of the Copyright Act.

Discovery revealed that billions of files are shared across peer-to-peer networks each month. Respondents are aware that users employ their software primarily to download copyrighted files, although the decentralized networks do not reveal which files are copied, and when. Respondents have sometimes learned about the infringement directly when users have e-mailed questions regarding copyrighted works, and respondents have replied with guidance. Respondents are not merely passive recipients of information about infringement. The record is replete with evidence that when they began to distribute their free software, each of them clearly voiced the objective that recipients use the software to download copyrighted works and took active steps to encourage infringement. After the notorious file-sharing service, Napster, was sued by copyright holders for facilitating copyright infringement, both respondents promoted and marketed themselves as Napster alternatives. They receive no revenue from users, but, instead, generate income by selling advertising space, then streaming the advertising to their users. As the number of users increases, advertising opportunities are worth more. There is no evidence that either respondent made an effort to filter copyrighted material from users' downloads or otherwise to impede the sharing of copyrighted files.

While acknowledging that respondents' users had directly infringed MGM's copyrights, the District Court nonetheless granted respondents summary judgment as to liability arising from distribution of their software. The Ninth Circuit affirmed. It read *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417, as holding that the distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. Because the appeals court found respondents' software to be capable of substantial noninfringing uses and because respondents had no actual knowledge of infringement owing to the software's decentralized architecture, the court held that they were not liable. It also held that they did not materially contribute to their users' infringement because the users themselves searched for, retrieved, and stored the infringing files, with no involvement by respondents beyond providing the software in the first place. Finally, the court held that respondents could not be held liable under a vicarious infringement theory because they did not monitor or control the software's use, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement.

Held: One who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, going beyond mere distribution with knowledge of third-party action, is liable for the resulting acts of infringement by third parties using the device, regardless of the device's lawful uses. Pp. 10-24.

(a) The tension between the competing values of supporting creativity through copyright protection and promoting technological innovation by limiting infringement liability is the subject of this case. Despite offsetting considerations, the argument for imposing indirect liability here is powerful, given the number of infringing downloads that occur daily using respondents' software. When a widely shared product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, so that the only practical alternative is to go against the device's distributor for secondary liability on a theory of contributory or vicarious infringement. One infringes contributorily by

intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise the right to stop or limit it. Although "[t]he Copyright Act does not expressly render anyone liable for [another's] infringement," *Sony*, 464 U. S., at 434, these secondary liability doctrines emerged from common law principles and are well established in the law, e.g., *id.*, at 486. Pp. 10-13.

(b) *Sony* addressed a claim that secondary liability for infringement can arise from the very distribution of a commercial product. There, copyright holders sued *Sony*, the manufacturer of videocassette recorders, claiming that it was contributorily liable for the infringement that occurred when VCR owners taped copyrighted programs. The evidence showed that the VCR's principal use was "time-shifting," i.e., taping a program for later viewing at a more convenient time, which the Court found to be a fair, noninfringing use. 464 U. S., at 423-424. Moreover, there was no evidence that *Sony* had desired to bring about taping in violation of copyright or taken active steps to increase its profits from unlawful taping. *Id.*, at 438. On those facts, the only conceivable basis for liability was on a theory of contributory infringement through distribution of a product. *Id.*, at 439. Because the VCR was "capable of commercially significant noninfringing uses," the Court held that *Sony* was not liable. *Id.*, at 442. This theory reflected patent law's traditional staple article of commerce doctrine that distribution of a component of a patented device will not violate the patent if it is suitable for use in other ways. 35 U. S. C §271(c). The doctrine absolves the equivocal conduct of selling an item with lawful and unlawful uses and limits liability to instances of more acute fault. In this case, the Ninth Circuit misread *Sony* to mean that when a product is capable of substantial lawful use, the producer cannot be held contributorily liable for third parties' infringing use of it, even when an actual purpose to cause infringing use is shown, unless the distributors had specific knowledge of infringement at a time when they contributed to the infringement and failed to act upon that information. *Sony* did not displace other secondary liability theories. Pp. 13-17.

(c) Nothing in *Sony* requires courts to ignore evidence of intent to promote infringement if such evidence exists. It was never meant to foreclose rules of fault-based liability derived from the common law. 464 U. S., at 439. Where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability. At common law a copyright or patent defendant who "not only expected but invoked [infringing use] by advertisement" was liable for infringement. *Kalem Co. v. Harper Brothers*, 222 U. S. 55, 62-63. The rule on inducement of infringement as developed in the early cases is no different today. Evidence of active steps taken to encourage direct infringement, such as advertising an infringing use or instructing how to engage in an infringing use, shows an affirmative intent that the product be used to infringe, and overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use. A rule that premises liability on purposeful, culpable expression and conduct does nothing to compromise legitimate commerce or discourage innovation having a lawful promise. Pp. 17-20.

(d) On the record presented, respondents' unlawful objective is unmistakable. The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations. *MGM* argues persuasively that such a message is shown here. Three features of the evidence of intent are particularly notable. First, each of the respondents showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former *Napster* users. Respondents' efforts to supply services to former *Napster* users indicate a principal, if not exclusive, intent to bring about infringement. Second, neither respondent attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. While the Ninth Circuit treated that failure as irrelevant because respondents lacked an independent duty to monitor their users' activity, this evidence underscores their intentional facilitation of their users' infringement. Third, respondents make money by selling advertising space, then by directing ads to the screens of computers employing their software. The more their software is used, the more ads are sent out and the greater the advertising revenue. Since the extent of the software's use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing. This evidence alone would not justify an inference of unlawful intent, but its import is clear in the entire record's context. Pp. 20-23.

(e) In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory requires evidence of actual infringement by recipients of the device, the software in this case. There is evidence of such infringement on a gigantic scale. Because substantial evidence supports *MGM* on all elements, summary judgment for respondents was error. On remand, reconsideration of *MGM*'s summary judgment motion will be in order. Pp. 23-24.

380 F. 3d 1154, vacated and remanded.

Souter, J., delivered the opinion for a unanimous Court. *Ginsburg, J.*, filed a concurring opinion, in which *Rehnquist, C. J.*, and *Kennedy, J.*, joined. *Breyer, J.*, filed a concurring opinion, in which *Stevens* and *O'Connor, JJ.*, joined.

METRO-GOLDWYN-MAYER STUDIOS INC., et al.,
 PETITIONERS v. GROKSTER, LTD., et al.

on writ of certiorari to the united states court of
 appeals for the ninth circuit

[June 27, 2005]

Justice Souter delivered the opinion of the Court.

The question is under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product. We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

I

A

Respondents, Grokster, Ltd., and StreamCast Networks, Inc., defendants in the trial court, distribute free software products that allow computer users to share electronic files through peer-to-peer networks, so called because users' computers communicate directly with each other, not through central servers. The advantage of peer-to-peer networks over information networks of other types shows up in their substantial and growing popularity. Because they need no central computer server to mediate the exchange of information or files among users, the high-bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated. Since copies of a file (particularly a popular one) are available on many users' computers, file requests and retrievals may be faster than on other types of networks, and since file exchanges do not travel through a server, communications can take place between any computers that remain connected to the network without risk that a glitch in the server will disable the network in its entirety. Given these benefits in security, cost, and efficiency, peer-to-peer networks are employed to store and distribute electronic files by universities, government agencies, corporations, and libraries, among others.¹

Other users of peer-to-peer networks include individual recipients of Grokster's and StreamCast's software, and although the networks that they enjoy through using the software can be used to share any type of digital file, they have prominently employed those networks in sharing copyrighted music and video files without authorization. A group of copyright holders (MGM for short, but including motion picture studios, recording companies, songwriters, and music publishers) sued Grokster and StreamCast for their users' copyright infringements, alleging that they knowingly and intentionally distributed their software to enable users to reproduce and distribute the copyrighted works in violation of the Copyright Act, 17 U. S. C. §101 et seq. (2000 ed. and Supp. II).² MGM sought damages and an injunction.

Discovery during the litigation revealed the way the software worked, the business aims of each defendant company, and the predilections of the users. Grokster's eponymous software employs what is known as FastTrack technology, a protocol developed by others and licensed to Grokster. StreamCast distributes a very similar product except that its software, called Morpheus, relies on what is known as Gnutella technology.³ A user who downloads and installs either software possesses the protocol to send requests for files directly to the computers of others using software compatible with FastTrack or Gnutella. On the FastTrack network opened by the Grokster software, the user's request goes to a computer given an indexing capacity by the software and designated a supernode, or to some other computer with comparable power and capacity to collect temporary indexes of the files available on the computers of users connected to it. The supernode (or indexing computer) searches its own index and may communicate the search request to other supernodes. If the file is found, the supernode discloses its location to the computer requesting it, and the requesting user can download the file directly from the computer located. The copied file is placed in a designated sharing folder on the requesting user's computer, where it is available for other users to download in turn, along with any other file in that folder.

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

conducted by users of the software, there being no central point through which the substance of the communications passes in either direction.⁴

Although Grokster and StreamCast do not therefore know when particular files are copied, a few searches using their software would show what is available on the networks the software reaches. MGM commissioned a statistician to conduct a systematic search, and his study showed that nearly 90% of the files available for download on the FastTrack system were copyrighted works.⁵ Grokster and StreamCast dispute this figure, raising methodological problems and arguing that free copying even of copyrighted works may be authorized by the rightholders. They also argue that potential noninfringing uses of their software are significant in kind, even if infrequent in practice. Some musical performers, for example, have gained new audiences by distributing their copyrighted works for free across peer-to-peer networks, and some distributors of unprotected content have used peer-to-peer networks to disseminate files, Shakespeare being an example. Indeed, StreamCast has given Morpheus users the opportunity to download the briefs in this very case, though their popularity has not been quantified.

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

Grokster and StreamCast concede the infringement in most downloads, Brief for Respondents 10, n. 6, and it is uncontested that they are aware that users employ their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks fail to reveal which files are being copied, and when. From time to time, moreover, the companies have learned about their users' infringement directly, as from users who have sent e-mail to each company with questions about playing copyrighted movies they had downloaded, to whom the companies have responded with guidance.⁶ App. 559-563, 808-816, 939-954. And MGM notified the companies of 8 million copyrighted files that could be obtained using their software.

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

After the notorious file-sharing service, Napster, was sued by copyright holders for facilitation of copyright infringement, *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (ND Cal. 2000), *aff'd in part, rev'd in part*, 239 F. 3d 1004 (CA9 2001), StreamCast gave away a software program of a kind known as OpenNap, designed as compatible with the Napster program and open to Napster users for downloading files from other Napster and OpenNap users' computers. Evidence indicates that "[i]t was always [StreamCast's] intent to use [its OpenNap network] to be able to capture email addresses of [its] initial target market so that [it] could promote [its] StreamCast Morpheus interface to them," App. 861; indeed, the OpenNap program was engineered "to leverage Napster's 50 million user base," *id.*, at 746.

StreamCast monitored both the number of users downloading its OpenNap program and the number of music files they downloaded. *Id.*, at 859, 863, 866. It also used the resulting OpenNap network to distribute copies of the Morpheus software and to encourage users to adopt it. *Id.*, at 861, 867, 1039. Internal company documents indicate that StreamCast hoped to attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster. *Id.*, at 861. A kit developed by StreamCast to be delivered to advertisers, for example, contained press articles about StreamCast's potential to capture former Napster users, *id.*, at 568-572, and it introduced itself to some potential advertisers as a company "which is similar to what Napster was," *id.*, at 884. It broadcast banner advertisements to users of other Napster-compatible software, urging them to adopt its OpenNap. *Id.*, at 586. An internal e-mail from a company executive stated: "We have put this network in place so that when Napster pulls the plug on their free service ... or if the Court orders them shut down prior to that ... we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative." *Id.*, at 588-589, 861.

Thus, StreamCast developed promotional materials to market its service as the best Napster alternative. One proposed advertisement read: "Napster Inc. has announced that it will soon begin charging you a fee. That's if the courts don't order it shut down first. What will you do to get around it?" *Id.*, at 897. Another proposed ad touted StreamCast's software as the "#1 alternative to Napster" and asked "[w]hen the lights went off at Napster ... where did the users go?" *Id.*, at 836 (ellipsis in original).⁷ StreamCast even planned to flaunt the illegal uses of its software; when it launched the OpenNap network, the chief technology officer of the company averred that "[t]he goal is to get in trouble with the law and get sued. It's the best

way to get in the new[s]." *Id.*, at 916.

The evidence that Grokster sought to capture the market of former Napster users is sparser but revealing, for Grokster launched its own OpenNap system called Swaptor and inserted digital codes into its Web site so that computer users using Web search engines to look for "Napster" or "[f]ree filesharing" would be directed to the Grokster Web site, where they could download the Grokster software. *Id.*, at 992-993. And Grokster's name is an apparent derivative of Napster.

StreamCast's executives monitored the number of songs by certain commercial artists available on their networks, and an internal communication indicates they aimed to have a larger number of copyrighted songs available on their networks than other file-sharing networks. *Id.*, at 868. The point, of course, would be to attract users of a mind to infringe, just as it would be with their promotional materials developed showing copyrighted songs as examples of the kinds of files available through Morpheus. *Id.*, at 848. Morpheus in fact allowed users to search specifically for "Top 40" songs, *id.*, at 735, which were inevitably copyrighted. Similarly, Grokster sent users a newsletter promoting its ability to provide particular, popular copyrighted materials. Brief for Motion Picture Studio and Recording Company Petitioners 7-8.

In addition to this evidence of express promotion, marketing, and intent to promote further, the business models employed by Grokster and StreamCast confirm that their principal object was use of their software to download copyrighted works. Grokster and StreamCast receive no revenue from users, who obtain the software itself for nothing. Instead, both companies generate income by selling advertising space, and they stream the advertising to Grokster and Morpheus users while they are employing the programs. As the number of users of each program increases, advertising opportunities become worth more. Cf. App. 539, 804. While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking a free Decameron, and Grokster and StreamCast translated that demand into dollars.

Finally, there is no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impede the sharing of copyrighted files. Although Grokster appears to have sent e-mails warning users about infringing content when it received threatening notice from the copyright holders, it never blocked anyone from continuing to use its software to share copyrighted files. *Id.*, at 75-76. StreamCast not only rejected another company's offer of help to monitor infringement, *id.*, at 928-929, but blocked the Internet Protocol addresses of entities it believed were trying to engage in such monitoring on its networks, *id.*, at 917-922.

B

After discovery, the parties on each side of the case cross-moved for summary judgment. The District Court limited its consideration to the asserted liability of Grokster and StreamCast for distributing the current versions of their software, leaving aside whether either was liable "for damages arising from past versions of their software, or from other past activities." 259 F. Supp. 2d 1029, 1033 (CD Cal. 2003). The District Court held that those who used the Grokster and Morpheus software to download copyrighted media files directly infringed MGM's copyrights, a conclusion not contested on appeal, but the court nonetheless granted summary judgment in favor of Grokster and StreamCast as to any liability arising from distribution of the then current versions of their software. Distributing that software gave rise to no liability in the court's view, because its use did not provide the distributors with actual knowledge of specific acts of infringement. Case No. CV 01 08541 SVW (PJWx) (CD Cal., June 18, 2003), App. 1213.

The Court of Appeals affirmed. 380 F. 3d 1154 (CA9 2004). In the court's analysis, a defendant was liable as a contributory infringer when it had knowledge of direct infringement and materially contributed to the infringement. But the court read *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417 (1984), as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. The fact that the software was capable of substantial noninfringing uses in the Ninth Circuit's view meant that Grokster and StreamCast were not liable, because they had no such actual knowledge, owing to the decentralized architecture of their software. The court also held that Grokster and StreamCast did not materially contribute to their users' infringement because it was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place.

The Ninth Circuit also considered whether Grokster and StreamCast could be liable under a theory of vicarious infringement. The court held against liability because the defendants did not monitor or control the use of the software, had no agreed-upon right or current ability to supervise its use, and had no independent duty to police infringement. We granted certiorari. 543 U. S. ____ (2004).

II

A

MGM and many of the amici fault the Court of Appeals's holding for upsetting a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement. The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off. See *Sony Corp. v. Universal City Studios*, supra, at 442; see generally Ginsburg, *Copyright and Control Over New Technologies of Dissemination*, 101 *Colum. L. Rev.* 1613 (2001); Lichtman & Landes, *Indirect Liability for Copyright Infringement: An Economic Perspective*, 16 *Harv. J. L. & Tech.* 395 (2003).

The tension between the two values is the subject of this case, with its claim that digital distribution of copyrighted material threatens copyright holders as never before, because every copy is identical to the original, copying is easy, and many people (especially the young) use file-sharing software to download copyrighted works. This very breadth of the software's use may well draw the public directly into the debate over copyright policy, Peters, *Brace Memorial Lecture: Copyright Enters the Public Domain*, 51 *J. Copyright Soc.* 701, 705-717 (2004) (address by Register of Copyrights), and the indications are that the ease of copying songs or movies using software like Grokster's and Napster's is fostering disdain for copyright protection, Wu, *When Code Isn't Law*, 89 *Va. L. Rev.* 679, 724-726 (2003). As the case has been presented to us, these fears are said to be offset by the different concern that imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies. See, e.g., Lemley & Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 *Stan. L. Rev.* 1345, 1386-1390 (2004); Brief for Innovation Scholars and Economists as Amici Curiae 15-20; Brief for Emerging Technology Companies as Amici Curiae 19-25; Brief for Intel Corporation as Amicus Curiae 20-22.⁸

The argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day using StreamCast's and Grokster's software. When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement. See *In re Aimster Copyright Litigation*, 334 F. 3d 643, 645-646 (CA7 2003).

One infringes contributorily by intentionally inducing or encouraging direct infringement, see *Gershwin Pub. Corp. v. Columbia Artists Management, Inc.*, 443 F. 2d 1159, 1162 (CA2 1971), and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it, *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F. 2d 304, 307 (CA2 1963).⁹ Although "[t]he Copyright Act does not expressly render anyone liable for infringement committed by another," *Sony Corp. v. Universal City Studios*, 464 U. S., at 434, these doctrines of secondary liability emerged from common law principles and are well established in the law, *id.*, at 486 (Blackmun, J., dissenting); *Kalem Co. v. Harper Brothers*, 222 U. S. 55, 62-63 (1911); *Gershwin Pub. Corp. v. Columbia Artists Management, supra*, at 1162; 3 M. Nimmer & D. Nimmer, *Copyright*, §12.04[A] (2005).

B

Despite the currency of these principles of secondary liability, this Court has dealt with secondary copyright infringement in only one recent case, and because MGM has tailored its principal claim to our opinion there, a look at our earlier holding is in order. In *Sony Corp. v. Universal City Studios*, supra, this Court addressed a claim that secondary liability for infringement can arise from the very distribution of a commercial product. There, the product, novel at the time, was what we know today as the videocassette recorder or VCR. Copyright holders sued Sony as the manufacturer, claiming it was contributorily liable for infringement that occurred when VCR owners taped copyrighted programs because it supplied the means used to infringe, and it had constructive knowledge that infringement would occur. At the trial on the merits, the evidence showed that the principal use of the VCR was for "time-shifting," or taping a program for later viewing at a more convenient time, which the Court found to be a fair, not an infringing, use. *Id.*, at 423-424. There was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping. *Id.*, at 438. Although Sony's advertisements urged consumers to buy the VCR to "record favorite shows" or "build a library" of recorded programs, *id.*, at 459 (Blackmun, J., dissenting), neither of these uses was necessarily infringing, *id.*, at 424, 454-455.

On those facts, with no evidence of stated or indicated intent to promote infringing uses, the only conceivable basis for imposing liability was on a theory of contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe. *Id.*, at 439. But because the VCR was "capable of commercially significant noninfringing uses," we held the manufacturer could not be faulted solely on the basis of its distribution. *Id.*, at 442.

This analysis reflected patent law's traditional staple article of commerce doctrine, now codified, that distribution of a component of a patented device will not violate the patent if it is suitable for use in other ways. 35 U. S. C. §271(c); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U. S. 476, 485 (1964) (noting codification of cases); *id.*, at 486, n. 6 (same). The doctrine was devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another's patent, and so may justly be held liable for that infringement. "One who makes and sells articles which are only adapted to be used in a patented combination will be presumed to intend the natural consequences of his acts; he will be presumed to intend that they shall be used in the combination of the patent." *New York Scaffolding Co. v. Whitney*, 224 F. 452, 459 (CA8 1915); see also *James Heekin Co. v. Baker*, 138 F. 63, 66 (CA8 1905); *Canda v. Michigan Malleable Iron Co.*, 124 F. 486, 489 (CA6 1903); *Thomson-Houston Electric Co. v. Ohio Brass Co.*, 80 F. 712, 720-721 (CA6 1897); *Red Jacket Mfg. Co. v. Davis*, 82 F. 432, 439 (CA7 1897); *Holly v. Vergennes Machine Co.*, 4 F. 74, 82 (CC Vt. 1880); *Renwick v. Pond*, 20 F. Cas. 536, 541 (No. 11,702) (CC SDNY 1872).

In sum, where an article is "good for nothing else" but infringement, *Canda v. Michigan Malleable Iron Co.*, *supra*, at 489, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe, see *Henry v. A. B. Dick Co.*, 224 U. S. 1, 48 (1912), overruled on other grounds, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502 (1917). Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce. See *Sony Corp. v. Universal City Studios*, *supra*, at 442; *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U. S. 176, 221 (1980); *Henry v. A. B. Dick Co.*, *supra*, at 48.

The parties and many of the amici in this case think the key to resolving it is the Sony rule and, in particular, what it means for a product to be "capable of commercially significant noninfringing uses." *Sony Corp. v. Universal City Studios*, *supra*, at 442. MGM advances the argument that granting summary judgment to Grokster and StreamCast as to their current activities gave too much weight to the value of innovative technology, and too little to the copyrights infringed by users of their software, given that 90% of works available on one of the networks was shown to be copyrighted. Assuming the remaining 10% to be its noninfringing use, MGM says this should not qualify as "substantial," and the Court should quantify Sony to the extent of holding that a product used "principally" for infringement does not qualify. See Brief for Motion Picture Studio and Recording Company Petitioners 31. As mentioned before, Grokster and StreamCast reply by citing evidence that their software can be used to reproduce public domain works, and they point to copyright holders who actually encourage copying. Even if infringement is the principal practice with their software today, they argue, the noninfringing uses are significant and will grow.

We agree with MGM that the Court of Appeals misapplied Sony, which it read as limiting secondary liability quite beyond the circumstances to which the case applied. Sony barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. The Ninth Circuit has read Sony's limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it; it read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had "specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information." 380 F. 3d, at 1162 (internal quotation marks and alterations omitted). Because the Circuit found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of Sony that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

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

C

Sony's rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in Sony requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law.¹⁰ *Sony Corp. v. Universal City Studios*, 464 U. S., at 439 ("If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge" of the

potential for infringement). Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, Sony's staple-article rule will not preclude liability.

The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or "entic[es] or persuad[es] another" to infringe, Black's Law Dictionary 790 (8th ed. 2004), as by advertising. Thus at common law a copyright or patent defendant who "not only expected but invoked [infringing use] by advertisement" was liable for infringement "on principles recognized in every part of the law." *Kalem Co. v. Harper Brothers*, 222 U. S., at 62-63 (copyright infringement). See also *Henry v. A. B. Dick Co.*, 224 U. S., at 48-49 (contributory liability for patent infringement may be found where a good's "most conspicuous use is one which will coöperate in an infringement when sale to such user is invoked by advertisement" of the infringing use); *Thomson-Houston Electric Co. v. Kelsey Electric R. Specialty Co.*, 75 F. 1005, 1007-1008 (CA2 1896) (relying on advertisements and displays to find defendant's "willingness ... to aid other persons in any attempts which they may be disposed to make towards [patent] infringement"); *Rumford Chemical Works v. Hecker*, 20 F. Cas. 1342, 1346 (No. 12,133) (CC N. J. 1876) (demonstrations of infringing activity along with "avowals of the [infringing] purpose and use for which it was made" supported liability for patent infringement).

The rule on inducement of infringement as developed in the early cases is no different today.¹¹ Evidence of "active steps ... taken to encourage direct infringement," *Oak Industries, Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (ND Ill. 1988), such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use, see, e.g., *Water Technologies Corp. v. Calco, Ltd.*, 850 F. 2d 660, 668 (CA Fed. 1988) (liability for inducement where one "actively and knowingly aid[s] and abet[s] another's direct infringement" (emphasis omitted)); *Fromberg, Inc. v. Thornhill*, 315 F. 2d 407, 412-413 (CA5 1963) (demonstrations by sales staff of infringing uses supported liability for inducement); *Haworth Inc. v. Herman Miller Inc.*, 37 USPQ 2d 1080, 1090 (WD Mich. 1994) (evidence that defendant "demonstrate[d] and recommend[ed] infringing configurations" of its product could support inducement liability); *Sims v. Mack Trucks, Inc.*, 459 F. Supp. 1198, 1215 (ED Pa. 1978) (finding inducement where the use "depicted by the defendant in its promotional film and brochures infringes the ... patent"), overruled on other grounds, 608 F. 2d 87 (CA3 1979). Cf. *W. Keeton, D. Dobbs, R. Keeton, & D. Owen, Prosser and Keeton on Law of Torts* 37 (5th ed. 1984) ("There is a definite tendency to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong").

For the same reasons that Sony took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as Sony did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, 464 U. S., at 439, n. 19, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

III

A

The only apparent question about treating MGM's evidence as sufficient to withstand summary judgment under the theory of inducement goes to the need on MGM's part to adduce evidence that StreamCast and Grokster communicated an inducing message to their software users. The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations. MGM claims that such a message is shown here. It is undisputed that StreamCast beamed onto the computer screens of users of Napster-compatible programs ads urging the adoption of its OpenNap program, which was designed, as its name implied, to invite the custom of patrons of Napster, then under attack in the courts for facilitating massive infringement. Those who accepted StreamCast's OpenNap program were offered software to perform the same services, which a factfinder could conclude would readily have been understood in the Napster market as the ability to download copyrighted music files. Grokster distributed an electronic newsletter containing links to articles promoting its software's ability to access popular copyrighted music. And anyone whose Napster or free file-sharing searches

turned up a link to Grokster would have understood Grokster to be offering the same file-sharing ability as Napster, and to the same people who probably used Napster for infringing downloads; that would also have been the understanding of anyone offered Grokster's suggestively named Swaptor software, its version of OpenNap. And both companies communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials.

In StreamCast's case, of course, the evidence just described was supplemented by other unequivocal indications of unlawful purpose in the internal communications and advertising designs aimed at Napster users ("When the lights went off at Napster ... where did the users go?" App. 836 (ellipsis in original)). Whether the messages were communicated is not to the point on this record. The function of the message in the theory of inducement is to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection (and incidentally to point to actual violators likely to be found among those who hear or read the message). See *supra*, at 17-19. Proving that a message was sent out, then, is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed. Here, the summary judgment record is replete with other evidence that Grokster and StreamCast, unlike the manufacturer and distributor in *Sony*, acted with a purpose to cause copyright violations by use of software suitable for illegal use. See *supra*, at 6-9.

Three features of this evidence of intent are particularly notable. First, each company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users. StreamCast's internal documents made constant reference to Napster, it initially distributed its Morpheus software through an OpenNap program compatible with Napster, it advertised its OpenNap program to Napster users, and its Morpheus software functions as Napster did except that it could be used to distribute more kinds of files, including copyrighted movies and software programs. Grokster's name is apparently derived from Napster, it too initially offered an OpenNap program, its software's function is likewise comparable to Napster's, and it attempted to divert queries for Napster onto its own Web site. Grokster and StreamCast's efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.

Second, this evidence of unlawful objective is given added significance by MGM's showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. While the Ninth Circuit treated the defendants' failure to develop such tools as irrelevant because they lacked an independent duty to monitor their users' activity, we think this evidence underscores Grokster's and StreamCast's intentional facilitation of their users' infringement.¹²

Third, there is a further complement to the direct evidence of unlawful objective. It is useful to recall that StreamCast and Grokster make money by selling advertising space, by directing ads to the screens of computers employing their software. As the record shows, the more the software is used, the more ads are sent out and the greater the advertising revenue becomes. Since the extent of the software's use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.¹³ This evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear.

The unlawful objective is unmistakable.

B

In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement by recipients of the device, the software in this case. As the account of the facts indicates, there is evidence of infringement on a gigantic scale, and there is no serious issue of the adequacy of MGM's showing on this point in order to survive the companies' summary judgment requests. Although an exact calculation of infringing use, as a basis for a claim of damages, is subject to dispute, there is no question that the summary judgment evidence is at least adequate to entitle MGM to go forward with claims for damages and equitable relief.

In sum, this case is significantly different from *Sony* and reliance on that case to rule in favor of StreamCast and Grokster was error. *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product's capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.

MGM's evidence in this case most obviously addresses a different basis of liability for distributing a product open to alternative uses. Here, evidence of the distributors' words and deeds going beyond

distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.

There is substantial evidence in MGM's favor on all elements of inducement, and summary judgment in favor of Grokster and StreamCast was error. On remand, reconsideration of MGM's motion for summary judgment will be in order.

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

It is so ordered.

METRO-GOLDWYN-MAYER STUDIOS INC., et al.,
 PETITIONERS v. GROKSTER, LTD., et al.

on writ of certiorari to the united states court of
 appeals for the ninth circuit

[June 27, 2005]

Justice Ginsburg, with whom The Chief Justice and Justice Kennedy join, concurring

I concur in the Court's decision, which vacates in full the judgment of the Court of Appeals for the Ninth Circuit, ante, at 24, and write separately to clarify why I conclude that the Court of Appeals misperceived, and hence misapplied, our holding in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417 (1984). There is here at least a "genuine issue as to [a] material fact," Fed. Rule Civ. Proc. 56(c), on the liability of Grokster or StreamCast, not only for actively inducing copyright infringement, but also or alternatively, based on the distribution of their software products, for contributory copyright infringement. On neither score was summary judgment for Grokster and StreamCast warranted.

At bottom, however labeled, the question in this case is whether Grokster and StreamCast are liable for the direct infringing acts of others. Liability under our jurisprudence may be predicated on actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develops) or on distributing a product distributees use to infringe copyrights, if the product is not capable of "substantial" or "commercially significant" noninfringing uses. *Sony*, 464 U. S., at 442; see also 3 M. Nimmer & D. Nimmer, *Nimmer on Copyright* §12.04[A][2] (2005). While the two categories overlap, they capture different culpable behavior. Long coexisting, both are now codified in patent law. Compare 35 U. S. C. §271(b) (active inducement liability), with §271(c) (contributory liability for distribution of a product not "suitable for substantial noninfringing use").

In *Sony*, 464 U. S. 417, the Court considered Sony's liability for selling the Betamax video cassette recorder. It did so enlightened by a full trial record. Drawing an analogy to the staple article of commerce doctrine from patent law, the *Sony* Court observed that the "sale of an article ... adapted to [a patent] infringing use" does not suffice "to make the seller a contributory infringer" if the article "is also adapted to other and lawful uses." *Id.*, at 441 (quoting *Henry v. A. B. Dick Co.*, 224 U. S. 1, 48 (1912), overruled on other grounds, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 517 (1917)).

"The staple article of commerce doctrine" applied to copyright, the Court stated, "must strike a balance between a copyright holder's legitimate demand for effective--not merely symbolic--protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." *Sony*, 464 U. S., at 442. "Accordingly," the Court held, "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses." *Ibid.* Thus, to resolve the *Sony* case, the Court explained, it had to determine "whether the Betamax is capable of commercially significant noninfringing uses." *Ibid.*

To answer that question, the Court considered whether "a significant number of [potential uses of the Betamax were] noninfringing." *Ibid.* The Court homed in on one potential use--private, noncommercial time-shifting of television programs in the home (i.e., recording a broadcast TV program for later personal viewing). Time-shifting was noninfringing, the Court concluded, because in some cases trial testimony showed it was authorized by the copyright holder, *id.*, at 443-447, and in others it qualified as legitimate fair use, *id.*, at 447-455. Most purchasers used the Betamax principally to engage in time-shifting, *id.*, at 421, 423, a use that "plainly satisfie[d]" the Court's standard, *id.*, at 442. Thus, there was no need in *Sony* to "give precise content to the question of how much [actual or potential] use is commercially significant." *Ibid.* Further development was left for later days and cases.

The Ninth Circuit went astray, I will endeavor to explain, when that court granted summary judgment to Grokster and StreamCast on the charge of contributory liability based on distribution of their software products. Relying on its earlier opinion in *A&M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004 (CA9 2001), the Court of Appeals held that "if substantial noninfringing use was shown, the copyright owner would be required to show that the defendant had reasonable knowledge of specific infringing files." 380 F. 3d 1154, 1161 (CA9 2004). "A careful examination of the record," the court concluded, "indicates that there is no genuine issue of material fact as to noninfringing use." *Ibid.* The appeals court pointed to the band Wilco, which made one of its albums available for free downloading, to other recording artists who may have authorized free distribution of their music through the Internet, and to public domain literary works and films available through Grokster's and StreamCast's software. *Ibid.* Although it acknowledged MGM's assertion that "the vast majority of the software use is for copyright infringement," the court concluded that Grokster's and StreamCast's proffered evidence met Sony's requirement that "a product need only be capable of substantial noninfringing uses." 380 F. 3d, at 1162.²

This case differs markedly from Sony. Cf. Peters, *Brace Memorial Lecture: Copyright Enters the Public Domain*, 51 J. Copyright Soc. 701, 724 (2004) ("The Grokster panel's reading of Sony is the broadest that any court has given it ..."). Here, there has been no finding of any fair use and little beyond anecdotal evidence of noninfringing uses. In finding the Grokster and StreamCast software products capable of substantial noninfringing uses, the District Court and the Court of Appeals appear to have relied largely on declarations submitted by the defendants. These declarations include assertions (some of them hearsay) that a number of copyright owners authorize distribution of their works on the Internet and that some public domain material is available through peer-to-peer networks including those accessed through Grokster's and StreamCast's software. 380 F. 3d, at 1161; 259 F. Supp. 2d 1029, 1035-1036 (CD Cal. 2003); App. 125-171.

The District Court declared it "undisputed that there are substantial noninfringing uses for Defendants' software," thus obviating the need for further proceedings. 259 F. Supp. 2d, at 1035. This conclusion appears to rest almost entirely on the collection of declarations submitted by Grokster and StreamCast. *Ibid.* Review of these declarations reveals mostly anecdotal evidence, sometimes obtained second-hand, of authorized copyrighted works or public domain works available online and shared through peer-to-peer networks, and general statements about the benefits of peer-to-peer technology. See, e.g., Decl. of Janis Ian ¶13, App. 128 ("P2P technologies offer musicians an alternative channel for promotion and distribution."); Decl. of Gregory Newby ¶12, *id.*, at 136 ("Numerous authorized and public domain Project Gutenberg eBooks are made available on Morpheus, Kazaa, Gnutella, Grokster, and similar software products."); Decl. of Aram Sinnreich ¶6, *id.*, at 151 ("file sharing seems to have a net positive impact on music sales"); Decl. of John Busher ¶8, *id.*, at 166 ("I estimate that Acoustica generates sales of between \$1,000 and \$10,000 per month as a result of the distribution of its trialware software through the Gnutella and FastTrack Networks."); Decl. of Patricia D. Hoekman ¶¶3-4, *id.*, at 169-170 (search on Morpheus for "President Bush speeches" found several video recordings, searches for "Declaration of Independence" and "Bible" found various documents and declarant was able to download a copy of the Declaration); Decl. of Sean L. Mayers ¶11, *id.*, at 67 ("Existing open, decentralized peer-to-peer file-sharing networks ... offer content owners distinct business advantages over alternate online distribution technologies."). Compare Decl. of Brewster Kahle ¶20, *id.*, at 142 ("Those who download the Prelinger films ... are entitled to redistribute those files, and the Archive welcomes their redistribution by the Morpheus-Grokster-KaZaa community of users."), with Deposition of Brewster Kahle, *id.*, at 396-403 (Sept. 18, 2002) (testifying that he has no knowledge of any person downloading a Prelinger film using Morpheus, Grokster, or KaZaa). Compare also Decl. of Richard Prelinger ¶17, *id.*, at 147 ("[W]e welcome further redistribution of the Prelinger films ... by individuals using peer-to-peer software products like Morpheus, KaZaa and Grokster."), with Deposition of Richard Prelinger, *id.*, at 410-411 (Oct. 1, 2002) ("Q. What is your understanding of Grokster? A. I have no understanding of Grokster... Q. Do you know whether any user of the Grokster software has made available to share any Prelinger film? A. No."). See also Deposition of Aram Sinnreich, *id.*, at 390 (Sept. 25, 2002) (testimony about the band Wilco based on "[t]he press and industry news groups and scuttlebutt."). These declarations do not support summary judgment in the face of evidence, proffered by MGM, of overwhelming use of Grokster's and StreamCast's software for infringement.³

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

In sum, when the record in this case was developed, there was evidence that Grokster's and StreamCast's products were, and had been for some time, overwhelmingly used to infringe, ante, at 4-6; App. 434-439, 476-481, and that this infringement was the overwhelming source of revenue from the

products, ante, at 8-9; 259 F. Supp. 2d, at 1043-1044. Fairly appraised, the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time. On this record, the District Court should not have ruled dispositively on the contributory infringement charge by granting summary judgment to Grokster and StreamCast.⁴

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

METRO-GOLDWYN-MAYER STUDIOS INC., et al.,
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on writ of certiorari to the united states court of
 appeals for the ninth circuit

[June 27, 2005]

Justice Breyer, with whom Justice Stevens and Justice O'Connor join, concurring.

I agree with the Court that the distributor of a dual-use technology may be liable for the infringing activities of third parties where he or she actively seeks to advance the infringement. Ante, at 1. I further agree that, in light of our holding today, we need not now "revisit" *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417 (1984). Ante, at 17. Other Members of the Court, however, take up the Sony question: whether Grokster's product is "capable of 'substantial' or 'commercially significant' noninfringing uses." Ante, at 1 (Ginsburg, J., concurring) (quoting Sony, supra, at 442). And they answer that question by stating that the Court of Appeals was wrong when it granted summary judgment on the issue in Grokster's favor. Ante, at 4. I write to explain why I disagree with them on this matter.

I

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

A

I begin with Sony's standard. In Sony, the Court considered the potential copyright liability of a company that did not itself illegally copy protected material, but rather sold a machine--a Video Cassette Recorder (VCR)--that could be used to do so. A buyer could use that machine for noninfringing purposes, such as recording for later viewing (sometimes called "time-shifting," Sony, 464 U. S., at 421) uncopyrighted television programs or copyrighted programs with a copyright holder's permission. The buyer could use the machine for infringing purposes as well, such as building libraries of taped copyrighted programs. Or, the buyer might use the machine to record copyrighted programs under circumstances in which the legal status of the act of recording was uncertain (i.e., where the copying may, or may not, have constituted a "fair use," id., at 425-426). Sony knew many customers would use its VCRs to engage in unauthorized copying and "library-building." Id., at 458-459 (Blackmun, J., dissenting). But that fact, said the Court, was insufficient to make Sony itself an infringer. And the Court ultimately held that Sony was not liable for its customers' acts of infringement.

In reaching this conclusion, the Court recognized the need for the law, in fixing secondary copyright liability, to "strike a balance between a copyright holder's legitimate demand for effective--not merely symbolic--protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." Id., at 442. It pointed to patent law's "staple article of commerce" doctrine, *ibid.*, under which a distributor of a product is not liable for patent infringement by its customers unless that product is "unsuited for any commercial noninfringing use." *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U. S. 176, 198 (1980). The Court wrote that the sale of copying equipment, "like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses." Sony, 464 U. S., at 442 (emphasis added). The Court ultimately characterized the legal "question" in the particular case as "whether [Sony's VCR] is capable of commercially significant noninfringing uses" (while declining to give "precise content" to these terms). *Ibid.* (emphasis added).

It then applied this standard. The Court had before it a survey (commissioned by the District Court and then prepared by the respondents) showing that roughly 9% of all VCR recordings were of the type--namely, religious, educational, and sports programming--owned by producers and distributors testifying on Sony's behalf who did not object to time-shifting. See Brief for Respondent Universal Studios et al. O. T. 1983, No. 81-1687, pp. 52-53; see also Sony, supra, at 424 (7.3% of all Sony VCR use is to record

sports programs; representatives of the sports leagues do not object). A much higher percentage of VCR users had at one point taped an authorized program, in addition to taping unauthorized programs. And the plaintiffs--not a large class of content providers as in this case--owned only a small percentage of the total available unauthorized programming. See ante, at 6-7, and n. 3 (Ginsburg, J., concurring). But of all the taping actually done by Sony's customers, only around 9% was of the sort the Court referred to as authorized.

The Court found that the magnitude of authorized programming was "significant," and it also noted the "significant potential for future authorized copying." 464 U. S., at 444. The Court supported this conclusion by referencing the trial testimony of professional sports league officials and a religious broadcasting representative. Id., at 444, and n. 24. It also discussed (1) a Los Angeles educational station affiliated with the Public Broadcasting Service that made many of its programs available for home taping, and (2) Mr. Rogers' Neighborhood, a widely watched children's program. Id., at 445. On the basis of this testimony and other similar evidence, the Court determined that producers of this kind had authorized duplication of their copyrighted programs "in significant enough numbers to create a substantial market for a noninfringing use of the" VCR. Id., at 447, n. 28 (emphasis added).

The Court, in using the key word "substantial," indicated that these circumstances alone constituted a sufficient basis for rejecting the imposition of secondary liability. See id., at 456 ("Sony demonstrated a significant likelihood that substantial numbers of copyright holders" would not object to time-shifting (emphasis added)). Nonetheless, the Court buttressed its conclusion by finding separately that, in any event, unauthorized time-shifting often constituted not infringement, but "fair use." Id., at 447-456.

B

When measured against Sony's underlying evidence and analysis, the evidence now before us shows that Grokster passes Sony's test--that is, whether the company's product is capable of substantial or commercially significant noninfringing uses. Id., at 442. For one thing, petitioners' (hereinafter MGM) own expert declared that 75% of current files available on Grokster are infringing and 15% are "likely infringing." See App. 436-439, ¶¶6-17 (Decl. of Dr. Ingram Olkin); cf. ante, at 4 (opinion of the Court). That leaves some number of files near 10% that apparently are noninfringing, a figure very similar to the 9% or so of authorized time-shifting uses of the VCR that the Court faced in Sony.

As in Sony, witnesses here explained the nature of the noninfringing files on Grokster's network without detailed quantification. Those files include:

--Authorized copies of music by artists such as Wilco, Janis Ian, Pearl Jam, Dave Matthews, John Mayer, and others. See App. at 152-153, ¶¶9-13 (Decl. of Aram Sinnreich) (Wilco's "lesson has already been adopted by artists still signed to their major labels"); id., at 170, ¶¶5-7 (Decl. of Patricia D. Hoekman) (locating "numerous audio recordings" that were authorized for swapping); id., at 74, ¶10 (Decl. of Daniel B. Rung) (describing Grokster's partnership with a company that hosts music from thousands of independent artists)

--Free electronic books and other works from various online publishers, including Project Gutenberg. See id., at 136, ¶12 (Decl. of Gregory B. Newby) ("Numerous authorized and public domain Project Gutenberg eBooks are made available" on Grokster. Project Gutenberg "welcomes this widespread sharing ... using these software products[,] since they assist us in meeting our objectives"); id., at 159-160, ¶32 (Decl. of Sinnreich)

--Public domain and authorized software, such as WinZip 8.1. Id., at 170, ¶8 (Decl. of Hoekman); id., at 165, ¶¶4-7 (Decl. of John Busher)

--Licensed music videos and television and movie segments distributed via digital video packaging with the permission of the copyright holder. Id., at 70, ¶24 (Decl. of Sean L. Mayers)

The nature of these and other lawfully swapped files is such that it is reasonable to infer quantities of current lawful use roughly approximate to those at issue in Sony. At least, MGM has offered no evidence sufficient to survive summary judgment that could plausibly demonstrate a significant quantitative difference. See ante, at 4 (opinion of the Court); see also Brief for Motion Picture Studio and Recording Company Petitioners i (referring to "at least 90% of the total use of the services"); but see ante, at 6-7, n. 3 (Ginsburg, J., concurring). To be sure, in quantitative terms these uses account for only a small percentage of the total number of uses of Grokster's product. But the same was true in Sony, which characterized the relatively limited authorized copying market as "substantial." (The Court made clear as well in Sony that the amount of material then presently available for lawful copying--if not actually copied--was significant, see 464 U. S., at 444, and the same is certainly true in this case.)

Importantly, Sony also used the word "capable," asking whether the product is "capable of" substantial noninfringing uses. Its language and analysis suggest that a figure like 10%, if fixed for all time, might well

prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time. See *ibid.* (noting a "significant potential for future authorized copying"). And its language also indicates the appropriateness of looking to potential future uses of the product to determine its "capability."

Here the record reveals a significant future market for noninfringing uses of Grokster-type peer-to-peer software. Such software permits the exchange of any sort of digital file—whether that file does, or does not, contain copyrighted material. As more and more uncopyrighted information is stored in swappable form, it seems a likely inference that lawful peer-to-peer sharing will become increasingly prevalent. See, e.g., App. 142, ¶20 (Decl. of Brewster Kahle) ("The [Internet Archive] welcomes [the] redistribution [of authorized films] by the Morpheus-Grokster-KaZaa community of users"); *id.*, at 166, ¶8 (Decl. of Busher) (sales figures of \$1,000 to \$10,000 per month through peer-to-peer networks "will increase in the future as Acoustica's trialware is more widely distributed through these networks"); *id.*, at 156-164, ¶¶21-40 (Decl. of Sinnreich).

And that is just what is happening. Such legitimate noninfringing uses are coming to include the swapping of: research information (the initial purpose of many peer-to-peer networks); public domain films (e.g., those owned by the Prelinger Archive); historical recordings and digital educational materials (e.g., those stored on the Internet Archive); digital photos (OurPictures, for example, is starting a P2P photo-swapping service); "shareware" and "freeware" (e.g., Linux and certain Windows software); secure licensed music and movie files (Intent MediaWorks, for example, protects licensed content sent across P2P networks); news broadcasts past and present (the BBC Creative Archive lets users "rip, mix and share the BBC"); user-created audio and video files (including "podcasts" that may be distributed through P2P software); and all manner of free "open content" works collected by Creative Commons (one can search for Creative Commons material on StreamCast). See Brief for Distributed Computing Industry Association as Amicus Curiae 15-26; Merges, A New Dynamism in the Public Domain, 71 U. Chi. L. Rev. 183 (2004). I can find nothing in the record that suggests that this course of events will not continue to flow naturally as a consequence of the character of the software taken together with the foreseeable development of the Internet and of information technology. Cf. *ante*, at 1-2 (opinion of the Court) (discussing the significant benefits of peer-to-peer technology).

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

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

II

The real question here, I believe, is not whether the record evidence satisfies Sony. As I have interpreted the standard set forth in that case, it does. And of the Courts of Appeals that have considered the matter, only one has proposed interpreting Sony more strictly than I would do—in a case where the product might have failed under any standard. In *re Aimster Copyright Litigation*, 334 F. 3d 643, 653 (CA7 2003) (defendant "failed to show that its service is ever used for any purpose other than to infringe" copyrights (emphasis added)); see *Matthew Bender & Co., Inc. v. West Pub. Co.*, 158 F. 3d 693, 706-707 (CA2 1998) (court did not require that noninfringing uses be "predominant," it merely found that they were predominant, and therefore provided no analysis of Sony's boundaries); but see *ante*, at 3 n. 1 (Ginsburg, J., concurring); see also *A&M Records v. Napster, Inc.*, 239 F. 3d 1004, 1020 (CA9 2001) (discussing Sony); *Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F. 2d 829, 842-847 (CA11 1990) (same); *Vault Corp. v. Quaid Software, Ltd.*, 847 F. 2d 255, 262 (CA5 1988) (same); cf. *Dynacore Holdings Corp. v. U. S. Philips Corp.*, 363 F. 3d 1263, 1275 (CA Fed. 2004) (same); see also *Doe v. GTE Corp.*, 347 F. 3d 655, 661 (CA7 2003) ("A person may be liable as a contributory infringer if the product or service it sells has no (or only slight) legal use").

Instead, the real question is whether we should modify the Sony standard, as MGM requests, or interpret Sony more strictly, as I believe Justice Ginsburg's approach would do in practice. Compare *ante*, at 4-8 (concurring) (insufficient evidence in this case of both present lawful uses and of a reasonable prospect that substantial noninfringing uses would develop over time), with Sony, 464 U. S., at 442-447 (basing conclusion as to the likely existence of a substantial market for authorized copying upon general declarations, some survey data, and common sense).

As I have said, Sony itself sought to "strike a balance between a copyright holder's legitimate demand for effective--not merely symbolic--protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce." *Id.*, at 442. Thus, to determine whether modification, or a strict interpretation, of Sony is needed, I would ask whether MGM has shown that Sony incorrectly balanced copyright and new-technology interests. In particular: (1) Has Sony (as I interpret it) worked to protect new technology? (2) If so, would modification or strict interpretation significantly weaken that protection? (3) If so, would new or necessary copyright-related benefits outweigh any such weakening?

A

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

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

Sony's rule is strongly technology protecting. The rule deliberately makes it difficult for courts to find secondary liability where new technology is at issue. It establishes that the law will not impose copyright liability upon the distributors of dual-use technologies (who do not themselves engage in unauthorized copying) unless the product in question will be used almost exclusively to infringe copyrights (or unless they actively induce infringements as we today describe). Sony thereby recognizes that the copyright laws are not intended to discourage or to control the emergence of new technologies, including (perhaps especially) those that help disseminate information and ideas more broadly or more efficiently. Thus Sony's rule shelters VCRs, typewriters, tape recorders, photocopiers, computers, cassette players, compact disc burners, digital video recorders, MP3 players, Internet search engines, and peer-to-peer software. But Sony's rule does not shelter descramblers, even if one could theoretically use a descrambler in a noninfringing way. *464 U. S.*, at 441-442; Compare *Cable/Home Communication Corp.*, *supra*, at 837-850 (developer liable for advertising television signal descrambler), with *Vault Corp.*, *supra*, at 262 (primary use infringing but a substantial noninfringing use).

Sony's rule is forward looking. It does not confine its scope to a static snapshot of a product's current uses (thereby threatening technologies that have undeveloped future markets). Rather, as the VCR example makes clear, a product's market can evolve dramatically over time. And Sony--by referring to a capacity for substantial noninfringing uses--recognizes that fact. Sony's word "capable" refers to a plausible, not simply a theoretical, likelihood that such uses will come to pass, and that fact anchors Sony in practical reality. Cf. *Aimster*, *supra*, at 651.

Sony's rule is mindful of the limitations facing judges where matters of technology are concerned. Judges have no specialized technical ability to answer questions about present or future technological feasibility or commercial viability where technology professionals, engineers, and venture capitalists themselves may radically disagree and where answers may differ depending upon whether one focuses upon the time of product development or the time of distribution. Consider, for example, the question whether devices can be added to *Grokster*'s software that will filter out infringing files. MGM tells us this is easy enough to do, as do several amici that produce and sell the filtering technology. See, e.g., Brief for Motion Picture Studio Petitioners 11; Brief for Audible Magic Corp. et al. as Amicus Curiae 3-10. *Grokster* says it is not at all easy to do, and not an efficient solution in any event, and several apparently disinterested computer science professors agree. See Brief for Respondents 31; Brief for Computer Science Professors as Amicus Curiae 6-10, 14-18. Which account should a judge credit? Sony says that the judge will not necessarily have to decide.

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

B

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

that Sony now offers.

To require defendants to provide, for example, detailed evidence--say business plans, profitability estimates, projected technological modifications, and so forth--would doubtless make life easier for copyright holder plaintiffs. But it would simultaneously increase the legal uncertainty that surrounds the creation or development of a new technology capable of being put to infringing uses. Inventors and entrepreneurs (in the garage, the dorm room, the corporate lab, or the boardroom) would have to fear (and in many cases endure) costly and extensive trials when they create, produce, or distribute the sort of information technology that can be used for copyright infringement. They would often be left guessing as to how a court, upon later review of the product and its uses, would decide when necessarily rough estimates amounted to sufficient evidence. They would have no way to predict how courts would weigh the respective values of infringing and noninfringing uses; determine the efficiency and advisability of technological changes; or assess a product's potential future markets. The price of a wrong guess--even if it involves a good-faith effort to assess technical and commercial viability--could be large statutory damages (not less than \$750 and up to \$30,000 per infringing work). 17 U. S. C. §504(c)(1). The additional risk and uncertainty would mean a consequent additional chill of technological development.

C

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

For one thing, the law disfavors equating the two different kinds of gain and loss; rather, it leans in favor of protecting technology. As Sony itself makes clear, the producer of a technology which permits unlawful copying does not himself engage in unlawful copying--a fact that makes the attachment of copyright liability to the creation, production, or distribution of the technology an exceptional thing. See *464 U. S.*, at 431 (courts "must be circumspect" in construing the copyright laws to preclude distribution of new technologies). Moreover, Sony has been the law for some time. And that fact imposes a serious burden upon copyright holders like MGM to show a need for change in the current rules of the game, including a more strict interpretation of the test. See, e.g., Brief for Motion Picture Studio Petitioners 31 (Sony should not protect products when the "primary or principal" use is infringing).

In any event, the evidence now available does not, in my view, make out a sufficiently strong case for change. To say this is not to doubt the basic need to protect copyrighted material from infringement. The Constitution itself stresses the vital role that copyright plays in advancing the "useful Arts." Art. I, §8, cl. 8. No one disputes that "reward to the author or artist serves to induce release to the public of the products of his creative genius." *United States v. Paramount Pictures, Inc.*, 334 U. S. 131, 158 (1948). And deliberate unlawful copying is no less an unlawful taking of property than garden-variety theft. See, e.g., 18 U. S. C. §2319 (criminal copyright infringement); §1961(1)(B) (copyright infringement can be a predicate act under the Racketeer Influenced and Corrupt Organizations Act); §1956(c)(7)(D) (money laundering includes the receipt of proceeds from copyright infringement). But these highly general principles cannot by themselves tell us how to balance the interests at issue in Sony or whether Sony's standard needs modification. And at certain key points, information is lacking.

Will an unmodified Sony lead to a significant diminution in the amount or quality of creative work produced? Since copyright's basic objective is creation and its revenue objectives but a means to that end, this is the underlying copyright question. See *Twentieth Century Music Corp. v. Aiken*, 422 U. S. 151, 156 (1975) ("Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts"). And its answer is far from clear.

Unauthorized copying likely diminishes industry revenue, though it is not clear by how much. Compare S. Liebowitz, Will MP3 Downloads Annihilate the Record Industry? The Evidence So Far, p. 2 (June 2003), <http://www.utdallas.edu/~liebowit/intprop/records.pdf> (all Internet materials as visited June 24, 2005, and available in Clerk of Court's case file) (file sharing has caused a decline in music sales), and Press Release, Informa Media Group Report (citing Music on the Internet (5th ed. 2004)) (estimating total lost sales to the music industry in the range of \$2 billion annually), at <http://www.informatm.com>, with F. Oberholzer & K. Strumpf, The Effect of File Sharing on Record Sales: An Empirical Analysis, p. 24 (Mar. 2004), www.unc.edu/~cigar/papers/FileSharing_March2004.pdf (academic study concluding that "file sharing has no statistically significant effect on purchases of the

average album"), and McGuire, Study: File-Sharing

No Threat to Music Sales (Mar. 29, 2004), <http://www.washingtonpost.com/ac2/wp-dyn/A34300-2004Mar29?language=printer> (discussing mixed evidence).

The extent to which related production has actually and resultingly declined remains uncertain, though there is good reason to believe that the decline, if any, is not substantial. See, e.g., M. Madden, Pew Internet & American Life Project, Artists, Musicians, and the Internet, p. 21, http://www.pewinternet.org/pdfs/PIP_Artists.Musicians_Report.pdf (nearly 70% of musicians believe that file sharing is a minor threat or no threat at all to creative industries); Benkler, Sharing Nicely: On Shareable Goods and the Emergence of Sharing as a Modality of Economic Production, 114 Yale L. J. 273, 351-352 (2004) ("Much of the actual flow of revenue to artists--from performances and other sources--is stable even assuming a complete displacement of the CD market by peer-to-peer distribution ... [I]t would be silly to think that music, a cultural form without which no human society has existed, will cease to be in our world [because of illegal file swapping]").

More importantly, copyright holders at least potentially have other tools available to reduce piracy and to abate whatever threat it poses to creative production. As today's opinion makes clear, a copyright holder may proceed against a technology provider where a provable specific intent to infringe (of the kind the Court describes) is present. Ante, at 24 (opinion of the Court). Services like Grokster may well be liable under an inducement theory.

In addition, a copyright holder has always had the legal authority to bring a traditional infringement suit against one who wrongfully copies. Indeed, since September 2003, the Recording Industry Association of America (RIAA) has filed "thousands of suits against people for sharing copyrighted material." Walker, New Movement Hits Universities: Get Legal Music, Washington Post, Mar. 17, 2005, p. E1. These suits have provided copyright holders with damages; have served as a teaching tool, making clear that much file sharing, if done without permission, is unlawful; and apparently have had a real and significant deterrent effect. See, e.g., L. Rainie, M. Madden, D. Hess, & G. Mudd, Pew Internet Project and comScore Media Metrix Data Memo: The state of music downloading and file-sharing online, pp. 2, 4, 6, 10 (Apr. 2004), www.pewinternet.org/pdfs/PIP_Filesharing_April_04.pdf (number of people downloading files fell from a peak of roughly 35 million to roughly 23 million in the year following the first suits; 38% of current downloaders report downloading fewer files because of the suits); M. Madden & L. Rainie, Pew Internet Project Data Memo: Music and video downloading moves beyond P2P, p. 7 (March 2005), www.pewinternet.org/pdfs/PIP_Filesharing_March05.pdf (number of downloaders has "inched up" but "continues to rest well below the peak level"); Groennings, Note, Costs and Benefits of the Recording Industry's Litigation Against Individuals, 20 Berkeley Technology L. J. 571 (2005); but see Evangelista, Downloading Music and Movie Files is as Popular as Ever, San Francisco Chronicle, Mar. 28, 2005, p. E1 (referring to the continuing "tide of rampant copyright infringement," while noting that the RIAA says it believes the "campaign of lawsuits and public education has at least contained the problem").

Further, copyright holders may develop new technological devices that will help curb unlawful infringement. Some new technology, called "digital 'watermarking'" and "digital fingerprint[ing]," can encode within the file information about the author and the copyright scope and date, which "fingerprints" can help to expose infringers. RIAA Reveals Method to Madness, Wired News, Aug. 28, 2003, <http://www.wired.com/news/digiwood/0,1412,60222,00.html>; Besek, Anti-Circumvention Laws and Copyright: A Report from the Kernochan Center for Law, Media and the Arts, 27 Colum. J. L. & Arts 385, 391, 451 (2004). Other technology can, through encryption, potentially restrict users' ability to make a digital copy. See J. Borland, Tripping the Rippers, C/net News.com (Sept. 28, 2001), http://news.com.com/Tripping+the+rippers/2009=1023_3=273619.html; but see Brief for Bridgemar Services Ltd. as Amicus Curiae 5-8 (arguing that peer-to-peer service providers can more easily block unlawful swapping).

At the same time, advances in technology have discouraged unlawful copying by making lawful copying (e.g., downloading music with the copyright holder's permission) cheaper and easier to achieve. Several services now sell music for less than \$1 per song. (Walmart.com, for example, charges \$0.88 each). Consequently, many consumers initially attracted to the convenience and flexibility of services like Grokster are now migrating to lawful paid services (services with copying permission) where they can enjoy at little cost even greater convenience and flexibility without engaging in unlawful swapping. See Wu, When Code Isn't Law, 89 Va. L. Rev. 679, 731-735 (2003) (noting the prevalence of technological problems on unpaid swapping sites); K. Dean, P2P Tilts Toward Legitimacy, wired.com, Wired News (Nov. 24, 2004), <http://www.wired.com/news/digiwood/0,1412,65836,00.html>; M. Madden & L. Rainie, March 2005 Data Memo, supra, at 6-7 (percentage of current downloaders who have used paid services rose from 24% to 43% in a year; number using free services fell from 58% to 41%).

Thus, lawful music downloading services--those that charge the customer for downloading music and pay royalties to the copyright holder--have continued to grow and to produce substantial revenue. See Brief for Internet Law Faculty as Amici Curiae 5-20; Bruno, Digital Entertainment: Piracy Fight Shows Encouraging Signs (Mar. 5, 2005), available at LEXIS, News Library, Billboard File (in 2004, consumers worldwide purchased more than 10 times the number of digital tracks purchased in 2003; global digital music market of \$330 million in 2004 expected to double in 2005); Press Release, Informa Media Report, supra (global digital revenues will likely exceed \$3 billion in 2010); Ashton, [International Federation of the Phonographic Industry] Predicts Downloads Will Hit the Mainstream, Music Week, Jan. 29, 2005, p. 6 (legal music sites and portable MP3 players "are helping transform the digital music market" into "an everyday consumer experience"). And more advanced types of non-music-oriented P2P networks have also started to develop, drawing in part on the lessons of Grokster.

Finally, as Sony recognized, the legislative option remains available. Courts are less well suited than Congress to the task of "accommodat[ing] fully the varied permutations of competing interests that are inevitably implicated by such new technology." Sony, 464 U. S., at 431; see, e.g., Audio Home Recording Act of 1992, 106 Stat. 4237 (adding 17 U. S. C., ch. 10); Protecting Innovation and Art While Preventing Piracy: Hearing Before the Senate Comm. on the Judiciary, 108th Cong., 2d Sess. (July 22, 2004).

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

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

FOOTNOTES

Footnote 1

Peer-to-peer networks have disadvantages as well. Searches on peer-to-peer networks may not reach and uncover all available files because search requests may not be transmitted to every computer on the network. There may be redundant copies of popular files. The creator of the software has no incentive to minimize storage or bandwidth consumption, the costs of which are borne by every user of the network. Most relevant here, it is more difficult to control the content of files available for retrieval and the behavior of users.

Footnote 2

The studios and recording companies and the songwriters and music publishers filed separate suits against the defendants that were consolidated by the District Court.

Footnote 3

Subsequent versions of Morpheus, released after the record was made in this case, apparently rely not on Gnutella but on a technology called Neonet. These developments are not before us.

Footnote 4

There is some evidence that both Grokster and StreamCast previously operated supernodes, which compiled indexes of files available on all of the nodes connected to them. This evidence, pertaining to previous versions of the defendants' software, is not before us and would not affect our conclusions in any event.

Footnote 5

By comparison, evidence introduced by the plaintiffs in *A & M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004 (CA9 2001), showed that 87% of files available on the Napster filesharing network were copyrighted, *id.*, at 1013.

Footnote 6

The Grokster founder contends that in answering these e-mails he often did not read them fully. App. 77,

769.

Footnote 7

The record makes clear that StreamCast developed these promotional materials but not whether it released them to the public. Even if these advertisements were not released to the public and do not show encouragement to infringe, they illuminate StreamCast's purposes.

Footnote 8

The mutual exclusivity of these values should not be overstated, however. On the one hand technological innovators, including those writing filesharing computer programs, may wish for effective copyright protections for their work. See, e.g., Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679, 750 (2003). (StreamCast itself was urged by an associate to "get [its] technology written down and [its intellectual property] protected." App. 866.) On the other hand the widespread distribution of creative works through improved technologies may enable the synthesis of new works or generate audiences for emerging artists. See *Eldred v. Ashcroft*, 537 U. S. 186, 223-226 (2003) (Stevens, J., dissenting); Van Houweling, *Distributive Values in Copyright*, 83 Texas L. Rev. 1535, 1539-1540, 1562-1564 (2005); Brief for Sovereign Artists et al. as Amici Curiae 11.

Footnote 9

We stated in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417 (1984), that "the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn' [R]easoned analysis of [the Sony plaintiffs' contributory infringement claim] necessarily entails consideration of arguments and case law which may also be forwarded under the other labels, and indeed the parties ... rely upon such arguments and authority in support of their respective positions on the issue of contributory infringement," *id.*, at 435, n. 17 (quoting *Universal City Studios, Inc. v. Sony Corp.*, 480 F. Supp. 429, 457-458 (CD Cal. 1979)). In the present case MGM has argued a vicarious liability theory, which allows imposition of liability when the defendant profits directly from the infringement and has a right and ability to supervise the direct infringer, even if the defendant initially lacks knowledge of the infringement. See, e.g., *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F. 2d 304, 308 (CA2 1963); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F. 2d 354, 355 (CA7 1929). Because we resolve the case based on an inducement theory, there is no need to analyze separately MGM's vicarious liability theory.

Footnote 10

Nor does the Patent Act's exemption from liability for those who distribute a staple article of commerce, 35 U. S. C. §271(c), extend to those who induce patent infringement, §271(b).

Footnote 11

Inducement has been codified in patent law. *Ibid.*

Footnote 12

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

Footnote 13

Grokster and StreamCast contend that any theory of liability based on their conduct is not properly before this Court because the rulings in the trial and appellate courts dealt only with the present versions of their software, not "past acts ... that allegedly encouraged infringement or assisted ... known acts of infringement." Brief for Respondents 14; see also *id.*, at 34. This contention misapprehends the basis for their potential liability. It is not only that encouraging a particular consumer to infringe a copyright can give rise to secondary liability for the infringement that results. Inducement liability goes beyond that, and the distribution of a product can itself give rise to liability where evidence shows that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use. See *Kalem Co. v. Harper Brothers*, 222 U. S. 55, 62-63 (1911); *Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F. 2d 829, 846 (CA11 1990); *A & M Records, Inc. v. Abdallah*, 948 F. Supp. 1449, 1456 (CD Cal. 1996).

FOOTNOTES

Footnote 1

Justice Breyer finds in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U. S. 417 (1984), a "clear" rule permitting contributory liability for copyright infringement based on distribution of a product only when the product "will be used almost exclusively to infringe copyrights." Post, at 9-10. But cf. *Sony*, 464 U. S., at 442 (recognizing "copyright holder's legitimate demand for effective--not merely symbolic--protection"). *Sony*, as I read it, contains no clear, near-exclusivity test. Nor have Courts of Appeals unanimously recognized Justice Breyer's clear rule. Compare *A&M Records, Inc. v. Napster, Inc.*, 239 F. 3d 1004, 1021 (CA9 2001) ("[E]vidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement."), with *In re Aimster Copyright Litigation*, 334 F. 3d 643, 649-650 (CA7 2003) ("[W]hen a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement. ... But the balancing of costs and benefits is necessary only in a case in which substantial noninfringing uses, present or prospective, are demonstrated."). See also *Matthew Bender & Co., Inc. v. West Pub. Co.*, 158 F. 3d 693, 707 (CA2 1998) ("The Supreme Court applied [the *Sony*] test to prevent copyright holders from leveraging the copyrights in their original work to control distribution of ... products that might be used incidentally for infringement, but that had substantial noninfringing uses... . The same rationale applies here [to products] that have substantial, predominant and noninfringing uses as tools for research and citation."). All Members of the Court agree, moreover, that "the Court of Appeals misapplied *Sony*," at least to the extent it read that decision to limit "secondary liability" to a hardly-ever category, "quite beyond the circumstances to which the case applied." Ante, at 16.

Footnote 2

Grokster and *StreamCast*, in the Court of Appeals' view, would be entitled to summary judgment unless MGM could show that the software companies had knowledge of specific acts of infringement and failed to act on that knowledge--a standard the court held MGM could not meet. 380 F. 3d, at 1162-1163.

Footnote 3

Justice Breyer finds support for summary judgment in this motley collection of declarations and in a survey conducted by an expert retained by MGM. Post, at 4-8. That survey identified 75% of the files available through *Grokster* as copyrighted works owned or controlled by the plaintiffs, and 15% of the files as works likely copyrighted. App. 439. As to the remaining 10% of the files, "there was not enough information to form reasonable conclusions either as to what those files even consisted of, and/or whether they were infringing or non-infringing." App. 479. Even assuming, as Justice Breyer does, that the *Sony* Court would have absolved *Sony* of contributory liability solely on the basis of the use of the *Betamax* for authorized time-shifting, post, at 3-4, summary judgment is not inevitably appropriate here. *Sony* stressed that the plaintiffs there owned "well below 10%" of copyrighted television programming, 464 U. S., at 443, and found, based on trial testimony from representatives of the four major sports leagues and other individuals authorized to consent to home-recording of their copyrighted broadcasts, that a similar percentage of program copying was authorized, id., at 424. Here, the plaintiffs allegedly control copyrights for 70% or 75% of the material exchanged through the *Grokster* and *StreamCast* software, 380 F. 3d, at 1158; App. 439, and the District Court does not appear to have relied on comparable testimony about authorized copying from copyright holders.

Footnote 4

The District Court's conclusion that "[p]laintiffs do not dispute that Defendants' software is being used, and could be used, for substantial noninfringing purposes," 259 F. Supp. 2d 1029, 1036 (CD Cal. 2003); accord 380 F. 3d, at 1161, is, to say the least, dubious. In the courts below and in this Court, MGM has continuously disputed any such conclusion. Brief for Motion Picture Studio and Recording Company Petitioners 30-38; Brief for MGM Plaintiffs-Appellants in No. 03-55894, etc. (CA9), p. 41; App. 356-357, 361-365.

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TITLE 17 - COPYRIGHTS

CHAPTER 5 - COPYRIGHT INFRINGEMENT AND REMEDIES

§ 512. Limitations on liability relating to material online

(a) **Transitory Digital Network Communications.**— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if—

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

(b) **System Caching.**—

(1) **Limitation on liability.**— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the intermediate and temporary storage of material on a system or network controlled or operated by or for the service provider in a case in which—

- (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),

if the conditions set forth in paragraph (2) are met.

(2) **Conditions.**— The conditions referred to in paragraph (1) are that—

- (A) the material described in paragraph (1) is transmitted to the subsequent users described in paragraph (1)(C) without modification to its content from the manner in which the material was transmitted from the person described in paragraph (1)(A);
- (B) the service provider described in paragraph (1) complies with rules concerning the refreshing, reloading, or other updating of the material when specified by the person making the material available online in accordance with a generally accepted industry standard data communications protocol for the system or network through which that person makes the material available, except that this subparagraph applies only if those rules are not used by the person described in paragraph (1)(A) to prevent or unreasonably impair the intermediate storage to which this subsection applies;
- (C) the service provider does not interfere with the ability of technology associated with the material to return to the person described in paragraph (1)(A) the information that would

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have been available to that person if the material had been obtained by the subsequent users described in paragraph (1)(C) directly from that person, except that this subparagraph applies only if that 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 protocols; and

(iii) does not extract information from the provider's system or network other than the information that would have been available to the person described in paragraph (1)(A) if the subsequent users had gained access to the material directly from that person;

(D) if the person described in paragraph (1)(A) has in effect a condition that a person must meet prior to having access to the material, such as a condition based on payment of a fee or provision of a password or other information, the service provider permits access to the stored material in significant part only to users of its system or network that have met those conditions and only in accordance with those conditions; and

(E) if the person described in paragraph (1)(A) makes that material available online without the authorization of the copyright owner of the material, the service provider responds expeditiously to remove, or disable access to, the material that is claimed to be infringing upon notification of claimed infringement as described in subsection (c)(3), except that this subparagraph applies only 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 originating site or that access to the material on the originating site be disabled.

(c) Information Residing on Systems or Networks At Direction of Users.—

(1) In general.— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider—

(A) (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

(2) Designated agent.— The limitations on liability established in this subsection apply to a service provider only if the service provider has designated an agent to receive notifications of claimed infringement described in paragraph (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.

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(B) other contact information which the Register of Copyrights may deem appropriate.

The Register of Copyrights shall maintain a current directory of agents available to the public for inspection, including through the Internet, in both electronic and hard copy formats, and may require payment of a fee by service providers to cover the costs of maintaining the directory.

(3) Elements of notification.—

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:

(i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a representative list of such works at that site.

(iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.

(iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.

(v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.

(vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(B) **(i)** Subject to clause (ii), a notification from a copyright owner or from a person authorized to act on behalf of the copyright owner that fails to comply substantially with the provisions of subparagraph (A) shall not be considered under paragraph (1)(A) in determining whether a service provider has actual knowledge or is aware of facts or circumstances from which infringing activity is apparent.

(ii) In a case in which the notification that is provided to the service provider's designated agent fails to comply substantially with all the provisions of subparagraph (A) but substantially complies with clauses (ii), (iii), and (iv) of subparagraph (A), clause (i) of this subparagraph applies only if the service provider promptly attempts to contact the person making the notification or takes other reasonable steps to assist in the receipt of notification that substantially complies with all the provisions of subparagraph (A).

(d) Information Location Tools.— A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link, if the service provider—

- (1)** **(A)** does not have actual knowledge that the material or activity is infringing;
- (B)** in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
- (C)** upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;
- (2)** does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

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(3) upon notification of claimed infringement as described in subsection (c)(3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity, except that, for purposes of this paragraph, the information described in subsection (c)(3)(A)(iii) shall be identification of the reference or link, to material or activity claimed to be infringing, that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate that reference or link.

(e) Limitation on Liability of Nonprofit Educational Institutions.—

(1) When a public or other nonprofit institution of higher education is a service provider, and when a faculty member or graduate student who is an employee of such institution is performing a teaching or research function, for the purposes of subsections (a) and (b) such faculty member or graduate student shall be considered to be a person other than the institution, and for the purposes of subsections (c) and (d) such faculty member's or graduate student's knowledge or awareness of his or her infringing activities shall not be attributed to the institution, if—

(A) such faculty member's or graduate student's infringing activities do not involve the provision of online access to instructional materials that are or were required or recommended, within the preceding 3-year period, for a course taught at the institution by such faculty member or graduate student;

(B) the institution has not, within the preceding 3-year period, received more than two notifications described in subsection (c)(3) of claimed infringement by such faculty member or graduate student, and such notifications of claimed infringement were not actionable under subsection (f); and

(C) the institution provides to all users of its system or network informational materials that accurately describe, and promote compliance with, the laws of the United States relating to copyright.

(2) For the purposes of this subsection, the limitations on injunctive relief contained in subsections (j)(2) and (j)(3), but not those in (j)(1), shall apply.

(f) Misrepresentations.— Any person who knowingly materially misrepresents under this section—

(1) that material or activity is infringing, or

(2) that material or activity was removed or disabled by mistake or misidentification,

shall be liable for any damages, 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.

(g) Replacement of Removed or Disabled Material and Limitation on Other Liability.—

(1) **No liability for taking down generally.—** Subject to paragraph (2), 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.

(2) **Exception.—** Paragraph (1) shall not apply with respect to material residing at the direction of a subscriber of the service provider on a system or network controlled or operated by or for the service provider that is removed, or to which access is disabled by the service provider, pursuant to a notice provided under subsection (c)(1)(C), unless the service provider—

(A) takes reasonable steps promptly to notify the subscriber that it has removed or disabled access to the material;

(B) upon receipt of a counter notification described in paragraph (3), promptly provides the person who provided the notification under subsection (c)(1)(C) with a copy of the counter

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notification, and informs that person that it will replace the removed material or cease disabling access to it in 10 business days; and

(C) replaces the removed material and ceases disabling access to it not less than 10, nor more than 14, business days following receipt of the counter notice, unless its designated agent first receives notice from the person who submitted the notification under subsection (c)(1)(C) that such person has filed an action seeking a court order to restrain the subscriber from engaging in infringing activity relating to the material on the service provider's system or network.

(3) Contents of counter notification.— To be effective under this subsection, a counter notification must be a written communication provided to the service provider's designated agent that includes substantially 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 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.

(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 notification under subsection (c)(1)(C) or an agent of such person.

(4) Limitation on other liability.— A service provider's compliance with paragraph (2) shall not subject the service provider to liability for copyright infringement with respect to the material identified in the notice provided under subsection (c)(1)(C).

(h) Subpoena To Identify Infringer.—

(1) Request.— A copyright owner or a person authorized to act on the owner's behalf may request the clerk of any United States district court to issue a subpoena to a service provider for identification of an alleged infringer in accordance with this subsection.

(2) Contents of request.— The request may be made by filing with the clerk—

(A) a copy of a notification described in subsection (c)(3)(A);

(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 rights under this title.

(3) Contents of subpoena.— The subpoena shall authorize and order the service provider receiving the notification and the subpoena to expeditiously disclose to the copyright owner or person authorized by the copyright owner information sufficient to identify the alleged infringer of the material described in the notification to the extent such information is available to the service provider.

(4) Basis for granting subpoena.— If the notification filed satisfies the provisions of subsection (c)(3)(A), the proposed subpoena is in proper form, and the accompanying declaration is properly executed, the clerk shall expeditiously issue and sign the proposed subpoena and return it to the requester for delivery to the service provider.

(5) Actions of service provider receiving subpoena.— Upon receipt of the issued subpoena, either accompanying or subsequent to the receipt of a notification described in subsection (c)(3)(A), the service provider shall expeditiously disclose to the copyright owner or person authorized by the

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copyright owner the information required by the subpoena, notwithstanding any other provision of law and regardless of whether the service provider responds to the notification.

(6) Rules applicable to subpoena.— Unless otherwise provided by this section or by applicable rules of the court, the procedure for issuance and delivery of the subpoena, and the remedies for noncompliance with the subpoena, shall be governed to the greatest extent practicable by those provisions of the Federal Rules of Civil Procedure governing the issuance, service, and enforcement of a subpoena duces tecum.

(i) Conditions for Eligibility.—

(1) Accommodation of technology.— The limitations on liability established by this section shall apply to a service provider only if the service provider—

(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers; and

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

(2) Definition.— As used in this subsection, the 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.

(j) Injunctions.— The following rules shall apply in the case of any application for an injunction under section 502 against a service provider that is not subject to monetary remedies under this section:

(1) Scope of relief.—

(A) With respect to conduct other than that which qualifies for the limitation on remedies set forth in subsection (a), the court may grant injunctive relief with respect to a service provider only in one or more of the following forms:

(i) An order restraining the service provider from providing access to infringing material or activity residing at a particular online site on the provider’s system or network.

(ii) An order restraining the service provider from providing access to a subscriber or account holder of the service provider’s system or network who is engaging in infringing activity and is identified in the order, by terminating the accounts of the subscriber or account holder that are specified in the order.

(iii) Such other injunctive relief as the court may consider necessary to prevent or restrain infringement of copyrighted material specified in the order of the court at a particular online location, if such relief is the least burdensome to the service provider among the forms of relief comparably effective for that purpose.

(B) If the service provider qualifies for the limitation on remedies described in subsection (a), the court may only grant injunctive relief in one or both of the following forms:

(i) An order restraining the service provider from providing access to a subscriber or account holder of the service provider’s system or network who is using the provider’s service to engage in infringing activity and is identified in the order, by terminating the accounts of the subscriber or account holder that are specified in the order.

(ii) An order restraining the service provider from providing access, by taking reasonable steps specified in the order to block access, to a specific, identified, online location outside the United States.

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(2) Considerations.— The court, in considering the relevant criteria for injunctive relief under applicable law, shall consider—

(A) whether such an injunction, either alone or in combination with other such injunctions issued against the same service provider under this subsection, would significantly burden either the provider or the operation of the provider’s system or network;

(B) the magnitude of the harm likely to be suffered by the copyright owner in the digital network environment if steps are not taken to prevent or restrain the infringement;

(C) whether implementation of such an injunction would be technically feasible and effective, and would not interfere with access to noninfringing material at other online locations; and

(D) whether other less burdensome and comparably effective means of preventing or restraining access to the infringing material are available.

(3) Notice and ex parte orders.— Injunctive relief under this subsection shall be available only after notice to the service provider and an opportunity for the service provider to appear are provided, except for orders ensuring the preservation of evidence or other orders having no material adverse effect on the operation of the service provider’s communications network.

(k) Definitions.—

(1) Service provider.—

(A) As used in subsection (a), the term “service provider” means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.

(B) As used in this section, other than subsection (a), the term “service provider” means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A).

(2) Monetary relief.— As used in this section, the term “monetary relief” means damages, costs, attorneys’ fees, and any other form of monetary payment.

(l) Other Defenses Not Affected.— The failure of a service provider’s conduct to qualify for 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.

(m) Protection of Privacy.— Nothing in this section shall be construed to condition the applicability of subsections (a) through (d) on—

(1) a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i); or

(2) a service provider gaining access to, removing, or disabling access to material in cases in which such conduct is prohibited by law.

(n) Construction.— Subsections (a), (b), (c), and (d) describe separate and distinct functions for purposes of applying this section. 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 such subsection.

(Added Pub. L. 105–304, title II, § 202(a), Oct. 28, 1998, 112 Stat. 2877; amended Pub. L. 106–44, § 1(d), Aug. 5, 1999, 113 Stat. 222.)

References in Text

The Federal Rules of Civil Procedure, referred to in subsec. (h)(6), are set out in the Appendix to Title 28, Judiciary and Judicial Procedure.

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Codification

Another section 512 was renumbered section 513 of this title.

Amendments

1999—Subsec. (e). Pub. L. 106–44, § 1(d)(1)(A), substituted “Limitation on Liability of Nonprofit Educational Institutions” for “Limitation on liability of nonprofit educational institutions” in heading.

Subsec. (e)(2). Pub. L. 106–44, § 1(d)(1)(B), struck out par. heading “Injunctions”.

Subsec. (j)(3). Pub. L. 106–44, § 1(d)(2), substituted “Notice and ex parte orders” for “Notice and Ex Parte Orders” in heading.

Effective Date

Pub. L. 105–304, title II, § 203, Oct. 28, 1998, 112 Stat. 2886, provided that: “This title [enacting this section and provisions set out as a note under section 101 of this title] and the amendments made by this title shall take effect on the date of the enactment of this Act [Oct. 28, 1998].”



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How cited

Perfect 10, Inc. v. CCBILL LLC, 481 F. 3d 751 - Court of Appeals, 9th Circuit 2007Highlighting **Perfect 10 v. CCBill, 481 F.3d 751 (9th Cir. 2007)** [Remove highlighting](#)

481 F.3d 751 (2007)

PERFECT 10, INC., a California corporation, Plaintiff-Appellant,

v.

CCBILL LLC, a corporation; Cavecreek Wholesale Internet Exchange, a corporation d/b/a CWIE LLC, Defendants-Appellees, and Netpass Systems Inc., a corporation, Defendant.**Perfect 10, Inc., a California corporation, Plaintiff-Appellee,**

v.

CCBill LLC, a corporation; Cavecreek Wholesale Internet Exchange, a corporation d/b/a CWIE LLC, Defendants-Appellants, and Netpass Systems Inc., a corporation, Defendant.[No. 04-57143.](#)**United States Court of Appeals, Ninth Circuit.**

Argued and Submitted December 4, 2006.

Filed March 29, 2007.

756 *752 *753 *754 *755 *756 Daniel J. Cooper, General Counsel, **Perfect 10**, Inc., Beverly Hills,
757 CA, and Jeffrey N. Mausner, Berman, Mausner & Resser, A Law Corporation, Los Angeles,
*757 CA, for the plaintiff-appellant/cross-appellee.

Jay M. Spillane, Fox & Spillane, LLP, Los Angeles, CA, and John P. Flynn, Tiffany & Bosco, P.A., Phoenix, AZ, for the defendants-appellees/cross-appellants.

Before REINHARDT, KOZINSKI, M. SMITH, JR., Circuit Judges.

MILAN D. SMITH, JR., Circuit Judge.

Perfect 10, the publisher of an adult entertainment magazine and the owner of the subscription website perfect10.com, alleges that **CCBill** and CWIE violated copyright, trademark, and state unfair competition, false advertising and right of publicity laws by providing services to websites that posted images stolen from **Perfect 10's** magazine and website. **Perfect 10** appeals the district court's finding that **CCBill** and CWIE qualified for certain statutory safe harbors from copyright infringement liability under the Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. § 512, and that **CCBill** and CWIE were immune from liability for state law unfair competition and false advertising claims based on the Communications Decency Act ("CDA"), 47 U.S.C. § 230(c)(1). **CCBill** and CWIE cross-appeal, arguing that the district court erred in holding that the CDA does not provide immunity against **Perfect 10's** right of publicity claims and in denying their requests for costs and attorney's fees under the Copyright Act.

We have jurisdiction pursuant to 28 U.S.C. § 1291. We affirm in part, reverse in part, and remand.

BACKGROUND

Perfect 10 is the publisher of the eponymous adult entertainment magazine and the owner of the website, perfect10.com. Perfect10.com is a subscription site where consumers pay a membership fee in order to gain access to content on the website. **Perfect 10** has created approximately 5,000 images of models for display in its website and magazine. Many of the models in these images have signed releases assigning their rights of publicity to **Perfect 10**. **Perfect 10** also holds registered U.S. copyrights for these images and owns several related, registered trademark and service marks.

CWIE provides webhosting and related Internet connectivity services to the owners of various websites. For a fee, CWIE provides "ping, power, and pipe," services to their clients by ensuring the "box" or server is on, ensuring power is provided to the server and connecting the client's service or website to the Internet via a data center connection. **CCBill** allows consumers to use credit cards or checks to pay for subscriptions or memberships to e-commerce venues.

Beginning August 10, 2001, **Perfect 10** sent letters and emails to **CCBill** and CWIE stating that **CCBill** and CWIE clients were infringing **Perfect 10** copyrights. **Perfect 10** directed these communications to Thomas A. Fisher, the designated agent to receive notices of infringement. Fisher is also the Executive Vice-President of both **CCBill** and CWIE. Representatives of celebrities who are not parties to this lawsuit also sent notices of infringement to **CCBill** and CWIE. On September 30, 2002, **Perfect 10** filed the present action alleging copyright and trademark violations, state law claims of violation of right of publicity, unfair competition, false and misleading advertising, as well as RICO claims.

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*758 STANDARDS OF REVIEW

We review a district court's grant of summary judgment de novo. [Rossi v. Motion Picture Ass'n of Am. Inc.](#), 391 F.3d 1000, 1002 (9th Cir.2004). "Viewing the evidence in the light most favorable to the nonmoving party, we must determine whether there are any genuine issues of material fact and whether the district court correctly applied the relevant substantive law." [Leever v. Carson City](#), 360 F.3d 1014, 1017 (9th Cir.2004). The district court's interpretations of the Copyright Act, 17 U.S.C. § 101, et seq., are also reviewed de novo. [Ellison v. Robertson](#), 357 F.3d 1072, 1076 (9th Cir.2004).

We review a district court's decision to grant or deny attorney's fees under the Copyright Act for abuse of discretion. [Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.](#), 259 F.3d 1186, 1197 (9th Cir.2001).

DISCUSSION

I. SECTION 512 SAFE HARBORS

The DMCA established certain safe harbors to "provide protection from liability for: (1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of users; and (4) information location tools." [Ellison](#), 357 F.3d at 1076-77 (citing 17 U.S.C. §§ 512(a)-(d)) (footnotes omitted). These safe harbors limit liability but "do not affect the question of ultimate liability under the various doctrines of direct, vicarious, and contributory liability," [Perfect 10, Inc. v. Cybernet Ventures, Inc.](#), 213 F.Supp.2d 1146, 1174 (C.D.Cal.2002) (citing H.R. Rep. 105-551(II), at 50 (1998) ("H.R.Rep.")),^[1] and "nothing in the language of § 512 indicates that the limitation on liability described therein is exclusive." [CoStar Group, Inc. v. LoopNet, Inc.](#), 373 F.3d 544, 552 (4th Cir.2004).

A. Reasonably Implemented Policy: § 512(i)(1)(A)

To be eligible for any of the four safe harbors at §§ 512(a)-(d), a service provider must first meet the threshold conditions set out in § 512(i), including the requirement that the service provider:

[H]as 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.

Section 512(i)(1)(A); [Ellison, 357 F.3d at 1080](#).

759 The statute does not define "reasonably implemented." We hold that a service provider "implements" a policy if it has a working notification system, a procedure for dealing with DMCA-compliant notifications, and if it does not actively prevent copyright owners from collecting information needed to issue such notifications. [Ellison, 357 F.3d at 1080](#) (working notification system required); [Corbis Corp. v. Amazon.com, Inc., 351 F.Supp.2d 1090, 1102-03 \(W.D.Wash.2004\)](#) (must adopt procedure for dealing with notifications); [In re Aimster Copyright Litig., 252 F.Supp.2d 634, 659 \(N.D.Ill.2002\)](#) (policy not implemented if service provider actively blocks collection of information). The statute permits service providers to implement a variety of procedures, but an implementation is reasonable if, under *759 "appropriate circumstances," the service provider terminates users who repeatedly or blatantly infringe copyright. See 17 U.S.C. § 512(i); [Corbis, 351 F.Supp.2d at 1102](#).

1. "Implementation"

Perfect 10 argues that there is a genuine issue of material fact whether **CCBill** and **CWIE** prevented the implementation of their policies by failing to keep track of repeatedly infringing webmasters. The district court found that there was not, and we agree.

In *Ellison*, Stephen Robertson posted copies of Harlan Ellison's copyrighted short stories on Internet newsgroups available through USENET servers. [357 F.3d at 1075](#). Ellison asserted that America Online, Inc. ("AOL") had infringed his copyright by providing access to the USENET servers. *Id.* Based on evidence that AOL changed its contact email address for copyright infringement notices from [copyright@aol.com](#) to [aolcopyright@aol.com](#) in the fall of 1999, but neglected to register the change with the U.S. Copyright Office until April 2000, we held that the district court erred in concluding on summary judgment that AOL satisfied the requirements of § 512(i). *Id.* at 1077. Even though Ellison did not learn of the infringing activity until after AOL had notified the U.S. Copyright Office of the correct email address, we found that "AOL allowed notices of potential copyright infringement to fall into a vacuum and go unheeded; that fact is sufficient for a reasonable jury to conclude that AOL had not reasonably implemented its policy against repeat infringers." *Id.* at 1080.

Similarly, the *Aimster* cases hold that a repeat infringer policy is not implemented under § 512(i)(1)(A) if the service provider prevents copyright holders from providing DMCA-compliant notifications. In *Aimster*, the district court held that Aimster did not reasonably implement its stated repeat infringer policy because "the encryption on Aimster renders it impossible to ascertain which users are transferring which files." [252 F.Supp.2d at 659](#). The court found that "[a]dopting a repeat infringer policy and then purposely eviscerating any hope that such a policy could ever be carried out is not an 'implementation' as required by § 512(i)." *Id.* The Seventh Circuit affirmed, finding that Aimster did not meet the requirement of § 512(i)(1)(A) because, in part, "by teaching its users how to encrypt their unlawful distribution of copyrighted materials [Aimster] disabled itself from doing anything to prevent infringement." [In re Aimster Copyright Litig., 334 F.3d 643, 655 \(7th Cir.2003\)](#).

Based on *Ellison* and the *Aimster* cases, a substantial failure to record webmasters associated with allegedly infringing websites may raise a genuine issue of material fact as to the implementation of the service provider's repeat infringer policy. In this case, however, the record does not reflect such a failure. **Perfect 10** references a single page from **CCBill** and CWIE's "DMCA Log." Although this page shows some empty fields in the spreadsheet column labeled "Webmasters [sic] Name," **Perfect 10's** conclusion that the DMCA Log thus "does not reflect any effort to track notices of infringements received by webmaster identity" is not supported by evidence in the record. The remainder of the DMCA Log indicates that the email address and/or name of the webmaster is routinely recorded in **CCBill** and CWIE's DMCA Log. **CCBill's** interrogatory responses dated December 11, 2003 also contain a chart indicating that **CCBill** and CWIE largely kept track of the webmaster for each website.

760 *760 Unlike *Ellison* and *Aimster*, where the changed email address and the encryption system ensured that *no* information about the repeat infringer was collected, it is undisputed that **CCBill** and CWIE recorded most webmasters. The district court properly concluded that the DMCA Log does not raise a triable issue of fact that **CCBill** and CWIE did not implement a repeat infringer policy.

2. Reasonableness

A service provider reasonably implements its repeat infringer policy if it terminates users when "appropriate." See [Corbis, 351 F.Supp.2d at 1104](#). Section 512(i) itself does not clarify when it is "appropriate" for service providers to act. It only requires that a service provider terminate users who are "repeat infringers."

To identify and terminate repeat infringers, a service provider need not affirmatively police its users for evidence of repeat infringement. Section 512(c) states that "[a] service provider shall not be liable for monetary relief" if it does not know of infringement. A service provider is also not liable under § 512(c) if it acts "expeditiously to remove, or disable access to, the material" when it (1) has actual knowledge, (2) is aware of facts or circumstances from which infringing activity is apparent, or (3) has received notification of claimed infringement meeting the requirements of § 512(c)(3). Were we to require service providers to terminate users under circumstances other than those specified in § 512(c), § 512(c)'s grant of immunity would be meaningless. This interpretation of the statute is supported by legislative history. See H.R. Rep., at 61 (Section 512(i) is not intended "to undermine the . . . knowledge standard of [§ 512](c).").

Perfect 10 claims that **CCBill** and CWIE unreasonably implemented their repeat infringer policies by tolerating flagrant and blatant copyright infringement by its users despite notice of infringement from **Perfect 10**, notice of infringement from copyright holders not a party to this litigation and "red flags" of copyright infringement.

a. **Perfect 10's** Claimed Notice of Infringement

761 **Perfect 10** argues that **CCBill** and CWIE implemented their repeat infringer policy in an unreasonable manner because **CCBill** and CWIE received notices of infringement from **Perfect 10**, and yet the infringement identified in these notices continued. The district court found that **Perfect 10** did not provide notice that substantially complied with the requirements of § 512(c)(3),^[2] and thus did not raise a *761 genuine issue of material fact as to whether **CCBill** and CWIE reasonably implemented their repeat infringer policy. We agree.

Compliance is not "substantial" if the notice provided complies with only some of the requirements of § 512(c)(3)(A). Section 512(c)(3)(B)(ii) explains that a service provider will not be deemed to have notice of infringement when "the notification that is provided to the service provider's designated agent fails to comply substantially with all the provisions of subparagraph (A) but substantially complies with clauses (ii), (iii), and (iv) of subparagraph (A)" so long as the

service provider responds to the inadequate notice and explains the requirements for substantial compliance. The statute thus signals that substantial compliance means substantial compliance with *all* of § 512(c)(3)'s clauses, not just some of them. See H.R. Rep., at 56 (A communication substantially complies even if it contains technical errors such as misspellings or outdated information.). See also [Recording Indus. Ass'n of Am., Inc. v. Verizon Internet Servs., Inc., 351 F.3d 1229, 1236 \(D.C. Cir.2003\)](#) (citing H.R. Rep., at 56).^[3]

Perfect 10 claims that it met the requirements of § 512(c)(3) through a combination of three sets of documents. The first set of documents is a 22,185 page bates-stamped production on October 16, 2002 that includes pictures with URLs of **Perfect 10** models allegedly posted on **CCBill** or CWIE client websites. The October 16, 2002 production did not contain a statement under penalty of perjury that the complaining party was authorized to act, as required by § 512(c)(3)(A)(vi). The second set of documents was also not sworn to, and consisted of a spreadsheet emailed to Fisher on July 14, 2003 identifying the **Perfect 10** models in the October 16, 2002 production by bates number. On December 2, 2003, **Perfect 10** completed interrogatory responses which were signed under penalty of perjury. These responses incorporated the July 14, 2003 spreadsheet by reference.

762 Taken individually, **Perfect 10's** communications do not substantially comply with the requirements of § 512(c)(3). Each communication contains more than mere technical errors; often one or more of the required elements are entirely absent. See [Perfect 10, Inc. v. CCBill, LLC, 340 F.Supp.2d 1077, 1100-01 \(C.D.Cal. 2004\)](#) ("Order"). In order to substantially comply with § 512(c)(3)'s requirements, a notification must do more than identify infringing files. The DMCA requires a complainant to declare, under penalty of perjury, that he is authorized to represent the copyright holder, and that he has a good-faith belief that the use is infringing. This requirement is not superfluous. Accusations of alleged infringement have drastic consequences: A user could have content removed, or may have his access terminated entirely. If the content infringes, justice has been done. But if it does not, speech protected under the First Amendment could be removed. We therefore do not require a service provider to *762 start potentially invasive proceedings if the complainant is unwilling to state under penalty of perjury that he is an authorized representative of the copyright owner, and that he has a good-faith belief that the material is unlicensed.^[4]

Permitting a copyright holder to cobble together adequate notice from separately defective notices also unduly burdens service providers. Indeed, the text of § 512(c)(3) requires that the notice be "a written communication." (Emphasis added). Again, this requirement is not a mere technicality. It would have taken Fisher substantial time to piece together the relevant information for each instance of claimed infringement. To do so, Fisher would have to first find the relevant line in the spreadsheet indicating ownership information, then comb the 22,185 pages provided by **Perfect 10** in order to find the appropriate image, and finally copy into a browser the location printed at the top of the page — a location which was, in some instances, truncated. The DMCA notification procedures place the burden of policing copyright infringement — identifying the potentially infringing material and adequately documenting infringement — squarely on the owners of the copyright. We decline to shift a substantial burden from the copyright owner to the provider; **Perfect 10's** separate communications are inadequate.

Since **Perfect 10** did not provide effective notice, knowledge of infringement may not be imputed to **CCBill** or CWIE based on **Perfect 10's** communications. **Perfect 10's** attempted notice does not raise a genuine issue of material fact that **CCBill** and CWIE failed to reasonably implement a repeat infringer policy within the meaning of § 512(i)(1)(A).

b. Non-Party Notices

Perfect 10 also cites to notices of infringement by other copyright holders, and argues that **CCBill** and CWIE did not reasonably implement their repeat infringer policies because they

continued to provide services for websites that infringed non-party copyrights. The district court expressly declined to consider evidence of notices provided by any party other than **Perfect 10** on the basis that these notices were irrelevant to **Perfect 10's** claims. We disagree.

CCBill and CWIE's actions towards copyright holders who are not a party to the litigation are relevant in determining whether **CCBill** and CWIE reasonably implemented their repeat infringer policy. Section 512(i)(1)(A) requires an assessment of the service provider's "policy," not how the service provider treated a particular copyright holder. See [Ellison, 357 F.3d at 1080](#) (AOL's repeat infringer policy was not reasonably implemented because copyright holders other than Ellison could have attempted to notify AOL during the time that AOL's email address was incorrectly listed.). Thus, **CCBill** and CWIE's response to adequate non-party notifications is relevant in determining whether they reasonably implemented their policy against repeat infringers.

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A policy is unreasonable only if the service provider failed to respond when it had knowledge of the infringement. The district court in this case did not consider any evidence relating to copyright holders other than **Perfect 10**. We *763 remand for determination of whether **CCBill** and/or CWIE implemented its repeat infringer policy in an unreasonable manner with respect to any copyright holder other than **Perfect 10**.

c. Apparent Infringing Activity

In importing the knowledge standards of § 512(c) to the analysis of whether a service provider reasonably implemented its § 512(i) repeat infringer policy, Congress also imported the "red flag" test of § 512(c)(1)(A)(ii). Under this section, a service provider may lose immunity if it fails to take action with regard to infringing material when it is "aware of facts or circumstances from which infringing activity is apparent." § 512(c)(1)(A)(ii). Notice that fails to substantially comply with § 512(c)(3), however, cannot be deemed to impart such awareness. §§ 512(c)(3)(B)(i) & (ii).

Perfect 10 alleges that **CCBill** and CWIE were aware of a number of "red flags" that signaled apparent infringement. Because CWIE and **CCBill** provided services to "illegal.net" and "stolencelebritypics.com," **Perfect 10** argues that they must have been aware of apparent infringing activity. We disagree. When a website traffics in pictures that are titillating by nature, describing photographs as "illegal" or "stolen" may be an attempt to increase their salacious appeal, rather than an admission that the photographs are actually illegal or stolen. We do not place the burden of determining whether photographs are actually illegal on a service provider.

Perfect 10 also argues that a disclaimer posted on illegal.net made it apparent that infringing activity had taken place. **Perfect 10** alleges no facts showing that CWIE and **CCBill** were aware of that disclaimer, and, in any event, we disagree that the disclaimer made infringement apparent. The disclaimer in question stated: "The copyrights of these files remain the creator's. I do not claim any rights to these files, other than the right to post them." Contrary to **Perfect 10's** assertion, this disclaimer is not a "red flag" of infringement. The disclaimer specifically states that the webmaster has the right to post the files.

In addition, **Perfect 10** argues that password-hacking websites, hosted by CWIE, also obviously infringe. While such sites may not directly infringe on anyone's copyright, they may well contribute to such infringement. The software provided by Grokster in [Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781 \(2005\)](#), also did not itself infringe, but did enable users to swap infringing files. *Grokster* held that "instructing [users] how to engage in an infringing use" could constitute contributory infringement. *Id.* at 936, 125 S.Ct. 2764. Similarly, providing passwords that enable users to illegally access websites with copyrighted content may well amount to contributory infringement.

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However, in order for a website to qualify as a "red flag" of infringement, it would need to be apparent that the website instructed or enabled users to infringe another's copyright. See [A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1013 n. 2 \(9th Cir.2001\)](#). We find that the burden of determining whether passwords on a website enabled infringement is not on the service provider. The website could be a hoax, or out of date. The owner of the protected content may have supplied the passwords as a short-term promotion, or as an attempt to collect information from unsuspecting users. The passwords might be provided to help users maintain anonymity without infringing on copyright. *764 There is simply no way for a service provider to conclude that the passwords enabled infringement without trying the passwords, and verifying that they enabled illegal access to copyrighted material. We impose no such investigative duties on service providers. Password-hacking websites are thus not *per se* "red flags" of infringement.

Perfect 10 also alleges that "red flags" raised by third parties identified repeat infringers who were not terminated. Because the district court did not consider potential red flags raised by third parties, we remand to the district court to determine whether third-party notices made **CCBill** and CWIE aware that it provided services to repeat infringers, and if so, whether they responded appropriately.

B. Standard Technical Measures: § 512(i)(1)(B)

Under § 512(i)(1)(B), a service provider that interferes with "standard technical measures" is not entitled to the safe harbors at §§ 512(a)-(d). "Standard technical measures" refers to a narrow group of technology-based solutions to online copyright infringement:

[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.

§ 512(i)(2). **Perfect 10** argues that **CCBill** does not qualify for any safe harbor because it interfered with "standard technical measures" by blocking **Perfect 10's** access to **CCBill** affiliated websites in order to prevent **Perfect 10** from discovering whether those websites infringed **Perfect 10** copyrights.

There are two disputed facts here.

We are unable to determine on this record whether accessing websites is a standard technical measure, which was "developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process." § 512(i)(2)(A). We thus remand to the district court to determine whether access to a website is a "standard technical measure," and if so, whether **CCBill** interfered with that access.

If allowing access is a standard technical measure, **CCBill** claims it only blocked **Perfect 10's** credit card because **Perfect 10** had previously reversed charges for subscriptions; **Perfect 10** insists it did so in order to prevent **Perfect 10** from identifying infringing content. If **CCBill** is correct, **Perfect 10's** method of identifying infringement — forcing **CCBill** to pay the fines and fees associated with chargebacks — may well impose a substantial cost on **CCBill**. If not, **CCBill** may well have interfered with **Perfect 10's** efforts to police the websites in question for possible infringements. Because there are disputed issues of material fact, we remand to the district court for a determination of whether **CCBill's** refusal to process **Perfect 10's** transactions interfered with a "standard technical measure" for identifying infringement.

C. Transitory Digital Network Communications: § 512(a)

765 Section 512(a) provides safe harbor for service providers who act as conduits for *765 infringing content. In order to qualify for the safe harbor of § 512(a), a party must be a service provider under a more restrictive definition than applicable to the other safe harbors provided under § 512:

As used in subsection (a), the term "service provider" means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received.

Section 512(k)(1)(A). The district court held that **CCBill** met the requirements of § 512(k)(1)(A) by "provid[ing] a connection to the material on its clients' websites through a system which it operates in order to provide its clients with billing services." Order at 1102. We reject **Perfect 10's** argument that **CCBill** is not eligible for immunity under § 512(a) because it does not itself transmit the infringing material. A service provider is "an entity offering the transmission, routing, or providing of connections for digital online communications." § 512(k)(1)(A). There is no requirement in the statute that the communications must themselves be infringing, and we see no reason to import such a requirement. It would be perverse to hold a service provider immune for transmitting information that was infringing on its face, but find it contributorily liable for transmitting information that did not infringe.

Section 512(a) provides a broad grant of immunity to service providers whose connection with the material is transient. When an individual clicks on an Internet link, his computer sends a request for the information. The company receiving that request sends that request on to another computer, which sends it on to another. After a series of such transmissions, the request arrives at the computer that stores the information. The requested information is then returned in milliseconds, not necessarily along the same path. In passing the information along, each intervening computer makes a short-lived copy of the data. A short time later, the information is displayed on the user's computer.

Those intervening computers provide transient connections among users. The Internet as we know it simply cannot exist if those intervening computers must block indirectly infringing content. We read § 512(a)'s grant of immunity exactly as it is written: Service providers are immune for transmitting all digital online communications, not just those that directly infringe.

CCBill transmits credit card information and proof of payment, both of which are "digital online communications." However, we have little information as to how **CCBill** sends the payment it receives to its account holders. It is unclear whether such payment is a digital communication, transmitted without modification to the content of the material, or transmitted often enough that **CCBill** is only a transient holder. On the record before us, we cannot conclude that **CCBill** is a service provider under § 512(a). Accordingly, we remand to the district court for further consideration the issue of whether **CCBill** meets the requirements of § 512(a).

D. Information Location Tools: § 512(d)

After **CCBill** processes a consumer's credit card and issues a password granting access to a client website, **CCBill** displays a hyperlink so that the user may access the client website. **CCBill** argues that it falls under the safe harbor of § 512(d) by displaying this hyperlink at the conclusion of the consumer transaction. We disagree. Section 512(d) reads:

766 *766 A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information

location tools, including a directory, index, reference, pointer, or hypertext link.

Even if the hyperlink provided by **CCBill** could be viewed as an "information location tool," the majority of **CCBill's** functions would remain outside of the safe harbor of § 512(d). Section 512(d) provides safe harbor only for "infringement of copyright *by reason of* the provider referring or linking users to an online location containing infringing material or infringing activity." (Emphasis added). **Perfect 10** does not claim that **CCBill** infringed its copyrights by providing a hyperlink; rather, **Perfect 10** alleges infringement through **CCBill's** performance of other business services for these websites. Even if **CCBill's** provision of a hyperlink is immune under § 512(n), **CCBill** does not receive blanket immunity for its other services.

E. Information Residing on Systems or Networks at the Direction of Users: § 512(c)

Section 512(c) "limits the liability of qualifying service providers for claims of direct, vicarious, and contributory infringement for storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." H.R. Rep., at 53. A service provider qualifies for safe harbor under § 512(c) if it meets the requirements of § 512(i) and:

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

Section 512(c)(1). As discussed above, **Perfect 10** did not provide CWIE with knowledge or awareness within the standard of § 512(c)(1)(A), and **Perfect 10** did not provide notice that complies with the requirements of § 512(c)(3).

The remaining question is whether **Perfect 10** raises a genuine issue of material fact that CWIE does not qualify for safe harbor under § 512(c) because it fails to meet the requirements of § 512(c)(1)(B), namely, that a service provider not receive a direct financial benefit from the infringing activity if the service provider also has the right and ability to control the infringing activity.

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Based on the "well-established rule of construction that where Congress uses terms that have accumulated settled meaning under common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms," [Rossi, 391 F.3d at 1004 n. 4 \(9th Cir.2004\)](#) (quoting [Neder v. United States, 527 U.S. *767 1, 21, 119 S.Ct. 1827, 144 L.Ed.2d 35 \(1999\)](#)), we hold that "direct financial benefit" should be interpreted consistent with the similarly-worded common law standard for vicarious copyright liability. See, e.g., [Ellison, 357 F.3d at 1078](#) (a vicariously liable copyright infringer "derive[s] a direct financial benefit from the infringement and ha[s] the right and ability to supervise the infringing activity"). Thus, the relevant inquiry is "whether the infringing activity constitutes a draw for subscribers, not just an added benefit." *Id.* at 1079. In *Ellison*, the court held that "no jury could reasonably conclude that AOL received a direct financial benefit from

providing access to the infringing material" because "[t]he record lacks evidence that AOL attracted or retained subscriptions because of the infringement or lost subscriptions because of AOL's eventual obstruction of the infringement." *Id.*

In this case, **Perfect 10** provides almost no evidence about the alleged direct financial benefit to CWIE. **Perfect 10** only alleges that "CWIE `hosts' websites for a fee." This allegation is insufficient to show that the infringing activity was "a draw" as required by *Ellison*. [357 F.3d at 1079](#). Furthermore, the legislative history expressly states that "receiving a one-time set-up fee and flat, periodic payments for service from a person engaging in infringing activities would not constitute receiving a `financial benefit directly attributable to the infringing activity.'" H.R. Rep., at 54. **Perfect 10** has not raised a genuine issue of material fact that CWIE receives a direct financial benefit from infringing activity. Because CWIE does not receive a direct financial benefit, CWIE meets the requirements of § 512(c).

If the district court finds that CWIE meets the threshold requirements of § 512(i), CWIE is entitled to safe harbor under § 512(c).

II. COMMUNICATIONS DECENCY ACT

The Communications Decency Act states that "[n]o provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider," and expressly preempts any state law to the contrary. 47 U.S.C. §§ 230(c)(1), (e)(3). "The majority of federal circuits have interpreted the CDA to establish broad `federal immunity to any cause of action that would make service providers liable for information originating with a third-party user of the service.'" [Almeida v. Amazon.com, Inc.](#), [456 F.3d 1316, 1321 \(11th Cir.2006\)](#) (quoting [Zeran v. America Online, Inc.](#), [129 F.3d 327, 331 \(4th Cir.1997\)](#)); see also [Carafano v. Metrosplash.com, Inc.](#), [339 F.3d 1119, 1122 \(9th Cir.2003\)](#) (citing [Batzel v. Smith](#), [333 F.3d 1018, 1026-27 \(9th Cir.2003\)](#)).

The immunity created by § 230(c)(1) is limited by § 230(e)(2), which requires the court to "construe Section 230(c)(1) in a manner that would neither `limit or expand any law pertaining to intellectual property.'" [Gucci Am., Inc. v. Hall & Assocs.](#), [135 F.Supp.2d 409, 413 \(S.D.N.Y.2001\)](#) (quoting § 230(e)(2)). As a result, the CDA does not clothe service providers in immunity from "law[s] pertaining to intellectual property." See [Almeida](#), [456 F.3d at 1322](#).

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The CDA does not contain an express definition of "intellectual property," and there are many types of claims in both state and federal law which may — or may not — be characterized as "intellectual property" claims. While the scope of federal intellectual property law is relatively well-established, state laws protecting "intellectual property," however defined, are by no means uniform. Such laws may *768 bear various names, provide for varying causes of action and remedies, and have varying purposes and policy goals. Because material on a website may be viewed across the Internet, and thus in more than one state at a time, permitting the reach of any particular state's definition of intellectual property to dictate the contours of this federal immunity would be contrary to Congress's expressed goal of insulating the development of the Internet from the various state-law regimes. See 47 U.S.C. §§ 230(a) and (b); see also [Batzel](#), [333 F.3d at 1027](#) (noting that "courts construing § 230 have recognized as critical in applying the statute the concern that lawsuits could threaten the `freedom of speech in the new and burgeoning Internet medium'" (quoting [Zeran](#), [129 F.3d at 330](#))). In the absence of a definition from Congress, we construe the term "intellectual property" to mean "federal intellectual property." Accordingly, **CCBill** and CWIE are eligible for CDA immunity for all of the state claims raised by **Perfect 10**.

III. DIRECT COPYRIGHT INFRINGEMENT

"Plaintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1)

they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106." [Napster, 239 F.3d at 1013](#). **Perfect 10** alleges that **CCBill** and CWIE directly infringed its copyrights through its website, hornybees.com.

There is a genuine issue of material fact as to the relationship between **CCBill**/ CWIE and hornybees.com. **CCBill** and CWIE state that hornybees.com is operated by an entity called "CCBucks," and that **CCBill** and CWIE have no interest in hornybees.com. However, the hornybees.com website reads: "Brought to you by **CCBill** LLC and Cavecreek Web Hosting." The record indicates that Cavecreek Web Hosting may be CWIE, and that CWIE may be the registrant of hornybees.com. Furthermore, the vice president of operations of both **CCBill** and CWIE lists CCBucks as being related to CWIE and **CCBill**.

Perfect 10 has also raised a genuine issue of material fact that hornybees.com has infringed **Perfect 10's** copyrights by posting pictures of a **Perfect 10** model's body with the head of a celebrity. The declaration provided by **Perfect 10's** founder and president asserting that the photo is that of a **Perfect 10** model is sufficient evidence to raise a genuine issue of material fact.

Because **Perfect 10** has raised a triable issue whether **CCBill** and CWIE directly infringed **Perfect 10** copyrights by operating hornybees.com, and because the district court did not address this issue in its order granting summary judgment in favor of **Perfect 10**, we remand this issue for a determination by the district court.^[5]

IV. COSTS AND ATTORNEY'S FEES

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The Copyright Act of 1976 permits the district court to "award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505. Fees are proper under this statute when either successful prosecution or successful defense of the action furthers the purposes of the Copyright Act. See [Fantasy, 769 Inc. v. Fogerty, 94 F.3d 553, 558 \(9th Cir. 1996\)](#) ("[A] successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.") (quoting [Fogerty v. Fantasy, Inc., 510 U.S. 517, 527, 114 S.Ct. 1023, 127 L.Ed.2d 455 \(1994\)](#)). As such, prevailing defendants as well as prevailing plaintiffs are eligible for such an award, and the standards for evaluating whether an award is proper are the same regardless of which party prevails. [Fogerty v. Fantasy, Inc., 510 U.S. 517, 534, 114 S.Ct. 1023, 127 L.Ed.2d 455 \(1994\)](#).

Thus, the awarding of attorney's fees is a matter for the district court's discretion. *Id.* To guide that discretion, the Supreme Court endorsed the non-exclusive list employed by the Third Circuit in [Lieb v. Topstone Industries, Inc., 788 F.2d 151, 156 \(1986\)](#) (the so-called "*Lieb* factors"). [Fogerty, 510 U.S. at 534 n. 19, 114 S.Ct. 1023](#). The list includes "frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Id.*

The district court made clear in its order denying fees that it had weighed each of the *Lieb* factors and validly exercised its discretion to deny defendants' fees. Defendants argue that the district judge inadequately considered these factors, that **Perfect 10's** litigation positions were frivolous and meritless, and that **Perfect 10** is a serial filer of nuisance copyright claims. Because we reverse in part and remand a substantial portion of this case to the district court, there is ample support for the district court's finding that **Perfect 10's** legal claims are not frivolous or objectively unreasonable. The district court reasonably found the evidence regarding **Perfect 10's** motivation to be equivocal, and did not abuse its discretion in weighing the interests of compensation and deterrence and denying costs and attorney's fees to

defendants.

CONCLUSION

We remand to the district court for a determination of whether **CCBill** and CWIE reasonably implemented a policy under § 512(i)(1)(A) based on its treatment of non-party copyright holders. Because § 512(i)(1)(A) is a threshold determination, we remand the remaining issues under § 512 for further proceedings consistent with this opinion.

We remand for further determination of whether hornybees.com is owned by **CCBill** or CWIE, and if so, whether **CCBill** or CWIE are directly liable under state or federal law for its operation.

The district court's decision regarding CDA immunity is affirmed as to the unfair competition and false advertising claims, and reversed as to the right of publicity claim.

We affirm the district court's decision to deny an award of attorney's fees and costs to defendants.

Each party shall bear its own costs on appeal.

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED

^[1] The relevant portions of H.R. Rep. 105-551(II) (1998) and S. Rep. 105-190 (1998) are largely identical. We cite to H.R. Rep. for purposes of consistency.

^[2] Section 512(c)(3) reads:

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:

- (i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.
- (ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a representative list of such works at that site.
- (iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.
- (iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.
- (v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.
- (vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

^[3] We do not read the Fourth Circuit's holding in [ALS Scan, Inc. v. RemarQ Communities, Inc.](#), 239 F.3d 619, 625 (4th Cir.2001), as holding that *only* location information is required for substantial compliance with the terms of § 512(c)(3).

^[4] **Perfect 10's** argument that its initial notice substantially complied with the DMCA's notice requirements because Fisher, the recipient of that notice, admitted that he could have found the infringing photographs on the basis of the October 16, 2002, bates-stamped production, is thus beside the point. Without the predicate certification under penalty of perjury, Fisher would have had no reason to go looking for the photographs.

^[5] If **CCBill** and CWIE operate hornybees.com, no immunity for infringement on that site is available under either the DMCA or the CDA.

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Perfect 10, Inc. v. Visa Intern. Service Ass'n, 494 F. 3d 788 - Court of Appeals, 9th Circuit 2007Highlighting **Perfect 10 v Visa, 494 F.3d 788 (9th Cir. 2007)** [Remove highlighting](#)

494 F.3d 788 (2007)

PERFECT 10, INC., Plaintiff-Appellant,**v.****VISA INTERNATIONAL SERVICE, ASSOCIATION; First Data Corporation; Cardservice International, Inc.; Humboldt Bank; Mastercard International, Inc., Defendants-Appellees.**[No. 05-15170.](#)**United States Court of Appeals, Ninth Circuit.**

Argued and Submitted December 4, 2006.

Filed July 3, 2007.

- 792 *789 *790 *791 *792 Howard E. King (argued) and Stephen D. Rothschild, King, Holmes, Paterno & Berliner, LLP, Los Angeles, California, for the plaintiff-appellant.
- Jeffrey N. Mausner, Berman, Mausner & Resser, Los Angeles, California, for the plaintiff-appellant.
- Daniel J. Cooper, Los Angeles, California, for the plaintiff-appellant.
- Andrew P. Bridges (argued), John C. Nishi, Winston & Strawn LLP, San Francisco, California, for defendant-appellee Mastercard International Incorporated.
- Mark T. Jansen, Nancy L. Tompkins, Anthony J. Malutta, Townsend and Townsend and Crew LLP, San Francisco, California, for defendant-appellee **Visa** International Service Association.
- Robert A. Van Nest, Michael H. Page, R. James Slaughter, Kecker & Van Nest, LLP, San Francisco, California, for defendants-appellees First Data Corp., Cardservice International, Inc., and Humboldt Bank.
- Before: STEPHEN REINHARDT, ALEX KOZINSKI, and MILAN D. SMITH, JR., Circuit Judges.
- Opinion by Judge MILAN D. SMITH, JR.; Dissent by Judge KOZINSKI.
- MILAN D. SMITH, JR., Circuit Judge:
- Perfect 10, Inc. (Perfect 10)** sued **Visa** International Service Association, Master-Card International Inc., and several affiliated banks and data processing services (collectively, the Defendants), alleging secondary liability under federal copyright and trademark law and liability under California statutory and common law. It sued because Defendants continue to process credit card payments to websites that infringe **Perfect 10's** intellectual property rights after being notified by **Perfect 10** of infringement by those websites. The district court dismissed all
- 793 causes of action under Federal Rule of Civil Procedure 12(b)(6) for failure to state a claim upon

*793 which relief can be granted. We affirm the decision of the district court.

FACTS AND PRIOR PROCEEDINGS

Perfect 10 publishes the magazine "PERFECT10" and operates the subscription website www.perfect10.com., both of which "feature tasteful copyrighted images of the world's most beautiful natural models." Appellant's Opening Brief at 1. **Perfect 10** claims copyrights in the photographs published in its magazine and on its website, federal registration of the "**PERFECT 10**" trademark and blanket publicity rights for many of the models appearing in the photographs. **Perfect 10** alleges that numerous websites based in several countries have stolen its proprietary images, altered them, and illegally offered them for sale online.

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

Perfect 10 separately alleges that it formerly had a merchant account with defendant First Data Corporation (FDC) but that in the Spring of 2001 FDC terminated the account. FDC's stated reason for the termination is that the percentage of **Perfect 10's** customers who later disputed the charges attributed to them (the chargeback rate) exceeded contractual limits. **Perfect 10** claims these chargeback rates were temporarily and substantially inflated because **Perfect 10** was the "victim of hackers who were subsequently investigated by the Secret Service." Appellant's Opening Brief at 13. **Perfect 10** claims that FDC was aware of this and was also aware that **Perfect 10's** chargeback rate dropped to within association limits once the hacking ceased, but that FDC nevertheless placed **Perfect 10** on an industry-wide "black list" of terminated accounts.

Perfect 10 filed suit against Defendants on January 28, 2004 alleging contributory and vicarious copyright and trademark infringement as well as violations of California laws proscribing unfair competition and false advertising, violation of the statutory and common law right of publicity, libel, and intentional interference with prospective economic advantage. Defendants moved to dismiss the initial complaint under FRCP 12(b)(6). The district court granted the motion, dismissing the libel and intentional interference claims with prejudice but granting leave to amend the remaining claims. In its first amended complaint, **Perfect 10** essentially repeated the allegations in its original complaint concerning the surviving causes of action and Defendants again moved to dismiss under FRCP 12(b)(6). The district court granted the Defendants' second motion in full, dismissing all remaining causes of action with prejudice. **Perfect 10** appealed to this court.

JURISDICTION

794 The district court had original jurisdiction over the copyright and trademark claims pursuant to 28 U.S.C. §§ 1331 and *794 1338 and supplemental jurisdiction over the related state law claims pursuant to 28 U.S.C. § 1367. This court has appellate jurisdiction pursuant to 28 U.S.C. § 1291.

STANDARDS OF REVIEW

We review *de novo* the district court's dismissal for failure to state a claim upon which relief can be granted pursuant to FRCP 12(b)(6). [Rodriguez v. Panayiotou](#), 314 F.3d 979, 983 (9th Cir.2002). On appeal, "we take all of the allegations of material fact stated in the complaint as true and construe them in the light most favorable to the nonmoving party. A complaint should not be dismissed unless it appears beyond doubt that plaintiff can prove no set of facts in support of his claim which would entitle him to relief." *Id.* (internal citations omitted).

Although a plaintiff's allegations are generally taken as true, the court need not accept conclusory allegations of law or unwarranted inferences, and dismissal is required if the facts are insufficient to support a cognizable claim. [City of Arcadia v. U.S. Emtl. Prot. Agency](#), 411 F.3d 1103, 1106 n. 3 (9th Cir.2005); see also [Pena v. Gardner](#), 976 F.2d 469, 471-72 (9th Cir.1992). The court may also affirm on any ground supported by the record even if the district court did not consider the issue. [Fields v. Legacy Health Sys.](#), 413 F.3d 943, 958 n. 13 (9th Cir.2005); [ARC Ecology v. United States Dep't of the Air Force](#), 411 F.3d 1092, 1096 (9th Cir.2005).

We review *de novo* the district court's interpretation of state law. [Rodriguez](#), 314 F.3d at 983.

DISCUSSION

SECONDARY LIABILITY UNDER FEDERAL COPYRIGHT AND TRADEMARK LAW

A. Secondary Liability for Copyright Infringement

Perfect 10 alleges that numerous websites based in several countries—and their paying customers—have directly infringed its rights under the Copyright Act, 17 U.S.C. § 101, *et seq.*^[1] In the present suit, however, **Perfect 10** has sued Defendants, not the direct infringers, claiming contributory and vicarious copyright infringement because Defendants process credit card charges incurred by customers to acquire the infringing images.

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

1. Contributory Copyright Infringement

795 Contributory copyright infringement is a form of secondary liability with *795 roots in the tort-law concepts of enterprise liability and imputed intent. See [Fonovisa, Inc. v. Cherry Auction, Inc.](#), 76 F.3d 259, 264 (9th Cir.1996); [Perfect 10, Inc. v. Amazon.com, Inc. et al.](#), 487 F.3d 701 (9th Cir.2007). This court and the United States Supreme Court (Supreme Court) have announced various formulations of the same basic test for such liability. We have found that a defendant is a contributory infringer if it (1) has knowledge of a third party's infringing activity, and (2) "induces, causes, or materially contributes to the infringing conduct." [Ellison v. Robertson](#), 357 F.3d 1072, 1076 (9th Cir.2004) (citing [Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.](#), 443 F.2d 1159, 1162 (2d Cir.1971)). In an Internet context, we have found contributory liability when the defendant "engages in personal conduct that encourages or assists the infringement." [A & M Records, Inc. v. Napster, Inc.](#), 239 F.3d 1004, 1019 (9th Cir.2001) (internal citations omitted). In [Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.](#), the Supreme Court adopted from patent law the concept of "inducement" and found that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement." 545 U.S. 913, 930, 125 S.Ct. 2764,

[162 L.Ed.2d 781 \(2005\)](#).^[3] Most recently, in a case also brought by **Perfect 10**, we found that "an actor may be contributorily liable [under *Grokster*] for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement." [Amazon.com, 487 F.3d at 727](#).

We understand these several criteria to be non-contradictory variations on the same basic test, i.e., that one contributorily infringes when he (1) has knowledge of another's infringement and (2) either (a) materially contributes to or (b) induces that infringement. Viewed in isolation, the language of the tests described is quite broad, but when one reviews the details of the actual "cases and controversies" before the relevant court in each of the testdefining cases and the actual holdings in those cases, it is clear that the factual circumstances in this case are not analogous. To find that Defendants' activities fall within the scope of such tests would require a radical and inappropriate expansion of existing principles of secondary liability and would violate the public policy of the United States.

a. Knowledge of the Infringing Activity

Because we find that **Perfect 10** has not pled facts sufficient to establish that Defendants induce or materially contribute to the infringing activity, **Perfect 10's** contributory copyright infringement claim fails and we need not address the Defendants' knowledge of the infringing activity.^[4]

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*796 b. Material Contribution, Inducement, or Causation

To state a claim of contributory infringement, **Perfect 10** must allege facts showing that Defendants induce, cause, or materially contribute to the infringing conduct. See, e.g., [Ellison, 357 F.3d at 1076](#). Three key cases found defendants contributorily liable under this standard: [Fonovisa, 76 F.3d 259](#); [Napster, 239 F.3d 1004](#); and [Grokster, 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781](#). In *Fonovisa*, we held a swap meet operator contributorily liable for the sale of pirated works at the swap meet. In *Napster*, we held the operator of an electronic file sharing system liable when users of that system employed it to exchange massive quantities of copyrighted music. In *Grokster*, the Supreme Court found liability for the substantially similar act of distributing software that enabled exchange of copyrighted music on a peer-to-peer, rather than a centralized basis.^[5] **Perfect 10** argues that by continuing to process credit card payments to the infringing websites despite having knowledge of ongoing infringement, Defendants induce, enable and contribute to the infringing activity in the same way the defendants did in *Fonovisa*, *Napster* and *Grokster*. We disagree.

1. Material Contribution

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The credit card companies cannot be said to materially contribute to the infringement in this case because they have no direct connection to that infringement. Here, the infringement rests on the reproduction, alteration, display and distribution of **Perfect 10's** images over the Internet. **Perfect 10** has not alleged that any infringing material passes over Defendants' payment networks or through their payment processing systems, or that Defendants' systems are used to alter or display the infringing images. In *Fonovisa*, the infringing material was physically located in and traded at the defendant's market. Here, it is not. Nor are Defendants' systems used to locate the infringing images. The search engines in *Amazon.com* provided links to specific infringing images, and the services in *Napster* and *Grokster* allowed users to locate and obtain infringing material. Here, in contrast, the services provided by the credit card companies do not help locate and are not used to distribute the infringing images. While **Perfect 10** has alleged that Defendants make it easier for websites to profit from this infringing activity, the issue here is reproduction, alteration, display and distribution, which can occur

without payment. Even if infringing images were not paid for, there would still be infringement. See [Napster, 239 F.3d at 1014](#) (Napster users infringed the distribution right by uploading file names to the search index for others to copy, despite the fact that *797 no money changed hands in the transaction).

Our analysis is fully consistent with this court's recent decision in [Perfect 10 v. Amazon.com](#), where we found that "Google could be held contributorily liable if it had knowledge that infringing **Perfect 10** images were available using its search engine, could take simple measures to prevent further damage to **Perfect 10's** copyrighted works, and failed to take such steps." [487 F.3d at 729](#). The dissent claims this statement applies squarely to Defendants if we just substitute "payment systems" for "search engine." Dissent at 811. But this is only true if search engines and payment systems are equivalents for these purposes, and they are not. The salient distinction is that Google's search engine itself assists in the distribution of infringing content to Internet users, while Defendants' payment systems do not. The *Amazon.com* court noted that "Google substantially assists websites to distribute their infringing copies to a worldwide market and assists a worldwide audience of users to access infringing materials." *Id.* Defendants do not provide such a service. They in no way assist or enable Internet users to locate infringing material, and they do not distribute it. They do, as alleged, make infringement more profitable, and people are generally more inclined to engage in an activity when it is financially profitable. However, there is an additional step in the causal chain: Google may materially contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be *profitable*, which tends to increase financial incentives to infringe, which in turn tends to increase infringement.^[6]

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The dissent disagrees with our reading of *Amazon.com* and charges us with wishful thinking, dissent at 811, and with "draw[ing] a series of ephemeral distinctions," dissent at 825. We respectfully disagree and assert that our construction of the relevant statutes and case law is completely consistent with existing federal law, is firmly grounded in both commercial and technical reality and conforms to the public policy of the United States. Helping users to locate an image might substantially assist users to download infringing images, but processing payments does not. If users couldn't pay for images with credit cards, infringement could continue on a large scale because other viable funding mechanisms are available. For example, a website might decide to allow users to download some images for free and to make its profits from advertising, or it might develop other payment mechanisms that do not depend on the credit card companies.^[7] In either case, the unlicensed use of **Perfect 10's** copyrighted images would still be infringement.^[8] We acknowledge that Defendants' *798 payment systems make it easier for such an infringement to be profitable, and that they therefore have the effect of increasing such infringement, but because infringement of **Perfect 10's** copyrights can occur without using Defendants' payment system, we hold that payment processing by the Defendants as alleged in **Perfect 10's** First Amended Complaint does not constitute a "material contribution" under the test for contributory infringement of copyrights.^[9]

Our holding is also fully consistent with and supported by this court's previous holdings in *Fonovisa* and *Napster*. While there are some limited similarities between the factual scenarios in *Fonovisa* and *Napster* and the facts in this case, the differences in those scenarios are substantial, and, in our view, dispositive. In *Fonovisa*, we held a flea market proprietor liable as a contributory infringer when it provided the facilities for and benefitted from the sale of pirated works. [76 F.3d 259](#). The court found that the primary infringers and the swap meet were engaged in a mutual enterprise of infringement and observed that "it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet. These services include, among other things, the provision of space, utilities, parking, advertising, plumbing, and customers." [76 F.3d at 264](#). But the swap meet owner did more to encourage the enterprise. In 1991, the Fresno County Sheriff raided the swap meet and seized 38,000 counterfeit recordings. *Id.* at 261. The Sheriff sent a letter to

the swap meet operator the following year notifying it that counterfeit sales continued and reminding it that it had agreed to provide the Sheriff with identifying information from each vendor, but had failed to do so. *Id.* The *Fonovisa* court found liability because the swap meet operator knowingly provided the "site and facilities" for the infringing activity. *Id.* at 264.

799 In *Napster*, this court found the designer and distributor of a software program liable for contributory infringement. [239 F.3d 1004](#). Napster was a file-sharing program which, while capable of non-infringing use, was expressly engineered to enable the easy exchange of pirated music and was widely so used. See [Napster, 239 F.3d at 1020 n. 5](#) (quoting document authored by Napster co-founder which mentioned "the need to remain ignorant of users' real names and IP addresses `since they are exchanging pirated music'"). Citing the *Fonovisa* standard, the *Napster* court found that Napster materially contributes to the users' direct infringement by knowingly providing the "site and facilities" for that infringement. [239 F.3d at 1022](#).

Seeking to draw an analogy to *Fonovisa* and, by extension, *Napster*, **Perfect 10** pleads that Defendants materially contribute to the infringement by offering services that allow it to happen on a larger scale than would otherwise be possible. Specifically, because the swap meet in *Fonovisa* created a commercial environment which allowed the frequency of that infringement to increase, and the Napster program increased the frequency of infringement by making it easy, **Perfect 10** argues that the Defendants have made available a payment system that allows third-party infringement to be profitable, and, consequently, more widespread than it otherwise might be. This analogy fails.

The swap meet operator in *Fonovisa* and the administrators of the Napster and Grokster programs increased the level of infringement by providing a centralized place, whether physical or virtual, where infringing works could be collected, sorted, found, and bought, sold, or exchanged.^[10] The provision of parking lots, plumbing and other accoutrements in *Fonovisa* was significant only because this was part of providing the environment and market for counterfeit recording sales to thrive.

Defendants, in contrast, do no such thing. While **Perfect 10** has alleged that it is easy to locate images that infringe its copyrights, the Defendants' payment systems do not cause this. **Perfect 10's** images are easy to locate because of the very nature of the Internet—the website format, software allowing for the easy alteration of images, high-speed connections allowing for the rapid transfer of high-resolution image files, and perhaps most importantly, powerful search engines that can aggregate and display those images in a useful and efficient manner, without charge, and with astounding speed. Defendants play no role in any of these functions.

800 **Perfect 10** asserts otherwise by arguing for an extremely broad conception of the term "site and facilities" that bears no relationship to the holdings in the actual "cases and controversies" decided in *Fonovisa* and *Napster*. Taken literally, **Perfect 10's** theory appears to include any tangible or intangible component related to any transaction in which infringing material is bought and sold. But *Fonovisa* and *Napster* do not require or lend themselves to such a construction. The actual display, location, and distribution of infringing images in this case occurs on websites that organize, display, and transmit information over the wires and wireless instruments that make up the Internet. The *websites* are the "site" of the infringement, not Defendants' payment networks. Defendants do not create, operate, advertise, or otherwise promote these websites. They do not operate the servers on which they reside. Unlike the *Napster* (and *Grokster*) defendants, they do not provide users the tools to locate infringing material, nor does any infringing material ever reside on or pass through any network or computer Defendants operate.^[11] Defendants merely provide a method of payment, not a "site" or "facility" of infringement. Any conception of "site and facilities" that encompasses Defendants would also include a number of peripherally-involved third parties, such as computer display companies, storage device companies, and software companies that make

the software necessary to alter and view the pictures and even utility companies that provide electricity to the Internet.

Perfect 10 seeks to side-step this reality by alleging that Defendants are still contributory infringers because they could refuse to process payments to the infringing websites and thereby undermine their commercial viability.^[12] Even though we must take this factual allegation as true, that Defendants have the power to undermine the commercial viability of infringement does not demonstrate that the Defendants materially contribute to that infringement. As previously noted, the direct infringement here is the reproduction, alteration, display and distribution of **Perfect 10's** images over the Internet. **Perfect 10** has not alleged that any infringing material passes over Defendants' payment networks or through their payment processing systems, or that Defendants designed or promoted their payment systems as a means to infringe. While **Perfect 10** has alleged that Defendants make it easier for websites to profit from this infringing activity, the infringement stems from the failure to obtain a license to distribute, not the processing of payments.

2. Inducement

In *Grokster*, the Supreme Court applied the patent law concept of "inducement" to a claim of contributory infringement against a file-sharing program. [545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781](#). The court found that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." *Id.* at 936-37, [125 S.Ct. 2764](#). **Perfect 10** claims that *Grokster* is analogous because Defendants induce customers to use their cards to purchase goods and services, and are therefore guilty of specifically inducing infringement if the cards are used to purchase images from sites that have content stolen from **Perfect 10**. This is mistaken. Because **Perfect 10** alleges no "affirmative steps taken to foster infringement" and no facts suggesting that Defendants promoted their payment system as a means to infringe, its claim is premised on a fundamental misreading of *Grokster* that would render the concept of "inducement" virtually meaningless.

The *Grokster* court announced that the standard for inducement liability is providing a service "with the object of promoting its use to infringe copyright." *Id.* "[M]ere knowledge of infringing potential or actual infringing uses would not be enough here to subject [a defendant] to liability." *Id.* at 937, [125 S.Ct. 2764](#). Instead, inducement "premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise." *Id.* Moreover, to establish inducement liability, it is crucial to establish that the distributors "communicated an inducing message to their . . . users," the classic example of which is an "advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations." *Id.* The *Grokster* court summarized the "inducement" rule as follows:

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

[545 U.S. at 932-33, 125 S.Ct. 2764](#) (internal citations and quotation marks omitted).

Perfect 10 has not alleged that any of these standards are met or that any of these considerations are present here. Defendants do, of course, market their credit cards as a means to pay for goods and services, online and elsewhere. But it does not follow that

Defendants affirmatively promote each product that their cards are used to purchase. The software systems in *Napster* and *Grokster* were engineered, disseminated, and promoted explicitly for the purpose of facilitating piracy of copyrighted music and reducing legitimate sales of such music to that extent. Most Napster and Grokster users understood this and primarily used those systems to purloin copyrighted music. Further, the Grokster operators explicitly targeted then-current users of the Napster program by sending them ads for its OpenNap program. *Id.* at 925-26, [125 S.Ct. 2764](#). In contrast, **Perfect 10** does not allege that Defendants created or promote their payment systems as a means to break laws. **Perfect 10** simply alleges that Defendants generally promote their cards and payment systems but points to no "clear expression" or "affirmative acts" with any specific intent to foster infringement.

802 The *Amazon.com* court recognized this distinction and applied it in a matter fully consistent with our analysis in this case. While the *Amazon.com* court did not bifurcate its analysis of contributory liability into "material contribution" liability and "inducement" liability, it did recognize that contributory liability "may be predicated on actively encouraging (or inducing) infringement through specific acts." [Amazon.com, 487 F.3d at 726](#) (quoting [Grokster, 545 U.S. at 942, 125 S.Ct. 2764](#) (Ginsburg, J., concurring)). It also found that Google could be held contributorily liable if it has "actual knowledge that specific infringing material is available using its system, and can take simple measures to prevent further damage," but does not. *Id.* at 728 (internal citations and quotation marks omitted). While this test is read more naturally as a test for "material contribution" than as a test for "inducement," *802 under an "inducement" analysis Defendants are not within its scope. As discussed above, **Perfect 10** has not alleged any "specific acts" intended to encourage or induce infringement. And moreover, Defendants are distinguishable under the *Amazon.com* test because, unlike Google, infringing material is not "available using [their] system" of payment processing. *Id.* That system does not "facilitate access to websites," *id.*; infringers do not use it to copy, alter, distribute or display infringing material; and consumers do not use it to locate, view or download the infringing images. Rather, all parties involved simply use Defendants' system to process payments for that infringing material.

Finally, we must take as true the allegations that Defendants lend their names and logos to the offending websites and continue to allow their cards to be used to purchase infringing images despite actual knowledge of the infringement—and perhaps even bending their association rules to do so. But we do not and need not, on this factual basis, take as true that Defendants "induce" consumers to buy pirated content with their cards. "Inducement" is a legal determination, and dismissal may not be avoided by characterizing a legal determination as a factual one. We must determine whether the facts as pled constitute a "clear expression" of a specific intent to foster infringement, and, for the reasons above noted, we hold that they do not.

2. Vicarious Copyright Infringement

Vicarious infringement is a concept related to, but distinct from, contributory infringement. Whereas contributory infringement is based on tort-law principles of enterprise liability and imputed intent, vicarious infringement's roots lie in the agency principles of *respondeat superior*. See [Fonovisa, 76 F.3d at 261-62](#). To state a claim for vicarious copyright infringement, a plaintiff must allege that the defendant has (1) the right and ability to supervise^[13] the infringing conduct and (2) a direct financial interest in the infringing activity. [Ellison, 357 F.3d at 1078](#); [Napster, 239 F.3d at 1022](#) (citations omitted). The Supreme Court has recently offered (in dictum) an alternate formulation of the test: "One . . . infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." [Grokster, 545 U.S. at 930, 125 S.Ct. 2764](#) (internal citations omitted). **Perfect 10** alleges that Defendants have the right and ability to control the content of the infringing websites by refusing to process credit card payments to the websites, enforcing their own rules and regulations, or both. We hold that Defendants' conduct alleged in **Perfect 10's** first amended complaint fails to state a claim for

vicarious copyright infringement.

a. Right and Ability to Supervise the Infringing Activity

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In order to join a Defendant's payment network, merchants and member banks must agree to follow that Defendant's rules and regulations. These rules, among other things, prohibit member banks from providing services to merchants engaging in certain illegal activities and require the members and member banks to investigate merchants suspected of engaging in such illegal activity and to terminate their participation in the payment network if certain illegal activity is *803 found. **Perfect 10** has alleged that certain websites are infringing **Perfect 10's** copyrights and that **Perfect 10** sent notices of this alleged infringement to Defendants. Accordingly, **Perfect 10** has adequately pled that (1) infringement of **Perfect 10's** copyrights was occurring, (2) Defendants were aware of the infringement, and (3) on this basis, Defendants could have stopped processing credit card payments to the infringing websites. These allegations are not, however, sufficient to establish vicarious liability because even with all reasonable inferences drawn in **Perfect 10's** favor, **Perfect 10's** allegations of fact cannot support a finding that Defendants have the right and ability to control the infringing activity.

In reasoning closely analogous to the present case, the *Amazon.com* court held that Google was not vicariously liable for third-party infringement that its search engine facilitates. In so holding, the court found that Google's ability to control its own index, search results, and webpages does not give Google the right to control the infringing acts of third parties even though that ability would allow Google to affect those infringing acts to some degree. [Amazon.com, 487 F.3d at 730-32](#). Moreover, and even more importantly, the *Amazon.com* court rejected a vicarious liability claim based on Google's policies with sponsored advertisers, which state that it reserves "the right to monitor and terminate partnerships with entities that violate others' copyright[s]." *Id.* at 730 (alteration in original). The court found that

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

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

Perfect 10 argues that this court's decision in *Napster* compels a contrary result. The *Napster* court found a likelihood of vicarious liability because Napster "had the right and ability to police its system and failed to exercise that right to prevent the exchange of copyrighted material." [239 F.3d at 1023](#). The Napster program created a forum for the exchange of digital music files and the program administrators had the ability to block certain users from accessing that forum to upload or download such files. As pled by **Perfect 10**, Defendants also provide a system that allows the business of infringement for profit to operate on a larger scale than it otherwise might, and Defendants have the ability to deny users access to that payment system.

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This argument fails. The Napster program's involvement with—and hence its "policing" power over—the infringement was much more intimate and directly intertwined with it than Defendants' payment systems are. Napster provided users with the tools to enable the easy reproduction and distribution of the actual infringing content and to readily search *804 out and

identify infringing material. Defendants' payment systems do not. Napster also had the right and ability to block user access to its program and thereby deprive particular users of access to their forum and use of their location and distribution tools. Defendants can block access to their payment system, but they cannot themselves block access to the Internet, to any particular websites, or to search engines enabling the location of such websites. Defendants are involved with the payment resulting from violations of the distribution right, but have no direct role in the actual reproduction, alteration, or distribution of the infringing images.^[14] They cannot take away the tools the offending websites use to reproduce, alter, and distribute the infringing images over the Internet. They can only take away the means the websites currently use to sell them.^[15]

Perfect 10 offers two counter-arguments. **Perfect 10** first claims that Defendants' rules and regulations permit them to require member merchants to cease illegal activity—presumably including copyright infringement—as a condition to their continuing right to receive credit card payments from the relevant Defendant entities. **Perfect 10** argues that these contractual terms effectively give Defendants contractual control over the *content* of their merchants' websites, and that contractual control over content is sufficient to establish the "right and ability" to control that content for purposes of vicarious liability. In the sense that economic considerations can influence behavior, these contractual rules and regulations do give Defendants some measure of control over the offending websites since it is reasonable to believe that fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with a content-based suggestion from Defendants. But the ability to exert financial pressure does not give Defendants the right or ability to control the actual infringing activity at issue in this case. Defendants have no absolute right^[16] to stop that activity—they cannot stop websites *805 from reproducing, altering, or distributing infringing images. Rather, the credit card companies are analogous to Google, which we held was not liable for vicarious copyright infringement even though search engines could effectively cause a website to disappear by removing it from their search results, and reserve the right to do so. Like Google, the credit card companies "cannot stop any of the third-party websites from reproducing, displaying, and distributing unauthorized copies of **Perfect 10's** images because that infringing conduct takes place on the third-party websites." *Amazon.com*, 487 F.3d at 731. Defendants can only refuse to process credit card payments to the offending merchant within their payment network, or they can threaten to do so if the merchant does not comply with a request to alter content. While either option would likely have some indirect effect on the infringing activity, as we discuss at greater length in our analysis of the *Grokster* "stop or limit" standard below, so might any number of actions by any number of actors. For vicarious liability to attach, however, the defendant must have the right and ability to *supervise* and *control* the infringement, not just affect it, and Defendants do not have this right or ability.

Perfect 10 relies heavily on the reasoning of *Fonovisa* and *Napster* to support this argument, but that reliance is misplaced. The swap meet operator in *Fonovisa* and the software operator in *Napster* both had the right to remove individual infringers from the very place the infringement was happening. Defendants, like the defendants in *Amazon.com*, have no such right. As already discussed, Defendants cannot take away the software the offending websites use to copy, alter, and distribute the infringing images, cannot remove those websites from the Internet, and cannot themselves block the distribution of those images over the Internet. Defendants can refuse to process credit card payments for those images, but while this refusal would reduce the number of those sales, that reduction is the result of indirect economic pressure rather than an affirmative exercise of contractual rights.^[17]

Perfect 10 also argues that were infringing websites barred from accepting the Defendants' credit cards, it would be impossible for an online website selling adult images to compete and operate at a profit.^[18] While we must take this allegation as *806 true, it still fails to state a claim because it conflates the power to stop profiteering with the right and ability to control

infringement. **Perfect 10's** allegations do not establish that Defendants have the authority to prevent theft or alteration of the copyrighted images, remove infringing material from these websites or prevent its distribution over the Internet. Rather, they merely state that this infringing activity could not be *profitable* without access to Defendants' credit card payment systems. The alleged infringement does not turn on the payment; it turns on the reproduction, alteration and distribution of the images, which Defendants do not do, and which occurs over networks Defendants do not control.

The Supreme Court's recent decision in *Grokster* does not undermine the validity of this distinction. As we held in [Amazon.com, 487 F.3d at 728-31](#), *Grokster* does not stand for the proposition that just because the services provided by a company help an infringing enterprise generate revenue, that company is necessarily vicariously liable for that infringement. Numerous services are required for the third party infringers referred to by **Perfect 10** to operate. In addition to the necessity of creating and maintaining a website, numerous hardware manufacturers must produce the computer on which the website physically sits; a software engineer must create the program that copies and alters the stolen images; technical support companies must fix any hardware and software problems; utility companies must provide the electricity that makes all these different related operations run, etc. All these services are essential to make the businesses described viable, they all profit to some degree from those businesses, and by withholding their services, they could impair—perhaps even destroy—the commercial viability of those business. But that does not mean, and *Grokster* by no means holds, that they are all potentially liable as vicarious infringers. Even though they have the "right" to refuse their services, and hence the literal power to "stop or limit" the infringement, they, like Defendants, do not exercise sufficient control over the actual infringing activity for vicarious liability to attach.

b. Obvious and Direct Financial Interest in the Infringing Activity

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

B. Secondary Liability for Trademark Infringement

The tests for secondary trademark infringement are even more difficult to satisfy than those required to find secondary copyright infringement. See [Sony Corp. v. Universal City Studios, 464 U.S. 417, 439 n. 19, 104 S.Ct. 774, 78 L.Ed.2d 574 \(1984\)](#); [Fonovisa, 76 F.3d at 265](#) (noting that "trademark infringement liability is more narrowly circumscribed than copyright infringement"). While the tests for such infringement are somewhat different in the trademark context, **Perfect 10's** factual allegations in support of these claims are essentially identical to those alleged in **Perfect 10's** copyright claims, and they fail to state a claim for similar reasons.

807 *807 1. Contributory Trademark Infringement

To be liable for contributory trademark infringement, a defendant must have (1) "intentionally induced" the primary infringer to infringe, or (2) continued to supply an infringing product to an infringer with knowledge that the infringer is mislabeling the particular product supplied. [Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 855, 102 S.Ct. 2182, 72 L.Ed.2d 606 \(1982\)](#). When the alleged direct infringer supplies a service rather than a product, under the second prong of this test, the court must "consider the extent of control exercised by the defendant over the third party's means of infringement." [Lockheed Martin Corp. v. Network Solutions, Inc., 194 F.3d 980, 984 \(9th Cir.1999\)](#). For liability to attach, there must be "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." *Id.*

Perfect 10 has failed to plead a viable claim under either prong of *Inwood Labs* — and, by extension, *Lockheed Martin*. First, it has not pled facts showing that Defendants "intentionally induced" infringement of **Perfect 10's** mark. **Perfect 10** has alleged that Defendants are providing critical support to websites that are using the **PERFECT 10** mark in a manner that is likely to cause the public to believe that they are authorized by **Perfect 10**. Its factual allegations in support of this claim are identical to those it made in support of its copyright claims. These allegations, however, cite no affirmative acts by Defendants suggesting that third parties infringe **Perfect 10's** mark, much less induce them to do so.

Second, **Perfect 10** has failed to allege facts sufficient to show "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." [Lockheed Martin, 194 F.3d at 984](#). **Perfect 10** claims that the "product" or "instrumentality" at issue here is the credit card payment network through which Defendants process payments for infringing material. Appellant's Opening Brief at 39. As discussed at length above, this network is not the instrument used to infringe **Perfect 10's** trademarks; that infringement occurs without any involvement of Defendants and their payment systems. **Perfect 10** has not alleged that Defendants have the power to remove infringing material from these websites or directly stop their distribution over the Internet. At most, **Perfect 10** alleges that Defendants can choose to stop processing payments to these websites, and that this refusal might have the practical effect of stopping or reducing the infringing activity. This, without more, does not constitute "direct control." See [Lockheed Martin, 194 F.3d at 985](#) ("While the landlord of a flea market might reasonably be expected to monitor the merchandise sold on his premises, [defendant] NSI cannot reasonably be expected to monitor the Internet.") (citation omitted).

2. Vicarious Trademark Infringement

Vicarious liability for trademark infringement requires "a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product." [Hard Rock Café Licensing Corp. v. Concession Servs., Inc., 955 F.2d 1143, 1150 \(7th Cir.1992\)](#) (internal quotations omitted), followed by [Symantec Corp. v. CD Micro, Inc., 286 F.Supp.2d 1265, 1275 \(D.Or.2003\)](#).

808 **Perfect 10** argues that Defendants are liable as follows: "Defendants and the *808 Stolen Content Websites are in a symbiotic financial partnership pursuant to which the websites operate their businesses according to defendants' rules and regulations and defendants share the profits, transaction by transaction." Appellant's Opening Brief at 40. For the same reasons that this relationship does not establish "right and ability to control" for copyright purposes, neither does it establish such a "symbiotic" relationship or "joint ownership or control" for trademark purposes. Defendants process payments to these websites and collect their usual processing fees, nothing more.

Perfect 10 further argues that "Defendants' acceptance of a charge binds the Stolen Content Website to provide the infringing images to third parties." Appellant's Opening Brief at 40. Even if legally relevant, **Perfect 10's** allegation is legally incorrect. It is the websites' contracts with the *consumers* that bind the websites to provide the infringing images, not the websites' relationship with Defendants.^[19] The websites' contracts with Defendants are merely a means of settling the resulting debits and credits among the websites and the relevant consumers. We hold that **Perfect 10** fails to state a claim for vicarious trademark infringement.

CALIFORNIA STATUTORY AND COMMON LAW CLAIMS

In addition to its federal copyright and trademark claims, **Perfect 10** pled causes of action for unfair competition, false advertising, violation of the right of publicity, libel, and intentional interference with economic relations. We hold that the district court properly dismissed all these

claims with prejudice.

A. California State Law Claims of Unfair Competition and False Advertising

Defendants do not dispute **Perfect 10's** claims that the websites themselves are potentially violating California state and common law prohibiting unfair competition and false advertising. See Cal. Bus. & Prof. Code §§ 17200, *et seq.*, and 17500, *et seq.* Defendants do, however, argue that [Emery v. Visa International Service Association, 95 Cal.App.4th 952, 116 Cal. Rptr.2d 25 \(2002\)](#), precludes liability for Defendants in this case, both under secondary liability and aiding and abetting theories. Defendants are correct on both counts.

In *Emery*, a California appellate court affirmed a grant of summary judgment in favor of **Visa**, finding that **Visa** did not exercise the requisite control over merchants marketing foreign lottery tickets to impose secondary liability under the state's unfair competition or false advertising laws. *Id.* at 959-964, 116 Cal. Rptr.2d 25. *Emery* found that an "unfair practices claim under section 17200 cannot be predicated on vicarious liability. . . . A defendant's liability must be based on his personal participation in the unlawful practices and unbridled control over the practices that are found to violate section 17200 or 17500." *Id.* at 960, 116 Cal. Rptr.2d 25 (internal citations omitted). Because "**Visa** itself played no part in preparing or sending any 'statement' that might be construed as untrue or misleading under the unfair business practices *809 statutes," it could not be liable for unfair competition. *Id.* at 964, 116 Cal. Rptr.2d 25. The false advertising claim also necessarily failed because "even if **Visa** allowed the merchants to use its logo, trade name, or trademark, it would not be liable for false advertising. There is no duty to investigate the truth of statements made by others." *Id.* (citations omitted). *Emery* is dispositive of **Perfect 10's** claims that the Defendants are secondarily liable under California unfair competition and false advertising laws and the district court properly dismissed them. ^[20]

In an attempt to avoid the impact of *Emery*, **Perfect 10** argues on appeal that it alleged aiding and abetting theories of liability in its complaints, and further, that the district court improperly dismissed these civil claims under a criminal standard of aiding and abetting. **Perfect 10** fails to establish a viable claim on these theories as well. The only authority offered by **Perfect 10** in support of such liability is an opinion which is now uncitable in California: [Schulz v. Neovi Data Corporation, 28 Cal.Rptr.3d 46 \(Cal. App.4th Dist.2005\)](#), *superceded by* 32 Cal. Rptr.3d 758, 117 P.3d 475 (Cal.2005), *cause transferred by* 56 Cal.Rptr.3d 471, 154 P.3d 998 (Cal.2007), *transferred to*, 152 Cal.App.4th 86, 60 Cal.Rptr.3d 810 (4th Dist. Jun 15, 2007).

Furthermore, even under the standards announced in the superceding *Schulz* opinion, Defendants would not be liable. The *Schulz* court found a credit card company potentially liable for its role in facilitating an illegal online lottery because that company "went far beyond merely processing credit cards." 152 Cal.App.4th at 95, 60 Cal.Rptr.3d 810. In support, the court cited specific statements from a company representative in which he "personally assured" an agent of the website that the defendant company "did not have any problem with the operation of the [illegal] lottery site" and had a "stronger stomach" than other payment processors. *Id.* **Perfect 10** alleges no similar conduct here— Defendants merely process credit card payments.

B. Aiding and Abetting the Websites' Violations of **Perfect 10's** Right of Publicity

Perfect 10 alleges that Defendants aided and abetted the websites' violations of **Perfect 10's** rights of publicity, acquired by assignment from its models, in violation of Cal. Civil Code § 3344 and the common law right of publicity. This aiding and abetting claim fails for the same reasons as the aiding and abetting claims under unfair competition and false advertising. Even if such liability is possible under California law—a proposition for which **Perfect 10** has provided no clear authority—Defendants lack sufficient control or personal involvement in the infringing activities to be so liable. See *Schulz*, 152 Cal.App.4th at 93-94, 60 Cal.Rptr.3d 810; [Emery, 95 Cal.App.4th at 962-63, 116 Cal. Rptr.2d 25](#).

C. Libel and Intentional Interference with Prospective Economic Advantage

810 The district court dismissed **Perfect 10's** claims of libel and intentional *810 interference with prospective economic advantage with prejudice on multiple grounds. We affirm on the ground that both are time-barred. Under California law, a libel claim must be filed within one year of publication of the allegedly libelous statement, Cal. Civ. Proc. § 340(c), and an intentional interference claim must be filed within two years of the underlying harmful act, Cal. Civ. Proc. § 339. **Perfect 10** claims the same underlying wrongful act as the basis for both claims: its placement on the industry "black list" in the Spring of 2001. However, **Perfect 10** failed to file suit until January 2004—well beyond the statute of limitations applicable to each claim—and has failed to show any possible exception under either statute. Those claims are time-barred.

CONCLUSION

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

AFFIRMED.

KOZINSKI, Circuit Judge, dissenting for the most part:^[1]

Federal law gives copyright owners the exclusive right to "distribute copies [of their works] . . . to the public by sale." 17 U.S.C. § 106(3). Plaintiff alleges that certain third parties it refers to as the "Stolen Content Websites" unlawfully copy its protected images and sell them to the public, using defendants' payment systems as financial intermediaries. According to plaintiff, the Stolen Content Websites "maintain no physical presence in the United States in order to evade criminal and civil liability for their illegal conduct." First Am. Compl. at 8 ¶ 26. Plaintiff also claims that "Defendants do not enforce their own rules against [the] Stolen Content Websites because Defendants do not want to lose the substantial revenues and profits they receive from the websites." *Id.* at 10 ¶ 35. Plaintiff has repeatedly notified defendants that they are abetting the sale of stolen merchandise by "knowingly providing crucial transactional support services for the sale of millions of stolen photos and film clips worth billions of dollars," *id.* at 1 ¶ 5, but to no avail. Frustrated in its effort to protect the rights Congress has given it, plaintiff turns to the federal courts for redress. We should not slam the courthouse door in its face.

811 Accepting the truth of plaintiff's allegations, as we must on a motion to dismiss, the credit cards^[2] are easily liable for indirect copyright infringement: They knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing *811 transactions, while making a profit on every sale. If such active participation in infringing conduct does not amount to indirect infringement, it's hard to imagine what would.^[3] By straining to absolve defendants of liability, the majority leaves our law in disarray.

Contributory Infringement

We have long held that a defendant is liable for contributory infringement if it "materially contributes to the infringing conduct." [A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1019 \(9th Cir. 2001\)](#) (internal quotations omitted) (citing [Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 \(2d Cir. 1971\)](#)). Our recent opinion in [Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701 \(9th Cir. 2007\)](#), canvasses the caselaw in this area and concludes that Google "could be held contributorily liable if it had knowledge that infringing **Perfect 10** images were available using its search engine, could take simple measures to prevent further damage to **Perfect 10's** copyrighted works, and failed to take such steps." [Amazon, 487 F.3d at 729](#). Substitute "payment systems" for "search engine" in this sentence,

and it describes defendants here: If a consumer wishes to buy an infringing image from one of the Stolen Content Websites, he can do so by using **Visa** or MasterCard, just as he can use Google to find the infringing images in the first place. My colleagues engage in wishful thinking when they claim that "Google's search engine itself assists in the distribution of infringing content to Internet users, while Defendants' payment systems do not" and that "[h]elping users to locate an image might substantially assist users to download infringing images, but processing payments does not." Maj. op. at 797, 797.^[4]

812 The majority struggles to distinguish *Amazon* by positing an "additional step in the causal chain" between defendants' activities and the infringing conduct. *Id.* at 797. According to the majority, "Google may materially contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be *profitable*, which tends to increase financial incentives to infringe, which in turn tends to increase infringement." *Id.* The majority is mistaken; there is no "additional step." Defendants participate in every credit card sale of pirated images; the images are delivered to the buyer only after defendants approve the transaction and process the payment. *812 This is not just an economic incentive for infringement; it's an essential step in the infringement process.

In any event, I don't see why it matters whether there is an "additional step." Materiality turns on how significantly the activity helps infringement, not on whether it's characterized as one step or two steps removed from it. The majority recognizes that "Defendants make it easier for websites to profit from this infringing activity," maj. op. at 796; that defendants' conduct "tends to increase infringement," *id.* at 797; that defendants "have the effect of increasing . . . infringement," *id.* at 798; that "Defendants have the power to undermine the commercial viability of" the Stolen Content Websites and that they "make it easier for websites to profit from this infringing activity," *id.* at 800; that "Defendants could likely take certain steps that may have the indirect effect of reducing infringing activity on the Internet," *id.* at 803-04; and that defendants could "reduce the number of those [infringing] sales," *id.* at 805. Taking the majority at its word, it sounds like defendants are providing very significant help to the direct infringers.

My colleagues recognize, as they must, that helping consumers locate infringing content can constitute contributory infringement,^[5] but they consign the means of payment to secondary status. Maj. op. at 799 ("Defendants merely provide a method of payment. . ."); *id.* at 802 ("[A]ll parties involved simply use Defendants' system to process payments for that infringing material."); *id.* at 804 ("They can only take away the means the websites currently use to sell [the infringing images]."); *id.* at 805 ("Defendants can only refuse to process credit card payments to the offending merchant within their payment network. . ."). But why is *locating* infringing images more central to infringement than *paying* for them? If infringing images can't be found, there can be no infringement; but if infringing images can't be paid for, there can be no infringement either. Location services and payment services are equally central to infringement; the majority's contrary assertion is supported largely by disparaging use of "merely," "simply" and "only." See also *id.* at 803 ("[M]ere ability to withdraw a financial 'carrot' does not create the 'stick' of right and ability to control. . .").^[6]

813 The majority dismisses the significance of credit cards by arguing that "infringement could continue on a large scale [without them] because other viable funding mechanisms are available." Maj. op. at 797.^[7] Of course, the same could be said *813 about Google. As the majority admits, if Google were unwilling or unable to serve up infringing images, consumers could use Yahoo!, Ask.com, Microsoft Live Search, A9.com or AltaVista instead. *Id.* at 797-98 n. 8. Even if none of these were available, consumers could still locate websites with infringing images through e-mails from friends, messages on discussion forums, tips via online chat, "typo-squatting," peer-to-peer networking using BitTorrent or eDonkey, offline and online advertisements (see p. 820 *infra*), disreputable search engines hosted on servers in far-off jurisdictions or even old-fashioned word of mouth. The majority's claim that search engines

"could effectively cause a website to disappear by removing it from their search results," maj. op. at 805, is quite a stretch.

If the test for contributory infringement really were whether "infringement could continue on a large scale[without the aid of the defendant] because other viable . . . mechanisms are available," *Amazon* should have absolved Google of liability because of the availability of such obvious alternatives. But *Amazon* held that Google *could* be liable for contributory infringement because it "substantially assists" users in finding infringing materials; the existence of other means of infringement was not even considered because no case has suggested this to be a relevant consideration. The majority's "other viable . . . mechanisms" test conflicts with *Amazon*, *Napster*, *Grokster* and every other material assistance case that I know of.

The majority does even worse when it tries to describe the "other viable funding mechanisms" that could serve as alternatives to credit cards: According to the majority, the Stolen Content Websites "*might* . . . make [their] profits from advertising" or "*might* develop other payment mechanisms that do not depend on the credit card companies." Maj. op. at 797 (emphasis added). This shows that my colleagues have a healthy imagination but contravenes our responsibilities, the most fundamental of which is that we must work with the facts the parties presented below, not invent new facts on appeal. Defendants have presented no evidence that the pirates could survive without credit cards, nor could they, as the case is still at the motion to dismiss stage. Even if speculation as to what the Stolen Content Websites "might" do were admissible evidence, which I seriously doubt, we must still wait for one of the parties to present it, not conjure it up ourselves.^[8] At the pleadings stage, we must accept plaintiff's allegations that credit cards are indispensable to the operation of the Stolen Content Websites, and that these websites would be forced out of business without them. See First Am. Compl. at 2 ¶ 7 ("Stolen Content Websites cannot exist without the knowledge and direct participation of [defendants]."); *id.* at 10 ¶ 35 ("[T]he Stolen Content Websites would be eradicated."). If my colleagues can't justify their result without contradicting plaintiff's allegations, this is a pretty good hint that they're *814 wrong. See also p. 812-13 n. 7 *supra*; pp. 818 n. 15, 800-02 *infra*.

The majority's attempt to distinguish location services from payment services by trying to show that there are viable alternatives for the latter but not the former cuts entirely against them. As plaintiff alleges, and experience tells us, there are numerous ways of locating infringing images on the Internet, but there are no adequate substitutes for credit cards when it comes to paying for them. A few consumers might use checks or money orders to pay for infringing images, but this would be far more cumbersome, time-consuming and risky than using credit cards. See pp. 799-800 & n. 14 *infra*. If it mattered whether search engines or credit cards are more important to peddling infringing content on the Internet, the cards would win hands down.

But it doesn't matter. Material assistance turns on whether the activity in question "substantially assists" infringement. [Amazon, 487 F.3d at 729](#). It makes no difference whether the primary infringers might do without it by finding a workaround, which is why the majority can cite no case supporting its analysis. We presume that primary infringers have good reasons for selecting a particular means to infringe, and that other ways to do so will be more costly, more cumbersome and less efficient. Moreover, infringement can always be carried out by other means; if the existence of alternatives were a defense to contributory infringement then there could never be a case of contributory infringement based on material assistance. The majority makes some very new—and very bad—law here.

The majority also makes a slightly different argument: "While **Perfect 10** has alleged that Defendants make it easier for websites to profit from this infringing activity, the issue here is reproduction, alteration, display and distribution, which can occur without payment. Even if infringing images were not paid for, there would still be infringement." Maj. op. at 796-97. What the majority seems to be arguing here is that helping an infringer get paid cannot materially assist infringement because the actual process of infringement—"reproduction, alteration, display and distribution"—does not include payment. There are two problems with this

argument. The first is that the Stolen Content Websites are alleged to infringe plaintiff's right of distribution "by sale." 17 U.S.C. § 106(3). It's not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process. Second, this argument runs head-on into *Amazon*, where we held that helping to find infringing images materially assists infringement, even though locating infringing images also isn't "reproduction, alteration, display [or] distribution." To be sure, locating images, like paying for them, makes it a lot easier to infringe, but neither is intrinsic to the infringement process, as the majority conceives it.

815 Nor can today's opinion be squared with [Fonovisa, Inc. v. Cherry Auction, Inc.](#), 76 F.3d 259 (9th Cir.1996). In *Fonovisa*, defendant allowed known infringers to sell pirated works from stalls at its swap meet. We found material assistance based on the fact that "it would [have been] difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet." 76 F.3d at 264. The pivotal role played by the swap meet in *Fonovisa* is played by the credit cards in cyberspace, in that they make "massive quantities" of infringement possible that would otherwise be impossible. Indeed, the assistance provided here is far more material than in *Fonovisa*. A pirate kicked out of a swap meet could still peddle his illicit wares through newspaper *815 ads or by word of mouth, but you can't do business at all on the Internet without credit cards. Plaintiff thus plausibly alleges that the "Stolen Content Websites would be eradicated" if defendants withdrew their support. First Am. Compl. at 10 ¶ 35.

The majority rejects *Fonovisa* by pointing out that the swap meet there provided a "centralized place" for the infringement to take place, maj. op. at 799, whereas defendants here "have no direct connection to [the] infringement," *id.* at 796.⁹¹ But material assistance does not depend on physical contact with the infringing activity. If you lend money to a drug dealer knowing he will use it to finance a drug deal, you materially assist the transaction, even if you never see the drugs. Or, if you knowingly drive a principal to the scene of the crime, you provide material assistance, even if nothing happens during the ride. See [United States v. Lopez](#), 482 F.3d 1067, 1076-79 (9th Cir.2007). Material assistance turns on whether the conduct assists infringement in a significant way, not on pedantic factual distinctions unrelated to how much the activity facilitates infringement.

Sure, a marketplace for pirated works (as in *Fonovisa*) or an index for such works (as in *Napster* and *Grokster*) is important to infringement, but so is a means of getting paid. Defendants are directly involved in every infringing transaction where payment is made by credit card, which (according to plaintiff) amounts to virtually every sale of pirated works. First Am. Compl. at 9 ¶ 35. Credit cards don't provide some tangential service that marginally affects sales; they are the financial lifeblood of the Stolen Content Websites.

The majority's concern that imposing liability on defendants here would implicate vast numbers of other actors who provide incidental services to infringers, maj. op. at 800, is unfounded. Line-drawing is always a bit tricky, but courts have shown themselves adept at dealing with it from time out of mind, in resolving such issues as proximate causation and reasonable suspicion. Contributory infringement requires *material* assistance to the infringing activity, and those the majority worries about would doubtless be absolved of liability because their contribution to the infringing activity is insufficiently material.

816 Courts have, in fact, had no difficulty in distinguishing those who are materially involved in copyright infringement from those who are not. As *Fonovisa* explains, two lines of cases developed in the first part of the last century: the absentee landlord cases and the dance hall cases. The first line involved landlords who "lacked knowledge of the infringing acts of [their] tenant[s] and who exercised no control over the leased premises." [Fonovisa](#), 76 F.3d at 262. These were held not liable for the infringement committed by tenants on the premises. See, e.g., [Deutsch v. Arnold](#), 98 F.2d 686, 688 (2d Cir.1938). In the second line of cases, "the operator of an entertainment venue was held liable for infringing performances when the operator (1) could control the premises and (2) obtained a direct financial benefit from the

audience, who paid to enjoy the infringing performance." [76 F.3d at 262](#) (citing [Buck](#), *816 *v. Jewell-LaSalle Realty Co.*, 283 U.S. 191, 51 S.Ct. 410, 75 L.Ed. 971 (1931), and [Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.](#), 36 F.2d 354 (7th Cir. 1929)).^[10]

These cases show that courts are able to forestall the majority's parade of horrors. But our case does not present a close or difficult question: Defendants here are alleged to provide an essential service to infringers, a service that enables infringement on a massive scale. Defendants know about the infringements; they profit from them; they are intimately and causally involved in a vast number of infringing transactions that could not be consummated if they refused to process the payments; they have ready means to stop the infringements. Were we to rule for plaintiff, as we should, I have every confidence that future courts would be able to distinguish this case when and if they are confronted with lawsuits against utility companies, software vendors and others who provide incidental services to infringers.

Vicarious Infringement

A party "infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." [Amazon](#), 487 F.3d at 729 (quoting [Grokster](#), 545 U.S. at 930, 125 S.Ct. 2764) (internal quotation marks omitted).^[11] There is no doubt that defendants profit from the infringing activity of the Stolen Content Websites; after all, they take a cut of virtually every sale of pirated material. First Am. Compl. at 4 ¶ 13, 7 ¶ 25. The majority does not dispute this point so I need not belabor it. Maj. op. at 806-07.

817 Defendants here also have a right to stop or limit the infringing activity, a right they have refused to exercise. As the majority recognizes, "**Perfect 10** . . . claims that Defendants' rules and regulations permit them to require member merchants to cease illegal activity—presumably including copyright infringement—as a condition to their continuing right to receive credit card payments from the relevant Defendant entities." Maj. op. at 804.^[12] Assuming *817 the truth of this allegation,^[13] the cards have the authority, given to them by contract, to force the Stolen Content Websites to remove infringing images from their inventory as a condition for using defendants' payment systems. If the merchants comply, their websites stop peddling stolen content and so infringement is stopped or limited. If they don't comply, defendants have the right—and under copyright law the duty—to kick the pirates off their payment networks, forcing them to find other means of getting paid or go out of business. In that case, too, infringement is stopped or limited. The swap meet in *Fonovisa* was held vicariously liable precisely because it did not force the pirates to stop infringing or leave; there is no reason to treat defendants here differently.

That the pirates might find some other way of doing business is of no consequence; our cases make this perfectly clear. It didn't matter in *Fonovisa* that the infringers there could have continued their illegal sales by mail order or by hawking their unlawful merchandise on street corners. Nor did it matter in *Napster* or *Grokster* that the direct infringers might find some other means of illegally sharing their protected content with others. Indeed, there is no case involving secondary infringement, going back to the dance hall cases of the last century, where the secondary infringer's refusal to do business with the direct infringer could have stopped infringement altogether and forever. Yet, courts have presumed that removing the particular means of infringement challenged in each case would make direct infringement more difficult and thereby diminish the scale of infringing activity.

818 Here, the Stolen Content Websites have chosen credit cards as a form of payment, and for good reason. Credit cards are ubiquitous and permit the transfer of funds electronically in a matter of seconds. Consumers need not wait days or weeks for a check to reach its destination and clear before gaining access to the salacious pictures they crave. Consumers also know that, if goods bought by credit card are not delivered, the cards will likely reverse the

transaction.^[14] Credit cards thus act as informal escrow agents, effectively guaranteeing that their merchants will deliver the goods. Blocking the ability to accept credit cards would be a heavy blow to the Stolen Content Websites because cards are "overwhelmingly the primary way by which customers pay to view Stolen Content Websites." First Am. Compl. at 9 ¶ 35. Even if the pirates could find an alternative way of plying their illegal trade, being denied their preferred means of doing business *818 would sharply curtail their unlawful activities.

The majority toils to resist this obvious conclusion but its arguments are not persuasive. For example, it makes no difference that defendants control only the means of payment, not the mechanics of transferring the material. Maj. op. at 802, 805, 806. In a commercial environment, distribution and payment are (to use a quaint anachronism) like love and marriage—you can't have one without the other. If cards don't process payment, pirates don't deliver booty. The credit cards, in fact, control distribution of the infringing material.

The majority also disparages defendants' ability to control the Stolen Content Websites as just "financial pressure" which doesn't give them an "absolute right to stop [the infringing] activity—they cannot stop websites from reproducing, altering, or distributing infringing images." *Id.* at 805 (footnote omitted).^[15] But we have never required an "absolute right to stop [the infringing] activity" as a predicate for vicarious liability; it's enough if defendants have the "practical ability" to do so. [Amazon, 487 F.3d at 729, 731](#). While proclaiming its fidelity to *Amazon*, maj. op. at 796, 803, the majority jettisons *Amazon's* "practical ability" standard and substitutes its own "absolute right to stop" standard. *Id.* at 804.^[16]

819 It's perfectly clear that the cards do have the "practical ability" to force websites that display their logos and use their payment systems to remove unlawful merchandise. As the majority admits, "Defendants can . . . refuse to process credit card payments to the offending merchant within their payment network, or they can threaten to do so if the merchant does not comply with a request to alter content." Maj. op. at 805 (disparaging "only" omitted). Commercial websites are dependent on credit cards as a form of payment, and the Stolen Content Websites are uniquely so, as virtually all of their illicit sales are paid for by card. First Am. Compl. at 9 ¶ 35. A threat by credit card companies to withdraw use of their payment systems couldn't be ignored. After all, how many consumers would be willing to send a check or money order to a far-off jurisdiction in the hope that days or weeks later they will be allowed to download some saucy pictures? If the Stolen Content Websites cannot get paid for their unlawful *819 products, or if payment is made more difficult or cumbersome, this will dramatically affect their operations. Some may lose customers who are unwilling to use alternative forms of payment;^[17] others may go out of business; still others may remove the infringing content from their websites. Even the majority admits that "fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with a content-based suggestion from Defendants." Maj. op. at 804-05.^[18] As a consequence, infringing activity would be "stop[ped] or limit[ed]." See [Amazon, 487 F.3d at 729](#).

The majority also reads the complaint for less than it's worth by "understand[ing]" plaintiff to allege "that the `Stolen Content Websites' could not continue to exist as websites offering images *for sale* online should defendants withdraw their services, not [to allege] that the websites would completely vanish or that infringement by these sites in all its forms would necessarily cease." Maj. op. at 805-06 n. 18. But plaintiff expressly alleges what the majority "understand[s]" it not to allege, namely that the sites "cannot exist" without defendants, First Am. Compl. at 2 ¶ 7, and that "the Stolen Content Websites would be eradicated" if they could not use credit cards, *id.* at 9-10 ¶ 35. It is horn-book law that we must construe complaints liberally on a motion to dismiss. See [Glus v. Brooklyn Eastern Dist. Terminal, 359 U.S. 231, 235, 79 S.Ct. 760, 3 L.Ed.2d 770 \(1959\)](#); [Conley v. Gibson, 355 U.S. 41, 47-48, 78 S.Ct. 99, 2 L.Ed.2d 80 \(1957\)](#). A liberal construction means reading ambiguous provisions in a way that would save the complaint from dismissal, and sometimes even reading between the lines to give plaintiff the benefit of every reasonable inference. I have never heard of reading a

complaint liberally by ignoring allegations that are clearly present.

But let's say the majority "understand[s]" plaintiff's allegations correctly: So what? To sustain a vicarious infringement claim, plaintiff need not allege that the Stolen Content Websites "would completely vanish or that infringement by these sites in all its forms would necessarily cease." Maj. op. at 805-06 n. 18. The standard is "stop or limit" the infringing conduct. [Amazon, 487 F.3d at 725](#) (emphasis added) (quoting [Grokster, 545 U.S. at 930, 125 S.Ct. 2764](#)). And my colleagues admit that plaintiff has alleged that "at least some website operators [would] comply with a content-based suggestion from Defendants." Maj. op. at 804-05. Q.E.D.

820 To resolve this case, however, we need not adopt a rule holding all credit cards responsible for all infringing Internet sales because plaintiff has alleged far more than the ordinary credit card/merchant relationship. *820 According to plaintiff, defendants have adopted special rules and practices that apply only to the Stolen Content Websites, and that are designed to make it easier for these websites to ply their illegal trade. First Am. Compl. at 9-11 ¶¶ 33-37. Plaintiff claims that the credit cards have singled out the Stolen Content Websites for preferential treatment because of the unusual and substantial profits they make on such transactions. Read fully and fairly, the complaint alleges that defendants are not merely passive providers of services available on equal terms to legal and illegal businesses alike; they are actually in cahoots with the pirates to prop up their illegal businesses and share their ill-gotten gains. If this is not vicarious infringement, nothing is.

The majority claims that *Amazon* employs "reasoning closely analogous" to its own, maj. op. at 803, but it is mistaken. *Amazon* addressed two questions of vicarious infringement, one involving third-party websites whose images are picked up by Google's search engine, the other involving websites that participate in its AdSense program. As to the first, Google could not be vicariously liable because "Perfect 10 ha[d] not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies of Perfect 10's images on the Internet." [487 F.3d at 730](#).^[19] In the absence of such a contractual relationship, there could be no vicarious infringement, because Google lacked "the legal right to stop or limit the direct infringement of third-party websites." *Id.* at 730. Why the majority believes this is in any way analogous, or even remotely instructive, to our situation, where the credit cards do have contracts giving them a right to control what merchants sell on their websites, is a mystery.

Google's relationship with websites that participate in its AdSense program presents a somewhat closer analogy because Google did have contracts that would have allowed it to kick websites out of AdSense for displaying infringing images. But that's as far as the similarity goes: AdSense is an advertising program; Google pays participating merchants to host third-party ads on their websites. This is the cyberspace analogue of renting out space on your land for a billboard. The ads have no effect on the operation of the host websites; users can download infringing content whether or not ads are present. Being excluded from AdSense would thus mean some loss of revenue, but would have no effect on the operation of the business itself. It is therefore far from certain that merchants would be induced to modify their businesses to avoid being excluded from AdSense.^[20]

821 Because plaintiff had not presented proof that any third-party websites would stop infringing if they were threatened *821 with exclusion from AdSense, *Amazon* concluded that plaintiff there had not met its burden for a preliminary injunction. Our case is presented on a motion to dismiss and plaintiff here need only make allegations. And plaintiff alleges that the infringing websites could not continue doing business at all without the use of credit cards. *Amazon's* reasoning on this point gives the majority no help.

The majority's attempt to distinguish *Napster* is equally thin. My colleagues argue that "[t]he Napster program's involvement with . . . the infringement was much more intimate and directly intertwined with it than Defendants' payment systems are." Maj. op. at 803-04. But I don't see

how much more "directly intertwined" you can get in a purchase transaction than carrying the payment from buyer to seller. If this were a drug deal, for example, we would never say that the guy entrusted with delivery of the purchase money is less involved in the transaction than the guy who helps find the seller. Both would be held equally culpable.

Thus, the majority's insistence that defendants "cannot themselves block access to the Internet, to any particular websites, or to search engines enabling the location of such websites," maj. op. at 804, is beside the point. Physical control over the infringing activity is one way to stop infringers, but it's certainly not the only way. Withdrawing crucial services, such as financial support, can be just as effective, and sometimes more effective, than technical measures that can often be circumvented.^[21]

822 Finally, the majority dismisses the Supreme Court's opinion in *Grokster* by suggesting that the Court could not have meant what it said because the standard it announced (and which we adopted in *Amazon*) would sweep in too many goods and services that contribute to infringing activity. See maj. op. at 806 (listing hardware manufacturers, software engineers, technical support companies and utilities). The majority misreads the Court's opinion. Providing a crucial service to an infringer may give someone the practical ability to stop infringement, but that's only half of what it takes to be a vicarious infringer. The other half is a right, found in contract, to control the infringer's actions. See [Amazon, 487 F.3d at 730](#) (requiring "contracts with [direct infringers] that empower [defendant] to stop or limit them from reproducing, displaying, and distributing infringing copies"). Those third parties the majority worries about could not be held vicariously liable because they lack the legal right to stop the infringement. So far as I know, utilities are provided by public franchise, not by contract, and a utility has no right to stop providing electricity or phone service because it learns that its electrons are being put to illegal use.^[22] Computer manufacturers don't usually *822 retain the right to reclaim computers they have sold because they are being used unlawfully. Ditto for software producers and repairmen. Having no contract that authorizes them to stop providing services on account of illegality, these actors do not meet the first prong of the test for vicarious infringement. See p. 799 n. 10 *supra*.^[23]

Trademark Infringement

For precisely the same reasons, I disagree with the majority when it claims that defendants do not contributorily infringe on **Perfect 10's** trademark because they lack "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark." Maj. op. at 807 (internal quotation marks omitted). The Lanham Act forbids "use in commerce . . . of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion." 15 U.S.C. § 1114(1)(a). Plaintiff alleges that the Stolen Content Websites sell images marked with **Perfect 10's** trademark. First Am. Compl. at 17 ¶ 65. Without defendants' payment systems, the infringers would find it much harder to peddle their infringing goods. Plaintiff thus pled facts sufficient to state a claim for contributory trademark infringement.

The cases on which the majority relies are not to the contrary. [Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 102 S.Ct. 2182, 72 L.Ed.2d 606 \(1982\)](#), involved a manufacturer and says nothing of consequence bearing on our situation. [Lockheed Martin Corp. v. Network Solutions, Inc., 194 F.3d 980, 984 \(9th Cir.1999\)](#), turned on the fact that the defendant there, a registrar of Internet domain names, lacked sufficient control "over the third party's means of infringement," because it lacked "control and monitoring of the instrumentality used by a third party to infringe the plaintiff's marks." *Id.* By contrast, credit cards are directly involved in every infringing transaction; not only do they process the payment for virtually every sale of pirated images by the Stolen Content Websites, they control whether such transactions will go forward. This is more than enough to establish the "control and monitoring" that

Lockheed Martin requires for contributory trademark infringement.

823 As to vicarious trademark infringement, the majority claims that there is neither a symbiotic partnership between the direct infringers and defendants, nor authority to bind one another in transactions with third parties. Maj. op. at 807 (citing [Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.](#), 955 F.2d 1143 (7th Cir. 1992)). But plaintiff alleges that the Stolen Content *823 Websites cannot operate without the use of credit cards, First Am. Compl. at 2 ¶ 7, while defendants make huge profits by processing these illegal transactions. See also p. 820 *supra*. If this is not symbiosis, what is? Likewise, while "the websites' contracts with the consumers . . . bind the websites to provide the infringing images," maj. op. at 808 (emphasis removed), it is defendants' actions that bind the websites to that contract. Only after the credit cards approve and process the payment does the obligation to deliver the stolen content come into existence. The majority thus errs in absolving defendants of vicarious trademark infringement.

State Law Claims

The majority disposes of the state law claims on the same theory as the copyright claims, namely, that defendants are not directly involved in the infringing activity. Maj. op. at 808-09. But defendants *are* involved, because they provide the means to pay for the infringing content and thus make "massive quantities" of infringement possible. First Am. Compl. at 18 ¶ 73.

The case on which the majority relies, [Emery v. Visa International Service Association](#), 95 Cal.App.4th 952, 116 Cal. Rptr.2d 25 (2002), is not on point because, in that case, plaintiff sued only **Visa**, not the merchant banks that had a direct relationship with the alleged wrongdoer or the consumers. *Id.* at 956, 962, 116 Cal. Rptr.2d 25. Plaintiff there also based his theory of liability on advertising letters bearing the credit card logo. *Emery* held that plaintiff hadn't proven **Visa** could police the use of its logo in letters peddling an illegal lottery sent by merchants directly to consumers. By contrast, plaintiff here alleges that defendants are knowing participants in thousands of transactions that amount to unfair trade practices and infringe on the right of publicity of the women depicted in the stolen images. I see nothing in *Emery* that would preclude plaintiff's state law claims, as alleged in the complaint.

* * *

It would certainly be much easier for us if plaintiff were suing the Stolen Content Websites rather than the credit cards. No doubt, they would if they could.^[24] But direct infringers are sometimes too ubiquitous, too small or too difficult to find. That's why we have cases such as *Fonovisa*, *Napster*, *Aimster*, *Grokster* and *Amazon*. Here, plaintiff alleges that many direct infringers have no physical presence in the United States. They operate from far-off jurisdictions, where lawsuits are difficult to bring and remedies impossible to enforce because the infringers can easily move their operations to servers in other remote jurisdictions.

The weak link in the pirates' nefarious scheme is their need to get paid; for this they must use the services of legitimate financial institutions. If plaintiff's allegations are to be believed, the financial institutions (defendants here) collect billions for sellers of stolen merchandise; in a very real sense, they profit from making piracy possible. I can see no reason they should not be held responsible.

824 The majority's refrain that imposing liability on defendants here would violate "the public policy of the United States," maj. op. at 795, 798, is equally off base. While the majority correctly identifies that *824 policy as facilitating the development of electronic commerce, *id.* at 794 n. 2, that solicitude does not extend to commerce in illegal merchandise. I am aware of no policy of the United States to encourage electronic commerce in stolen goods, illegal drugs or child

pornography. When it comes to traffic in material that violates the Copyright Act, the policy of the United States is embedded in the FBI warning we see at the start of every lawfully purchased or rented video: Infringers are to be stopped and prosecuted. Preventing financial intermediaries from servicing such shady transactions is entirely consistent with that policy. If Congress believes that this places too heavy a burden on credit cards, it can grant the cards immunity (along with corresponding responsibilities), as it did for ISPs in passing the DMCA.^[25]

The majority's solicitude for "credit cards . . . as the primary engine of electronic commerce," and for preserving "the vibrant and competitive free market that presently exists for the Internet," maj. op. at 794, is understandable but misguided. It does not serve the interests of a free market, or a free society, to abet marauders who pilfer the property of law-abiding, tax-paying rights holders, and who turn consumers into recipients of stolen property. Requiring defendants to abide by their own rules, which "strictly prohibit members from servicing illegal businesses," First Am. Compl. at 6 ¶ 20, will hardly impair the operation of a "vibrant and competitive free market," any more than did the recent law prohibiting the use of credit cards for Internet gambling. See 31 U.S.C. § 5364.

Nor does plaintiff seek to hold the credit cards responsible for illegal activities of which they are unaware. Plaintiff claims that it has repeatedly written to defendants, "putting them on notice of more than 240 specifically identified Celebrity Porn Websites with obvious stolen content that they were supporting." First Am. Compl. at 19 ¶ 75. Plaintiff has also sent defendants "[d]eclarations from celebrities [such as Britney Spears, Christina Aguilera, Anna Kournikova and Yasmine Bleeth] stating that they have not authorized the use of their name, likeness, or identity on pornographic websites and that they do not want their images and names so used. . . ." *Id.* at 19 ¶ 77. Credit cards already have the tools to police the activities of their merchants, which is why we don't see credit card sales of illegal drugs or child pornography. According to plaintiff, "defendants inspect websites and business premises, and obtain and review merchants' bank statements, tax returns, credit reports, and a merchant's other financial information. . . ." *Id.* at 7 ¶ 26. Plaintiff is not asking for a huge change in the way credit cards do business; they ask only that defendants abide by their own rules and stop doing business with crooks. Granting plaintiff the relief it seeks would not, I am confident, be the end of Capitalism as we know it.

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This is an easy case, squarely controlled by our precedent in all material respects. Fairly applying our cases to the facts alleged by **Perfect 10**, we should reverse the district court and give plaintiff an opportunity to prove its case through discovery and trial. In straining to escape the strictures *825 of our caselaw, the majority draws a series of ephemeral distinctions that are neither required nor permitted; the opinion will prove to be no end of trouble.

^[1] While **Perfect 10's** complaint does not clearly specify which of **Perfect 10's** rights are being infringed, it appears that at least four such rights are potentially at issue: reproduction (17 U.S.C. § 106(1)); derivative works (17 U.S.C. § 106(2)); distribution of copies (17 U.S.C. § 106(3)); and public display (17 U.S.C. § 106(5)).

^[2] Congress expressed similar sentiments when it enacted the Digital Millennium Copyright Act (DMCA), 17 U.S.C. § 512, one of the stated purposes of which was to "facilitate the robust development and worldwide expansion of electronic commerce, communications, research, development, and education in the digital age." S. Rep. 105-190, at 1-2 (1998).

^[3] In her concurring opinion in *Grokster*, Justice Ginsburg identified another strand of contributory liability in the Supreme Court's jurisprudence, i.e., liability based on "distributing a product distributees use to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant' noninfringing uses." *Grokster*, 545 U.S. at 942, 125 S.Ct. 2764 (citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 442, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984)). Even assuming Defendants offer a "product" for these purposes, **Perfect 10** does not claim that the "product" of credit card services is incapable of substantial and commercially significant noninfringing uses.

^[4] We note that an anomaly exists regarding the concept of notice in secondary copyright infringement cases outside a FRCP 12(b)(6) context. Congress addressed the issue of notice in the DMCA, which grants a safe harbor against liability to certain Internet service providers, even those with actual knowledge of infringement, if they have not received statutorily-compliant notice. See *Perfect 10 v. CCBill LLC*, 481 F.3d 751 (9th Cir.2007), amended and superceded, 488 F.3d 1102 (9th Cir.2007); 17 U.S.C. § 512(c)(3). Because Defendants are not "service providers" within the scope of the DMCA, they are not eligible for these safe harbors. The result, under **Perfect 10's** theories, would therefore be that a service provider with actual knowledge of infringement and the actual ability to remove the infringing material, but which has not received a statutorily compliant notice, is entitled to a safe harbor from liability, while credit card companies with actual knowledge but

without the actual ability to remove infringing material, would benefit from no safe harbor. We recognize that the DMCA was not intended to displace the development of secondary liability in the courts; rather, we simply take note of the anomalous result **Perfect 10** seeks.

[5] Because the *Grokster* court focused primarily on an "inducement" theory rather than a "material contribution" theory, our primary discussion of *Grokster* is located below in the "inducement" section of this opinion.

[6] As discussed in note 11, *infra*, the dissent's claims that payment processing is "an essential step in the infringement process," dissent at 812, and that "Defendants are directly involved in every infringing transaction where payment is made by credit card," dissent at 815, suggests that the dissent believes that the Defendants are *directly* infringing when they process these payments.

[7] As discussed more fully in the vicarious infringement section, *infra*, **Perfect 10's** factual allegations are not to the contrary.

[8] We recognize that Google is not the only search engine available to Internet users, and that users do not necessarily need Google to locate infringing images. The distinction we draw, however, is not specific to Google; it is between location services and payment services. Because location services lead Internet users directly to infringing images and often display them on the website of the service itself, we find that location services are more important and more essential—indeed, more "material"—to infringement than payment services are.

[9] Our dissenting colleague assures us that we would not jeopardize Internet commerce by finding Defendants liable because he has "every confidence" that this court will simply find that other providers of essential services may contribute to infringement, but not materially so. Dissent at 816. We take little comfort in his assurances because the predicate of our colleague's optimistic view of future judicial refinement of his new world of secondary liability is a large number of expensive and drawn-out pieces of litigation that may, or may not, ever be filed. Meanwhile, what would stop a competitor of a web-site from sending bogus notices to a credit card company claiming infringement by its competitor in the hope of putting a competitor out of business, or, at least, requiring it to spend a great deal of money to clear its name? Threatened with significant potential secondary liability on a variety of fronts under the dissent's proposed expansion of existing secondary liability law, perhaps the credit card companies would soon decline to finance purchases that are more legally risky. They, after all, are as moved by Adam Smith's "invisible hand" as the next set of merchants. If that happened, would First Amendment rights of consumers be trampled? Would **Perfect 10** itself be adversely impacted because no credit card company would want to take a chance on becoming secondarily liable?

We similarly take little comfort in the dissent's resurrection of the "dance-hall-owner/absentee-landlord" cases as a source of any principled distinction in this area. Dissent at 815-16. Those tests were developed for a brick-and-mortar world, and, as the *Napster* and *Grokster* courts implicitly recognized by paying little attention to them, they do not lend themselves well to application in an electronic commerce context. In deciding this case, we are well-advised to follow the lead of the Supreme Court's and our own court's cases confronting online commerce issues.

[10] In fact, as virtually every interested college student knew—and as the program's creator expressly admitted—the *sole purpose* of the *Napster* program was to provide a forum for easy copyright infringement. See [Napster, 239 F.3d at 1020 n. 5](#). **Perfect 10** does not contend that Defendants' payment systems were engineered for infringement in this way, and we decline to radically expand *Napster's* cursory treatment of "material contribution" to cover a credit card payment system that was not so designed.

[11] Moreover, if the processing of payment for an infringing transaction were as central to the infringement as the dissent believes it to be—see, e.g., dissent at 811 (payment processing is "an essential step in the infringement process"), dissent at 815 ("Defendants are directly involved in every infringing transaction where payment is made by credit card")—it is difficult to see why Defendants would be not be *direct* infringers of the distribution right. Not even **Perfect 10** has gone so far as to allege that theory here—**Perfect 10** would undoubtedly be quite surprised to learn, after years of litigation attempting to expand the scope of secondary liability, that Defendants are *direct* infringers after all.

[12] This allegation is considered below under vicarious infringement, but we also address it here in terms of contributory infringement.

[13] *Fonovisa* essentially viewed "supervision" in this context in terms of the swap meet operator's ability to control the activities of the vendors, [76 F.3d at 262](#), and *Napster* essentially viewed it in terms of *Napster's* ability to police activities of its users, [239 F.3d at 1023](#).

[14] The same analysis of Defendants' role in any violation of the distribution right under 17 U.S.C. § 106(3), discussed in note 11, *supra*, is equally applicable here. While the *Napster* program allowed its operators to block users from violation of the distribution right, Defendants' "policing" power is limited to refusing to process payments resulting from such violations and does not extend to directly stopping the violations themselves.

[15] The conclusion that the Defendants operate outside the scope of the *Napster* rule is further bolstered by consideration—though as persuasive authority only—of this court's opinion in [Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd., 380 F.3d 1154 \(9th Cir. 2004\)](#), which the Supreme Court vacated on other grounds, [545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781](#) (2005). In *Grokster*, we found the defendants not vicariously liable in part because they could not block individual users or remove copyrighted material from the network. *Id.* at 1165. Similarly, because none of the infringing images resides on or passes through present Defendants' own systems or any systems over which Defendants exercise direct control, Defendants have no ability to actually remove infringing material from the Internet or directly block its distribution. This distinguishes credit card companies from *Napster*, which could block access to the tools needed for the easy reproduction and distribution of the actual infringing content.

[16] We do not, as the dissent suggests, hold that an absolute right to stop the infringement is a prerequisite for vicarious

liability. Dissent at 818-19. Rather, we consider the Defendants' inability to directly control the actual infringing activities of third-party websites—reproduction, alteration, display, and distribution over the Internet, not over Defendants' payment systems—as evidence that they, much like Google, lack the right and ability to control those activities.

[17] We do not hold, as the dissent suggests, that the ability to exert financial pressure is categorically insufficient to establish sufficient control for vicarious liability. We recognize that financial pressure is often very powerful, but it is precisely for this reason that we hesitate to expand the law of vicarious liability to encompass the sort of financial pressure Defendants may exert. The dissent believes that the gravamen of "right and ability to control" is the "practical ability" to limit infringement. Dissent at 818-19. But if this were true, despite the dissent's protestations to the contrary, there are many providers of essential services who could limit infringement by refusing to offer those services. If "practical ability" is the test, it does not matter if software operators, network technicians, or even utility companies do not have a contractual right to affect the websites' content. It is an article of faith of the free market that, subject to certain limited exceptions, one can refuse to deal with anyone for any reason, and by refusing to deal with the offending websites, these providers could limit infringement.

[18] Specifically, **Perfect 10** defines "Stolen Content Websites" as "websites . . . that routinely offer *for sale* to the public stolen [images]," First Am. Compl. at 2, ¶ 6 (emphasis added), and alleges that "Stolen Content Websites cannot exist without the knowledge and direct participation of the financial institutions that process the credit card transactions for such unlawful material," *id.* at 2, ¶ 7. We do acknowledge that at this procedural stage, **Perfect 10** is entitled to all reasonable inferences, but we understand this to be a factual allegation that the "Stolen Content Websites" could not continue to exist as websites offering images *for sale* online should defendants withdraw their services, not an allegation that the websites would completely vanish or that infringement by these sites in all its forms would necessarily cease.

[19] The dissent claims that no contractual relationship arises between the infringers and consumers until Defendants process a payment. Dissent at 822-23. Even if true as a factual and legal matter—and given the absence of any citation, it is difficult to know whether this is true—this results from a decision of the websites to delay formation of the relationship, not from any requirement Defendants impose on the transaction.

[20] The dissent argues that *Emery* does not preclude **Perfect 10's** claims because the only defendant in *Emery* was Visa International Service Association, whereas **Perfect 10** has also sued the member merchant banks who issue cards and process payments from merchants. Dissent at 822-23. This distinction is only relevant if the activities of the member banks constitute personal participation in the infringing activity, and for all the reasons discussed above, those banks are not personally involved in the reproduction, alteration, or distribution of the infringing images. Rather, they merely process payments related to those activities.

[1] I join part C of the "California Statutory and Common Law Claims" section of the opinion, dealing with plaintiff's libel and prospective economic advantage claims.

[2] Throughout this dissent, I refer to defendants collectively as credit card companies or credit cards. In so doing, I am adopting the same simplifying assumptions as the majority. I am aware that Visa and MasterCard don't deal directly with merchants; rather, merchants obtain credit card accounts from banks, which are in turn authorized by Visa or MasterCard to use their respective payment systems. Some of the other defendants are involved in clearing these transactions. For a description of how the system works, see [Emery v. Visa Int'l Serv. Ass'n](#), 95 Cal. App.4th 952, 956, 116 Cal.Rptr.2d 25 (2002). It may well be that some of the defendants will be absolved of liability because they have no direct contact with merchants or consumers, but that is a matter to be sorted out after discovery.

[3] As the majority points out, maj. op. at 797 n. 6, 800 n. 11, plaintiff's allegations might also support a theory of direct infringement. See First Am. Compl. at 8 ¶ 30 ("Defendants, jointly with the Stolen Content Websites, are engaged in . . . the willful and systematic infringement of the intellectual property rights of" plaintiff and others). Because plaintiff has not argued this theory on appeal, we have no occasion to address it. But the fact that defendants may also be committing direct infringement does not diminish their responsibility as indirect infringers for providing essential services to buyers and sellers of stolen merchandise. A defendant can be liable for both direct and indirect infringement based on the same conduct. See, e.g., [Alcatel USA, Inc. v. DGI Technologies, Inc.](#), 166 F.3d 772, 791 (5th Cir.1999).

[4] Neither Google nor the credit cards here were designed for infringement. The majority tries to distinguish this case from *Napster* and [Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.](#), 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005), where defendants' services were designed for no other purpose. Maj. op. at 799 n. 10, 801. But *Napster* and *Grokster* are not the endpoint of this court's caselaw: Even though Google has many legitimate, noninfringing uses, *Amazon* held that it would be guilty of contributory infringement if it could modify its service to avoid helping infringers.

[5] *Amazon*, as well as *Napster* and *Grokster*, hold as much.

[6] The majority argues that "[b]ecause location services lead Internet users directly to infringing images, and often display them on the website of the service itself, we find that location services are more important and more essential—indeed, more 'material'—to infringement than payment services are." Maj. op. at 797-98 n. 8. Skipping lightly over the fact that we lack the power to "find" anything, the majority admits that payment services are important, essential and material. That location services may — or may not — be more so, is of no consequence; this is not a race where there can be only one winner.

[7] The majority's claim that "**Perfect 10's** factual allegations are not to the contrary," maj. op. at 797 n. 7, is simply not accurate. Indeed, elsewhere in the opinion, the majority concedes that plaintiff has made "a factual allegation" that the Stolen Content Websites "could not continue to exist as websites offering images *for sale* online." *Id.* at 805-06 n. 18. How then can the majority hold here, apparently as a matter of law, that defendants are absolved of liability because "other viable funding mechanisms are available"? Maj. op. at 797. If we accept as true, as the majority says it does, that the Stolen Content Websites will no longer be able to sell their images, how can we hold that they could still do so by developing other

(unknown and unsuspected) ways to get paid?

[8] I note in passing that, even if we were to accept the majority's speculations, they would be insufficient. That the Stolen Content Websites "might" change the way they do business or develop alternative payment mechanisms hardly proves that "other viable funding mechanisms are available." Maj. op. at 797 (emphasis added). The majority's prognostication as to what "might" happen in the future leaves open the likelihood that it will *not* happen, and positively admits that there are no viable alternative payment mechanisms today.

[9] The majority seeks to distinguish *Napster* and *Grokster* on similar grounds by arguing that the defendants do not provide the "tools to locate infringing material," *id.* at 800, and that the infringing material "[n]ever reside[s] on or pass[es] through any network or computer Defendants operate," *id.*

[10] The majority consigns the dance hall/absentee landlord cases to oblivion by holding that they have no relevance to the Internet. Maj. op. at 798 n. 9. It is true that these cases were developed in a brick and mortar world, but the distinction they draw between those who materially assist infringement (and are therefore liable) and those who are more remotely involved (and are therefore not liable) is equally important—perhaps even more important—in cyberspace than in real space. That *Napster* and *Grokster* did not consider these cases is hardly significant. The defendants there were centrally involved in the infringing transactions—indeed, as the majority reminds us, their systems were created *solely* to promote infringement, maj. op. at 799 n. 10, 801 — and thus there could be no argument that their involvement in the infringing transactions was too peripheral to give rise to a claim of secondary infringement. The Seventh Circuit managed to apply the dance hall cases to the Internet, see *In re Aimster Copyright Litig.*, 334 F.3d 643, 654 (7th Cir.2003), and I'm confident that federal judges west of the Rockies could have figured out how to do the same.

[11] *Amazon* interprets the "stop or limit" language as requiring "a legal right to stop or limit the allegedly infringing conduct, as well as the practical ability to do so." *Amazon*, 487 F.3d at 730.

[12] Plaintiff's allegation on this point, as on many others, is very specific:

When MasterCard or **Visa** learns of a merchant engaged in illegal, fraudulent, or otherwise improper business practices, their own regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants from the **Visa** and MasterCard systems. The rules of both associations strictly prohibit members from servicing illegal businesses.

First Am. Compl. at 6 ¶ 20.

[13] In fact, there can be no doubt that it's true. For example, the MasterCard Merchant Rules Manual provides that "[a] Payment Transaction may not be effected for any of the following reasons: . . . to transfer gambling winnings or funds related to chips, currency, or other value usable for gambling that were purchased in connection with gambling; for any *illegal purpose* or any other purpose deemed by MasterCard to be impermissible." MasterCard International, Merchant Rules Manual § 2.1.11.3(6) (2006) (emphasis added), available at <http://www.mastercard.com/us/wce/PDF/12999—MERC-Entire—Manual.pdf>.

[14] **Visa's** website, for example, explains that "**Visa** and its card issuers and acquirers have in place an efficient dispute resolution process." **Visa** USA, Chargebacks & Dispute Resolution, <http://www.usa.visa.com/merchants/operations/chargebacks—dispute—resolution/index.html> (last visited March 24, 2007). It also notes that "[c]hargebacks arise for many reasons, primary among which are *customer disputes*, fraud, processing errors, authorization issues, and non-fulfillment of copy requests." *Id.* (emphasis added).

[15] The majority tries to take back in a footnote what it says in text by claiming that an "absolute right to stop" is not "a prerequisite" to vicarious liability, but that its absence is "evidence that[defendants], much like Google, lack the right and ability to control those [infringing] activities." Maj. op. at 804 n. 16. Alas, it won't work. If not having an "absolute right to stop" is merely "evidence" that defendants lack sufficient control for vicarious infringement, then this can be offset by other evidence that they *do* have such control. Conflicts in the evidence must be resolved after discovery and trial, not on a motion to dismiss.

"Practical ability," the standard announced in *Amazon*, is a capacious concept, far broader than "absolute right to stop." Even if the majority were right that defendants lack the "absolute right to stop" the infringements, plaintiff would be entitled to show that defendants have the "practical ability" to do so. If the majority means what it says in its footnote, then what it says in text is beside the point. In fact, there can be no doubt that the majority means what it says in text, because it upholds dismissal of the complaint on the ground that defendants lack the "absolute right to stop" the infringers; the footnote is merely an unpersuasive attempt to sweep the conflict with *Amazon* under the rug.

[16] The conflict with *Amazon* is clearly drawn in footnote 17, where the majority explicitly disavows "practical ability" as the standard for vicarious infringement. Maj. op. at 805 n. 17. The majority is free to disagree with the standard adopted by our caselaw, but it is not free to reject it.

[17] Those customers may take their patronage to plaintiff's website.

[18] The majority disparages this as mere "financial pressure," but I am aware of no prior case holding that the legal right to exercise "financial pressure" over infringing activity is insufficient to support a finding of vicarious infringement. This is a dangerous precedent. We live in a commercial world and economic incentives are often the strongest possible motivators — far stronger than the often empty threat of litigation. As this case demonstrates, litigation can be costly and protracted, and its results uncertain. By contrast, the threat of stopping an essential service can be implemented at once, without hiring an army of lawyers or persuading judges and juries of the rightness of one's cause. In an economy marked by competition, financial pressure which raises costs or diminishes patronage can be a powerful weapon. By holding that the legal right to exercise financial pressure is an insufficient basis for establishing vicarious infringement, my colleagues take a hasty and

unwise step in the development of the law.

[19] *Amazon* also relied on the district court's finding that Google "lacks the practical ability to police the third-party websites' infringing conduct" because the technical means for doing so suggested by plaintiff "were not workable." *Id.* at 731 (citing district court's opinion, [Perfect 10 v. Google, Inc., 416 F.Supp.2d 828, 857-58 & n. 25 \(C.D.Cal.2006\)](#)). There is not, and cannot be, such a finding here as the case is presented on a 12(b)(6) motion.

[20] Anecdotal evidence suggests that the AdSense program produces vastly less revenue for most program members than what they earn through their businesses. One poll found that 45% of AdSense members surveyed earned less than \$30 per month from the program, and only a small percentage earned a substantial amount. Darren Rowse, *AdSense Earnings for November-Poll Results*, Prologger (Dec. 19, 2005), <http://www.prologger.net/archives/2005/12/19/adsense-earnings-for-november-poll-results/>.

[21] Providing financial support has long been held to be a basis for vicarious infringement, where that financial support carries with it the contractual right to approve the infringing activity. See [Davis v. E.I. DuPont de Nemours & Co., 240 F.Supp. 612 \(S.D.N.Y.1965\)](#). In *Davis*, DuPont sponsored a dramatization of "Ethan Frome," which was alleged to infringe several copyrights. DuPont was held vicariously liable, even though it did not own the studio or the broadcast facilities, and could not have prevented airing of the show with another sponsor.

[22] See, e.g., Rules and General Orders of the Vermont Public Service Board § 3.302, available at [http://www.state.vt.us/psb/rules/Official AdoptedRules/RulesComplete.pdf](http://www.state.vt.us/psb/rules/Official%20AdoptedRules/RulesComplete.pdf) (last visited May 14, 2007) ("[N]o utility shall disconnect residential service of gas, electric, or water unless payment of a valid bill or charge is delinquent."); State of New Hampshire, Consumer Rights and Responsibilities, at 5 (1996), available at <http://services.unil.com/content/info/consumer-rights.html>.

[23] The majority is also mistaken when it suggests that parties would be held vicariously liable for infringement simply because, in a market economy, they are free not to deal with one another. *Maj. op.* at 805 n. 17. Our cases have been very clear that more is required for vicarious infringement; defendant must have a formal contractual or principal-agent relationship with the infringer. It is that contract or relationship that forms the predicate for vicarious liability, and plaintiff must point to some term in the contract or formal relationship that gives defendant a right to stop the infringing activity. See, e.g., [Aimster, 334 F.3d at 654](#); [Fonovisa, 76 F.3d at 262](#); [Amazon, 487 F.3d at 729-31](#). Responding to a service call, in the absence of a contract which provides that the service may be discontinued in the event of illegal conduct, cannot form the basis of vicarious liability and thus the fact that the technician is free to leave can't render him vicariously liable. The requirement that plaintiffs point to a relationship explicitly spelled out in a contract or other legal arrangement is an important limitation on who may be held to answer for vicarious infringement. It should not be casually discarded.

[24] In fact, *Perfect 10* has brought suit against some direct infringers. See [Perfect 10, Inc. v. CCBill, LLC, 481 F.3d 751 \(9th Cir.2007\)](#) (reversing summary judgment on direct infringement claim); [Perfect 10, Inc. v. Talisman Commc'ns Inc., No. CV99-10450, 2000 WL 364813 \(C.D.Cal. Mar.27, 2000\)](#).

[25] The majority finds it "anomalous" to hold credit cards liable without DMCA-compliant notice, while ISPs are immune unless they receive such a notice. *Maj. op.* at 795-96 n. 4. But there is no anomaly in treating parties that are covered by the statute differently from those that are not. Plaintiff here *did* give ample notice to the credit cards, see p. 824 *infra*, and should not have its claim dismissed for failing to allege compliance with a statute that does not apply to them.

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508 F.3d 1146 (2007)

PERFECT 10, INC., a California corporation, Plaintiff-Appellant,**v.****AMAZON.COM, INC., a corporation; A9.Com Inc., a corporation, Defendants-Appellees.****Perfect 10, Inc., a California corporation, Plaintiff-Appellant,****v.****Google Inc., a corporation, Defendant-Appellee.****Perfect 10, Inc., a California corporation, Plaintiff-Appellee,****v.****Google Inc., a corporation, Defendant-Appellant.****Perfect 10, Inc., a California corporation, Plaintiff-Appellant,****v.****Google Inc., a corporation, Defendant-Appellee.****Perfect 10, Inc., a California corporation, Plaintiff-Appellee,****v.****Google Inc., a corporation, Defendant-Appellant.****Perfect 10, Inc., a California corporation, Plaintiff-Appellee,****v.****Google Inc., a corporation, Defendant-Appellant.**[Nos. 06-55405, 06-55406, 06-55425, 06-55759, 06-55854, 06-55877.](#)**United States Court of Appeals, Ninth Circuit.**

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1153 *1147 *1148 *1149 *1150 *1151 *1152 *1153 Russell J. Frackman and Jeffrey D. Goldman, Mitchell, Silberberg & Knupp LLP, Los Angeles, CA, Jeffrey N. Mausner, Berman, Mausner & Resser, Los Angeles, CA, Daniel J. Cooper, **Perfect 10**, Inc., Beverly Hills, CA, for plaintiff-appellant **Perfect 10**, Inc.

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Electronic Frontier Foundation, American Library Association, Medical Library *1154 Association, American Association of Law Libraries, Association of Research Libraries, and Special Libraries Association in support of Google Inc.

Victor S. Perlman, of counsel, American Society of Media Photographers; Nancy E. Wolff, of counsel, Cowan, DeBaets, Abrahams & Sheppard, LLP; Robert W. Clarida and Jason D. Sanders, Cowan, Liebowitz & Latman, P.C., New York, NY, for amicus curiae American Society of Media Photographers, Inc., Picture Archive Council of America, Inc., British Association of Picture Libraries and Agencies, Inc., Stock Artists Alliance, The Graphic Artists Guild, American Society of Picture Professionals and National Press Photographers, in support of **Perfect 10** on issue of Google's liability for the display of full-size images.

Eric J. Schwartz and Steven J. Metalitz, Smith & Metalitz LLP, Washington, DC, for amicus curiae Motion Picture Association of America, Inc. in support of **Perfect 10**.

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Before: CYNTHIA HOLCOMB HALL, HAWKINS, and SANDRA S. IKUTA, Circuit Judges.

IKUTA, Circuit Judge:

In this appeal, we consider a copyright owner's efforts to stop an Internet search engine from facilitating access to infringing images. **Perfect 10**, Inc. sued Google Inc., for infringing **Perfect 10's** copyrighted photographs of nude models, among other claims. **Perfect 10** brought a similar action against **Amazon.com** and its subsidiary A9.com (collectively, "**Amazon.com**"). The district court preliminarily enjoined Google from creating and publicly displaying thumbnail versions of **Perfect 10's** images, [Perfect 10 v. Google, Inc., 416 F.Supp.2d 828 \(C.D.Cal.2006\)](#), but did not enjoin Google from linking to third-party websites that display infringing full-size versions of **Perfect 10's** images. Nor did the district court preliminarily enjoin **Amazon.com** from giving users access to information provided by Google. **Perfect 10** and Google both appeal the district court's order. We have jurisdiction pursuant to 28 U.S.C. § 1292(a)(1).^[1]

1155 *1155 The district court handled this complex case in a particularly thoughtful and skillful manner. Nonetheless, the district court erred on certain issues, as we will further explain below. We affirm in part, reverse in part, and remand.

I

Background

Google's computers, along with millions of others, are connected to networks known collectively as the "Internet." "The Internet is a world-wide network of networks . . . all sharing a common communications technology." [Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc., 923 F.Supp. 1231, 1238 n. 1 \(N.D.Cal.1995\)](#). Computer owners can provide information stored on their computers to other users connected to the Internet through a medium called a

webpage. A webpage consists of text interspersed with instructions written in Hypertext Markup Language ("HTML") that is stored in a computer. No images are stored on a webpage; rather, the HTML instructions on the webpage provide an address for where the images are stored, whether in the webpage publisher's computer or some other computer. In general, webpages are publicly available and can be accessed by computers connected to the Internet through the use of a web browser.

Google operates a search engine, a software program that automatically accesses thousands of websites (collections of webpages) and indexes them within a database stored on Google's computers. When a Google user accesses the Google website and types in a search query, Google's software searches its database for websites responsive to that search query. Google then sends relevant information from its index of websites to the user's computer. Google's search engines can provide results in the form of text, images, or videos.

The Google search engine that provides responses in the form of images is called "Google Image Search." In response to a search query, Google Image Search identifies text in its database responsive to the query and then communicates to users the images associated with the relevant text. Google's software cannot recognize and index the images themselves. Google Image Search provides search results as a webpage of small images called "thumbnails," which are stored in Google's servers. The thumbnail images are reduced, lower-resolution versions of full-sized images stored on third-party computers.

1156 When a user clicks on a thumbnail image, the user's browser program interprets HTML instructions on Google's webpage. These HTML instructions direct the user's browser to cause a rectangular area (a "window") to appear on the user's computer screen. The window has two separate areas of information. The browser fills the top section of the screen with information from the Google webpage, including the thumbnail image and text. The HTML instructions also give the user's browser the address of the website publisher's computer that stores the full-size version of the thumbnail.^[2] By following *1156 the HTML instructions to access the third-party webpage, the user's browser connects to the website publisher's computer, downloads the full-size image, and makes the image appear at the bottom of the window on the user's screen. Google does not store the images that fill this lower part of the window and does not communicate the images to the user; Google simply provides HTML instructions directing a user's browser to access a third-party website. However, the top part of the window (containing the information from the Google webpage) appears to frame and comment on the bottom part of the window. Thus, the user's window appears to be filled with a single integrated presentation of the full-size image, but it is actually an image from a third-party website framed by information from Google's website. The process by which the webpage directs a user's browser to incorporate content from different computers into a single window is referred to as "in-line linking." *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 816 (9th Cir.2003). The term "framing" refers to the process by which information from one computer appears to frame and annotate the in-line linked content from another computer. *Perfect 10*, 416 F.Supp.2d at 833-34.

Google also stores webpage content in its cache.^[3] For each cached webpage, Google's cache contains the text of the webpage as it appeared at the time Google indexed the page, but does not store images from the webpage. *Id.* at 833. Google may provide a link to a cached webpage in response to a user's search query. However, Google's cache version of the webpage is not automatically updated when the webpage is revised by its owner. So if the webpage owner updates its webpage to remove the HTML instructions for finding an infringing image, a browser communicating directly with the webpage would not be able to access that image. However, Google's cache copy of the webpage would still have the old HTML instructions for the infringing image. Unless the owner of the computer changed the HTML address of the infringing image, or otherwise rendered the image unavailable, a browser accessing Google's cache copy of the website could still access the image where it is stored on the website publisher's computer. In other words, Google's cache copy could provide a user's

browser with valid directions to an infringing image even though the updated webpage no longer includes that infringing image.

In addition to its search engine operations, Google generates revenue through a business program called "AdSense." Under this program, the owner of a website can register with Google to become an AdSense "partner." The website owner then places HTML instructions on its webpages that signal Google's server to place advertising on the webpages that is relevant to the webpages' content. Google's computer program selects the advertising automatically by means of an algorithm. AdSense participants agree to share the revenues that flow from such advertising with Google.

1157 *1157 Google also generated revenues through an agreement with **Amazon.com** that allowed **Amazon.com** to in-line link to Google's search results. **Amazon.com** gave its users the impression that **Amazon.com** was providing search results, but Google communicated the search results directly to **Amazon.com**'s users. **Amazon.com** routed users' search queries to Google and automatically transmitted Google's responses (i.e., HTML instructions for linking to Google's search results) back to its users.

Perfect 10 markets and sells copyrighted images of nude models. Among other enterprises, it operates a subscription website on the Internet. Subscribers pay a monthly fee to view **Perfect 10** images in a "members' area" of the site. Subscribers must use a password to log into the members' area. Google does not include these password-protected images from the members' area in Google's index or database. **Perfect 10** has also licensed Fonestarz Media Limited to sell and distribute **Perfect 10's** reduced-size copyrighted images for download and use on cell phones.

Some website publishers republish **Perfect 10's** images on the Internet without authorization. Once this occurs, Google's search engine may automatically index the webpages containing these images and provide thumbnail versions of images in response to user inquiries. When a user clicks on the thumbnail image returned by Google's search engine, the user's browser accesses the third-party webpage and in-line links to the full-sized infringing image stored on the website publisher's computer. This image appears, in its original context, on the lower portion of the window on the user's computer screen framed by information from Google's webpage.

Procedural History. In May 2001, **Perfect 10** began notifying Google that its thumbnail images and in-line linking to the full-size images infringed **Perfect 10's** copyright. **Perfect 10** continued to send these notices through 2005.

On November 19, 2004, **Perfect 10** filed an action against Google that included copyright infringement claims. This was followed by a similar action against **Amazon.com** on June 29, 2005. On July 1, 2005 and August 24, 2005, **Perfect 10** sought a preliminary injunction to prevent **Amazon.com** and Google, respectively, from "copying, reproducing, distributing, publicly displaying, adapting or otherwise infringing, or contributing to the infringement" of **Perfect 10's** photographs; linking to websites that provide full-size infringing versions of **Perfect 10's** photographs; and infringing **Perfect 10's** username/password combinations.

The district court consolidated the two actions and heard both preliminary injunction motions on November 7, 2005. The district court issued orders granting in part and denying in part the preliminary injunction against Google and denying the preliminary injunction against **Amazon.com**. **Perfect 10** and Google cross-appealed the partial grant and partial denial of the preliminary injunction motion, and **Perfect 10** appealed the denial of the preliminary injunction against **Amazon.com**. On June 15, 2006, the district court temporarily stayed the preliminary injunction.

II

Standard of Review

We review the district court's grant or denial of a preliminary injunction for an abuse of discretion. [A & M Records, Inc. v. Napster, Inc.](#), 239 F.3d 1004, 1013 (9th Cir.2001). The district court must support a preliminary injunction with findings of fact, which we review for clear error. [Earth Island Inst. v. U.S. Forest Serv.](#), 442 F.3d 1147, 1156 (9th Cir.2006). We review the district court's conclusions of law de novo. [Napster](#), 239 F.3d at 1013.

1158 *1158 Section 502(a) of the Copyright Act authorizes a court to grant injunctive relief "on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502(a). "Preliminary injunctive relief is available to a party who demonstrates either: (1) a combination of probable success on the merits and the possibility of irreparable harm; or (2) that serious questions are raised and the balance of hardships tips in its favor. These two formulations represent two points on a sliding scale in which the required degree of irreparable harm increases as the probability of success decreases." [Napster](#), 239 F.3d at 1013 (internal quotation and citation omitted).

Because **Perfect 10** has the burden of showing a likelihood of success on the merits, the district court held that **Perfect 10** also had the burden of demonstrating a likelihood of overcoming Google's fair use defense under 17 U.S.C. § 107. [Perfect 10](#), 416 F.Supp.2d at 836-37. This ruling was erroneous. At trial, the defendant in an infringement action bears the burden of proving fair use. See [Campbell v. Acuff-Rose Music, Inc.](#), 510 U.S. 569, 590, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994). Because "the burdens at the preliminary injunction stage track the burdens at trial," once the moving party has carried its burden of showing a likelihood of success on the merits, the burden shifts to the non-moving party to show a likelihood that its affirmative defense will succeed. [Gonzales v. O Centro Espirita Beneficente Uniao do Vegetal](#), 546 U.S. 418, 429, 126 S.Ct. 1211, 163 L.Ed.2d 1017 (2006); see also [Abbott Labs. v. Andrx Pharms., Inc.](#), 473 F.3d 1196, 1201 (Fed. Cir.2007) (to defeat a motion for preliminary injunctive relief in a patent infringement case, the non-moving party must establish a likelihood of success in proving its defenses of invalidity or unenforceability); [PHG Techs., LLC v. St. John Cos.](#), 469 F.3d 1361, 1365 (Fed. Cir.2006). Accordingly, once **Perfect 10** has shown a likelihood of success on the merits, the burden shifts to Google to show a likelihood that its affirmative defenses will succeed.

In addition to its fair use defense, Google also raises an affirmative defense under title II of the Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. § 512. Congress enacted title II of the DMCA "to provide greater certainty to service providers concerning their legal exposure for infringements that may occur in the course of their activities." [Ellison v. Robertson](#), 357 F.3d 1072, 1076 (9th Cir. 2004) (internal quotation omitted). Sections 512(a) through (d) limit liability for (respectively): "(1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of users; and (4) information location tools." *Id.* at 1077. A service provider that qualifies for such protection is not liable for monetary relief and may be subject only to the narrow injunctive relief set forth in section 512(j). 17 U.S.C. § 512(a). If **Perfect 10** demonstrates a likelihood of success on the merits, Google must show a likelihood of succeeding in its claim that it qualifies for protection under title II of the DMCA.^[4]

1159 *1159 III

Direct Infringement

Perfect 10 claims that Google's search engine program directly infringes two exclusive rights granted to copyright holders: its display rights and its distribution rights.^[5] "Plaintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1) they must show

ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106." [Napster, 239 F.3d at 1013](#); see 17 U.S.C. § 501(a). Even if a plaintiff satisfies these two requirements and makes a prima facie case of direct infringement, the defendant may avoid liability if it can establish that its use of the images is a "fair use" as set forth in 17 U.S.C. § 107. See [Kelly, 336 F.3d at 817](#).

Perfect 10's ownership of at least some of the images at issue is not disputed. See [Perfect 10, 416 F.Supp.2d at 836](#).

The district court held that **Perfect 10** was likely to prevail in its claim that Google violated **Perfect 10's** display right with respect to the infringing thumbnails. *Id.* at 844. However, the district court concluded that **Perfect 10** was not likely to prevail on its claim that Google violated either **Perfect 10's** display or distribution right with respect to its full-size infringing images. *Id.* at 844-45. We review these rulings for an abuse of discretion. [Napster, 239 F.3d at 1013](#).

A. Display Right

In considering whether **Perfect 10** made a prima facie case of violation of its display right, the district court reasoned that a computer owner that stores an image as electronic information and serves that electronic information directly to the user ("i.e., physically sending ones and zeroes over the [I]nternet to the user's browser," [Perfect 10, 416 F.Supp.2d at 839](#)) is displaying the electronic information in violation of a copyright holder's exclusive display right. *Id.* at 843-45; see 17 U.S.C. § 106(5). Conversely, the owner of a computer that does not store and serve the electronic information to a user is not displaying that information, even if such owner in-line links to or frames the electronic information. [Perfect 10, 416 F.Supp.2d at 843-45](#). The district court referred to this test as the "server test." *Id.* at 838-39.

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Applying the server test, the district court concluded that **Perfect 10** was likely to succeed in its claim that Google's thumbnails constituted direct infringement but was unlikely to succeed in its claim that Google's in-line linking to full-size infringing images constituted a direct infringement. *1160 *Id.* at 843-45. As explained below, because this analysis comports with the language of the Copyright Act, we agree with the district court's resolution of both these issues.

We have not previously addressed the question when a computer displays a copyrighted work for purposes of section 106(5). Section 106(5) states that a copyright owner has the exclusive right "to display the copyrighted work publicly." The Copyright Act explains that "display" means "to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process. . . ." 17 U.S.C. § 101. Section 101 defines "copies" as "material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." *Id.* Finally, the Copyright Act provides that "[a] work is 'fixed' in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." *Id.*

We must now apply these definitions to the facts of this case. A photographic image is a work that is "'fixed' in a tangible medium of expression," for purposes of the Copyright Act, when embodied (i.e., stored) in a computer's server (or hard disk, or other storage device). The image stored in the computer is the "copy" of the work for purposes of copyright law. See [MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 517-18 \(9th Cir.1993\)](#) (a computer makes a "copy" of a software program when it transfers the program from a third party's computer (or other storage device) into its own memory, because the copy of the program recorded in the computer is "fixed" in a manner that is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory

duration" (quoting 17 U.S.C. § 101)). The computer owner shows a copy "by means of a . . . device or process" when the owner uses the computer to fill the computer screen with the photographic image stored on that computer, or by communicating the stored image electronically to another person's computer. 17 U.S.C. § 101. In sum, based on the plain language of the statute, a person displays a photographic image by using a computer to fill a computer screen with a copy of the photographic image fixed in the computer's memory. There is no dispute that Google's computers store thumbnail versions of **Perfect 10's** copyrighted images and communicate copies of those thumbnails to Google's users.^[6] Therefore, **Perfect 10** has made a prima facie case that Google's communication of its stored thumbnail images directly infringes **Perfect 10's** display right.

1161 Google does not, however, display a copy of full-size infringing photographic images for purposes of the Copyright Act when Google frames in-line linked images that appear on a user's computer screen. Because Google's computers do not store the photographic images, Google does not have a copy of the images for purposes of the Copyright Act. In other words, Google does not have any "material objects . . . in *1161 which a work is fixed . . . and from which the work can be perceived, reproduced, or otherwise communicated" and thus cannot communicate a copy. 17 U.S.C. § 101.

Instead of communicating a copy of the image, Google provides HTML instructions that direct a user's browser to a website publisher's computer that stores the full-size photographic image. Providing these HTML instructions is not equivalent to showing a copy. First, the HTML instructions are lines of text, not a photographic image. Second, HTML instructions do not themselves cause infringing images to appear on the user's computer screen. The HTML merely gives the address of the image to the user's browser. The browser then interacts with the computer that stores the infringing image. It is this interaction that causes an infringing image to appear on the user's computer screen. Google may facilitate the user's access to infringing images. However, such assistance raises only contributory liability issues, see [Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913, 929-30, 125 S.Ct. 2764, 162 L.Ed.2d 781 \(2005\)](#), [Napster, 239 F.3d at 1019](#), and does not constitute direct infringement of the copyright owner's display rights.

Perfect 10 argues that Google displays a copy of the full-size images by framing the full-size images, which gives the impression that Google is showing the image within a single Google webpage. While in-line linking and framing may cause some computer users to believe they are viewing a single Google webpage, the Copyright Act, unlike the Trademark Act, does not protect a copyright holder against acts that cause consumer confusion. Cf. 15 U.S.C. § 1114(1) (providing that a person who uses a trademark in a manner likely to cause confusion shall be liable in a civil action to the trademark registrant).^[7]

Nor does our ruling that a computer owner does not display a copy of an image when it communicates only the HTML address of the copy erroneously collapse the display right in section 106(5) into the reproduction right set forth in section 106(1). Nothing in the Copyright Act prevents the various rights protected in section 106 from overlapping. Indeed, under some circumstances, more than one right must be infringed in order for an infringement claim to arise. For example, a "Game Genie" device that allowed a player to alter features of a Nintendo computer game did not infringe Nintendo's right to prepare derivative works because the Game Genie did not incorporate any portion of the game itself. See [Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc., 964 F.2d 965, 967 \(9th Cir. 1992\)](#). We held that a copyright holder's right to create derivative works is not infringed unless the alleged derivative work "incorporate[s] a protected work in some concrete or permanent form." *Id.* In other words, in some contexts, the claimant must be able to claim infringement of its reproduction right in order to claim infringement of its right to prepare derivative works.

1162 *1162 Because Google's cache merely stores the text of webpages, our analysis of whether

Google's search engine program potentially infringes **Perfect 10's** display and distribution rights is equally applicable to Google's cache. **Perfect 10** is not likely to succeed in showing that a cached webpage that in-line links to full-size infringing images violates such rights. For purposes of this analysis, it is irrelevant whether cache copies direct a user's browser to third-party images that are no longer available on the third party's website, because it is the website publisher's computer, rather than Google's computer, that stores and displays the infringing image.

B. Distribution Right

The district court also concluded that **Perfect 10** would not likely prevail on its claim that Google directly infringed **Perfect 10's** right to distribute its full-size images. [Perfect 10, 416 F.Supp.2d at 844-45](#). The district court reasoned that distribution requires an "actual dissemination" of a copy. *Id.* at 844. Because Google did not communicate the full-size images to the user's computer, Google did not distribute these images. *Id.*

Again, the district court's conclusion on this point is consistent with the language of the Copyright Act. Section 106(3) provides that the copyright owner has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3). As noted, "copies" means "material objects . . . in which a work is fixed." 17 U.S.C. § 101. The Supreme Court has indicated that in the electronic context, copies may be distributed electronically. See [N.Y. Times Co. v. Tasini, 533 U.S. 483, 498, 121 S.Ct. 2381, 150 L.Ed.2d 500 \(2001\)](#) (a computer database program distributed copies of newspaper articles stored in its computerized database by selling copies of those articles through its database service). Google's search engine communicates HTML instructions that tell a user's browser where to find full-size images on a website publisher's computer, but Google does not itself distribute copies of the infringing photographs. It is the website publisher's computer that distributes copies of the images by transmitting the photographic image electronically to the user's computer. As in *Tasini*, the user can then obtain copies by downloading the photo or printing it.

Perfect 10 incorrectly relies on *Hotaling v. Church of Jesus Christ of Latter-Day Saints* and *Napster* for the proposition that merely making images "available" violates the copyright owner's distribution right. [Hotaling v. Church of Jesus Christ of Latter-Day Saints, 118 F.3d 199 \(4th Cir.1997\)](#); [Napster, 239 F.3d 1004](#). *Hotaling* held that the owner of a collection of works who makes them available to the public may be deemed to have distributed copies of the works. [Hotaling, 118 F.3d at 203](#). Similarly, the distribution rights of the plaintiff copyright owners were infringed by *Napster users* (private individuals with collections of music files stored on their home computers) when they used the *Napster* software to make their collections available to all other *Napster* users. [Napster, 239 F.3d at 1011-14](#).

1163 This "deemed distribution" rule does not apply to Google. Unlike the participants in the *Napster* system or the library in *Hotaling*, Google does not own a collection of **Perfect 10's** full-size images and does not communicate these images to the computers of people using Google's search engine. Though Google indexes these images, it does not have a collection of stored full-size images it makes available to the public. Google therefore cannot be deemed to distribute copies of these images under the reasoning of *Napster* or *1163 *Hotaling*. Accordingly, the district court correctly concluded that **Perfect 10** does not have a likelihood of success in proving that Google violates **Perfect 10's** distribution rights with respect to full-size images.

C. Fair Use Defense

Because **Perfect 10** has succeeded in showing it would prevail in its prima facie case that Google's thumbnail images infringe **Perfect 10's** display rights, the burden shifts to Google to show that it will likely succeed in establishing an affirmative defense. Google contends that its

use of thumbnails is a fair use of the images and therefore does not constitute an infringement of **Perfect 10's** copyright. See 17 U.S.C. § 107.

The fair use defense permits the use of copyrighted works without the copyright owner's consent under certain situations. The defense encourages and allows the development of new ideas that build on earlier ones, thus providing a necessary counterbalance to the copyright law's goal of protecting creators' work product. "From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright's very purpose. . . ." [Campbell, 510 U.S. at 575, 114 S.Ct. 1164](#). "The fair use doctrine thus `permits [and requires] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.'" *Id.* at 577, 114 S.Ct. 1164 (quoting [Stewart v. Abend, 495 U.S. 207, 236, 110 S.Ct. 1750, 109 L.Ed.2d 184 \(1990\)](#)) (alteration in original).

Congress codified the common law of fair use in 17 U.S.C. § 107, which provides:

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

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

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

17 U.S.C. § 107.

We must be flexible in applying a fair use analysis; it "is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis. . . . Nor may the four statutory factors be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright." [Campbell, 510 U.S. at 577-78, 114 S.Ct. 1164](#); see also [Kelly, 336 F.3d at 817-18](#). The purpose of copyright law is "[t]o promote the Progress of Science and useful Arts," U.S. CONST. art. I, § 8, cl. 8, and to serve "the welfare of the public." [Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 n. 10, 104 S.Ct. 774, 78 L.Ed.2d 574](#) (quoting H.R.Rep. No. 2222, 60th Cong., 2d Sess. 7 (1909)).

1164 *1164 In applying the fair use analysis in this case, we are guided by [Kelly v. Arriba Soft Corp.](#), which considered substantially the same use of copyrighted photographic images as is at issue here. See [336 F.3d 811](#). In *Kelly*, a photographer brought a direct infringement claim against Arriba, the operator of an Internet search engine. The search engine provided thumbnail versions of the photographer's images in response to search queries. *Id.* at 815-16. We held that Arriba's use of thumbnail images was a fair use primarily based on the transformative nature of a search engine and its benefit to the public. *Id.* at 818-22. We also concluded that

Arriba's use of the thumbnail images did not harm the photographer's market for his image. *Id.* at 821-22.

In this case, the district court determined that Google's use of thumbnails was not a fair use and distinguished *Kelly*. [Perfect 10, 416 F.Supp.2d at 845-51](#). We consider these distinctions in the context of the four-factor fair use analysis.

Purpose and character of the use. The first factor, 17 U.S.C. § 107(1), requires a court to consider "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." The central purpose of this inquiry is to determine whether and to what extent the new work is "transformative." [Campbell, 510 U.S. at 579, 114 S.Ct. 1164](#). A work is "transformative" when the new work does not "merely supersede the objects of the original creation" but rather "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message." *Id.* (internal quotation and alteration omitted). Conversely, if the new work "supersede[s] the use of the original," the use is likely not a fair use. [Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 550-51, 105 S.Ct. 2218, 85 L.Ed.2d 588 \(1985\)](#) (internal quotation omitted) (publishing the "heart" of an unpublished work and thus supplanting the copyright holder's first publication right was not a fair use); see also [Wall Data Inc. v. L.A. County Sheriff's Dep't, 447 F.3d 769, 778-82 \(9th Cir.2006\)](#) (using a copy to save the cost of buying additional copies of a computer program was not a fair use).^[8]

1165 As noted in *Campbell*, a "transformative work" is one that alters the original work *1165 "with new expression, meaning, or message." [Campbell, 510 U.S. at 579, 114 S.Ct. 1164](#). "A use is considered transformative only where a defendant changes a plaintiff's copyrighted work or uses the plaintiff's copyrighted work in a different context such that the plaintiff's work is transformed into a new creation." [Wall Data, 447 F.3d at 778](#).

Google's use of thumbnails is highly transformative. In *Kelly*, we concluded that Arriba's use of thumbnails was transformative because "Arriba's use of the images serve[d] a different function than Kelly's use—improving access to information on the [I]nternet versus artistic expression." [Kelly, 336 F.3d at 819](#). Although an image may have been created originally to serve an entertainment, aesthetic, or informative function, a search engine transforms the image into a pointer directing a user to a source of information. Just as a "parody has an obvious claim to transformative value" because "it can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one," [Campbell, 510 U.S. at 579, 114 S.Ct. 1164](#), a search engine provides social benefit by incorporating an original work into a new work, namely, an electronic reference tool. Indeed, a search engine may be more transformative than a parody because a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work. See, e.g., *id.* at 594-96, 114 S.Ct. 1164 (holding that 2 Live Crew's parody of "Oh, Pretty Woman" using the words "hairy woman" or "bald headed woman" was a transformative work, and thus constituted a fair use); [Mattel, Inc. v. Walking Mountain Prods., 353 F.3d 792, 796-98, 800-06 \(9th Cir.2003\)](#) (concluding that photos parodying Barbie by depicting "nude Barbie dolls juxtaposed with vintage kitchen appliances" was a fair use). In other words, a search engine puts images "in a different context" so that they are "transformed into a new creation." [Wall Data, 447 F.3d at 778](#).

The fact that Google incorporates the entire **Perfect 10** image into the search engine results does not diminish the transformative nature of Google's use. As the district court correctly noted, [Perfect 10, 416 F.Supp.2d at 848-49](#), we determined in *Kelly* that even making an exact copy of a work may be transformative so long as the copy serves a different function than the original work, [Kelly, 336 F.3d at 818-19](#). For example, the First Circuit has held that the republication of photos taken for a modeling portfolio in a newspaper was transformative because the photos served to inform, as well as entertain. See [Nunez v. Caribbean Int'l News Corp., 235 F.3d 18, 22-23 \(1st Cir.2000\)](#). In contrast, duplicating a church's religious book for

use by a different church was not transformative. See [Worldwide Church of God v. Phila. Church of God, Inc.](#), 227 F.3d 1110, 1117 (9th Cir.2000). Nor was a broadcaster's simple retransmission of a radio broadcast over telephone lines transformative, where the original radio shows were given no "new expression, meaning, or message." [Infinity Broad. Corp. v. Kirkwood](#), 150 F.3d 104, 108 (2d Cir.1998). Here, Google uses **Perfect 10's** images in a new context to serve a different purpose.

1166 The district court nevertheless determined that Google's use of thumbnail images was less transformative than Arriba's use of thumbnails in *Kelly* because Google's use of thumbnails superseded **Perfect 10's** right to sell its reduced-size images for use on cell phones. See [Perfect 10](#), 416 F.Supp.2d at 849. The district court stated that "mobile users can download and save the thumbnails displayed by Google Image Search onto their phones," and concluded "to the extent that users may choose to download free images to their *1166 phone rather than purchase [**Perfect 10's**] reduced-size images, Google's use supersedes [**Perfect 10's**]." *Id.*

Additionally, the district court determined that the commercial nature of Google's use weighed against its transformative nature. *Id.* Although *Kelly* held that the commercial use of the photographer's images by Arriba's search engine was less exploitative than typical commercial use, and thus weighed only slightly against a finding of fair use, [Kelly](#), 336 F.3d at 818-20, the district court here distinguished *Kelly* on the ground that some website owners in the AdSense program had infringing **Perfect 10** images on their websites, [Perfect 10](#), 416 F.Supp.2d at 846-47. The district court held that because Google's thumbnails "lead users to sites that directly benefit Google's bottom line," the AdSense program increased the commercial nature of Google's use of **Perfect 10's** images. *Id.* at 847.

In conducting our case-specific analysis of fair use in light of the purposes of copyright, [Campbell](#), 510 U.S. at 581, 114 S.Ct. 1164, we must weigh Google's superseding and commercial uses of thumbnail images against Google's significant transformative use, as well as the extent to which Google's search engine promotes the purposes of copyright and serves the interests of the public. Although the district court acknowledged the "truism that search engines such as Google Image Search provide great value to the public," [Perfect 10](#), 416 F.Supp.2d at 848-49, the district court did not expressly consider whether this value outweighed the significance of Google's superseding use or the commercial nature of Google's use. *Id.* at 849. The Supreme Court, however, has directed us to be mindful of the extent to which a use promotes the purposes of copyright and serves the interests of the public. See [Campbell](#), 510 U.S. at 579, 114 S.Ct. 1164; [Harper & Row](#), 471 U.S. at 556-57, 105 S.Ct. 2218; [Sony](#), 464 U.S. at 431-32, 104 S.Ct. 774.

We note that the superseding use in this case is not significant at present: the district court did not find that any downloads for mobile phone use had taken place. See [Perfect 10](#), 416 F.Supp.2d at 849. Moreover, while Google's use of thumbnails to direct users to AdSense partners containing infringing content adds a commercial dimension that did not exist in *Kelly*, the district court did not determine that this commercial element was significant. See *id.* at 848-49. The district court stated that Google's AdSense programs as a whole contributed "\$630 million, or 46% of total revenues" to Google's bottom line, but noted that this figure did not "break down the much smaller amount attributable to websites that contain infringing content." *Id.* at 847 & n. 12 (internal quotation omitted).

We conclude that the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweighs Google's superseding and commercial uses of the thumbnails in this case. In reaching this conclusion, we note the importance of analyzing fair use flexibly in light of new circumstances. [Sony](#), 464 U.S. at 431-32, 104 S.Ct. 774; *id.* at 448 n. 31, 104 S.Ct. 774 ("[Section 107] endorses the purpose and general scope of the judicial doctrine of fair use, but there is no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change." (quoting H.R.Rep. No. 94-1476, p. 65-66 (1976), U.S.Code Cong. & Admin. News 1976, p. 5680)). We are also mindful of the Supreme

Court's direction that "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." [Campbell, 510 U.S. at 579, 114 S.Ct. 1164.](#)

1167 *1167 Accordingly, we disagree with the district court's conclusion that because Google's use of the thumbnails could supersede **Perfect 10's** cell phone download use and because the use was more commercial than Arriba's, this fair use factor weighed "slightly" in favor of **Perfect 10**. [Perfect 10, 416 F.Supp.2d at 849.](#) Instead, we conclude that the transformative nature of Google's use is more significant than any incidental superseding use or the minor commercial aspects of Google's search engine and website. Therefore, this factor weighs heavily in favor of Google.

The nature of the copyrighted work. With respect to the second factor, "the nature of the copyrighted work," 17 U.S.C. § 107(2), our decision in *Kelly* is directly on point. There we held that the photographer's images were "creative in nature" and thus "closer to the core of intended copyright protection than are more fact-based works." [Kelly, 336 F.3d at 820](#) (internal quotation omitted). However, because the photos appeared on the Internet before Arriba used thumbnail versions in its search engine results, this factor weighed only slightly in favor of the photographer. *Id.*

Here, the district court found that **Perfect 10's** images were creative but also previously published. [Perfect 10, 416 F.Supp.2d at 850.](#) The right of first publication is "the author's right to control the first public appearance of his expression." [Harper & Row, 471 U.S. at 564, 105 S.Ct. 2218.](#) Because this right encompasses "the choices of when, where, and in what form first to publish a work," *id.*, an author exercises and exhausts this one-time right by publishing the work in any medium. See, e.g., [Batjac Prods. Inc. v. Good-Times Home Video Corp., 160 F.3d 1223, 1235 \(9th Cir.1998\)](#) (noting, in the context of the common law right of first publication, that such a right "does not entail multiple first publication rights in every available medium"). Once **Perfect 10** has exploited this commercially valuable right of first publication by putting its images on the Internet for paid subscribers, **Perfect 10** is no longer entitled to the enhanced protection available for an unpublished work. Accordingly the district court did not err in holding that this factor weighed only slightly in favor of **Perfect 10**.¹⁹¹ See [Perfect 10, 416 F.Supp.2d at 849-50.](#)

The amount and substantiality of the portion used. "The third factor asks whether the amount and substantiality of the portion used in relation to the copyrighted work as a whole . . . are reasonable in relation to the purpose of the copying." [Campbell, 510 U.S. at 586, 114 S.Ct. 1164](#) (internal quotation omitted); see also 17 U.S.C. § 107(3). In *Kelly*, we held Arriba's use of the entire photographic image was reasonable in light of the purpose of a search engine. [Kelly, 336 F.3d at 821.](#) Specifically, we noted, "[i]t was necessary for Arriba to copy the entire image to allow users to recognize the image and decide whether to pursue more information about the image or the originating [website]. If Arriba only copied part of the image, it would be more difficult to identify it, thereby reducing the usefulness of the visual search engine." *Id.*

1168 Accordingly, we concluded that this factor did not weigh in favor of either *1168 party. *Id.* Because the same analysis applies to Google's use of **Perfect 10's** image, the district court did not err in finding that this factor favored neither party.

Effect of use on the market. The fourth factor is "the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4). In *Kelly*, we concluded that Arriba's use of the thumbnail images did not harm the market for the photographer's full-size images. See [Kelly, 336 F.3d at 821-22.](#) We reasoned that because thumbnails were not a substitute for the full-sized images, they did not harm the photographer's ability to sell or license his full-sized images. *Id.* The district court here followed *Kelly's* reasoning, holding that Google's use of thumbnails did not hurt **Perfect 10's** market for full-size images. See [Perfect 10, 416 F.Supp.2d at 850-51.](#) We agree.

Perfect 10 argues that the district court erred because the likelihood of market harm may be presumed if the intended use of an image is for commercial gain. However, this presumption does not arise when a work is transformative because "market substitution is at least less certain, and market harm may not be so readily inferred." [Campbell, 510 U.S. at 591, 114 S.Ct. 1164](#). As previously discussed, Google's use of thumbnails for search engine purposes is highly transformative, and so market harm cannot be presumed.

Perfect 10 also has a market for reduced-size images, an issue not considered in *Kelly*. The district court held that "Google's use of thumbnails likely does harm the potential market for the downloading of [**Perfect 10's**] reduced-size images onto cell phones." [Perfect 10, 416 F.Supp.2d at 851](#) (emphasis omitted). The district court reasoned that persons who can obtain **Perfect 10** images free of charge from Google are less likely to pay for a download, and the availability of Google's thumbnail images would harm **Perfect 10's** market for cell phone downloads. *Id.* As we discussed above, the district court did not make a finding that Google users have downloaded thumbnail images for cell phone use. This potential harm to **Perfect 10's** market remains hypothetical. We conclude that this factor favors neither party.

Having undertaken a case-specific analysis of all four factors, we now weigh these factors together "in light of the purposes of copyright." [Campbell, 510 U.S. at 578, 114 S.Ct. 1164](#); see also [Kelly, 336 F.3d at 818](#) ("We must balance[the section 107] factors in light of the objectives of copyright law, rather than view them as definitive or determinative tests."). In this case, Google has put **Perfect 10's** thumbnail images (along with millions of other thumbnail images) to a use fundamentally different than the use intended by **Perfect 10**. In doing so, Google has provided a significant benefit to the public. Weighing this significant transformative use against the unproven use of Google's thumbnails for cell phone downloads, and considering the other fair use factors, all in light of the purpose of copyright, we conclude that Google's use of **Perfect 10's** thumbnails is a fair use. Because the district court here "found facts sufficient to evaluate each of the statutory factors . . . [we] need not remand for further factfinding." [Harper & Row, 471 U.S. at 560, 105 S.Ct. 2218](#) (internal quotation omitted). We conclude that Google is likely to succeed in proving its fair use defense and, accordingly, we vacate the preliminary injunction regarding Google's use of thumbnail images.

IV

Secondary Liability for Copyright Infringement

1169 We now turn to the district court's ruling that Google is unlikely to be secondarily *1169 liable for its in-line linking to infringing full-size images under the doctrines of contributory and vicarious infringement.¹⁰¹ The district court ruled that **Perfect 10** did not have a likelihood of proving success on the merits of either its contributory infringement or vicarious infringement claims with respect to the full-size images. See [Perfect 10, 416 F.Supp.2d at 856, 858](#). In reviewing the district court's conclusions, we are guided by the Supreme Court's recent interpretation of secondary liability, namely: "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." [Grokster, 545 U.S. at 930, 125 S.Ct. 2764](#) (internal citations omitted).

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

Perfect 10 alleges that third parties directly infringed its images in three ways. First, **Perfect 10** claims that third-party websites directly infringed its copyright by reproducing, displaying, and

distributing unauthorized copies of **Perfect 10's** images. Google does not dispute this claim on appeal.

Second, **Perfect 10** claims that individual users of Google's search engine directly infringed **Perfect 10's** copyrights by storing full-size infringing images on their computers. We agree with the district court's conclusion that **Perfect 10** failed to provide sufficient evidence to support this claim. See [Perfect 10, 416 F.Supp.2d at 852](#). There is no evidence in the record directly establishing that users of Google's search engine have stored infringing images on their computers, and the district court did not err in declining to infer the existence of such evidence.

1170 Finally, **Perfect 10** contends that users who link to infringing websites automatically make "cache" copies of full-size images and thereby directly infringe **Perfect 10's** reproduction right. The district court rejected this argument, holding that any such reproduction was likely a "fair use." *Id.* at 852 n. 17. The district court reasoned that "[l]ocal caching by the browsers of individual users is noncommercial, transformative, and no more than necessary to achieve the objectives of decreasing network latency and minimizing unnecessary bandwidth usage (essential to the [I]nternet). It has a minimal impact on the potential market for the original work. . . ." *Id.* We agree; even assuming such automatic copying could constitute direct infringement, it is a fair use in this context. The copying function performed automatically by a user's computer to assist in accessing the Internet is a transformative use. Moreover, as noted by the district court, a cache copies no more than is necessary to assist the user in Internet use. It is designed to enhance an individual's computer use, not to supersede the copyright holders' exploitation of their works. Such automatic background copying has no more than a minimal effect on **Perfect 10's** rights, but a considerable public benefit. Because the four fair use factors weigh in favor of concluding that *1170 cache copying constitutes a fair use, Google has established a likelihood of success on this issue. Accordingly, **Perfect 10** has not carried its burden of showing that users' cache copies of **Perfect 10's** full-size images constitute direct infringement.

Therefore, we must assess **Perfect 10's** arguments that Google is secondarily liable in light of the direct infringement that is undisputed by the parties: third-party websites' reproducing, displaying, and distributing unauthorized copies of **Perfect 10's** images on the Internet. *Id.* at 852.

A. Contributory Infringement

In order for **Perfect 10** to show it will likely succeed in its contributory liability claim against Google, it must establish that Google's activities meet the definition of contributory liability recently enunciated in *Grokster*. Within the general rule that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement," [Grokster, 545 U.S. at 930, 125 S.Ct. 2764](#), the Court has defined two categories of contributory liability: "Liability under our jurisprudence may be predicated on actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develops) or on distributing a product distributees use to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant' noninfringing uses." *Id.* at 942, 125 S.Ct. 2764 (Ginsburg, J., concurring) (quoting [Sony, 464 U.S. at 442, 104 S.Ct. 774](#)); see also *id.* at 936-37, 125 S.Ct. 2764.

Looking at the second category of liability identified by the Supreme Court (distributing products), Google relies on [Sony, 464 U.S. at 442, 104 S.Ct. 774](#), to argue that it cannot be held liable for contributory infringement because liability does not arise from the mere sale of a product (even with knowledge that consumers would use the product to infringe) if the product is capable of substantial non-infringing use. Google argues that its search engine service is such a product. Assuming the principle enunciated in *Sony* is applicable to the operation of Google's search engine, then Google cannot be held liable for contributory infringement *solely* because the design of its search engine facilitates such infringement. [Grokster, 545 U.S. at 931-32, 125 S.Ct. 2764](#) (discussing [Sony, 464 U.S. 417, 104 S.Ct. 774, 78 L.Ed.2d 574](#)). Nor

can Google be held liable solely because it did not develop technology that would enable its search engine to automatically avoid infringing images. See *id.* at 939 n. 12, 125 S.Ct. 2764. However, **Perfect 10** has not based its claim of infringement on the design of Google's search engine and the *Sony* rule does not immunize Google from other sources of contributory liability. See *id.* at 933-34, 125 S.Ct. 2764.

1171 We must next consider whether Google could be held liable under the first category of contributory liability identified by the Supreme Court, that is, the liability that may be imposed for intentionally encouraging infringement through specific acts.^[11] *Grokster* tells us that contribution to infringement must be intentional for liability to arise. [Grokster, 545 U.S. at 930, 125 S.Ct. 2764](#). However, *Grokster* also directs us to analyze contributory liability in light of "rules of fault-based liability derived from the common law," *id.* at 934-35, 125 S.Ct. 2764, and *1171 common law principles establish that intent may be imputed. "Tort law ordinarily imputes to an actor the intention to cause the natural and probable consequences of his conduct." [DeVoto v. Pac. Fid. Life Ins. Co., 618 F.2d 1340, 1347 \(9th Cir. 1980\)](#); RESTATEMENT (SECOND) OF TORTS § 8A cmt. b (1965) ("If the actor knows that the consequences are certain, or substantially certain, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result."). When the Supreme Court imported patent law's "staple article of commerce doctrine" into the copyright context, it also adopted these principles of imputed intent. [Grokster, 545 U.S. at 932, 125 S.Ct. 2764](#) ("The [staple article of commerce] doctrine was devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another's patent, and so may justly be held liable for that infringement."). Therefore, under *Grokster*, an actor may be contributorily liable for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement.

Our tests for contributory liability are consistent with the rule set forth in *Grokster*. We have adopted the general rule set forth in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, namely: "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer," 443 F.2d 1159, 1162 (2d Cir.1971). See [Ellison, 357 F.3d at 1076](#); [Napster, 239 F.3d at 1019](#); [Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 264 \(9th Cir.1996\)](#).

We have further refined this test in the context of cyberspace^[12] to determine when contributory liability can be imposed on a provider of Internet access or services. See [Napster, 239 F.3d at 1019-20](#). In *Napster*, we considered claims that the operator of an electronic file sharing system was contributorily liable for assisting individual users to swap copyrighted music files stored on their home computers with other users of the system. [Napster, 239 F.3d at 1011-13, 1019-22](#). We stated that "if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement." *Id.* at 1021. Because Napster knew of the availability of infringing music files, assisted users in accessing such files, and failed to block access to such files, we concluded that Napster materially contributed to infringement. *Id.* at 1022.

1172 The *Napster* test for contributory liability was modeled on the influential district court decision in [Religious Technology Center v. Netcom On-Line Communication Services, Inc. \(Netcom\), 907 F.Supp. 1361, 1365-66 \(N.D.Cal.1995\)](#). See [Napster, 239 F.3d at 1021](#). In *Netcom*, a disgruntled former Scientology minister posted allegedly infringing copies of Scientological works on an electronic bulletin board service. [Netcom, 907 F.Supp. at 1365-66](#). The messages were stored on the bulletin board operator's computer, then automatically copied onto Netcom's computer, and from there copied onto other computers comprising "a worldwide community" of electronic bulletin board systems. *Id.* at 1366-67 & n. 4 (internal quotation omitted). *Netcom* held that if plaintiffs *1172 could prove that Netcom knew or should have known that the

minister infringed plaintiffs' copyrights, "Netcom [would] be liable for contributory infringement since its failure to simply cancel [the former minister's] infringing message and thereby stop an infringing copy from being distributed worldwide constitute[d] substantial participation in [the former minister's] public distribution of the message." *Id.* at 1374.

Although neither *Napster* nor *Netcom* expressly required a finding of intent, those cases are consistent with *Grokster* because both decisions ruled that a service provider's knowing failure to prevent infringing actions could be the basis for imposing contributory liability. Under such circumstances, intent may be imputed. In addition, *Napster* and *Netcom* are consistent with the longstanding requirement that an actor's contribution to infringement must be material to warrant the imposition of contributory liability. *Gershwin*, 443 F.2d at 1162. Both *Napster* and *Netcom* acknowledge that services or products that facilitate access to websites throughout the world can significantly magnify the effects of otherwise immaterial infringing activities. See [Napster, 239 F.3d at 1022](#); [Netcom, 907 F.Supp. at 1375](#). The Supreme Court has acknowledged that "[t]he argument for imposing indirect liability" is particularly "powerful" when individuals using the defendant's software could make a huge number of infringing downloads every day. [Grokster, 545 U.S. at 929, 125 S.Ct. 2764](#). Moreover, copyright holders cannot protect their rights in a meaningful way unless they can hold providers of such services or products accountable for their actions pursuant to a test such as that enunciated in *Napster*. See *id.* at 929-30, 125 S.Ct. 2764 ("When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement."). Accordingly, we hold that a computer system operator can be held contributorily liable if it "has actual knowledge that specific infringing material is available using its system," [Napster, 239 F.3d at 1022](#), and can "take simple measures to prevent further damage" to copyrighted works, [Netcom, 907 F.Supp. at 1375](#), yet continues to provide access to infringing works.

Here, the district court held that even assuming Google had actual knowledge of infringing material available on its system, Google did not materially contribute to infringing conduct because it did not undertake any substantial promotional or advertising efforts to encourage visits to infringing websites, nor provide a significant revenue stream to the infringing websites. [Perfect 10, 416 F.Supp.2d at 854-56](#). This analysis is erroneous. There is no dispute that Google substantially assists websites to distribute their infringing copies to a worldwide market and assists a worldwide audience of users to access infringing materials. We cannot discount the effect of such a service on copyright owners, even though Google's assistance is available to all websites, not just infringing ones. Applying our test, Google could be held contributorily liable if it had knowledge that infringing **Perfect 10** images were available using its search engine, could take simple measures to prevent further damage to **Perfect 10's** copyrighted works, and failed to take such steps.

1173 The district court did not resolve the factual disputes over the adequacy of **Perfect 10's** notices to Google and Google's responses to these notices. Moreover, there are factual disputes over whether there are reasonable and feasible means for Google to refrain from providing access *1173 to infringing images. Therefore, we must remand this claim to the district court for further consideration whether **Perfect 10** would likely succeed in establishing that Google was contributorily liable for in-line linking to full-size infringing images under the test enunciated today.^[13]

B. Vicarious Infringement

Perfect 10 also challenges the district court's conclusion that it is not likely to prevail on a theory of vicarious liability against Google. [Perfect 10, 416 F.Supp.2d at 856-58](#). *Grokster* states that one "infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." [Grokster, 545 U.S. at 930, 125 S.Ct. 2764](#). As this formulation indicates, to succeed in imposing vicarious liability, a plaintiff must establish that the defendant

exercises the requisite control over the direct infringer and that the defendant derives a direct financial benefit from the direct infringement. See *id.* *Grokster* further explains the "control" element of the vicarious liability test as the defendant's "right and ability to supervise the direct infringer." *Id.* at 930 n. 9, 125 S.Ct. 2764. Thus, under *Grokster*, a defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so.

We evaluate **Perfect 10's** arguments that Google is vicariously liable in light of the direct infringement that is undisputed by the parties, namely, the third-party websites' reproduction, display, and distribution of unauthorized copies of **Perfect 10's** images on the Internet. **Perfect 10**, 416 F.Supp.2d at 852; see *supra* Section IV.A. In order to prevail at this preliminary injunction stage, **Perfect 10** must demonstrate a likelihood of success in establishing that Google has the right and ability to stop or limit the infringing activities of third party websites. In addition, **Perfect 10** must establish a likelihood of proving that Google derives a direct financial benefit from such activities. **Perfect 10** has not met this burden.

1174 With respect to the "control" element set forth in *Grokster*, **Perfect 10** has not demonstrated a likelihood of showing that Google has the legal right to stop or limit the direct infringement of third-party websites. See *Grokster*, 545 U.S. at 930, 125 S.Ct. 2764. Unlike *Fonovisa*, where by virtue of a "broad contract" with its vendors the defendant swap meet operators had the right to stop the vendors from selling counterfeit recordings on its premises, *Fonovisa*, 76 F.3d at 263, **Perfect 10** has not shown that Google has contracts with third-party websites that empower Google to stop or limit them from reproducing, displaying, and distributing infringing copies of **Perfect 10's** images on the Internet. **Perfect 10** does point to Google's AdSense agreement, which states that Google reserves "the right to monitor and terminate partnerships with entities that violate others' copyright[s]." **Perfect 10**, 416 F.Supp.2d at 858. However, Google's right to terminate an AdSense partnership does not give Google the right to *1174 stop direct infringement by third-party websites. An infringing third-party website can continue to reproduce, display, and distribute its infringing copies of **Perfect 10** images after its participation in the AdSense program has ended.

Nor is Google similarly situated to Napster. Napster users infringed the plaintiffs' reproduction and distribution rights through their use of Napster's proprietary music-file sharing system. *Napster*, 239 F.3d at 1011-14. There, the infringing conduct was the use of Napster's "service to download and upload copyrighted music." *Id.* at 1014 (internal quotation omitted). Because Napster had a closed system requiring user registration, and could terminate its users' accounts and block their access to the Napster system, Napster had the right and ability to prevent its users from engaging in the infringing activity of uploading file names and downloading Napster users' music files through the Napster system.^[14] *Id.* at 1023-24. By contrast, Google cannot stop any of the third-party websites from reproducing, displaying, and distributing unauthorized copies of **Perfect 10's** images because that infringing conduct takes place on the third-party websites. Google cannot terminate those third-party websites or block their ability to "host and serve infringing full-size images" on the Internet. **Perfect 10**, 416 F.Supp.2d at 831.

Moreover, the district court found that Google lacks the practical ability to police the third-party websites' infringing conduct. *Id.* at 857-58. Specifically, the court found that Google's supervisory power is limited because "Google's software lacks the ability to analyze every image on the [I]nternet, compare each image to all the other copyrighted images that exist in the world . . . and determine whether a certain image on the web infringes someone's copyright." *Id.* at 858. The district court also concluded that **Perfect 10's** suggestions regarding measures Google could implement to prevent its web crawler from indexing infringing websites and to block access to infringing images were not workable. *Id.* at 858 n. 25. Rather, the suggestions suffered from both "imprecision and overbreadth." *Id.* We hold that these findings are not clearly erroneous. Without image-recognition technology, Google lacks the practical

ability to police the infringing activities of third-party websites. This distinguishes Google from the defendants held liable in *Napster* and *Fonovisa*. See [Napster, 239 F.3d at 1023-24](#) (Napster had the ability to identify and police infringing conduct by searching its index for song titles); [Fonovisa, 76 F.3d at 262](#) (swap meet operator had the ability to identify and police infringing activity by patrolling its premises).

1175 **Perfect 10** argues that Google could manage its own operations to avoid *1175 indexing websites with infringing content and linking to third-party infringing sites. This is a claim of contributory liability, not vicarious liability. Although "the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn," [Sony, 464 U.S. at 435 n. 17, 104 S.Ct. 774](#) (internal quotation omitted), in general, contributory liability is based on the defendant's failure to stop its own actions which facilitate third-party infringement, while vicarious liability is based on the defendant's failure to cause a third party to stop its directly infringing activities. See, e.g., [Ellison, 357 F.3d at 1077-78](#); [Fonovisa, 76 F.3d at 261-64](#). Google's failure to change its operations to avoid assisting websites to distribute their infringing content may constitute contributory liability, see *supra* Section IV.A. However, this failure is not the same as declining to exercise a right and ability to make third-party websites stop their direct infringement. We reject **Perfect 10's** efforts to blur this distinction.

Because we conclude that **Perfect 10** has not shown a likelihood of establishing Google's right and ability to stop or limit the directly infringing conduct of third-party websites, we agree with the district court's conclusion that **Perfect 10** "has not established a likelihood of proving the [control] prong necessary for vicarious liability." [Perfect 10, 416 F.Supp.2d at 858](#).^[15]

C. Digital Millennium Copyright Act

Google claims that it qualifies for the limitations on liability set forth in title II of the DMCA, 17 U.S.C. § 512. In particular, section 512(d) limits the liability of a service provider "for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link" if the service provider meets certain criteria. We have held that the limitations on liability contained in 17 U.S.C. § 512 protect secondary infringers as well as direct infringers. [Napster, 239 F.3d at 1025](#).

The parties dispute whether Google meets the specified criteria. **Perfect 10** claims that it sent qualifying notices to Google and Google did not act expeditiously to remove the infringing material. Google claims that **Perfect 10's** notices did not comply with the notice provisions of section 512 and were not adequate to inform Google of the location of the infringing images on the Internet or identify the underlying copyrighted work. Google also claims that it responded to all notices it received by investigating the webpages identified by **Perfect 10** and suppressing links to any webpages that Google confirmed were infringing.

Because the district court determined that **Perfect 10** was unlikely to succeed on its contributory and vicarious liability claims, it did not reach Google's arguments under section 512. In revisiting the question of **Perfect 10's** likelihood of success on its contributory infringement claims, the district court should also consider whether Google would likely succeed in showing that it was entitled to the limitations on injunctive relief provided by title II of the DMCA.

V

Amazon.com

1176 **Perfect 10** claims that **Amazon.com** displays and distributes **Perfect 10's** copyrighted images and is also secondarily *1176 liable for the infringements of third-party websites and

Amazon.com users. The district court concluded that **Perfect 10** was unlikely to succeed in proving that **Amazon.com** was a direct infringer, because it merely in-line linked to the thumbnails on Google's servers and to the full-size images on third-party websites.^[16] **Perfect 10 v. Amazon**, No. 05-4753, consolidated with 04-9484 (C.D.Cal. February 21, 2006) (order denying preliminary injunction). In addition, the district court concluded that **Perfect 10's** secondary infringement claims against **Amazon.com** were likely to fail because **Amazon.com** had no program analogous to AdSense, and thus did not provide any revenues to infringing sites. *Id.* Finally, the district court determined that **Amazon.com's** right and ability to control the infringing conduct of third-party websites was substantially less than Google's. *Id.* Therefore, the district court denied **Perfect 10's** motion for a preliminary injunction against **Amazon.com**. *Id.*

We agree that **Perfect 10** has not shown a likelihood that it would prevail on the merits of its claim that **Amazon.com** directly infringed its images. **Amazon.com** communicates to its users only the HTML instructions that direct the users' browsers to Google's computers (for thumbnail images) or to a third party's computer (for full-size infringing images). Therefore, **Amazon.com** does not display or distribute a copy of the thumbnails or full-size images to its users.

We also agree with the district court's conclusion that **Amazon.com** does not have "the right and ability to supervise the infringing activity" of Google or third parties. The district court did not clearly err in concluding that **Amazon.com** lacked a direct financial interest in such activities. Therefore, **Perfect 10's** claim that **Amazon.com** is vicariously liable for third-party infringement is unlikely to succeed.

However, the district court did not consider whether **Amazon.com** had "*actual* knowledge that *specific* infringing material is available using its system," [Napster, 239 F.3d at 1022](#) (emphasis in original), and could have "take[n] simple measures to prevent further damage" to copyrighted works, [Netcom, 907 F.Supp. at 1375](#), yet continued to provide access to infringing works. **Perfect 10** has presented evidence that it notified **Amazon.com** that it was facilitating its users' access to infringing material. It is disputed whether the notices gave **Amazon.com** actual knowledge of specific infringing activities available using its system, and whether **Amazon.com** could have taken reasonable and feasible steps to refrain from providing access to such images, but failed to do so. Nor did the district court consider whether **Amazon.com** is entitled to limit its liability under title II of the DMCA. On remand, the district court should consider **Amazon.com's** potential contributory liability, as well as possible limitations on the scope of injunctive relief, in light of our rulings today.

VI

We conclude that Google's fair use defense is likely to succeed at trial, and therefore we reverse the district court's determination that Google's thumbnail versions of **Perfect 10's** images likely constituted a direct infringement. The district court also erred in its secondary liability *1177 analysis because it failed to consider whether Google and **Amazon.com** knew of infringing activities yet failed to take reasonable and feasible steps to refrain from providing access to infringing images. Therefore we must also reverse the district court's holding that **Perfect 10** was unlikely to succeed on the merits of its secondary liability claims. Due to this error, the district court did not consider whether Google and **Amazon.com** are entitled to the limitations on liability set forth in title II of the DMCA. The question whether Google and **Amazon.com** are secondarily liable, and whether they can limit that liability pursuant to title II of the DMCA, raise fact-intensive inquiries, potentially requiring further fact finding, and thus can best be resolved by the district court on remand. We therefore remand this matter to the district court for further proceedings consistent with this decision.

Because the district court will need to reconsider the appropriate scope of injunctive relief after addressing these secondary liability issues, we do not address the parties' arguments regarding

the scope of the injunction issued by the district court. For the same reason, we do not address the parties' dispute over whether the district court abused its discretion in determining that **Perfect 10** satisfied the irreparable harm element of a preliminary injunction.

Therefore, we reverse the district court's ruling and vacate the preliminary injunction regarding Google's use of thumbnail versions of **Perfect 10's** images.^[17] We reverse the district court's rejection of the claims that Google and **Amazon.com** are secondarily liable for infringement of **Perfect 10's** full-size images. We otherwise affirm the rulings of the district court. We remand this matter for further proceedings consistent with this opinion. Each party shall bear its own costs on appeal. See FED. R. APP. P. 39(a)(4).

AFFIRMED IN PART; REVERSED IN PART; REMANDED.

[1] Google argues that we lack jurisdiction over the preliminary injunction to the extent it enforces unregistered copyrights. Registration is generally a jurisdictional prerequisite to a suit for copyright infringement. See 17 U.S.C. § 411. But section 411 does not limit the remedies a court can grant. Rather, the Copyright Act gives courts broad authority to issue injunctive relief. See 17 U.S.C. § 502(a). Once a court has jurisdiction over an action for copyright infringement under section 411, the court may grant injunctive relief to restrain infringement of any copyright, whether registered or unregistered. See, e.g., *Olan Mills, Inc. v. Linn Photo Co.*, 23 F.3d 1345, 1349 (8th Cir.1994); *Pac. & S. Co., Inc. v. Duncan*, 744 F.2d 1490, 1499 n. 17 (11th Cir.1984). Because at least some of the **Perfect 10** images at issue were registered, the district court did not err in determining that it could issue an order that covers unregistered works. Therefore, we have jurisdiction over the district court's decision and order.

[2] The website publisher may not actually store the photographic images used on its webpages in its own computer, but may provide HTML instructions directing the user's browser to some further computer that stores the image. Because this distinction does not affect our analysis, for convenience, we will assume that the website publisher stores all images used on its webpages in the website publisher's own computer.

[3] Generally, a "cache" is "a computer memory with very short access time used for storage of frequently or recently used instructions or data." *United States v. Ziegler*, 474 F.3d 1184, 1186 n. 3 (9th Cir.2007) (quoting MERRIAM-WEBSTER'S COLLEGIATE DICTIONARY 171 (11th ed.2003)). There are two types of caches at issue in this case. A user's personal computer has an internal cache that saves copies of webpages and images that the user has recently viewed so that the user can more rapidly revisit these webpages and images. Google's computers also have a cache which serves a variety of purposes. Among other things, Google's cache saves copies of a large number of webpages so that Google's search engine can efficiently organize and index these webpages.

[4] **Perfect 10** argues that we are bound by the language and structure of title II of the DMCA in determining Google's liability for copyright infringement. We have noted that the DMCA does not change copyright law; rather, "Congress provided that [the DMCA's] limitations of liability apply if the provider is found to be liable under existing principles of law." *Ellison*, 357 F.3d at 1077 (emphasis and internal quotation omitted). As a result, "[c]laims against service providers for direct, contributory, or vicarious copyright infringement, therefore, are generally evaluated just as they would be in the non-online world." *Id.*; see also 17 U.S.C. § 512(f) ("The failure of a service provider's conduct to qualify for 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."). Therefore, we must consider Google's potential liability under the Copyright Act without reference to title II of the DMCA.

[5] 17 U.S.C. § 106 states, in pertinent part:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

....

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

....

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

....

[6] Because Google initiates and controls the storage and communication of these thumbnail images, we do not address whether an entity that merely passively owns and manages an Internet bulletin board or similar system violates a copyright owner's display and distribution rights when the users of the bulletin board or similar system post infringing works. Cf. *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544 (4th Cir.2004).

[7] **Perfect 10** also argues that Google violates **Perfect 10's** right to display full-size images because Google's in-line linking meets the Copyright Act's definition of "to perform or display a work 'publicly.'" 17 U.S.C. § 101. This phrase means "to transmit or otherwise communicate a performance or display of the work to . . . the public, by means of any device or

process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times." *Id.* **Perfect 10** is mistaken. Google's activities do not meet this definition because Google transmits or communicates only an address which directs a user's browser to the location where a copy of the full-size image is displayed. Google does not communicate a display of the work itself.

[8] We reject at the outset **Perfect 10's** argument that providing access to infringing websites cannot be deemed transformative and is inherently not fair use. **Perfect 10** relies on [Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc., 342 F.3d 191 \(3d Cir.2003\)](#), and [Atari Games Corp. v. Nintendo of Am. Inc., 975 F.2d 832, 843 \(Fed.Cir.1992\)](#). But these cases, in essence, simply apply the general rule that a party claiming fair use must act in a manner generally compatible with principles of good faith and fair dealing. See [Harper & Row, 471 U.S. at 562-63, 105 S.Ct. 2218](#). For this reason, a company whose business is based on providing scenes from copyrighted movies without authorization could not claim that it provided the same public benefit as the search engine in *Kelly*. See [Video Pipeline, 342 F.3d at 198-200](#). Similarly, a company whose overriding desire to replicate a competitor's computer game led it to obtain a copy of the competitor's source code from the Copyright Office under false pretenses could not claim fair use with respect to its purloined copy. [Atari Games, 975 F.2d at 843](#).

Unlike the alleged infringers in *Video Pipeline* and *Atari Games*, who intentionally misappropriated the copyright owners' works for the purpose of commercial exploitation, Google is operating a comprehensive search engine that only incidentally indexes infringing websites. This incidental impact does not amount to an abuse of the good faith and fair dealing underpinnings of the fair use doctrine. Accordingly, we conclude that Google's inclusion of thumbnail images derived from infringing websites in its Internet-wide search engine activities does not preclude Google from raising a fair use defense.

[9] Google contends that **Perfect 10's** photographic images are less creative and less deserving of protection than the images of the American West in *Kelly* because **Perfect 10** boasts of its un-retouched photos showing the natural beauty of its models. Having reviewed the record, we conclude that the district court's finding that **Perfect 10's** photographs "consistently reflect professional, skillful, and sometimes tasteful artistry" is not clearly erroneous. [Perfect 10, 416 F.Supp.2d at 849 n. 15](#). We agree with the district court that there is no basis for concluding that photos of the American West are more deserving of protection than photos of nude models. See *id.*

[10] Because the district court concluded that **Perfect 10** was likely to prevail on its direct infringement claim with respect to Google's use of thumbnails, but not with respect to its in-line linking to full-size images, the district court considered Google's potential secondary liability only on the second issue.

[11] Google's activities do not meet the "inducement" test explained in *Grokster* because Google has not promoted the use of its search engine specifically to infringe copyrights. See [Grokster, 545 U.S. at 935-37, 125 S.Ct. 2764](#). However, the Supreme Court in *Grokster* did not suggest that a court must find inducement in order to impose contributory liability under common law principles.

[12] "Cyberspace is a popular term for the world of electronic communications over computer networks." [Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc., 907 F.Supp. 1361, 1365 n. 1 \(N.D.Cal.1995\)](#).

[13] **Perfect 10** claims that Google materially contributed to infringement by linking to websites containing unauthorized passwords, which enabled Google users to access **Perfect 10's** website and make infringing copies of images. However, **Perfect 10** points to no evidence that users logging onto the **Perfect 10** site with unauthorized passwords infringed **Perfect 10's** exclusive rights under section 106. In the absence of evidence that Google's actions led to any direct infringement, this argument does not assist **Perfect 10** in establishing that it would prevail on the merits of its contributory liability claim. See [Napster, 239 F.3d at 1013 n. 2](#) ("Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party.").

[14] Napster's system included "Napster's MusicShare software, available free of charge from Napster's Internet site, and Napster's network servers and server-side software." [Napster, 239 F.3d at 1011](#). By downloading Napster's MusicShare software to the user's personal computer, and registering with the Napster system, a user could both upload and download music files. *Id.* at 1011-13. If the Napster user uploaded a list of music files stored on the user's personal computer to the Napster system, such music files would be automatically available to other Napster users whenever the user was logged on to the Napster system. *Id.* at 1012. In addition, the Napster user could download music files directly from other users' personal computers. *Id.* We explained the infringing conduct as "Napster users who upload file names to the [Napster] search index for others to copy violate plaintiffs' distribution rights. Napster users who download files [through the Napster system] containing copyrighted music violate plaintiffs' reproduction rights." *Id.* at 1014.

[15] Having so concluded, we need not reach **Perfect 10's** argument that Google received a direct financial benefit.

[16] **Amazon.com** states that it ended its relationship with Google on April 30, 2006. **Perfect 10's** action for preliminary injunction against **Amazon.com** is not moot, however, because **Amazon.com** has not established "that the allegedly wrongful behavior cannot reasonably be expected to recur." [F.T.C. v. Affordable Media, LLC, 179 F.3d 1228, 1238 \(9th Cir.1999\)](#) (internal quotation omitted).

[17] Because we vacate the injunction, Google's motion for stay of the injunction is moot.

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FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

UMG RECORDINGS, INC., a
 Delaware corporation; UNIVERSAL
 MUSIC CORP., a New York
 corporation; SONGS OF UNIVERSAL,
 INC., a California corporation;
 UNIVERSAL-POLYGRAM
 INTERNATIONAL PUBLISHING, INC., a
 Delaware corporation; RONDOR
 MUSIC INTERNATIONAL, INC., a
 California corporation; UNIVERSAL
 MUSIC-MGB NA LLC, a
 California Limited Liability
 Company; UNIVERSAL MUSIC-Z
 TUNES LLC, a New York Limited
 Liability Company; UNIVERSAL
 MUSIC-MBG MUSIC PUBLISHING
 LTD., a UK Company,
Plaintiffs-Appellants,

v.

SHELTER CAPITAL PARTNERS LLC, a
 Delaware Limited Liability
 Company; SHELTER VENTURE FUND
 LP, a Delaware Limited
 Partnership; SPARK CAPITAL LLC, a
 Delaware Limited Liability
 Company; SPARK CAPITAL, L.P., a
 Delaware Limited Partnership;

21056 UMG RECORDINGS v. SHELTER CAPITAL PARTNERS

TORNANTE COMPANY, LLC, a
Delaware Limited Liability
Company,

Defendants-Appellees,

and

VEOH NETWORKS, INC., a California
corporation,

Defendant.

No. 09-55902

D.C. No.
2:07-cv-05744-
AHM-AJW

UMG RECORDINGS, INC., a
Delaware corporation; UNIVERSAL
MUSIC CORP., a New York
corporation; SONGS OF UNIVERSAL,
INC., a California corporation;
UNIVERSAL-POLYGRAM
INTERNATIONAL PUBLISHING, INC., a
Delaware corporation; RONDOR
MUSIC INTERNATIONAL, INC., a
California corporation; UNIVERSAL
MUSIC-MGB NA LLC, a
California Limited Liability
Company; UNIVERSAL MUSIC-Z
TUNES LLC, a New York Limited
Liability Company; UNIVERSAL
MUSIC-MBG MUSIC PUBLISHING
LTD., a UK Company,

Plaintiffs-Appellants,

v.

VEOH NETWORKS, INC., a California
corporation,

Defendant-Appellee,

UMG RECORDINGS v. SHELTER CAPITAL PARTNERS 21057

and

SHELTER CAPITAL PARTNERS LLC, a Delaware Limited Liability Company; SHELTER VENTURE FUND LP, a Delaware Limited Partnership; SPARK CAPITAL LLC, a Delaware Limited Liability Company; SPARK CAPITAL, L.P., a Delaware Limited Partnership; TORNANTE COMPANY, LLC, a Delaware Limited Liability Company,

Defendants.

No. 09-56777

D.C. No.
2:07-cv-05744-
AHM-AJW

UMG RECORDINGS, INC., a Delaware corporation; UNIVERSAL MUSIC CORP., a New York corporation; SONGS OF UNIVERSAL, INC., a California corporation; UNIVERSAL-POLYGRAM INTERNATIONAL PUBLISHING, INC., a Delaware corporation; RONDOR MUSIC INTERNATIONAL, INC., a California corporation; UNIVERSAL MUSIC-MGB NA LLC, a California Limited Liability company; UNIVERSAL MUSIC-Z TUNES LLC, a New York Limited Liability company; UNIVERSAL MUSIC-MBG MUSIC PUBLISHING LTD., a UK company,

Plaintiffs-Appellees,

v.

21058 UMG RECORDINGS v. SHELTER CAPITAL PARTNERS

VEOH NETWORKS, INC., a California
corporation,

Defendant-Appellant.

No. 10-55732

D.C. No.
2:07-cv-05744-

AHM-AJW

OPINION

Appeals from the United States District Court
for the Central District of California
A. Howard Matz, District Judge, Presiding

Argued and Submitted
May 6, 2011—Pasadena, California

Filed December 20, 2011

Before: Harry Pregerson, Raymond C. Fisher and
Marsha S. Berzon, Circuit Judges.

Opinion by Judge Fisher

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OPINION

FISHER, Circuit Judge:

Veoh Networks (Veoh) operates a publicly accessible website that enables users to share videos with other users. Universal Music Group (UMG) is one of the world's largest recorded music and music publishing companies, and includes record labels such as Motown, Def Jam and Geffen. In addition to producing and distributing recorded music, UMG produces music videos. Although Veoh has implemented various procedures to prevent copyright infringement through its system, users of Veoh's service have in the past been able, without UMG's authorization, to download videos containing songs for which UMG owns the copyright. UMG responded by filing suit against Veoh for direct and secondary copyright infringement. The district court granted summary judgment to Veoh after determining that it was protected by the Digital Millennium Copyright Act (DMCA) "safe harbor" limiting service providers' liability for "infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." 17 U.S.C. § 512(c). We agree, and accordingly affirm.

BACKGROUND¹

Veoh allows people to share video content over the Internet. Users can view videos uploaded by other users as well as authorized “partner content” made available by major copyright holders such as SonyBMG, ABC and ESPN. There are two ways to use Veoh’s service: through a standalone software client application launched in late 2005, or through the veoh.com website launched in early 2006 that users access via a standard web browser. Both services are provided free of charge. Veoh generates revenue from advertising displayed along with the videos. “As of April 2009, Veoh had well over a million videos available for viewing, and users had uploaded more than four million videos to Veoh.”

Before a user may share a video through Veoh, he must register at veoh.com by providing an email address, user name and password. He must then state that he has read and agreed to Veoh’s “Publisher Terms and Conditions” (PTC). The PTC instructs users that they “may not submit [material] . . . that contains any . . . infringing . . . or illegal content” and directs that they “may only upload and publish [material] on the Veoh Service to which [they] have sufficient rights and licenses to permit the distribution of [their] [material] via the Veoh Services.” The PTC agreement also gives Veoh a license to “publicly display, publicly perform, transmit, distribute, copy, store, reproduce and/or provide” the uploaded video “through the Veoh Service, either in its original form, copy or in the form of an encoded work.”

A user who wants to share a video must also agree to Veoh’s “Terms of Use,” which give Veoh a license “to use, reproduce, modify, distribute, prepare derivative works of, display, publish, perform and transmit” the video. The Terms of Use provide that “you expressly represent and warrant that you own or have the necessary licenses, rights, consents, and

¹The facts are undisputed unless otherwise noted.

permissions to use and authorize Veoh to use all . . . copyright or other proprietary rights in and to any and all [material shared on Veoh].” Users must agree “not to (a) take any action or (b) upload, download, post, submit or otherwise distribute or facilitate distribution of any [material] . . . through the Veoh Service, that . . . infringes any . . . copyright.” Once a user agrees to the PTC and Terms of Use, he may upload a video. Each time a user begins to upload a video to Veoh’s website, a message appears stating, “Do not upload videos that infringe copyright, are pornographic, obscene, violent, or any other videos that violate Veoh’s Terms of Use.”

When a video is uploaded, various automated processes take place. Veoh’s software automatically breaks down the video file into smaller 256-kilobyte “chunks,” which facilitate making the video accessible to others. Veoh’s software also automatically converts, or “transcodes,” the video file into Flash 7 format. This is done because “the vast majority of internet users have software that can play videos” in this format. Veoh presets the requisite settings for the Flash conversion. If the user is a “Pro” user, Veoh’s software also converts the uploaded video into Flash 8 and MPEG-4 formats, which are playable on some portable devices. Accordingly, when a Pro user uploads a video, Veoh automatically creates and retains four copies: the chunked file, the Flash 7 file, the Flash 8 file and the MPEG-4 file. None of these automated conversions affects the content of the video.

Veoh’s computers also automatically extract metadata from information users provide to help others locate the video for viewing. Users can provide a title, as well as tags or keywords that describe the video, and can also select pre-set categories describing the video, such as “music,” “faith” or “politics.” The Veoh system then automatically assigns every uploaded video a “permalink,” or web address, that uniquely identifies the video and makes it available to users. Veoh employees do

not review the user-submitted video, title or tags before the video is made available.²

Veoh's system allows users to access shared videos in two ways. First, the video may be "streamed" from a server, whereby the user's web browser begins displaying the video almost immediately, before the entire file has been transmitted to the user's computer. Depending on whether the user stops his web browser from streaming the full video, a partial or full copy of the video is stored temporarily on the user's computer. Second, the user can download a copy of the video through Veoh's website or client software application. Veoh transfers a "chunked" copy of the file to the user's computer, and the software reassembles the chunks into a viewable copy. The downloaded file is stored on the user's computer in a Veoh directory, which gives Veoh the ability to terminate access to the files.

Veoh employs various technologies to automatically prevent copyright infringement on its system. In 2006, Veoh adopted "hash filtering" software. Whenever Veoh disables access to an infringing video, the hash filter also automatically disables access to any identical videos and blocks any subsequently submitted duplicates. Veoh also began developing an additional filtering method of its own, but in 2007 opted instead to adopt a third-party filtering solution produced by a company called Audible Magic. Audible Magic's technology takes audio "fingerprints" from video files and compares them to a database of copyrighted content provided by copyright holders. If a user attempts to upload a video that matches a fingerprint from Audible Magic's database of forbidden material, the video never becomes available for viewing. Approximately nine months after beginning to apply the Audible Magic filter to all newly uploaded videos, Veoh

²Veoh employees do monitor already accessible videos for pornography, which is removed, using a "porn tool" to review thumbnail images of uploaded videos tagged as "sexy."

applied the filter to its backlog of previously uploaded videos. This resulted in the removal of more than 60,000 videos, including some incorporating UMG's works. Veoh has also implemented a policy for terminating users who repeatedly upload infringing material, and has terminated thousands of user accounts.

Despite Veoh's efforts to prevent copyright infringement on its system, both Veoh and UMG agree that some of Veoh's users were able to download unauthorized videos containing songs for which UMG owns the copyright. The parties also agree that before UMG filed its complaint, the only notices Veoh received regarding alleged infringements of UMG's works were sent by the Recording Industry Association of America (RIAA). The RIAA notices listed specific videos that were allegedly infringing, and included links to those videos. The notices did not assert rights to all works by the identified artists, and did not mention UMG. UMG does not dispute that Veoh removed the material located at the links identified in the RIAA notices.

In September 2007, UMG filed suit against Veoh for direct, vicarious and contributory copyright infringement, and for inducement of infringement. UMG contended that Veoh's efforts to prevent copyright infringement on its system were "too little too late" because Veoh did not adopt filtering technology until "after Veoh harbored infringing material for its own benefit," and initially it ran the filters only on newly uploaded videos. UMG also argued that Veoh "remove[d] copyrighted material only if identified specifically in a notice of infringement," and "[e]ven then, Veoh would only remove the video associated with the particular URL and bit-for-bit copies of that same video."

In UMG's first amended complaint (FAC), it added three of Veoh's investors as defendants on theories of secondary liability.³ The Investor Defendants sought dismissal of UMG's

³The three investors, Shelter Capital LLC, Spark Capital LLC and the Tornante Company are referred to collectively as "the Investor Defendants."

FAC for failure to state a claim against them under Federal Rule of Civil Procedure 12(b)(6). The district court granted the motion to dismiss without prejudice and UMG filed a Second Amended Complaint (SAC). The Investor Defendants again moved to dismiss, and the district court dismissed the claims against the Investor Defendants with prejudice, holding that UMG's "allegations amounted to little more than what is legally and customarily required of corporate board members." Final judgment on that ground was entered on June 1, 2009.

Veoh asserted as an affirmative defense that it is protected by the DMCA safe harbor provisions. UMG moved for partial summary judgment that Veoh is not entitled to protection under the 17 U.S.C. § 512(c) safe harbor because the alleged infringement did not qualify as "by reason of the storage [of material] at the direction of a user." The district court disagreed and denied UMG's motion. *See UMG Recordings, Inc. v. Veoh Networks Inc. (UMG I)*, 620 F. Supp. 2d 1081, 1092 (C.D. Cal. 2008). Veoh then moved for summary judgment on the basis that it satisfied the remaining requirements of § 512(c). Judge Matz granted the motion in a careful and comprehensive decision holding that Veoh met all the § 512(c) requirements and was thus entitled to DMCA safe harbor protection. *See UMG Recordings, Inc. v. Veoh Networks Inc. (UMG II)*, 665 F. Supp. 2d 1099, 1118 (C.D. Cal. 2009). The parties thereafter stipulated to final judgment, which was entered on November 3, 2009.

Veoh moved for an award of costs and attorney's fees under Federal Rule of Civil Procedure 68 and the Copyright Act, 17 U.S.C. § 505. Although the district court found that Veoh was the prevailing party "on the core issue in the litigation," the court declined to exercise its discretion to award Veoh fees under § 505 because Veoh "failed to demonstrate that UMG's legal challenge was improper, in bad faith, or contrary to the purposes of the Copyright Act." Because the court concluded fees were not "properly awardable" under

§ 505, it also denied Veoh fees and costs under Rule 68. Veoh does not challenge the denial of fees under § 505, but appeals the denial of Rule 68 costs and fees. UMG appeals the entry of summary judgment in Veoh's favor and the dismissal of its complaint against the Investor Defendants.

DISCUSSION

I.

The district court had jurisdiction over these matters under 28 U.S.C. § 1331, and we have jurisdiction over the appeals under 28 U.S.C. § 1291. We review de novo a district court's summary judgment ruling. *See Rossi v. Motion Picture Ass'n of Am. Inc.*, 391 F.3d 1000, 1002 (9th Cir. 2004). "Viewing the evidence in the light most favorable to the non-moving party," the moving party has the "burden to show that there are no genuine issues of material fact," and that it is entitled to judgment as a matter of law. *Kennedy v. Allied Mut. Ins. Co.*, 952 F.2d 262, 265 (9th Cir. 1991). Review of a dismissal for failure to state a claim under Rule 12(b)(6) is likewise de novo. *See Balistreri v. Pacifica Police Dep't*, 901 F.2d 696, 699 (9th Cir. 1990). "On a motion to dismiss, the court accepts the facts alleged in the complaint as true," and "[d]ismissal can be based on the lack of a cognizable legal theory or the absence of sufficient facts alleged." *Id.* We also review de novo the district court's interpretation of the Copyright Act, *see Rossi*, 391 F.3d at 1002-03, and of Rule 68, *see Champion Produce, Inc. v. Ruby Robinson Co.*, 342 F.3d 1016, 1020 (9th Cir. 2003).

II.

"Difficult and controversial questions of copyright liability in the online world prompted Congress to enact Title II of the DMCA, the Online Copyright Infringement Liability Limitation Act (OCILLA)." *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004). Congress recognized that "[i]n the ordi-

nary course of their operations service providers must engage in all kinds of acts that expose them to potential copyright infringement liability.” S. Rep. No. 105-190, at 8 (1998). Although Congress was aware that the services provided by companies like Veoh are capable of being misused to facilitate copyright infringement, it was loath to permit the specter of liability to chill innovation that could also serve substantial socially beneficial functions. Congress decided that “by limiting [service providers’] liability,” it would “ensure[] that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will continue to expand.” *Id.* To that end, OCILLA created four safe harbors that preclude imposing monetary liability on service providers for copyright infringement that occurs as a result of specified activities. The district court concluded that Veoh qualified for one such safe harbor, under 17 U.S.C. § 512(c). UMG challenges that determination and the consequent entry of summary judgment in Veoh’s favor.

[1] There are a number of requirements that must be met for a “service provider” like Veoh to receive § 512(c) safe harbor protection.⁴ Section 512(c) provides in relevant part:

(c) Information residing on systems or networks at direction of users. —

(1) In general. — A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider —

⁴We assume without deciding that Veoh qualifies as a “service provider” because UMG does not contend otherwise.

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

On appeal, UMG contends that three of these requirements were not met. First, UMG argues that the alleged infringing activities do not fall within the plain meaning of “infringement of copyright by reason of the storage [of material] at the direction of a user,” a threshold requirement under § 512(c)(1). Second, UMG argues that genuine issues of fact remain about whether Veoh had actual knowledge of infringement, or was “aware of facts or circumstances from which infringing activity [wa]s apparent” under § 512(c)(1)(A). Finally, UMG argues that it presented sufficient evidence that Veoh “receive[d] a financial benefit directly attributable to . . . infringing activity” that it had the right and ability to con-

trol under § 512(c)(1)(B). We disagree on each count, and accordingly we affirm the district court.⁵

A.

[2] We must first decide whether the functions automatically performed by Veoh’s software when a user uploads a video fall within the meaning of “by reason of the storage at the direction of a user.” 17 U.S.C. § 512(c)(1). Although UMG concedes that “[s]torage on computers involves making a copy of the underlying data,” it argues that “nothing in the ordinary definition of ‘storage’ encompasses” the automatic processes undertaken to facilitate public access to user-uploaded videos. Facilitation of access, UMG argues, goes beyond “storage.” Therefore the creation of chunked and Flash files and the streaming and downloading of videos fall outside § 512(c). UMG also contends that these automatic processes are not undertaken “at the direction of the user.”

[3] The district court concluded that UMG’s reading of § 512(c) was too narrow, wrongly requiring “that the infringing conduct be storage,” rather than be “‘by reason of the storage,’” as its terms provide. *UMG I*, 620 F. Supp. 2d at 1088-89 (quoting § 512(c)) (emphasis in original). We agree

⁵We do not address whether Veoh adopted and reasonably implemented a repeat infringer termination policy as required by § 512(i), or whether, upon notification, Veoh expeditiously removed or disabled access to infringing material under § 512(c)(1)(C). Although UMG contested those points in the district court, its only mention of them on appeal was in a footnote in its opening brief stating summarily that the district court also committed reversible error “in holding that no genuine issues of fact existed as to whether Veoh satisfied the requirements” of those provisions, but “[d]ue to space constraints, UMG focuses on errors in the District Court’s ruling concerning subsections 512(c)(1)(A) and (B).” Given that UMG presented no argument on these points, Veoh declined to address them in its answering brief. Accordingly, we will not discuss them either. *See Retlaw Broad. Co. v. NLRB*, 53 F.3d 1002, 1005 n.1 (9th Cir. 1995) (“Although the issue . . . is summarily mentioned in [the] opening brief, it has not been fully briefed, and we therefore decline to address it.”).

that the phrase “by reason of the storage at the direction of the user” is broader causal language than UMG contends, “clearly meant to cover more than mere electronic storage lockers.” *Id.* at 1088. We hold that the language and structure of the statute, as well as the legislative intent that motivated its enactment, clarify that § 512(c) encompasses the access-facilitating processes that automatically occur when a user uploads a video to Veoh.

[4] UMG’s argument that the district court too broadly construed the scope of § 512(c) rests in part on UMG’s contention that the DMCA’s “by reason of” language should be interpreted in the same way as similar language in the Racketeer Influenced and Corrupt Organizations Act (RICO), 18 U.S.C. §§ 1961-1968. RICO provides that “[a]ny person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefor.” 18 U.S.C. § 1964(c). In *Holmes v. Securities Investor Protection Corp.*, 503 U.S. 258, 268 (1992), the Supreme Court held that RICO’s “by reason of” language required proximate causation. UMG contends that we should thus read § 512(c)’s “by reason of storage” to mean that infringement must be proximately caused by the storage, rather than caused by the access that the storage facilitates.

[5] Ordinarily we presume that “similar language in similar statutes should be interpreted similarly.” *United States v. Sioux*, 362 F.3d 1241, 1246 (9th Cir. 2004); *see also Northcross v. Bd. of Educ. of Memphis City Schs.*, 412 U.S. 427, 428 (1973) (noting that the “similarity of language” in two statutes is an indicator that the statutes “should be interpreted *pari passu*,” particularly when they “share a common *raison d’être*” (internal quotations omitted)). In this case, however, there are important differences between the statutes and their purposes. The reasoning underlying *Holmes* counsels against extending its reading to the DMCA, and the language and structure of § 512(c) compel us to conclude that it should not be interpreted in the same manner as RICO.

The *Holmes* Court began its analysis by recognizing that “by reason of” “can, of course, be read to mean that . . . the defendant’s violation was a ‘but for’ cause of plaintiff’s injury.” 503 U.S. at 265-66.⁶ Ultimately, however, *Holmes* held that the “unlikelihood that Congress meant to allow all factually injured plaintiffs to recover persuades us that RICO should not get such an expansive reading.” *Id.* at 266. *Holmes* explained that “[t]he key to the better interpretation lies in some statutory history,” and traced the “by reason of” language back to § 4 of the Clayton Act, which courts had long held required proximate causation. *Id.* at 267. Because RICO was specifically modeled on § 4, *Holmes* concluded that the Clayton Act’s interpretation was particularly persuasive. *See id.* at 267-68.

Holmes also explained that “such directness of relationship” between the harm and the alleged wrong is a “central element[]” of “Clayton Act causation” for three primary reasons, and, significantly, concluded that all three “apply with equal force to suits under [RICO].” *Id.* at 269-70. First, “the less direct an injury is, the more difficult it becomes to ascertain the amount of a plaintiff’s damages attributable to the violation.” *Id.* at 269. Second, “recognizing claims of the indirectly injured would force courts to adopt complicated rules apportioning damages among plaintiffs removed at different levels of injury from the violative acts, to obviate the risk of multiple recoveries.” *Id.* “And, finally, the need to grapple

⁶“ ‘But for’ causation is a short way of saying ‘[t]he defendant’s conduct is a cause of the event if the event would not have occurred but for that conduct.’ It is sometimes stated as ‘*sine qua non*’ causation, i.e., ‘without which not’ ” *Boeing Co. v. Cascade Corp.*, 207 F.3d 1177, 1183 (9th Cir. 2000). “In determining whether a particular factor was a but-for cause of a given event, we begin by assuming that that factor was present at the time of the event, and then ask whether, even if that factor had been absent, the event nevertheless would have transpired in the same way.” *Price Waterhouse v. Hopkins*, 490 U.S. 228, 240 (1989) (plurality opinion), *superseded in part by statute on other grounds as recognized in Raytheon Co. v. Hernandez*, 540 U.S. 44 (2003).

with these problems is simply unjustified by the general interest in deterring injurious conduct, since directly injured victims can generally be counted on to vindicate the law as private attorneys general, without any of the problems attendant upon suits by plaintiffs injured more remotely.” *Id.* at 269-70.

[6] None of these concerns applies to the DMCA, which, unlike the Clayton Act and RICO, involves a narrow affirmative defense rather than the expansion of liability. Further, unlike in *Holmes*, there is no indication that Congress modeled the DMCA on the Clayton Act or RICO. We are therefore doubtful that in this quite different context, *Holmes*’ strict reading of “by reason of” is what Congress intended.⁷

Our doubts are confirmed by the fact that UMG’s reading

⁷A number of other courts have concluded, outside the RICO and Clayton Act context, that “by reason of” should be read to require only “but for” rather than proximate causation. *See, e.g., Gross v. FBL Fin. Servs., Inc.*, 129 S. Ct. 2343, 2350 (2009) (“The words ‘because of’ mean ‘by reason of: on account of.’ Thus, the ordinary meaning of the ADEA’s requirement that an employer took adverse action “because of” age is that age was the ‘reason’ that the employer decided to act. To establish a disparate-treatment claim under the plain language of the ADEA, therefore, a plaintiff must prove that age was the ‘but-for’ cause of the employer’s adverse decision.” (citations omitted) (emphasis added)); *Robinson Knife Mfg. Co. v. C.I.R.*, 600 F.3d 121, 131-32 (2d Cir. 2010) (holding that in 26 C.F.R. § 1.263A-1(e)(3)(i), the language “ ‘directly benefit or are incurred by reason of’ boils down to a but-for causation test”); *Spiras Co. v. Ins. Co. of Pa.*, 555 F.3d 647, 652 (8th Cir. 2009) (holding that the “language ‘by reason of having executed any bond’ is unambiguous and sets forth a simple cause-in-fact or ‘but-for’ causation test.”); *New Directions Treatment Servs. v. City of Reading*, 490 F.3d 293, 301 n.4 (3d Cir. 2007) (“[T]he ADA prohibits discrimination against an individual ‘by reason of such disability.’ . . . [T]his language . . . clearly establishes that the . . . ADA . . . requires only but for causation.” (citations omitted)); *Pacific Ins. Co. v. Eaton Vance Mgmt.*, 369 F.3d 584, 589 (1st Cir. 2004) (“[W]e consider the language unambiguous: ‘by reason of’ means ‘because of,’ Black’s Law Dictionary 201 (6th ed. 1990), and thus necessitates an analysis at least approximating a ‘but-for’ causation test.”).

of the “by reason of” language would create internal statutory conflicts. By its terms, § 512(c) presupposes that service providers will provide access to users’ stored material, and we would thus contravene the statute if we held that such access disqualified Veoh from the safe harbor. Section 512(c) codifies a detailed notice and takedown procedure by which copyright holders inform service providers of infringing material accessible through their sites, and service providers then “disable access to” such materials. 17 U.S.C. § 512(c)(1)(A)(iii), (c)(1)(C) & (c)(3)(A)(iii) (emphasis added). This carefully considered protocol, and the statute’s attendant references to “disabl[ing] access” to infringing materials, *see id.*, would be superfluous if we accepted UMG’s constrained reading of the statute. *See Greenwood v. CompuCredit Corp.*, 615 F.3d 1204, 1209 (9th Cir. 2010) (“We must, if possible, interpret a statute such that all its language is given effect, and none of it is rendered superfluous.” (citing *TRW Inc. v. Andrews*, 534 U.S. 19, 31 (2001))). Indeed, it is not clear how copyright holders could even discover infringing materials on service providers’ sites to notify them as the protocol dictates if § 512(c) did not contemplate that there would be access to the materials.⁸

[7] We do not find persuasive UMG’s effort to reconcile the internal contradictions its reading of the statute creates by positing that Congress must have meant § 512(c) to protect only “web hosting” services. Web hosts “host” websites on their servers, thereby “mak[ing] storage resources available to website operators.” The thrust of UMG’s argument seems to be that web hosts do not undertake the sorts of accessibility-

⁸One commentator discussing the district court’s decision in this case observed that “[UMG’s] interpretation would have rendered the safe harbor a complete nullity. Virtually all [service providers] that host third-party content — ranging from website hosting companies such as GoDaddy to content companies such as MySpace, Facebook, or YouTube — host such content so that it can be shared with others over the internet.” *See Edward Lee, Decoding the DMCA Safe Harbors*, 32 Colum. J.L. & Arts 233, 261 (2009).

facilitating functions that Veoh does, and thus the services they perform “fit within the ordinary meaning of ‘storage,’ ” and thereby “harmoniz[e]” with the notice and takedown procedures. UMG’s theory fails to account for the reality that web hosts, like Veoh, also store user-submitted materials *in order to make those materials accessible* to other Internet users. The reason one has a website is so that others may view it. As amici note, these access activities define web hosting — if the web host only stored information for a single user, it would be more aptly described as an online back-up service. *See* Brief for Electronic Frontier Found. et al. as Amici Curiae Supporting Appellees at 15, *UMG Recordings, Inc. v. Veoh Networks, Inc.*, No. 09-56777 (9th Cir. 2011).

[8] In addition, the technological processes involved in providing web hosting services require those service providers to make, transmit and download multiple copies of users’ stored materials. To create a website, the user uploads content to the web host’s computers, which make an initial copy. “Content may be any number of things — family photos, poems, . . . even sound clips and movies.” Preston Gralla, *How The Internet Works* 132 (2d ed. 1999). Then, when another Internet user wants to access the website by clicking a link or entering the URL, all the website’s relevant content is transmitted to the user’s computer, where another copy is automatically made by the user’s web browser software in order to assemble the materials for viewing and listening. *See id.* at 157. To carry out their function of making websites available to Internet users, web hosting services thus routinely copy content and transmit it to Internet users. *See id.* We cannot see how these access-facilitating processes are meaningfully distinguishable from Veoh’s for § 512(c)(1) purposes.

Further, the language of the statute recognizes that one is unlikely to infringe a copyright by merely storing material that no one could access, and so includes activities that go beyond storage. Section 512(c)(1)(A)(i) so recognizes in stating “the material *or an activity using the material* . . . is

infringing.” (Emphasis added.) Section 512(c)(1)(A)(ii) similarly addresses “infringing *activity*.” Section 512(c)(1)(A)(iii) also reinforces this reading by requiring the service provider “to remove, *or disable access to*, the material,” suggesting that if the material were still being stored by the service provider, but was inaccessible, it might well not be infringing. (Emphasis added.)

Finally, if Congress wanted to confine § 512(c) exclusively to web hosts rather than reach a wider range of service providers, we very much doubt it would have done so with the oblique “by reason of storage” language. We presume that Congress instead would have taken the more straightforward course of clarifying in the definition of “service provider” that, as it applies to § 512(c), only web hosts qualify. Indeed, Congress already gives two definitions of “service provider[s]” — one narrow definition specific to § 512(a), and one broader definition that applies to the rest of § 512.⁹ We therefore see no basis for adopting UMG’s novel theory that Congress intended § 512(c) to protect only web hosting services.¹⁰

⁹Section 512(k)(1)(A) provides that, “As used in subsection (a), the term ‘service provider’ means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.” By contrast, § 512(k)(1)(B) provides that, “As used in this section, other than subsection (a), the term ‘service provider’ means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A).”

¹⁰We are also unpersuaded by UMG’s argument that “the District Court used one activity — ‘storage’ — to immunize other activities,” in violation of § 512(n). We certainly agree that this would be improper — § 512(n) clearly states that “[w]hether a service provider qualifies for the limitation on liability in any one of those subsections . . . shall not affect a determination of whether that service provider qualifies for the limitations on liability under any other such subsection.” But we do not understand Veoh to argue, or the district court to have held, that a service provider qualifying under § 512(c) necessarily also qualifies under any other safe harbor. Rather, we affirm the district court’s holding that the

OCILLA’s two “service provider” definitions also undermine UMG’s argument that the automatic processes that make user-uploaded videos accessible are not undertaken “at the direction of the user.” The narrower definition that applies exclusively to § 512(a), which governs conduit-only functions, expressly excludes service providers that “modif[y] [] the content of the material as sent or received.” 17 U.S.C. § 512(k)(1)(A). Under the broader definition applying to § 512(c), by contrast, there is no limitation on the service provider’s ability to modify user-submitted material to facilitate storage and access, as Veoh’s automatic processes do. *See Io Grp., Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1147 (N.D. Cal. 2008). Had Congress intended to include such a limitation, it would have said so expressly and unambiguously, as it did in the narrower definition of “service provider.” *See id.*

[9] “Veoh has simply established a system whereby software automatically processes user-submitted content and recasts it in a format that is readily accessible to its users.” *Id.* at 1148. Veoh does not actively participate in or supervise file uploading, “[n]or does it preview or select the files before the upload is completed.” *Id.* Rather, this “automated process” for making files accessible “is initiated entirely at the volition of Veoh’s users.” *Id.*; *see also CoStar Grp., Inc. v. Loopnet, Inc.*,

“by reason of storage” language in § 512(c) *itself* covers the access-facilitating automatic functions Veoh’s system undertakes, without being supplemented by any other subsection. These functions are “separate and distinct,” 17 U.S.C. § 512(n), from the “transmitting, routing, or providing connections” protected under § 512(a), which addresses “[t]ransitory digital network communications” where the service provider “merely acts as a conduit for infringing material without storing, caching, or providing links to copyrighted material,” and thus “has no ability to remove the infringing material from its system or disable access to the infringing material.” *In re Charter Commc’ns, Inc., Subpoena Enforcement Matter*, 393 F.3d 771, 776 (8th Cir. 2005); *see also Ellison*, 357 F.3d at 1081 (discussing § 512(a) “conduit service provider[s]”).

373 F.3d 544, 555 (4th Cir. 2004). We therefore hold that Veoh has satisfied the threshold requirement that the infringement be “by reason of the storage at the direction of a user of material” residing on Veoh’s system. 17 U.S.C. § 512(c)(1).

B.

[10] Under § 512(c)(1)(A), a service provider can receive safe harbor protection only if it “(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;” “(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or” “(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material.”¹¹ UMG has never disputed that when Veoh became aware of allegedly infringing material as a result of the RIAA’s DMCA notices, it removed the files. Rather, it argues that Veoh had knowledge or awareness of other infringing videos that it did not remove. The district court found that UMG failed to rebut Veoh’s showing “that when it did acquire knowledge of allegedly infringing material — whether from DMCA notices, informal notices, or other means — it expeditiously removed such material.” *UMG II*, 665 F. Supp. 2d at 1107. UMG argues on appeal that the district court erred by improperly construing the knowledge requirement to unduly restrict the circumstances in which a service provider has “actual knowledge” under subsection (i) and setting too stringent a standard for what we have termed “red flag” awareness based on facts or circumstances from which infringing activity is apparent

¹¹We note that, to be coherent, the statute must be read to have an implicit “and” between § 512(c)(1)(A)(i) and (ii). We thus treat the provisions as stating that to qualify for the safe harbor, a service provider must either (1) have no actual knowledge *and* no “aware[ness] of facts or circumstances from which infringing activity is apparent” *or* (2) expeditiously remove or disable access to infringing material of which it knows or is aware.

under subsection (ii). We hold that the district court properly construed these requirements.

1.

[11] It is undisputed that, until the filing of this lawsuit, UMG “had not identified to Veoh any specific infringing video available on Veoh’s system.” UMG’s decision to forgo the DMCA notice protocol “stripped it of the most powerful evidence of a service provider’s knowledge — actual notice of infringement from the copyright holder.” *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1107 (W.D. Wash. 2004) (citing 3 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 12B.04(A)(3), at 12B-53 [hereinafter “Nimmer”]); *see also Io Grp.*, 586 F. Supp. 2d at 1148. Nevertheless, UMG contends that Veoh hosted a category of copyrightable content — music — for which it had no license from any major music company. UMG argues Veoh thus must have known this content was unauthorized, given its general knowledge that its services could be used to post infringing material. UMG urges us to hold that this sufficiently demonstrates knowledge of infringement. We cannot, for several reasons.

As an initial matter, contrary to UMG’s contentions, there are many music videos that *could* in fact legally appear on Veoh. “Among the types of videos subject to copyright protection but lawfully available on Veoh’s system were videos with music created by users and videos that Veoh provided pursuant to arrangements it reached with major copyright holders, such as SonyBMG.” *UMG II*, 665 F. Supp. 2d at 1109. Further, Congress’ express intention that the DMCA “facilitate making available quickly and conveniently via the Internet . . . movies, music, software, and literary works” — precisely the service Veoh provides — makes us skeptical that UMG’s narrow interpretation of § 512(c) is plausible. S. Rep. No. 105-190, at 8. Finally, if merely hosting material that falls within a category of content capable of copyright protection, with the general knowledge that one’s services

could be used to share unauthorized copies of copyrighted material, was sufficient to impute knowledge to service providers, the § 512(c) safe harbor would be rendered a dead letter: § 512(c) applies only to claims of copyright infringement, yet the fact that a service provider's website contained copyrightable material would remove the service provider from § 512(c) eligibility.

[12] Cases analyzing knowledge in the secondary copyright infringement context also counsel against UMG's general knowledge approach. In *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), the Supreme Court held that there was "no precedent in the law of copyright for the imposition of" liability based on the theory that the defendant had "sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material." *Id.* at 439. So long as the product was "capable of substantial noninfringing uses," the Court refused to impute knowledge of infringement. *Id.* at 442. Applying *Sony* to the Internet context, we held in *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), that "if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement." *Id.* at 1021. But "absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material." *Id.*

Requiring specific knowledge of particular infringing activity makes good sense in the context of the DMCA, which Congress enacted to foster cooperation among copyright holders and service providers in dealing with infringement on the Internet. *See* S. Rep. No. 105-190, at 20 (noting OCILLA was intended to provide "strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements"); H.R. Rep. No. 105-551, pt. 2, at 49

(1998) (same). Copyright holders know precisely what materials they own, and are thus better able to efficiently identify infringing copies than service providers like Veoh, who cannot readily ascertain what material is copyrighted and what is not. *See* S. Rep. No. 105-190, at 48; (“[A] [service] provider could not be expected, during the course of its brief cataloguing visit, to determine whether [a] photograph was still protected by copyright or was in the public domain; if the photograph was still protected by copyright, whether the use was licensed; and if the use was not licensed, whether it was permitted under the fair use doctrine.”); H.R. Rep. No. 105-551, pt. 2, at 57-58 (same).

These considerations are reflected in Congress’ decision to enact a notice and takedown protocol encouraging copyright holders to identify specific infringing material to service providers. They are also evidenced in the “exclusionary rule” that prohibits consideration of substantially deficient § 512(c)(3)(A) notices for purposes of “determining whether a service provider has actual knowledge or is aware of facts and circumstances from which infringing activity is apparent.” 17 U.S.C. § 512(c)(3)(B)(i); *see also* H.R. Rep. No. 105-551, pt. 2, at 56 (explaining this provision); Nimmer § 12B.04(B)(4)(c) (“[T]he copyright owner bears the burden of demonstrating knowledge independently of the failed notification.”). Congress’ intention is further reflected in the DMCA’s direct statement that “[n]othing in this section shall be construed to condition the applicability of subsections (a) through (d) on . . . a service provider monitoring its service or affirmatively seeking facts indicating infringing activity.” 17 U.S.C. § 512(m).¹² Congress made a considered policy

¹²We are not persuaded by UMG’s argument that § 512(m)’s title, “Protection of privacy,” should cause us to read the provision differently. “Headings and titles are not meant to take the place of the detailed provisions of the text.” *Greenwood*, 615 F.3d at 1212 (quoting *Bhd. of R.R. Trainmen v. Balt. & Ohio R.R., Co.*, 331 U.S. 519, 528-29 (1947)) (internal quotation marks and alteration omitted). Even if privacy was the impe-

determination that the “DMCA notification procedures [would] place the burden of policing copyright infringement — identifying the potentially infringing material and adequately documenting infringement — squarely on the owners of the copyright.” *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1113 (9th Cir. 2007). In parsing § 512(c)(3), we have “decline[d] to shift [that] substantial burden from the copyright owner to the provider.” *Id.*

[13] UMG asks us to change course with regard to § 512(c)(1)(A) by adopting a broad conception of the knowledge requirement. We see no principled basis for doing so. We therefore hold that merely hosting a category of copyrightable content, such as music videos, with the general knowledge that one’s services could be used to share infringing material, is insufficient to meet the actual knowledge requirement under § 512(c)(1)(A)(i).

[14] We reach the same conclusion with regard to the § 512(c)(1)(A)(ii) inquiry into whether a service provider is “aware of facts or circumstances from which infringing activity is apparent.” The district court’s conception of this “red flag test” properly followed our analysis in *CCBill*, which reiterated that the burden remains with the copyright holder rather than the service provider. *See id.* at 1114. The plaintiffs in *CCBill* argued that there were a number of red flags that made it apparent infringing activity was afoot, noting that the defendant hosted sites with names such as “illegal.net” and “stolencelebritypics.com,” as well as password hacking websites, which obviously infringe. *See id.* We disagreed that these were sufficient red flags because “[w]e do not place the

tus for this subsection, nothing in § 512(m) suggests that this should limit its application. As the district court noted, the statute’s text “could hardly be more straightforward,” *UMG II*, 665 F. Supp. 2d at 1113 n.17, and “where the plain text of the statute is unambiguous, ‘the heading of a section cannot limit the plain meaning of the text.’” *Greenwood*, 615 F.3d at 1212 (quoting *Bhd. of R.R. Trainmen*, 331 U.S. at 528-29).

burden of determining whether [materials] are actually illegal on a service provider,” and “[w]e impose no such investigative duties on service providers.” *Id.* For the same reasons, we hold that Veoh’s general knowledge that it hosted copyrightable material and that its services could be used for infringement is insufficient to constitute a red flag.

2.

We are not persuaded that UMG’s other purported evidence of Veoh’s actual or apparent knowledge of infringement warrants trial. First, UMG points to the tagging of videos on Veoh’s service as “music videos.” Relying on the theory rejected above, UMG contends that this demonstrates Veoh’s knowledge that it hosted a category of infringing content. Relatedly, UMG argues that Veoh’s purchase of certain search terms through the Google AdWords program demonstrates knowledge of infringing activity because some of the terms purchased, such as “50 Cent,” “Avril Lavigne” and “Britney Spears,” are the names of UMG artists. However, artists are not always in exclusive relationships with recording companies, so just because UMG owns the copyrights for some Britney Spears songs does not mean it owns the copyright for all Britney Spears songs. Indeed, 50 Cent, Avril Lavigne and Britney Spears are also affiliated with Sony-BMG, which gave Veoh permission to stream its videos by these artists. Furthermore, even if Veoh had not had such permission, we recognize that companies sometimes purchase search terms they believe will lead potential customers to their websites even if the terms do not describe goods or services the company actually provides. For example, a sunglass company might buy the search terms “sunscreen” or “vacation” because it believed that people interested in such searches would often also be interested in sunglasses. Accordingly, Veoh’s search term purchases do little to demonstrate that it knew it hosted infringing material.

UMG also argues that Veoh’s removal of unauthorized content identified in RIAA notices demonstrates knowledge,

even if Veoh complied with § 512(c)'s notice and takedown procedures. According to UMG, Veoh should have taken the initiative to use search and indexing tools to locate and remove from its website any other content by the artists identified in the notices. Relatedly, UMG argues that some of the videos on Veoh that had been pulled from MTV or other broadcast television stations bore information about the artist, song title and record label. UMG contends that Veoh should have used this information to find and remove unauthorized videos. As we have explained, however, to so require would conflict with § 512(m), § 512(c)(1)(C) and *CCBill*'s refusal to "impose . . . investigative duties on service providers." 488 F.3d at 1114. It could also result in removal of noninfringing content.

UMG also points to news articles discussing the availability of copyrighted materials on Veoh. One article reported that "several major media companies . . . say that Veoh.com has been among the least aggressive video sharing sites in fighting copyrighted content," and has thus "become a haven for pirated content." Brad Stone, *Veoh's Vexing Visitor Numbers*, N.Y. Times Bits Blog (July 15, 2007, 9:35 AM), <http://bits.blogs.nytimes.com/2007/07/15/veohs-vexing-visitor-numbers/>. Another article reported that,

Veoh Networks CEO Dmitry Shapiro acknowledges that only a week after the company's official debut, Veoh.com is host to a wide range of unauthorized and full-length copies of popular programs. But Shapiro says it's not his upstart company's fault: . . . "We have a policy that specifically states that when we see copyright material posted, we take it down," Shapiro said. "This problem is the democratization of publishing. Anyone can now post a video to the Internet. Sometimes the material belongs to someone else. We take this very seriously."

Greg Sandoval, *A new copyright battlefield: Veoh Networks*, CNET News (Feb. 21, 2007, 4:00 AM), <http://news.cnet.com/>

A-new-copyright-battlefield-Veoh-Networks/2100-1026_3-6160860.html. UMG elicited deposition testimony from Shapiro that he had heard of these articles, and was aware that, “from time to time,” “material belonging to someone else end[ed] up on” Veoh. UMG argues that this evidence of knowledge that, as a general matter, unauthorized materials had been previously posted on Veoh is sufficient to meet the § 512(c)(1)(A) requirements.

At base, this argument relies on UMG’s primary theory, which we rejected above. Here, as well, more specific information than UMG has adduced is required. The DMCA’s detailed notice and takedown procedure *assumes* that, “from time to time,” “material belonging to someone else ends up” on service providers’ websites, and establishes a process for ensuring the prompt removal of such unauthorized material. If Veoh’s CEO’s acknowledgment of this general problem and awareness of news reports discussing it was enough to remove a service provider from DMCA safe harbor eligibility, the notice and takedown procedures would make little sense and the safe harbors would be effectively nullified. We cannot conclude that Congress intended such a result, and we therefore hold that this evidence is insufficient to warrant a trial.

UMG comes closer to meeting the § 512(c)(1)(A) requirements with its evidence of emails sent to Veoh executives and investors by copyright holders and users identifying infringing content. One email, sent by the CEO of Disney, a major copyright holder, to Michael Eisner, a Veoh investor, stated that the movie *Cinderella III* and various episodes from the television show *Lost* were available on Veoh without Disney’s authorization. If this notification had come from a third party, such as a Veoh user, rather than from a copyright holder, it might meet the red flag test because it specified particular infringing material.¹³ As a copyright holder, however,

¹³Of course, even then it would not be obvious how Veoh’s awareness of apparent infringement of Disney’s copyrights over movies and television shows would advance UMG’s claims that Veoh hosted unauthorized UMG music videos.

Disney is subject to the notification requirements in § 512(c)(3), which this informal email failed to meet. Accordingly, this deficient notice “shall not be considered under paragraph (1)(A) in determining whether a service provider has actual knowledge or is aware of facts or circumstances from which infringing activity is apparent.” 17 U.S.C. § 512(c)(3)(B)(i). Further, even if this email could have created actual knowledge or qualified as a red flag, Eisner’s email in response assured Disney that he would instruct Veoh to “take it down,” and Eisner copied Veoh’s founder to ensure this happened “right away.” UMG nowhere alleges that the offending material was not immediately removed, and accordingly Veoh would be saved by § 512(c)(1)(A)(iii), which preserves the safe harbor for service providers with such knowledge so long as they “act[] expeditiously to remove, or disable access to, the material.”

UMG also points to an email from a Veoh user whose video was rejected for containing infringing content. Upset that Veoh would not post his unauthorized material, he stated that he had seen “plenty of [other] copyright infringement material” on the site, and identified another user who he said posted infringing content. It is possible that this email would be sufficient to constitute a red flag under § 512(c)(1)(A)(ii), even though it would not qualify as sufficient notice from a copyright holder under § 512(c)(3). But even assuming that is so, UMG has not specifically alleged that Veoh failed to expeditiously remove the infringing content identified by the user’s email, or that the content at issue was owned by UMG. Accordingly, this too fails to create a genuine issue of material fact regarding Veoh’s knowledge of infringement.¹⁴

¹⁴We do not credit UMG’s contention that the district court conflated the actual knowledge and red flag awareness tests. A user email informing Veoh of infringing material and specifying its location provides a good example of the distinction. Although the user’s allegations would not give Veoh actual knowledge under § 512(c)(1)(A)(i), because Veoh would have no assurance that a third party who does not hold the copyright in question could know whether the material was infringing, the email could act as a red flag under § 512(c)(1)(A)(ii) provided its information was sufficiently specific.

C.

[15] A service provider is eligible for the § 512(c) safe harbor only if it “does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.” 17 U.S.C. § 512(c)(1)(B). UMG appeals the district court’s determination that Veoh did not have the necessary right and ability to control infringing activity and thus remained eligible for safe harbor protection. We conclude the district court was correct, and therefore affirm.¹⁵

“Statutory interpretation begins with the language of the statute.” *Children’s Hosp. & Health Ctr. v. Belshe*, 188 F.3d 1090, 1096 (9th Cir. 1999). When terms are not defined within a statute, they are accorded their plain and ordinary meaning, which can be deduced through reference sources such as general usage dictionaries. *See Bilski v. Kappos*, 130 S. Ct. 3218, 3226 (2010). “[S]tatutory language must always be read in its proper context,” *McCarthy v. Bronson*, 500 U.S. 136, 139 (1991), and “[i]n determining the meaning of the statute, we look not only to the particular statutory language, but to the design of the statute as a whole and to its object and policy,” *Crandon v. United States*, 494 U.S. 152, 158 (1990). We must, if possible, interpret a statute such that all its language is given effect, and none of it is rendered superfluous. *See TRW Inc. v. Andrews*, 534 U.S. 19, 31 (2001).

[16] Whether Veoh had the requisite “ability to control” the infringing activity at issue depends on what the statute means by that phrase, which the statute does not define. Looking first to the dictionary, “ability” is defined as “the quality or state of being able: physical, mental, or legal power to perform: competence in doing”; and “able” is in turn defined as “possessed of needed powers (as intelligence or strength) or

¹⁵We need not consider whether Veoh received “a financial benefit directly attributable to the infringing activity.”

of needed resources (as means or influence) to accomplish an objective . . . : constituted or situated so as to be susceptible or readily subjected to some action or treatment.” Webster’s Third New International Dictionary 3, 4 (2002). “Control” is defined as having the “power or authority to guide or manage: directing or restraining domination.” *Id.* at 496. Where, as here, it is a practical impossibility for Veoh to ensure that no infringing material is ever uploaded to its site, or to remove unauthorized material that has not yet been identified to Veoh as infringing, we do not believe that Veoh can properly be said to possess the “needed powers . . . or needed resources” to be “competen[t] in” exercising the sort of “restraining domination” that § 512(c)(1)(B) requires for denying safe harbor eligibility.

As discussed, in the knowledge context it is not enough for a service provider to know as a general matter that users are capable of posting unauthorized content; more specific knowledge is required. Similarly, a service provider may, as a general matter, have the legal right and necessary technology to remove infringing content, but until it becomes aware of specific unauthorized material, it cannot exercise its “power or authority” over the specific infringing item. In practical terms, it does not have the kind of ability to control infringing activity the statute contemplates. *See Viacom Int’l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 527 (S.D.N.Y. 2010) (“[T]he provider must know of the *particular* case before he can control it.” (emphasis added)); *cf. Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1174 (9th Cir. 2007) (“Google’s supervisory power is limited because Google’s software lacks the ability to analyze every image on the [I]nternet, compare each image to all the other copyrighted images that exist in the world . . . and determine whether a certain image on the web infringes someone’s copyright.” (alterations in original) (internal quotation marks omitted)).

Our reading of § 512(c)(1)(B) is informed and reinforced by our concern that the statute would be internally inconsis-

tent were we to interpret the “right and ability to control” language as UMG urges. First, § 512(m) cuts against holding that Veoh’s general knowledge that infringing material could be uploaded to its site triggered an obligation to “police” its services to the “fullest extent” possible. As we have explained, § 512(m) provides that § 512(c)’s safe harbor protection may not be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity.” UMG’s reading of the “right and ability to control” language would similarly run afoul of *CCBill*, 488 F.3d at 1113-14, which likewise clarified that § 512(c) “impose[s] no such investigative duties on service providers,” and “place[s] the burden of policing copyright infringement . . . squarely on the owners of the copyright.” We are not persuaded by UMG’s suggestion that Congress meant this limitation on the duty to monitor to apply only to service providers who do not receive a direct financial benefit under subsection (B). Rather, we conclude that a service provider must be aware of specific infringing material to have the ability to control that infringing activity within the meaning of § 512(c)(1)(B). Only then would its failure to exercise its ability to control deny it a safe harbor.

Second, § 512(c) actually presumes that service providers have the sort of control that UMG argues satisfies the § 512(c)(1)(B) “right and ability to control” requirement: they must “remove[] or disable access to” infringing material when they become aware of it. 17 U.S.C. § 512(c)(1)(A)(iii) & (C). Quoting *Napster*, 239 F.3d at 1024, UMG argues that service providers have “the right and ability to control” infringing activity, § 512(c)(1)(B), as long as they have “the ability to locate infringing material” and “terminate users’ access.” Under that reading, service providers would have the “right and ability to control” infringing activity regardless of their becoming “aware of” the material. Under that interpretation, the prerequisite to § 512(c) protection under § 512(c)(1)(A)(iii) and (C), would at the same time be a disqualifier under § 512(c)(1)(B). We agree with Judge Matz that

“Congress could not have intended for courts to hold that a service provider loses immunity under the safe harbor provision of the DMCA because it engages in acts that are specifically required by the DMCA.” *UMG II*, 665 F. Supp. 2d at 1113 (quoting *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1093-94 (C.D. Cal. 2001)) (internal quotation marks omitted); see also *Io Grp., Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1151 (N.D. Cal. 2008) (same); Lee, *supra*, 32 Colum. J.L. & Arts at 247 (“A[] [service provider’s] ability to remove materials posted by third parties does not satisfy the ‘right and ability to control’ prong, because such power is necessary for a[] [service provider] to satisfy the basic requirement of ‘takedown’ under the DMCA.”).¹⁶

[17] Accordingly, we hold that the “right and ability to control” under § 512(c) requires control over specific infringing activity the provider knows about. A service provider’s general right and ability to remove materials from its services is, alone, insufficient. Of course, a service provider cannot willfully bury its head in the sand to avoid obtaining such specific knowledge. Viewing the evidence in the light most

¹⁶Most courts that have confronted this question have likewise declined to assume that Congress created this Catch-22. See, e.g., *Perfect 10 v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1181 (C.D. Cal. 2002) (“[C]losing the safe harbor based on the mere ability to exclude users from the system is inconsistent with the statutory scheme.”); *eBay*, 165 F. Supp. 2d at 1093 (“[T]he ‘right and ability to control’ the infringing activity, as the concept is used in the DMCA, cannot simply mean the ability of a service provider to remove or block access to materials posted on its website or stored in its system. To hold otherwise would defeat the purpose of the DMCA and render the statute internally inconsistent.”); *CoStar Grp. Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688, 702 (D. Md. 2001) (“It would be inconsistent . . . if in order to get into the safe harbor, the provider needed to lack the control to remove or block access.”), *aff’d*, 373 F.3d 544 (4th Cir. 2004); see also Lee, *supra*, 32 Colum. J.L. & Arts at 239, 247-48 & nn.59-65 (noting that “most courts have interpreted the ‘right and ability to control such activity’ portion of Section 512(c)(1)(B), as being narrower than the analogous standard under vicarious liability,” and collecting cases).

favorable to UMG, as we must here, we agree with the district court there is no evidence that Veoh acted in such a manner. Rather, the evidence demonstrates that Veoh promptly removed infringing material when it became aware of specific instances of infringement. Although the parties agree, in retrospect, that at times there was infringing material available on Veoh's services, the DMCA recognizes that service providers who are not able to locate and remove infringing materials they do not specifically know of should not suffer the loss of safe harbor protection.

UMG seeks to avoid our reading of the statute's plain language and structure by arguing that we should instead interpret § 512(c) as we read similar language in the common law vicarious liability context in *Napster*, 239 F.3d at 1024. We are unpersuaded for several reasons, and conclude instead, as previously discussed, that whereas the vicarious liability standard applied in *Napster* can be met by merely having the general ability to locate infringing material and terminate users' access, *see Napster*, 239 F.3d at 1024, § 512(c) requires "something more," *Cybernet Ventures*, 213 F. Supp. 2d at 1181 (internal quotation marks omitted).

First, § 512(c) nowhere mentions the term "vicarious liability." Although it uses a set of words that has sometimes been used to describe common law vicarious liability, the language used in the common law standard is loose and has varied. For example, *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 n.9 (2005), refers to "supervis[ing] the direct infringer" rather than "control[ing] such [infringing] activity," § 512(c)(1)(B), and "supervise" and "control" are different in potentially significant ways. "Control," which we have noted means having the "power or authority to guide or manage: directing or restraining domination," involves more command than "supervise," which means "to look over, inspect, oversee." Webster's Third New International Dictionary 496, 2296.

Second, *Napster* was decided *after* the DMCA was enacted, so Congress could not have intended to codify *Napster*'s precise application upon which UMG relies. Third, although not definitive, the legislative history informs our conclusion that Congress did not intend to exclude from § 512(c)'s safe harbor all service providers who would be vicariously liable for their users' infringing activity under the common law. The legislative history did, at one point, suggest an intention to codify the "right and ability to control" element of vicarious infringement, and § 512(c)(1)(B) was not modified following that report.¹⁷ That report, however, referred to a version of the bill different from the one ultimately passed, and the discussion of vicarious liability is omitted from all later reports and, notably, from the statutory language. *See* H.R. Rep. No. 105-551, pt. 2, at 54; S. Rep. No. 105-190, at 44-45; H.R. Conf. Rep. No. 105-796, at 64 (1998), *reprinted in* 1998 U.S.C.C.A.N. 639, 649.

Subsequent legislative statements help clarify Congress' intent. First, Congress explicitly stated in three different reports that the DMCA was intended to "protect qualifying service providers from liability for all monetary relief for direct, *vicarious* and contributory infringement." H.R. Conf. Rep. No. 105-796, at 64, 1998 U.S.C.C.A.N. at 649 (emphasis added); S. Rep. No. 105-190, at 18, 36; H.R. Rep. No. 105-551, pt. 2, at 50. Under UMG's interpretation, however, *every* service provider subject to vicarious liability would be automatically excluded from safe harbor protection. Second, Congress made clear that it intended to provide safe harbor protection *not* by altering the common law vicarious liability standards, but rather by carving out permanent safe harbors to that liability for Internet service providers even while the

¹⁷"The financial benefit standard in subparagraph (B) is intended to codify and clarify the direct financial benefit element of vicarious liability The 'right and ability to control' language in Subparagraph (B) codifies the second element of vicarious liability." H.R. Rep. No. 105-551, pt. 1, at 25-26.

common law standards continue to evolve. *See* S. Rep. No. 105-190, at 17 (“There have been several cases relevant to service provider liability for copyright infringement. Most have approached the issue from the standpoint of contributory and vicarious liability. Rather than embarking upon a wholesale clarification of these doctrines, the Committee decided to leave current law in its evolving state and, instead, to create a series of ‘safe harbors,’ for certain common activities of service providers. A service provider which qualifies for a safe harbor, receives the benefit of limited liability.” (footnote omitted)).

Given Congress’ explicit intention to protect qualifying service providers who would otherwise be subject to vicarious liability, it would be puzzling for Congress to make § 512(c) entirely coextensive with the vicarious liability requirements, which would effectively exclude all vicarious liability claims from the § 512(c) safe harbor. *See, e.g., Lee, supra*, 32 Colum. J.L. & Arts at 236-37 (acknowledging that interpreting the DMCA to exclude service providers subject to vicarious liability would “undo the benefits of the safe harbors altogether” (quoting Mark A. Lemley, *Rationalizing Internet Safe Harbors*, 6 J. Telecomm. & High Tech. L. 101, 104 (2007)) (internal quotation marks omitted)). In addition, it is difficult to envision, from a policy perspective, why Congress would have chosen to exclude vicarious infringement from the safe harbors, but retain protection for contributory infringement. It is not apparent why the former might be seen as somehow worse than the latter. *See id.* at 243-44.

Furthermore, if Congress *had* intended that the § 512(c)(1)(B) “right and ability to control” requirement be coextensive with vicarious liability law, the statute could have accomplished that result in a more direct manner.

It is conceivable that Congress [would have] intended that [service providers] which receive a financial benefit directly attributable to the infring-

ing activity would not, under any circumstances, be able to qualify for the subsection (c) safe harbor. But if that was indeed their intention, it would have been far simpler and much more straightforward to simply say as much. The Court does not accept that Congress would express its desire to do so by creating a confusing, self-contradictory catch-22 situation that pits 512(c)(1)(B) and 512(c)(1)(C) directly at odds with one another, particularly when there is a much simpler explanation: the DMCA requires more than the mere ability to delete and block access to infringing material after that material has been posted in order for the [service provider] to be said to have “the right and ability to control such activity.”

Ellison v. Robertson, 189 F. Supp. 2d 1051, 1061 (C.D. Cal. 2002), *aff'd in part and rev'd in part on different grounds*, 357 F.3d 1072 (9th Cir. 2004). Indeed, in the anti-circumvention provision in Title I of the DMCA, which was enacted at the same time as the § 512 safe harbors, Congress explicitly stated, “Nothing in this section shall enlarge or diminish vicarious or contributory liability for copyright infringement in connection with any technology, product, service, device, component, or part thereof.” 17 U.S.C. § 1201(c)(2). “If Congress had intended to exclude vicarious liability from the DMCA [Title II] safe harbors, it would have done so expressly as it did in Title I of the DMCA.” Lee, *supra*, 32 Colum. J.L. & Arts at 242.

[18] In light of the DMCA’s language, structure, purpose and legislative history, we are compelled to reject UMG’s argument that the district court should have employed *Napster*’s vicarious liability standard to evaluate whether Veoh had sufficient “right and ability to control” infringing activity under § 512(c). Although in some cases service providers subject to vicarious liability will be excluded from the § 512(c) safe harbor, in others they will not. Because we conclude that

Veoh met all the § 512(c) requirements, we affirm the entry of summary judgment in its favor.

III.

[19] UMG also appeals the district court’s Rule 12(b)(6) dismissal of its complaint against the Investor Defendants for vicarious infringement, contributory infringement and inducement of infringement. It is well-established that “[s]econdary liability for copyright infringement does not exist in the absence of direct infringement” *Napster*, 239 F.3d at 1013 n.2. UMG argues, however, that even if summary judgment was properly granted to Veoh on the basis of the DMCA safe harbor, as we have held it was, “the [Investor] Defendants remain potentially liable for their related indirect infringement” because the district court did not “make a finding regarding Veoh’s direct infringement,” and the Investor Defendants do not qualify as “service providers” who can receive DMCA safe harbor protection. The Investor Defendants argue that it would be illogical to impose greater liability on them than on Veoh itself. Although we agree that this would create an anomalous result, we assume without deciding that the suit against the Investor Defendants can properly proceed even though Veoh is protected from monetary liability by the DMCA.¹⁸ Reaching the merits of UMG’s secondary

¹⁸In *Perfect 10, Inc. v. Visa International Service Ass’n*, 494 F.3d 788 (9th Cir. 2007), we commented on a similar circumstance. There, the plaintiff sought secondary liability against a credit card company that had processed payments for websites that posted infringing materials. *Visa* observed that,

The result, under Perfect 10’s theories, would therefore be that a service provider with actual knowledge of infringement and the actual ability to remove the infringing material, but which has not received a statutorily compliant notice, is entitled to a safe harbor from liability, while credit card companies with actual knowledge but *without* the actual ability to remove infringing material, would benefit from no safe harbor. We recognize that the DMCA was not intended to displace the development of secondary liabil-

liability arguments, we hold that the district court properly dismissed the complaint.

[20] UMG first alleges that the Investor Defendants are liable for contributory infringement. “[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.” *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (quoting *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)) (alteration in original) (internal quotation marks omitted); see also *Grokster*, 545 U.S. at 930 (“One infringes contributorily by intentionally inducing or encouraging direct infringement.”). In *Fonovisa*, 76 F.3d at 264, we established the “site and facilities” test: “providing the site and facilities for known infringing activity is sufficient to establish contributory liability” where the defendant “actively strives to provide the environment and the market for counterfeit . . . sales to thrive.” The district court concluded this test was not met, dismissing the complaint because UMG did “not allege sufficiently that [the Investor Defendants] gave material assistance in helping Veoh or its users accomplish infringement.” We agree.

ity in the courts; rather, we simply take note of the anomalous result Perfect 10 seeks.

Id. at 795 n.4. We remain concerned about the possibility of imposing secondary liability on tangentially involved parties, like Visa and the Investor Defendants, while those accused of direct infringement receive safe harbor protection. “[B]y limiting the liability of service providers,” the DMCA sought to assuage any “hesitat[ion] to make the necessary investment in the expansion of the speed and capacity of the Internet.” S. Rep. No. 105-190, at 7. Congress was no doubt well aware that service providers can make the desired investment only if they receive funding from investors like the Investor Defendants. Although we do not decide the matter today, were we to hold that Veoh was protected, but its investors were not, investors might hesitate to provide the necessary funding to companies like Veoh, and Congress’ purpose in passing the DMCA would be undermined.

UMG acknowledges that funding alone cannot satisfy the material assistance requirement. It thus argues that the Investor Defendants “provided Veoh’s necessary funding *and* directed its spending” on “basic operations including . . . hardware, software, and employees” — “elements” UMG argues “form ‘the site and facilities’ for Veoh’s direct infringement.” UMG thus attempts to liken its case to *UMG Recordings, Inc. v. Bertelsmann AG et al.*, 222 F.R.D. 408 (N.D. Cal. 2004), where the district court denied an investor’s motion to dismiss claims of contributory infringement. In *Bertelsmann*, however, the investor was Napster’s “only available source of funding,” and thus “held significant power and control over Napster’s operations.” *Id.* at 412. Here, by contrast, there were multiple investors, and none of the Investor Defendants could individually control Veoh. Accordingly, UMG hinges its novel theory of secondary liability on the contention that the three Investor Defendants *together* took control of Veoh’s operations by “obtain[ing] three of the five seats on Veoh’s Board of Directors,” and effectively provided the “site and facilities” for direct infringement by wielding their majority power to direct spending.

Even assuming that such joint control, not typically an element of contributory infringement, could satisfy *Fonovisa*’s site and facilities requirement, UMG’s argument fails on its own terms, because the complaint nowhere alleged that the Investor Defendants agreed to work in concert to this end. UMG suggests that it “did allege that the [Investor] Defendants agreed to ‘operate’ Veoh jointly — UMG alleged that the [Investor] Defendants operated Veoh by ‘s[ee]king and obtain[ing] seats on Veoh’s Board of Directors as a condition of their investments.’” But three investors individually acquiring one seat apiece is not the same as agreeing to operate as a unified entity to obtain and leverage majority control. Unless the three independent investors were on some level working in concert, then none of them actually had sufficient control over the Board to direct Veoh in the way UMG contends. This missing allegation is critical because finding sec-

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ondary liability without it would allow plaintiffs to sue any collection of directors making up 51 percent of the board on the theory that they constitute a majority, and therefore together they control the company. Without this lynchpin allegation, UMG’s claim that the Investor Defendants had sufficient control over Veoh to direct its spending and operations in a manner that might theoretically satisfy the “site and facilities” test falls apart. We therefore affirm the dismissal of UMG’s contributory infringement claim.

This missing allegation likewise requires us to affirm the district court’s dismissal of UMG’s vicarious liability and inducement of infringement claims. Inducement liability is proper where “one [] distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement.” *Grokster*, 545 U.S. at 936-37. Vicarious liability is warranted if “the defendant profits directly from the infringement and has a right and ability to supervise the direct infringer.” *Grokster*, 545 U.S. at 930 n.9; *see also Visa*, 494 F.3d at 802. UMG’s arguments that the Investor Defendants “distribute[d]” Veoh’s services and had the right and ability to supervise the infringing users are premised on the unalleged contention that the Investor Defendants agreed to act in concert, and thus *together* they held a majority of seats on the Board and “maintained operational control over the company.” We therefore affirm the dismissal of the complaint against the Investor Defendants.¹⁹

¹⁹Although the district court did not reach the right and ability to supervise prong in its vicarious liability analysis, resting instead on its determination that the Investor Defendants did not profit directly from the infringement, we may affirm a district court’s dismissal for failure to state a claim “on any basis fairly supported by the record.” *Corrie v. Caterpillar, Inc.*, 503 F.3d 974, 979 (9th Cir. 2007).

IV.

Veoh appeals the district court’s refusal to grant it costs and attorney’s fees under Federal Rule of Civil Procedure 68. “Under Rule 68, if a plaintiff rejects a defendant’s offer of judgment, and the judgment finally obtained by plaintiff is not more favorable than the offer, the plaintiff must pay the costs incurred subsequent to the offer.” *United States v. Trident Seafoods Corp.*, 92 F.3d 855, 859 (9th Cir. 1996).²⁰ “Rule 68 is designed to ‘require plaintiffs to think very hard about whether continued litigation is worthwhile,’ ” and compensate defendants for costs they ought not have had to incur. *Champion Produce, Inc. v. Ruby Robinson Co.*, 342 F.3d 1016, 1032 (9th Cir. 2003) (quoting *Marek v. Chesny*, 473 U.S. 1, 11 (1985)). In October 2008, Veoh offered UMG \$100,000 to settle this lawsuit, pursuant to the procedures set forth in Rule 68. UMG declined the offer and ultimately failed to win any monetary relief. After the district court ruled that Veoh was entitled to § 512(c) protection, the parties requested the entry of judgment and stipulated that Veoh “agree[d] to continue to disable access to the Allegedly Infringing Video Files and to continue to use hash filtering to prevent [infringing] video files . . . from being accessed by users,” and UMG “agree[d] that, even if it were to prevail on its remaining claims against Veoh . . . , it is entitled to no further relief.”

[21] Veoh contends that it was entitled to receive Rule 68 costs incurred from the time of its October 2008 settlement offer. It argues these costs should include attorney’s fees because *Marek*, 473 U.S. at 9, held that, “where the underlying statute defines ‘costs’ to include attorney’s fees, . . . such

²⁰Rule 68 provides, in relevant part: “[A] party defending against a claim may serve upon an opposing party an offer to allow judgment on specified terms, with costs then accrued. . . . *If the judgment that the offeree finally obtains is not more favorable than the unaccepted offer, the offeree must pay the costs incurred after the offer was made.*” Fed. R. Civ. P. 68 (emphasis added).

fees are to be included as costs for purposes of Rule 68,” and the Copyright Act, 17 U.S.C. § 505, provides that a court “may . . . award a reasonable attorney’s fee to the prevailing party as part of the costs.” Relying on *Trident*, the district court declined to grant attorney’s fees under Rule 68 because it had previously determined that fees were not “properly awardable” under § 505.²¹ Veoh has not challenged the district court’s decision with regard to § 505, but argues on appeal that under Rule 68 an award of costs, including fees, was mandatory. We agree with the district court that, because it found that attorney’s fees were not “properly awardable” under § 505 in this case, fees could not be awarded under Rule 68. We remand to the district court to separately analyze whether Rule 68 costs, excluding attorney’s fees, are warranted.

A.

In *Marek*, the Supreme Court held that “the term ‘costs’ in Rule 68 was intended to refer to all costs *properly awardable* under the relevant substantive statute.” 473 U.S. at 9 (emphasis added). We have interpreted this to mean that attorney’s fees may be awarded as Rule 68 costs only if those fees would have been properly awarded under the relevant substantive statute in that particular case. In *Trident*, 92 F.3d at 860, for example, the issue was the interplay between the Clean Air Act (CAA) and Rule 68. Under the CAA, fees may only be awarded if the action was “unreasonable.” *See id.*²² *Trident*

²¹The court declined to exercise its discretion to grant fees under § 505 despite its conclusion that Veoh was “the prevailing party on the core issue in the litigation” because it found that, under the factors described in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 533 & 534 n.19 (1994), UMG’s legal challenge was not “improper, in bad faith, or contrary to the purposes of the Copyright Act,” and the manner in which it pursued its claims was not objectively unreasonable.

²²When determining whether to award fees under the Copyright Act, we consider “(1) the degree of success obtained; (2) frivolousness; (3) motiva-

held that “[t]he only interpretation that gives meaning to every word in both Rule 68 and the [CAA] is that ‘costs’ in Rule 68 include attorneys’ fees only if the action was unreasonable.” *Id.* The fact that fees *could* have been awarded under the CAA, had its requirements been met, was insufficient to make them “properly awardable” within the meaning of *Marek* when the district court decided not to grant them in that case. *See id.*

[22] We confronted the same issue with regard to a different substantive statute in *Champion*. There, we considered whether Rule 68 “costs” included attorney’s fees where Idaho Code § 12-120(3) permitted the award of fees to a “prevailing party,” and the district court expressly held that the defendant had not prevailed within the meaning of that section. *See Champion*, 342 F.3d at 1031. Relying on *Trident*, we held that “Rule 68 is not intended to expand the bases for a party’s recovery of attorneys’ fees,” *id.* at 1029, and thus,

[j]ust as attorneys’ fees are not “properly awardable” to a defendant in a Clean Air Act case unless “the court finds that such action was unreasonable,” *Trident*, 92 F.3d at 860, attorneys’ fees are not “properly awardable” to a defendant in a case where the relevant statute awards attorneys’ fees to a prevailing party unless the defendant is a prevailing party within the meaning of that statute.

Id. at 1031 (citing *Payne v. Milwaukee Cnty.*, 288 F.3d 1021, 1026 (7th Cir. 2002) (“Briefly put, ‘costs’ cannot encompass more than the rules or other relevant statutes authorize.”)).

tion; (4) the objective unreasonableness of the losing party’s factual and legal arguments; and (5) the need, in particular circumstances, to advance considerations of compensation and deterrence.” *Love v. Associated Newspapers, Ltd.*, 611 F.3d 601, 614-15 (9th Cir. 2010) (citing *Fogerty*, 510 U.S. at 534 n.19).

Although we have not yet confronted this question in a Copyright Act case, *Trident* and *Champion* make clear that in this context as well, because the district court determined that attorney’s fees were not “properly awardable” to Veoh under § 505, they were not awardable under Rule 68 either.²³

B.

Even though Veoh is not entitled to attorney’s fees under Rule 68, it may be entitled to its other costs. *See, e.g., Champion*, 342 F.3d at 1028 (holding that even though attorney’s fees were not properly awardable under Rule 68, costs (excluding fees) were mandatory). The district court, however, did not analyze whether costs apart from fees were warranted. Veoh has already been awarded some of its costs under Federal Rule of Civil Procedure 54(d), but it argues on appeal that it is entitled to all of its post-settlement offer costs under Rule 68. This may be true, if certain conditions are met. First, costs are awardable under Rule 68 where “the judgment that the offeree finally obtains is not more favorable than the unaccepted offer.” Fed. R. Civ. P. 68(d). Veoh argues that “[b]ecause Veoh was already taking the measures set forth in the [stipulated] injunction, and UMG was primarily seeking monetary damages, the value of that stipulation was less than Veoh’s Rule 68 Offer.” Although this may prove true, the value of the stipulated injunction is not clear on this record.

Second, Veoh can recover Rule 68 costs only if it is not a prevailing defendant. In *Delta Air Lines, Inc. v. August*, 450 U.S. 346, 352 (1981), the Supreme Court held that Rule 68 “applies only to offers made by the defendant and only to

²³Veoh argues that we should not follow *Trident* because it “misapplied the Supreme Court’s approach in *Marek*,” and urges us instead to follow the Eleventh Circuit’s contrary approach in *Jordan v. Time, Inc.*, 111 F.3d 102, 105 (11th Cir. 1997). We disagree. In *Champion*, 342 F.3d at 1029-31, we reaffirmed *Trident*’s application of *Marek* and explicitly rejected the Eleventh Circuit’s approach in *Jordan*.

judgments obtained by the plaintiff,” and “therefore is simply inapplicable [where] it was the defendant that obtained the judgment.” *See also Goldberg v. Pac. Indem. Co.*, 627 F.3d 752, 755 (9th Cir. 2010) (“Rule 68 does not allow a defendant to recover costs when judgment is entered in the defendant’s favor.”). The Court observed that holding otherwise would create an odd system in which “any settlement offer, no matter how small, would apparently trigger the operation of the Rule,” and “[t]hus any defendant, by performing the meaningless act of making a nominal settlement offer, could eliminate the trial judge’s discretion under Rule 54(d).” *Delta*, 450 U.S. at 353. *Delta* rejected such an understanding of Rule 68:

We cannot reasonably conclude that the drafters of the Federal Rules intended on the one hand affirmatively to grant the district judge discretion to deny costs to the prevailing party under Rule 54(d) and then on the other hand to give defendants — and only defendants — the power to take away that discretion by performing a token act.

Id.; *see also MRO Commc’ns, Inc. v. Am. Tel. & Tel. Co.*, 197 F.3d 1276, 1280 (9th Cir. 1999) (“Where a defendant prevails after making an offer of judgment, ‘the trial judge retains his Rule 54(d) discretion.’” (quoting *Delta*, 450 U.S. at 354)).

Veoh argues that *Delta* does not apply because UMG “actually obtained certain relief” in the form of the parties’ stipulation that Veoh would continue removing infringing content discovered by its hash filtering system, and thus UMG rather than Veoh “obtained the judgment.” *Delta*, 450 U.S. at 352. Although the district court determined that Veoh was “the prevailing party on the core issue in the litigation” for § 505 purposes, it did not clarify whether it also concluded that Veoh was a prevailing defendant under *Delta* for Rule 68 purposes. We therefore remand to the district court to consider in the first instance whether Veoh is eligible to receive Rule 68 costs under *Delta*, and, if so, whether “the judgment that the

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offeree finally obtain[ed] [wa]s not more favorable than the unaccepted offer.” Fed. R. Civ. P. 68(d). If both conditions are met, then the district court should determine what remaining costs are due to Veoh.

CONCLUSION

We affirm the district court’s determination on summary judgment that Veoh is entitled to § 512(c) safe harbor protection, and its dismissal of the claims of secondary liability against the Investor Defendants. We also affirm its determination that, in this case, attorney’s fees may not be awarded under Rule 68. We remand for the district court to consider in the first instance whether Veoh is entitled to Rule 68 costs excluding attorney’s fees.

The parties shall bear their own costs on appeal.

The motions of the Recording Industry Association of America et al., the Electronic Frontier Foundation et al., and eBay Inc. et al., for leave to file amicus curiae briefs are granted, and the briefs are ordered filed.

AFFIRMED in part and REMANDED in part.

10-3270, 10-3342

Viacom Int'l, Inc., Football Ass'n Premier League Ltd. v. YouTube, Inc.

**UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT**

August Term, 2011

(Argued: October 18, 2011)

Decided: April 5, 2012)

Docket No. 10-3270-cv

VIACOM INTERNATIONAL, INC., COMEDY PARTNERS, COUNTRY MUSIC TELEVISION, INC., PARAMOUNT PICTURES CORPORATION, BLACK ENTERTAINMENT TELEVISION, LLC,

Plaintiffs-Appellants,

v.

YOUTUBE, INC., YOUTUBE, LLC, GOOGLE, INC.,

Defendants-Appellees.

Docket No. 10-3342-cv

THE FOOTBALL ASSOCIATION PREMIER LEAGUE LIMITED, on behalf of themselves and all others similarly situated, BOURNE CO., CAL IV ENTERTAINMENT, LLC, CHERRY LANE MUSIC PUBLISHING COMPANY, INC., X-RAY DOG MUSIC, INC., FÉDÉRATION FRANÇAISE DE TENNIS, MURBO MUSIC PUBLISHING, INC., STAGE THREE MUSIC (US), INC.,

Plaintiffs-Appellants,

Robert Tur, d/b/a Los Angeles News Service, The Scottish Premier League Limited, The Music Force Media Group LLC, The Music Force, LLC, Sin-Drome Records, Ltd., on behalf of themselves and all others similarly situated, National Music Publishers' Association, The Rodgers & Hammerstein Organization, Edward B. Marks Music Company, Freddy Bienstock Music Company, d/b/a Bienstock Publishing Company, Alley Music Corporation,

Plaintiffs,

v.

YOUTUBE, INC., YOUTUBE, LLC, GOOGLE, INC.,

Defendants-Appellees.

Before: CABRANES and LIVINGSTON, *Circuit Judges*.*

Appeal from the judgment of the United States District Court for the Southern District of New York (Louis L. Stanton, *Judge*), granting summary judgment to the defendants-appellees on all claims of direct and secondary copyright infringement based on a finding that the defendants-appellees were entitled to safe harbor protection under the Digital Millennium Copyright Act (“DMCA”), 17 U.S.C. § 512. Although the District Court correctly held that the § 512(c) safe harbor requires knowledge or awareness of specific infringing activity, we vacate the order granting summary judgment because a reasonable jury could find that YouTube had actual knowledge or awareness of specific infringing activity on its website. We further hold that the District Court erred by interpreting the “right and ability to control” infringing activity to require “item-specific” knowledge. Finally, we affirm the District Court’s holding that three of the challenged YouTube software functions fall within the safe harbor for infringement that occurs “by reason of” storage at the direction of the user, and remand for further fact-finding with respect to a fourth software function.

Affirmed in part, vacated in part, and remanded.

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* The Honorable Roger J. Miner, who was originally assigned to the panel, died prior to the resolution of this case. The remaining two members of the panel, who are in agreement, have determined the matter. *See* 28 U.S.C. § 46(d); 2d Cir. IOP E(b); *United States v. Desimone*, 140 F.3d 457, 458–59 (2d Cir. 1998).

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Ladies Professional Golf Association, The McClatchy Co., The Media Institute, Minority Media & Telecommunications Council, Inc., National Association of Black Owned Broadcasters, The National Football League, Newspaper Association of America, Picture Archive Council of America, Professional Photographers of America, Radio Television Digital News Association, Rosetta Stone Ltd., The E.W. Scripps Co., Sports Rights Owners Coalition, The Washington Post, and Zuffa LLC, *in support of Plaintiffs-Appellants.*

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Jeremy H. Stern, Stern Digital Strategies, Manhattan Beach, CA (Partha P. Chattoraj, Markowitz & Chattoraj LLP, New York, NY, *on the brief*), *for amicus curiae* Audible Magic Corp., *in support of neither party*.

Stephen M. Wurzburg, Pillsbury Winthrop Shaw Pittman LLP, Palo Alto, CA, *for amicus curiae* Vobile, Inc., *in support of neither party*.

JOSÉ A. CABRANES, *Circuit Judge*:

This appeal requires us to clarify the contours of the “safe harbor” provision of the Digital Millennium Copyright Act (DMCA) that limits the liability of online service providers for copyright infringement that occurs “by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.” 17 U.S.C. § 512(c).¹

The plaintiffs-appellants in these related actions—Viacom International, Inc. (“Viacom”), The Football Association Premier League Ltd. (“Premier League”), and various film studios, television networks, music publishers, and sports leagues (jointly, the “plaintiffs”)²—appeal from an August 10, 2010 judgment of the United States District Court for the Southern District of New York (Louis L. Stanton, *Judge*), which granted summary judgment to defendants-appellees YouTube, Inc., YouTube, LLC, and Google Inc. (jointly, “YouTube” or the “defendants”). The plaintiffs alleged direct and secondary copyright infringement based on the public performance, display, and reproduction of approximately 79,000 audiovisual “clips” that appeared on the YouTube website between 2005 and 2008. They demanded, *inter alia*, statutory damages pursuant to 17 U.S.C. § 504(c) or, in the alternative, actual damages from the alleged infringement, as well as declaratory and injunctive relief.³

In a June 23, 2010 Opinion and Order (the “June 23 Opinion”), the District Court held that the defendants were entitled to DMCA safe harbor protection primarily because they had insufficient notice of the particular infringements in suit. *Viacom Int’l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514, 529 (S.D.N.Y. 2010). In construing the statutory safe harbor, the District Court concluded that the “actual

¹ The relevant provisions of 17 U.S.C. § 512(c) appear in Appendix A.

² The plaintiffs-appellants in *Viacom Int’l, Inc. v. YouTube, Inc.*, No. 10-3270-cv, are Viacom, Comedy Partners, Country Music Television, Inc., Paramount Pictures Corporation, and Black Entertainment Television, LLC (jointly, the “Viacom plaintiffs”). The plaintiffs-appellants in *Football Ass’n Premier League Ltd. v. YouTube, Inc.*, No. 10-3342-cv, are Premier League, Bourne Co., Cal IV Entertainment, LLC, Cherry Lane Music Publishing Company, Inc., X-Ray Dog Music, Inc., Fédération Française de Tennis, Murbo Music Publishing, Inc., and Stage Three Music (US), Inc. (jointly, the “class plaintiffs”).

³ The class plaintiffs also sought class certification pursuant to Rule 23 of the Federal Rules of Civil Procedure.

knowledge” or “aware[ness] of facts or circumstances” that would disqualify an online service provider from safe harbor protection under § 512(c)(1)(A) refer to “knowledge of specific and identifiable infringements.” *Id.* at 523. The District Court further held that item-specific knowledge of infringing activity is required for a service provider to have the “right and ability to control” infringing activity under § 512(c)(1)(B). *Id.* at 527. Finally, the District Court held that the replication, transmittal, and display of videos on YouTube constituted activity “by reason of the storage at the direction of a user” within the meaning of § 512(c)(1). *Id.* at 526–27.

These related cases present a series of significant questions of statutory construction. We conclude that the District Court correctly held that the § 512(c) safe harbor requires knowledge or awareness of specific infringing activity, but we vacate the order granting summary judgment because a reasonable jury could find that YouTube had actual knowledge or awareness of specific infringing activity on its website. We further hold that the District Court erred by interpreting the “right and ability to control” provision to require “item-specific” knowledge. Finally, we affirm the District Court’s holding that three of the challenged YouTube software functions fall within the safe harbor for infringement that occurs “by reason of” user storage; we remand for further fact-finding with respect to a fourth software function.

BACKGROUND

A. The DMCA Safe Harbors

“The DMCA was enacted in 1998 to implement the World Intellectual Property Organization Copyright Treaty,” *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 440 (2d Cir. 2001), and to update domestic copyright law for the digital age, *see Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004). Title II of the DMCA, separately titled the “Online Copyright Infringement Liability Limitation Act” (OCILLA), was designed to “clarif[y] the liability faced by service providers who transmit potentially

infringing material over their networks.” S. Rep. No. 105-190 at 2 (1998). But “[r]ather than embarking upon a wholesale clarification” of various copyright doctrines, Congress elected “to leave current law in its evolving state and, instead, to create a series of ‘safe harbors[]’ for certain common activities of service providers.” *Id.* at 19. To that end, OCILLA established a series of four “safe harbors” that allow qualifying service providers to limit their liability for claims of copyright infringement based on (a) “transitory digital network communications,” (b) “system caching,” (c) “information residing on systems or networks at [the] direction of users,” and (d) “information location tools.” 17 U.S.C. §§ 512(a)–(d).

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

Beyond the threshold criteria, a service provider must satisfy the requirements of a particular safe harbor. In this case, the safe harbor at issue is § 512(c), which covers infringement claims that arise “by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.” *Id.* § 512(c)(1). The § 512(c) safe harbor will apply only if the service provider:

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

Id. §§ 512(c)(1)(A)–(C). Section 512(c) also sets forth a detailed notification scheme that requires service providers to “designate[] an agent to receive notifications of claimed infringement,” *id.* § 512(c)(2), and specifies the components of a proper notification, commonly known as a “takedown notice,” to that agent, *see id.* § 512(c)(3). Thus, actual knowledge of infringing material, awareness of facts or circumstances that make infringing activity apparent, or receipt of a takedown notice will each trigger an obligation to expeditiously remove the infringing material.

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

B. Factual Background

YouTube was founded in February 2005 by Chad Hurley (“Hurley”), Steve Chen (“Chen”), and Jawed Karim (“Karim”), three former employees of the internet company Paypal. When YouTube announced the “official launch” of the website in December 2005, a press release described YouTube as a “consumer media company” that “allows people to watch, upload, and share personal video clips at www.YouTube.com.” Under the slogan “Broadcast yourself,” YouTube achieved rapid prominence and profitability, eclipsing competitors such as Google Video and Yahoo Video by wide margins. In

November 2006, Google acquired YouTube in a stock-for-stock transaction valued at \$1.65 billion. By March 2010, at the time of summary judgment briefing in this litigation, site traffic on YouTube had soared to more than 1 billion daily video views, with more than 24 hours of new video uploaded to the site every minute.

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

Uploading a video to the YouTube website triggers a series of automated software functions. During the upload process, YouTube makes one or more exact copies of the video in its original file format. YouTube also makes one or more additional copies of the video in “Flash” format,⁴ a process known as “transcoding.” The transcoding process ensures that YouTube videos are available for viewing by most users at their request. The YouTube system allows users to gain access to video content by “streaming” the video to the user’s computer in response to a playback request. YouTube uses a computer algorithm to identify clips that are “related” to a video the user watches and display links to the “related” clips.

⁴ The “Flash” format “is a highly compressed streaming format that begins to play instantly. Unlike other delivery methods, it does not require the viewer to download the entire video file before viewing.” Joint App’x IV:73.

C. Procedural History

Plaintiff Viacom, an American media conglomerate, and various Viacom affiliates filed suit against YouTube on March 13, 2007, alleging direct and secondary copyright infringement⁵ based on the public performance, display, and reproduction of their audiovisual works on the YouTube website. Plaintiff Premier League, an English soccer league, and Plaintiff Bourne Co. filed a putative class action against YouTube on May 4, 2007, alleging direct and secondary copyright infringement on behalf of all copyright owners whose material was copied, stored, displayed, or performed on YouTube without authorization. Specifically at issue were some 63,497 video clips identified by Viacom, as well as 13,500 additional clips (jointly, the “clips-in-suit”) identified by the putative class plaintiffs.

The plaintiffs in both actions principally demanded statutory damages pursuant to 17 U.S.C. § 504(c) or, in the alternative, actual damages plus the defendants’ profits from the alleged infringement, as well as declaratory and injunctive relief.⁶ Judge Stanton, to whom the *Viacom* action was assigned, accepted the *Premier League* class action as related. At the close of discovery, the parties in both actions cross-moved for partial summary judgment with respect to the applicability of the DMCA safe harbor defense.⁷

In the dual-captioned June 23 Opinion, the District Court denied the plaintiffs’ motions and granted summary judgment to the defendants, finding that YouTube qualified for DMCA safe harbor protection with respect to all claims of direct and secondary copyright infringement. *Viacom Int’l*, 718 F. Supp. 2d at 529. The District Court prefaced its analysis of the DMCA safe harbor by holding that, based on the plaintiffs’ summary judgment submissions, “a jury could find that the defendants not only

⁵ Doctrines of secondary copyright infringement include contributory, vicarious, and inducement liability. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930–31, 936–37 (2005).

⁶ National Music Publishers’ Association, one of the named plaintiffs in the putative class action, seeks only equitable relief.

⁷ It is undisputed that all clips-in-suit had been removed from the YouTube website by the time of summary judgment, mostly in response to DMCA takedown notices. *Viacom Int’l*, 718 F. Supp. 2d at 519.

were generally aware of, but welcomed, copyright-infringing material being placed on their website.” *Id.* at 518. However, the District Court also noted that the defendants had properly designated an agent pursuant to § 512(c)(2), and “when they received specific notice that a particular item infringed a copyright, they swiftly removed it.” *Id.* at 519. Accordingly, the District Court identified the crux of the inquiry with respect to YouTube’s copyright liability as follows:

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

Id. After quoting at length from the legislative history of the DMCA, the District Court held that “the phrases ‘actual knowledge that the material or an activity’ is infringing, and ‘facts or circumstances’ indicating infringing activity, describe knowledge of specific and identifiable infringements of particular individual items.” *Id.* at 523. “Mere knowledge of [the] prevalence of such activity in general,” the District Court concluded, “is not enough.” *Id.*

In a final section labeled “Other Points,” the District Court rejected two additional claims. First, it rejected the plaintiffs’ argument that the replication, transmittal and display of YouTube videos are functions that fall outside the protection § 512(c)(1) affords for “infringement of copyright by reason of . . . storage at the direction of the user.” *Id.* at 526–27. Second, it rejected the plaintiffs’ argument that YouTube was ineligible for safe harbor protection under the control provision, holding that the “right and ability to control” infringing activity under § 512(c)(1)(B) requires “item-specific” knowledge thereof, because “the provider must know of the particular case before he can control it.” *Id.* at 527.

Following the June 23 Opinion, final judgment in favor of YouTube was entered on August 10, 2010. These appeals followed.

DISCUSSION

We review an order granting summary judgment *de novo*, drawing all factual inferences in favor of the non-moving party. *See, e.g., Panecasio v. Unisource Worldwide, Inc.*, 532 F.3d 101, 107 (2d Cir. 2008). “Summary judgment is proper only when, construing the evidence in the light most favorable to the non-movant, ‘there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.’” *Doninger v. Niehoff*, 642 F.3d 334, 344 (2d Cir. 2011) (quoting Fed. R. Civ. P. 56(a)).

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

The first and most important question on appeal is whether the DMCA safe harbor at issue requires “actual knowledge” or “aware[ness]” of facts or circumstances indicating “specific and identifiable infringements,” *Viacom*, 718 F. Supp. 2d at 523. We consider first the scope of the statutory provision and then its application to the record in this case.

1. The Specificity Requirement

“As in all statutory construction cases, we begin with the language of the statute,” *Barnhart v. Sigmon Coal Co.*, 534 U.S. 438, 450 (2002). Under § 512(c)(1)(A), safe harbor protection is available only if the service provider:

- (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;
- (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
- (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material

17 U.S.C. § 512(c)(1)(A). As previously noted, the District Court held that the statutory phrases “actual knowledge that the material . . . is infringing” and “facts or circumstances from which infringing activity is apparent” refer to “knowledge of specific and identifiable infringements.” *Viacom*, 718 F. Supp. 2d at 523. For the reasons that follow, we substantially affirm that holding.

Although the parties marshal a battery of other arguments on appeal, it is the text of the statute that compels our conclusion. In particular, we are persuaded that the basic operation of § 512(c) requires knowledge or awareness of specific infringing activity. Under § 512(c)(1)(A), knowledge or awareness alone does not disqualify the service provider; rather, the provider that gains knowledge or awareness of infringing activity retains safe-harbor protection if it “acts expeditiously to remove, or disable access to, the material.” 17 U.S.C. § 512(c)(1)(A)(iii). Thus, the nature of the removal obligation itself contemplates knowledge or awareness of specific infringing material, because expeditious removal is possible only if the service provider knows with particularity which items to remove. Indeed, to require expeditious removal in the absence of specific knowledge or awareness would be to mandate an amorphous obligation to “take commercially reasonable steps” in response to a generalized awareness of infringement. *Viacom Br. 33*. Such a view cannot be reconciled with the language of the statute, which requires “expeditious[]” action to remove or disable “*the material*” at issue. 17 U.S.C. § 512(c)(1)(A)(iii) (emphasis added).

On appeal, the plaintiffs dispute this conclusion by drawing our attention to § 512(c)(1)(A)(ii), the so-called “red flag” knowledge provision. *See id.* § 512(c)(1)(A)(ii) (limiting liability where, “in the absence of such actual knowledge, [the service provider] is not aware of facts or circumstances from which infringing activity is apparent”). In their view, the use of the phrase “facts or circumstances” demonstrates that Congress did not intend to limit the red flag provision to a particular type of knowledge. The plaintiffs contend that requiring awareness of specific infringements in order to establish “aware[ness] of facts or circumstances from which infringing activity is apparent,” 17 U.S.C. § 512(c)(1)(A)(ii), renders the red flag provision superfluous, because that provision would be satisfied only when the “actual knowledge” provision is also satisfied. For that reason, the plaintiffs urge the

Court to hold that the red flag provision “requires less specificity” than the actual knowledge provision. Pls.’ Supp. Br. 1.

This argument misconstrues the relationship between “actual” knowledge and “red flag” knowledge. It is true that “we are required to ‘disfavor interpretations of statutes that render language superfluous.’” *Conn. ex rel. Blumenthal v. U.S. Dep’t of the Interior*, 228 F.3d 82, 88 (2d Cir. 2000) (quoting *Conn. Nat’l Bank v. Germain*, 503 U.S. 249, 253 (1992)). But contrary to the plaintiffs’ assertions, construing § 512(c)(1)(A) to require actual knowledge or awareness of specific instances of infringement does not render the red flag provision superfluous. The phrase “actual knowledge,” which appears in § 512(c)(1)(A)(i), is frequently used to denote subjective belief. *See, e.g., United States v. Quinones*, 635 F.3d 590, 602 (2d Cir. 2011) (“[T]he belief held by the defendant need not be reasonable in order for it to defeat . . . actual knowledge.”). By contrast, courts often invoke the language of “facts or circumstances,” which appears in § 512(c)(1)(A)(ii), in discussing an objective reasonableness standard. *See, e.g., Maxwell v. City of New York*, 380 F.3d 106, 108 (2d Cir. 2004) (“Police officers’ application of force is excessive . . . if it is objectively unreasonable in light of the facts and circumstances confronting them, without regard to their underlying intent or motivation.” (internal quotation marks omitted)).

The difference between actual and red flag knowledge is thus not between specific and generalized knowledge, but instead between a subjective and an objective standard. In other words, the actual knowledge provision turns on whether the provider actually or “subjectively” knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement “objectively” obvious to a reasonable person. The red flag provision, because it incorporates an objective standard, is not swallowed up by the actual

knowledge provision under our construction of the § 512(c) safe harbor. Both provisions do independent work, and both apply only to specific instances of infringement.

The limited body of case law interpreting the knowledge provisions of the § 512(c) safe harbor comports with our view of the specificity requirement. Most recently, a panel of the Ninth Circuit addressed the scope of § 512(c) in *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022 (9th Cir. 2011), a copyright infringement case against Veoh Networks, a video-hosting service similar to YouTube.⁸ As in this case, various music publishers brought suit against the service provider, claiming direct and secondary copyright infringement based on the presence of unauthorized content on the website, and the website operator sought refuge in the § 512(c) safe harbor. The Court of Appeals affirmed the district court's determination on summary judgment that the website operator was entitled to safe harbor protection. With respect to the actual knowledge provision, the panel declined to “adopt[] a broad conception of the knowledge requirement,” *id.* at 1038, holding instead that the safe harbor “[r]equir[es] specific knowledge of particular infringing activity,” *id.* at 1037. The Court of Appeals “reach[ed] the same conclusion” with respect to the red flag provision, noting that “[w]e do not place the burden of determining whether [materials] are actually illegal on a service provider.” *Id.* at 1038 (alterations in original) (quoting *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1114 (9th Cir. 2007)).

Although *Shelter Capital* contains the most explicit discussion of the § 512(c) knowledge provisions, other cases are generally in accord. *See, e.g., Capitol Records, Inc. v. MP3tunes, LLC*, ___ F. Supp. 2d ___, 2011 WL 5104616, at *14 (S.D.N.Y. Oct. 25, 2011) (“Undoubtedly, MP3tunes is aware that some level of infringement occurs. But, there is no genuine dispute that MP3tunes did not have specific ‘red flag’ knowledge with respect to any particular link”); *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 665 F. Supp. 2d 1099, 1108 (C.D. Cal. 2009) (“*UMG IP*”) (“[I]f investigation of ‘facts and

⁸ Veoh Networks operates a website that “allows people to share video content over the Internet.” *Shelter Capital*, 667 F.3d at 1026.

circumstances' is required to identify material as infringing, then those facts and circumstances are not 'red flags.'"). While we decline to adopt the reasoning of those decisions *in toto*, we note that no court has embraced the contrary proposition—urged by the plaintiffs—that the red flag provision “requires less specificity” than the actual knowledge provision.

Based on the text of § 512(c)(1)(A), as well as the limited case law on point, we affirm the District Court's holding that actual knowledge or awareness of facts or circumstances that indicate specific and identifiable instances of infringement will disqualify a service provider from the safe harbor.

2. The Grant of Summary Judgment

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

i. Specific Knowledge or Awareness

The plaintiffs argue that, even under the District Court's construction of the safe harbor, the record raises material issues of fact regarding YouTube's actual knowledge or “red flag” awareness of specific instances of infringement. To that end, the plaintiffs draw our attention to various estimates regarding the percentage of infringing content on the YouTube website. For example, Viacom cites evidence that YouTube employees conducted website surveys and estimated that 75–80% of all YouTube streams contained copyrighted material. The class plaintiffs similarly claim that Credit Suisse, acting as financial advisor to Google, estimated that more than 60% of YouTube's content was “premium” copyrighted content—and that only 10% of the premium content was authorized. These approximations suggest that the defendants were conscious that significant quantities of material on the

YouTube website were infringing. See *Viacom Int'l*, 718 F. Supp. 2d at 518 (“[A] jury could find that the defendants not only were generally aware of, but welcomed, copyright-infringing material being placed on their website.”). But such estimates are insufficient, standing alone, to create a triable issue of fact as to whether YouTube actually knew, or was aware of facts or circumstances that would indicate, the existence of particular instances of infringement.

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

The record in the *Viacom* action includes additional examples. For instance, YouTube founder Jawed Karim prepared a report in March 2006 which stated that, “[a]s of today[,] episodes and clips of the following well-known shows can still be found [on YouTube]: Family Guy, South Park, MTV Cribs, Daily Show, Reno 911, [and] Dave Chapelle [sic].” Karim further opined that, “although YouTube is not legally required to monitor content . . . and complies with DMCA takedown requests,

we would benefit from *preemptively* removing content that is blatantly illegal and likely to attract criticism.” He also noted that “a more thorough analysis” of the issue would be required. At least some of the TV shows to which Karim referred are owned by Viacom. A reasonable juror could conclude from the March 2006 report that Karim knew of the presence of Viacom-owned material on YouTube, since he presumably located specific clips of the shows in question before he could announce that YouTube hosted the content “[a]s of today.” A reasonable juror could also conclude that Karim believed the clips he located to be infringing (since he refers to them as “blatantly illegal”), and that YouTube did not remove the content from the website until conducting “a more thorough analysis,” thus exposing the company to liability in the interim.

Furthermore, in a July 4, 2005 e-mail exchange, YouTube founder Chad Hurley sent an e-mail to his co-founders with the subject line “budlight commercials,” and stated, “we need to reject these too.” Steve Chen responded, “can we please leave these in a bit longer? another week or two can’t hurt.” Karim also replied, indicating that he “added back in all 28 bud videos.” Similarly, in an August 9, 2005 e-mail exchange, Hurley urged his colleagues “to start being diligent about rejecting copyrighted / inappropriate content,” noting that “there is a cnn clip of the shuttle clip on the site today, if the boys from Turner would come to the site, they might be pissed?” Again, Chen resisted:

but we should just keep that stuff on the site. i really don’t see what will happen. what? someone from cnn sees it? he happens to be someone with power? he happens to want to take it down right away. he gets in touch with cnn legal. 2 weeks later, we get a cease & desist letter. we take the video down.

And again, Karim agreed, indicating that “the CNN space shuttle clip, I like. we can remove it once we’re bigger and better known, but for now that clip is fine.”

Upon a review of the record, we are persuaded that the plaintiffs may have raised a material issue of fact regarding YouTube’s knowledge or awareness of specific instances of infringement. The foregoing Premier League e-mails request the identification and removal of “clearly infringing, official

broadcast footage.” The March 2006 report indicates Karim’s awareness of specific clips that he perceived to be “blatantly illegal.” Similarly, the Bud Light and space shuttle e-mails refer to particular clips in the context of correspondence about whether to remove infringing material from the website.

On these facts, a reasonable juror could conclude that YouTube had actual knowledge of specific infringing activity, or was at least aware of facts or circumstances from which specific infringing activity was apparent. *See* § 512(c)(1)(A)(i)–(ii). Accordingly, we hold that summary judgment to YouTube on all clips-in-suit, especially in the absence of any detailed examination of the extensive record on summary judgment, was premature.⁹

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

ii. “Willful Blindness”

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

⁹ We express no opinion as to whether the evidence discussed above will prove sufficient to withstand a renewed motion for summary judgment by YouTube on remand. In particular, we note that there is at least some evidence that the search requested by Walker in his February 7, 2007 e-mail was never carried out. *See* Joint App’x III:256. We also note that the class plaintiffs have failed to identify evidence indicating that any infringing content discovered as a result of Walker’s request in fact remained on the YouTube website. The class plaintiffs, drawing on the voluminous record in this case, may be able to remedy these deficiencies in their briefing to the District Court on remand.

“The principle that willful blindness is tantamount to knowledge is hardly novel.” *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 110 n.16 (2d Cir. 2010) (collecting cases); see *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003) (“Willful blindness is knowledge, in copyright law . . . as it is in the law generally.”). A person is “willfully blind” or engages in “conscious avoidance” amounting to knowledge where the person “was aware of a high probability of the fact in dispute and consciously avoided confirming that fact.” *United States v. Aina-Marshall*, 336 F.3d 167, 170 (2d Cir. 2003) (quoting *United States v. Rodriguez*, 983 F.2d 455, 458 (2d Cir. 1993)); cf. *Global-Tech Appliances, Inc. v. SEB S.A.*, ___ U.S. ___, 131 S. Ct. 2060, 2070–71 (2011) (applying the willful blindness doctrine in a patent infringement case). Writing in the trademark infringement context, we have held that “[a] service provider is not . . . permitted willful blindness. When it has reason to suspect that users of its service are infringing a protected mark, it may not shield itself from learning of the particular infringing transactions by looking the other way.” *Tiffany*, 600 F.3d at 109.

The DMCA does not mention willful blindness. As a general matter, we interpret a statute to abrogate a common law principle only if the statute “speak[s] directly to the question addressed by the common law.” *Matar v. Dichter*, 563 F.3d 9, 14 (2d Cir. 2009) (internal quotation marks omitted). The relevant question, therefore, is whether the DMCA “speak[s] directly” to the principle of willful blindness. *Id.* (internal quotation marks omitted). The DMCA provision most relevant to the abrogation inquiry is § 512(m), which provides that safe harbor protection shall not be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i).” 17 U.S.C. § 512(m)(1). Section 512(m) is explicit: DMCA safe harbor protection cannot be conditioned on affirmative monitoring by a service provider. For that reason, § 512(m) is incompatible with a broad common law duty to monitor or otherwise seek out infringing activity based

on general awareness that infringement may be occurring. That fact does not, however, dispose of the abrogation inquiry; as previously noted, willful blindness cannot be defined as an affirmative duty to monitor. *See Aina-Marshall*, 336 F.3d at 170 (holding that a person is “willfully blind” where he “was aware of a high probability of the fact in dispute and consciously avoided confirming that fact”). Because the statute does not “speak[] directly” to the willful blindness doctrine, § 512(m) limits—but does not abrogate—the doctrine. Accordingly, we hold that the willful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA.

The District Court cited § 512(m) for the proposition that safe harbor protection does not require affirmative monitoring, *Viacom*, 718 F. Supp. 2d at 524, but did not expressly address the principle of willful blindness or its relationship to the DMCA safe harbors. As a result, whether the defendants made a “deliberate effort to avoid guilty knowledge,” *In re Aimster*, 334 F.3d at 650, remains a fact question for the District Court to consider in the first instance on remand.¹⁰

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

Apart from the foregoing knowledge provisions, the § 512(c) safe harbor provides that an eligible service provider must “not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.” 17 U.S.C. § 512(c)(1)(B). The District Court addressed this issue in a single paragraph, quoting from § 512(c)(1)(B), the so-called “control and benefit” provision, and concluding that “[t]he ‘right and ability to control’ the activity requires knowledge of it, which must be item-specific.” *Viacom*, 718 F.

¹⁰ Our recent decision in *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), lends support to this result. In *Tiffany*, we rejected a willful blindness challenge, holding that although eBay “knew as a general matter that counterfeit Tiffany products were listed and sold through its website,” such knowledge “is insufficient to trigger liability.” *Id.* at 110. In so holding, however, we rested on the extensive findings of the district court with respect to willful blindness. *Id.* (citing *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463, 513 (S.D.N.Y. 2008)). Thus, the *Tiffany* holding counsels in favor of explicit fact-finding on the issue of willful blindness.

Supp. 2d at 527. For the reasons that follow, we hold that the District Court erred by importing a specific knowledge requirement into the control and benefit provision, and we therefore remand for further fact-finding on the issue of control.

1. “Right and Ability to Control” Infringing Activity

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

The first construction, pressed by the defendants, is the one adopted by the District Court, which held that “the provider must know of the particular case before he can control it.” *Viacom*, 718 F. Supp. 2d at 527. The Ninth Circuit recently agreed, holding that “until [the service provider] becomes aware of specific unauthorized material, it cannot exercise its ‘power or authority’ over the specific infringing item. In practical terms, it does not have the kind of ability to control infringing

activity the statute contemplates.” *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022, 1041 (9th Cir. 2011). The trouble with this construction is that importing a specific knowledge requirement into § 512(c)(1)(B) renders the control provision duplicative of § 512(c)(1)(A). Any service provider that has item-specific knowledge of infringing activity and thereby obtains financial benefit would already be excluded from the safe harbor under § 512(c)(1)(A) for having specific knowledge of infringing material and failing to effect expeditious removal. No additional service provider would be excluded by § 512(c)(1)(B) that was not already excluded by § 512(c)(1)(A). Because statutory interpretations that render language superfluous are disfavored, *Conn. ex rel. Blumenthal*, 228 F.3d at 88, we reject the District Court’s interpretation of the control provision.

The second construction, urged by the plaintiffs, is that the control provision codifies the common law doctrine of vicarious copyright liability. The common law imposes liability for vicarious copyright infringement “[w]hen the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials—even in the absence of actual knowledge that the copyright mono[poly] is being impaired.” *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 407 (2d Cir. 1963); cf. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 n.9 (2005). To support their codification argument, the plaintiffs rely on a House Report relating to a preliminary version of the DMCA: “The ‘right and ability to control’ language . . . codifies the second element of vicarious liability. . . . Subparagraph (B) is intended to preserve existing case law that examines all relevant aspects of the relationship between the primary and secondary infringer.” H.R. Rep. No. 105-551 (I), at 26 (1998). In response, YouTube notes that the codification reference was omitted from the committee reports describing the final legislation, and that Congress ultimately abandoned any attempt to “embark[] upon a wholesale clarification” of vicarious liability, electing instead “to create a series of ‘safe harbors’ for certain common activities of service providers.” S. Rep. No. 105-190, at 19.

Happily, the future of digital copyright law does not turn on the confused legislative history of the control provision. The general rule with respect to common law codification is that when “Congress uses terms that have accumulated settled meaning under the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of those terms.” *Neder v. United States*, 527 U.S. 1, 21 (1999) (ellipsis and internal quotation marks omitted). Under the common law vicarious liability standard, “[t]he ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.” *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 157 (S.D.N.Y. 2009) (alteration in original) (quoting *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001)). To adopt that

principle in the DMCA context, however, would render the statute internally inconsistent. Section 512(c) actually presumes that service providers have the ability to “block . . . access” to infringing material. *Id.* at 157; see *Shelter Capital*, 667 F.3d at 1042–43. Indeed, a service provider who has knowledge or awareness of infringing material or who receives a takedown notice from a copyright holder is *required* to “remove, or disable access to, the material” in order to claim the benefit of the safe harbor. 17 U.S.C. §§ 512(c)(1)(A)(iii) & (C). But in taking such action, the service provider would—in the plaintiffs’ analysis—be admitting the “right and ability to control” the infringing material. Thus, the prerequisite to safe harbor protection under §§ 512(c)(1)(A)(iii) & (C) would at the same time be a disqualifier under § 512(c)(1)(B).

Moreover, if Congress had intended § 512(c)(1)(B) to be coextensive with vicarious liability, “the statute could have accomplished that result in a more direct manner.” *Shelter Capital*, 667 F.3d at 1045.

It is conceivable that Congress . . . intended that [service providers] which receive a financial benefit directly attributable to the infringing activity would not, under any circumstances, be able to qualify for the subsection (c) safe harbor. But if that was indeed their intention, it would have been far simpler and much more straightforward to simply say as much.

Id. (alteration in original) (quoting *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1061 (C.D. Cal. 2002), *aff’d in part and rev’d in part on different grounds*, 357 F.3d 1072 (9th Cir. 2004))

In any event, the foregoing tension—elsewhere described as a “predicament”¹¹ and a “catch-22”¹²—is sufficient to establish that the control provision “dictates” a departure from the common law vicarious liability standard. *Neder*, 527 U.S. at 21. Accordingly, we conclude that the “right and ability to control” infringing activity under § 512(c)(1) B) “requires something more than the ability to remove or block access to materials posted on a service provider’s website.” *MP3tunes, LLC*, 2011 WL

¹¹ *Ellison*, 189 F. Supp. 2d at 1061.

5104616, at *14; accord *Wolk v. Kodak Imaging Network, Inc.*, ___ F. Supp. 2d ___, 2012 WL 11270, at *21 (S.D.N.Y. Jan. 3, 2012); *UMG II*, 665 F. Supp. 2d at 1114–15; *Io Grp., Inc. v. Veoh Networks, Inc.*, 586 F. Supp. 2d 1132, 1151 (N.D. Cal. 2008); *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1110 (W.D. Wash. 2004), *overruled on other grounds by Cosmetic Ideas, Inc. v. IAC/Interactivecorp.*, 606 F.3d 612 (9th Cir. 2010). The remaining—and more difficult—question is how to define the “something more” that is required.

To date, only one court has found that a service provider had the right and ability to control infringing activity under § 512(c)(1)(B).¹³ In *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002), the court found control where the service provider instituted a monitoring program by which user websites received “detailed instructions regard[ing] issues of layout, appearance, and content.” *Id.* at 1173. The service provider also forbade certain types of content and refused access to users who failed to comply with its instructions. *Id.* Similarly, inducement of copyright infringement under *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), which “premises liability on purposeful, culpable expression and conduct,” *id.* at 937, might also rise to the level of control under § 512(c)(1)(B). Both of these examples involve a service provider exerting substantial influence on the activities of users, without necessarily—or even frequently—acquiring knowledge of specific infringing activity.

In light of our holding that § 512(c)(1)(B) does not include a specific knowledge requirement, we think it prudent to remand to the District Court to consider in the first instance whether the plaintiffs have adduced sufficient evidence to allow a reasonable jury to conclude that YouTube had the

¹² *UMG II*, 665 F. Supp. 2d at 1112.

¹³ Other courts have suggested that control may exist where the service provider is “actively involved in the listing, bidding, sale and delivery” of items offered for sale, *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001), or otherwise controls vendor sales by previewing products prior to their listing, editing product descriptions, or suggesting prices, *Corbis Corp.*, 351 F. Supp. 2d at 1110. Because these cases held that control did *not* exist, however, it is not clear that the practices cited therein are individually sufficient to support a finding of control.

right and ability to control the infringing activity and received a financial benefit directly attributable to that activity.

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

The § 512(c) safe harbor is only available when the infringement occurs “by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider.” 17 U.S.C. § 512(c)(1). In this case, the District Court held that YouTube’s software functions fell within the safe harbor for infringements that occur “by reason of” user storage, noting that a contrary holding would “confine[] the word ‘storage’ too narrowly to meet the statute’s purpose.” *Viacom*, 718 F. Supp. 2d at 526. For the reasons that follow, we affirm that holding with respect to three of the challenged software functions—the conversion (or “transcoding”) of videos into a standard display format, the playback of videos on “watch” pages, and the “related videos” function. We remand for further fact-finding with respect to a fourth software function, involving the third-party syndication of videos uploaded to YouTube.

As a preliminary matter, we note that “the structure and language of OCILLA indicate that service providers seeking safe harbor under [§] 512(c) are not limited to merely storing material.” *Io Grp.*, 586 F. Supp. 2d at 1147. The structure of the statute distinguishes between so-called “conduit only” functions under § 512(a) and the functions addressed by § 512(c) and the other subsections. *See* 17 U.S.C. § 512(n) (“Subsections (a), (b), (c), and (d) describe separate and distinct functions for purposes of applying this section.”). Most notably, OCILLA contains two definitions of “service provider.” 17 U.S.C. § 512(k)(1)(A)–(B). The narrower definition, which applies only to service providers falling under § 512(a), is limited to entities that “offer[] the transmission, routing or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, *without modification to the content of the material* as sent or received.”

Id. § 512(k)(1)(A) (emphasis added). No such limitation appears in the broader definition, which applies to service providers—including YouTube—falling under § 512(c). Under the broader definition, “the term ‘service provider’ means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A).” *Id.* § 512(k)(1)(B). In the absence of a parallel limitation on the ability of a service provider to modify user-submitted material, we conclude that § 512(c) “is clearly meant to cover more than mere electronic storage lockers.” *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081, 1088 (C.D. Cal. 2008) (“*UMG P*”).

The relevant case law makes clear that the § 512(c) safe harbor extends to software functions performed “for the purpose of facilitating access to user-stored material.” *Id.*; see *Shelster Capital*, 667 F.3d at 1031–35. Two of the software functions challenged here—transcoding and playback—were expressly considered by our sister Circuit in *Shelster Capital*, which held that liability arising from these functions occurred “by reason of the storage at the direction of a user.” 17 U.S.C. § 512(c); see *Shelster Capital*, 667 F.3d at 1027–28, 1031; see also *UMG I*, 620 F. Supp. 2d at 1089–91; *Io Group*, 586 F. Supp. 2d at 1146–48. Transcoding involves “[m]aking copies of a video in a different encoding scheme” in order to render the video “viewable over the Internet to most users.” Supp. Joint App’x I:236. The playback process involves “deliver[ing] copies of YouTube videos to a user’s browser cache” in response to a user request. *Id.* at 239. The District Court correctly found that to exclude these automated functions from the safe harbor would eviscerate the protection afforded to service providers by § 512(c). *Viacom*, 718 F. Supp. 2d at 526–27.

A similar analysis applies to the “related videos” function, by which a YouTube computer algorithm identifies and displays “thumbnails” of clips that are “related” to the video selected by the user. The plaintiffs claim that this practice constitutes content promotion, not “access” to stored

content, and therefore falls beyond the scope of the safe harbor. Citing similar language in the Racketeer Influenced and Corrupt Organizations Act (“RICO”), 18 U.S.C. §§ 1961–68, and the Clayton Act, 15 U.S.C. §§ 12 *et seq.*, the plaintiffs argue that the statutory phrase “by reason of” requires a finding of proximate causation between the act of storage and the infringing activity. *See, e.g., Holmes v. Sec. Investor Prot. Corp.*, 503 U.S. 258, 267–68 (1992) (holding that the “by reason of” language in the RICO statute requires proximate causation). But even if the plaintiffs are correct that § 512(c) incorporates a principle of proximate causation—a question we need not resolve here—the indexing and display of related videos retain a sufficient causal link to the prior storage of those videos. The record makes clear that the related videos algorithm “is fully automated and operates solely in response to user input without the active involvement of YouTube employees.” Supp. Joint App’x I:237. Furthermore, the related videos function serves to help YouTube users locate and gain access to material stored at the direction of other users. Because the algorithm “is closely related to, and follows from, the storage itself,” and is “narrowly directed toward providing access to material stored at the direction of users,” *UMG I*, 620 F. Supp. 2d at 1092, we conclude that the related videos function is also protected by the § 512(c) safe harbor.

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

advisory opinion on the outer boundaries of the storage provision, we remand for fact-finding on the question of whether any of the clips-in-suit were in fact syndicated to any other third party.

D. Other Arguments

1. Repeat Infringer Policy

The class plaintiffs briefly argue that YouTube failed to comply with the requirements of § 512(i), which conditions safe harbor eligibility on the service provider having “adopted and reasonably implemented . . . a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers.” 17 U.S.C. § 512(i)(1)(A). Specifically, the class plaintiffs allege that YouTube “deliberately set up its identification tools to try to avoid identifying infringements of class plaintiffs’ works.” This allegation rests primarily on the assertion that YouTube permitted only designated “partners” to gain access to content identification tools by which YouTube would conduct network searches and identify infringing material.¹⁴

Because the class plaintiffs challenge YouTube’s deployment of search technology, we must consider their § 512(i) argument in conjunction with § 512(m). As previously noted, § 512(m) provides that safe harbor protection cannot be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, *except to the extent consistent with a standard technical measure complying with the provisions of subsection (i).*” 17 U.S.C. § 512(m)(1) (emphasis added). In other words, the safe harbor expressly disclaims any affirmative monitoring requirement—except to the extent that such monitoring comprises a “standard technical measure” within the meaning of § 512(i). Refusing to accommodate or implement a “standard technical measure” exposes a service provider to

¹⁴ The class plaintiffs also assert, in a single sentence, that YouTube failed to implement any repeat infringer policy prior to March 2006, and that the defendants are therefore excluded from the safe harbor for any infringing activity before that date. This one-sentence argument is insufficient to raise the issue for review before this Court. Accordingly, we deem the issue waived on appeal. *See, e.g., Norton v. Sam’s Club*, 145 F.3d 114, 117 (2d Cir. 1998) (“Issues not sufficiently argued in the briefs are considered waived and normally will not be addressed on appeal.”).

liability; refusing to provide access to mechanisms by which a service provider affirmatively monitors its own network has no such result. In this case, the class plaintiffs make no argument that the content identification tools implemented by YouTube constitute “standard technical measures,” such that YouTube would be exposed to liability under § 512(i). For that reason, YouTube cannot be excluded from the safe harbor by dint of a decision to restrict access to its proprietary search mechanisms.

2. Affirmative Claims

Finally, the plaintiffs argue that the District Court erred in denying summary judgment to the plaintiffs on their claims for direct infringement, vicarious liability, and contributory liability under *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). In granting summary judgment to the defendants, the District Court held that YouTube “qualif[ied] for the protection of . . . § 512(c),” and therefore denied the plaintiffs’ cross-motion for summary judgment without comment. *Viacom*, 718 F. Supp. 2d at 529.

The District Court correctly determined that a finding of safe harbor application necessarily protects a defendant from all affirmative claims for monetary relief. 17 U.S.C. § 512(c)(1); *see* H.R. Rep. No. 105-551(II), at 50; S. Rep. No. 105-190, at 20; *cf.* 17 U.S.C. § 512(j) (setting forth the scope of injunctive relief available under § 512). For the reasons previously stated, further fact-finding is required to determine whether YouTube is ultimately entitled to safe harbor protection in this case. Accordingly, we vacate the order denying summary judgment to the plaintiffs and remand the cause without expressing a view on the merits of the plaintiffs’ affirmative claims.

CONCLUSION

To summarize, we hold that:

- (1) The District Court correctly held that 17 U.S.C. § 512(c)(1)(A) requires knowledge or awareness of facts or circumstances that indicate specific and identifiable instances of infringement;
- (2) However, the June 23, 2010 order granting summary judgment to YouTube is **VACATED** because a reasonable jury could conclude that YouTube had knowledge or awareness under § 512(c)(1)(A) at least with respect to a handful of specific clips; the cause is **REMANDED** for the District Court to determine whether YouTube had knowledge or awareness of any specific instances of infringement corresponding to the clips-in-suit;
- (3) The willful blindness doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under § 512(c)(1)(A); the cause is **REMANDED** for the District Court to consider the application of the willful blindness doctrine in the first instance;
- (4) The District Court erred by requiring “item-specific” knowledge of infringement in its interpretation of the “right and ability to control” infringing activity under 17 U.S.C. § 512(c)(1)(B), and the judgment is **REVERSED** insofar as it rests on that erroneous construction of the statute; the cause is **REMANDED** for further fact-finding by the District Court on the issues of control and financial benefit;
- (5) The District Court correctly held that three of the challenged YouTube software functions—replication, playback, and the related videos feature—occur “by reason of the storage at the direction of a user” within the meaning of 17 U.S.C. § 512(c)(1), and

the judgment is **AFFIRMED** insofar as it so held; the cause is **REMANDED** for further fact-finding regarding a fourth software function, involving the syndication of YouTube videos to third parties.

On remand, the District Court shall allow the parties to brief the following issues, with a view to permitting renewed motions for summary judgment as soon as practicable:

- (A) Whether, on the current record, YouTube had knowledge or awareness of any specific infringements (including any clips-in-suit not expressly noted in this opinion);
- (B) Whether, on the current record, YouTube willfully blinded itself to specific infringements;
- (C) Whether YouTube had the “right and ability to control” infringing activity within the meaning of § 512(c)(1)(B); and
- (D) Whether any clips-in-suit were syndicated to a third party and, if so, whether such syndication occurred “by reason of the storage at the direction of the user” within the meaning of § 512(c)(1), so that YouTube may claim the protection of the § 512(c) safe harbor.

We leave to the sound discretion of the District Court the question of whether some additional, guided discovery is appropriate in order to resolve “(C)” (“[w]hether YouTube had ‘the right and ability to control’ infringing activity”), and “(D)” (“[w]hether any clips-in-suit were syndicated to a third party”). As noted above, for purposes of this case, the record with respect to “(A)” (“[w]hether . . . YouTube had knowledge or awareness of any specific infringements”) and “(B)” (“[w]hether . . . YouTube willfully blinded itself to specific infringements”) is now complete.

Each party shall bear its own costs.

APPENDIX A**RELEVANT PROVISIONS OF THE DIGITAL MILLENNIUM COPYRIGHT ACT****17 U.S.C. § 512****(c) Information residing on systems or networks at direction of users.—**

(1) In general.—A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider—

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

(2) Designated agent.—The limitations on liability established in this subsection apply to a service provider only if the service provider has designated an agent to receive notifications of claimed infringement described in paragraph (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.

(B) other contact information which the Register of Copyrights may deem appropriate.

The Register of Copyrights shall maintain a current directory of agents available to the public for inspection, including through the Internet, and may require payment of a fee by service providers to cover the costs of maintaining the directory.

(3) Elements of notification.—

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:

(i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a representative list of such works at that site.

(iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.

(iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.

(v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.

(vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(B)(i) Subject to clause (ii), a notification from a copyright owner or from a person authorized to act on behalf of the copyright owner that fails to comply substantially with the provisions of subparagraph (A) shall not be considered under paragraph (1)(A) in determining whether a service provider has actual knowledge or is aware of facts or circumstances from which infringing activity is apparent.

(ii) In a case in which the notification that is provided to the service provider's designated agent fails to comply substantially with all the provisions of subparagraph (A) but substantially complies with clauses (ii), (iii), and (iv) of subparagraph (A), clause (i) of this subparagraph applies only if the service provider promptly attempts to contact the person making the notification or takes other reasonable steps to assist in the receipt of notification that substantially complies with all the provisions of subparagraph (A).

(i) Conditions for Eligibility.—

(1) Accommodation of technology.— The limitations on liability established by this section shall apply to a service provider only if the service provider—

(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers; and

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

(2) Definition.— As used in this subsection, the 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.

(k) Definitions.—

(1) Service provider.—

(A) As used in subsection (a), the term “service provider” means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.

(B) As used in this section, other than subsection (a), the term “service provider” means a provider of online services or network access, or the operator of facilities therefor, and includes an entity described in subparagraph (A).

(2) Monetary relief.— As used in this section, the term “monetary relief” means damages, costs, attorneys’ fees, and any other form of monetary payment.

(m) Protection of privacy.—Nothing in this section shall be construed to condition the applicability of subsections (a) through (d) on—

(1) a service provider monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure complying with the provisions of subsection (i); or

(2) a service provider gaining access to, removing, or disabling access to material in cases in which such conduct is prohibited by law.

(n) Construction.—

Subsections (a), (b), (c), and (d) describe separate and distinct functions for purposes of applying this section. 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 such subsection.

[Read this case](#)[How cited](#)**Cartoon Network LP, LLLP v. CSC Holdings, Inc., 536 F. 3d 121 - Court of Appeals, 2nd Circuit 2008**Highlighting **Cartoon Network v Cablevision, 536 F.3d 121 (2d Cir. 2008)** [Remove highlighting](#)

536 F.3d 121 (2008)

**The CARTOON NETWORK LP, LLLP and Cable News Network L.P., L.L.L.P.,
Plaintiffs-Counter-Claimants-Defendants-Appellees,
Twentieth Century Fox Film Corporation, Universal City Studios
Productions LLLP, Paramount Pictures Corporation, Disney Enterprises
Inc., CBS Broadcasting Inc., American Broadcasting Companies, Inc., NBC
Studios, Inc., Plaintiffs-Counter-Defendants-Appellees,
v.
CSC HOLDINGS, INC. and Cablevision Systems Corporation, Defendants-
Counterclaim-Plaintiffs-Third-Party Plaintiffs-Appellants,
v.
Turner Broadcasting System, Inc., Cable News Network LP, LLP, Turner
Network Sales, Inc., Turner Classic Movies, L.P., LLLP, Turner Network
Television LP, LLLP, Third-Party-Defendants-Appellees.**

Docket Nos. 07-1480-cv(L), 07-1511-cv(CON).

United States Court of Appeals, Second Circuit.

Argued: October 24, 2007.

Decided: August 4, **2008**.

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Before: WALKER, SACK, and LIVINGSTON, Circuit Judges.

JOHN M. WALKER, JR., Circuit Judge:

Defendant-Appellant **Cablevision** Systems Corporation ("**Cablevision**") wants to market a new "Remote Storage" Digital Video Recorder system ("RS-DVR"), using a technology akin to both traditional, set-top digital video recorders, like TiVo ("DVRs"), and the video-on-demand ("VOD") services provided by many cable companies. Plaintiffs-Appellees produce copyrighted movies and television programs that they provide to **Cablevision** pursuant to numerous licensing agreements. They contend that **Cablevision**, through the operation of its RS-DVR system as proposed, would directly infringe their copyrights both by making unauthorized reproductions, and by engaging in public performances, of their copyrighted works. The material facts are not in dispute. Because we conclude that **Cablevision** would not directly infringe plaintiffs' rights under the Copyright Act by offering its RS-DVR system to consumers, we reverse the district court's award of summary judgment to plaintiffs, and we vacate its injunction against **Cablevision**.

BACKGROUND

Today's television viewers increasingly use digital video recorders ("DVRs") instead of video cassette recorders ("VCRs") to record television programs and play them back later at their convenience. DVRs generally store recorded programming on an internal hard drive rather than a cassette. But, as this case demonstrates, the generic term "DVR" actually refers to a growing number of different devices and systems. Companies like TiVo sell a stand-alone DVR device that is typically connected to a user's cable box and television much like a VCR. Many cable companies also lease to their subscribers "set-top storage DVRs," which combine many of the functions of a standard cable box and a stand-alone DVR in a single device.

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*124 In March 2006, **Cablevision**, an operator of cable television systems, announced the advent of its new "Remote Storage DVR System." As designed, the RS-DVR allows **Cablevision** customers who do not have a stand-alone DVR to record cable programming on central hard drives housed and maintained by **Cablevision** at a "remote" location. RS-DVR customers may then receive playback of those programs through their home television sets, using only a remote control and a standard cable box equipped with the RS-DVR software. **Cablevision** notified its content providers, including plaintiffs, of its plans to offer RS-DVR, but it did not seek any license from them to operate or sell the RS-DVR.

Plaintiffs, which hold the copyrights to numerous movies and television programs, sued **Cablevision** for declaratory and injunctive relief. They alleged that **Cablevision's** proposed operation of the RS-DVR would directly infringe their exclusive rights to both reproduce and publicly perform their copyrighted works. Critically for our analysis here, plaintiffs alleged theories only of direct infringement, not contributory infringement, and defendants waived any defense based on fair use.

Ultimately, the United States District Court for the Southern District of New York (Denny Chin, *Judge*), awarded summary judgment to the plaintiffs and enjoined **Cablevision** from operating the RS-DVR system without licenses from its content providers. See [Twentieth Century Fox Film Corp. v. Cablevision Sys. Corp. \(*Cablevision I*\), 478 F.Supp.2d 607 \(S.D.N.Y.2007\)](#). At the outset, we think it helpful to an understanding of our decision to describe, in greater detail, both the RS-DVR and the district court's opinion.

I. Operation of the RS-DVR System

Cable companies like **Cablevision** aggregate television programming from a wide variety of "content providers"—the various broadcast and cable channels that produce or provide individual programs—and transmit those programs into the homes of their subscribers via coaxial cable. At the outset of the transmission process, **Cablevision** gathers the content of the various television channels into a single stream of data. Generally, this stream is processed and transmitted to **Cablevision's** customers in real time. Thus, if a **Cartoon Network** program is scheduled to air Monday night at 8pm, **Cartoon Network** transmits that program's data to **Cablevision** and other cable companies nationwide at that time, and the cable companies immediately re-transmit the data to customers who subscribe to that channel.

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Under the new RS-DVR, this single stream of data is split into two streams. The first is routed immediately to customers as before. The second stream flows into a device called the Broadband Media Router ("BMR"), *id.* at 613, which buffers the data stream, reformats it, and sends it to the "Arroyo Server," which consists, in relevant part, of two data buffers and a number of high-capacity hard disks. The entire stream of data moves to the first buffer (the "primary ingest buffer"), at which point the server automatically inquires as to whether any customers want to record any of that programming. If a customer has requested a particular program, the data for that program move from the primary buffer into a secondary buffer, and then onto a portion of one of the hard disks allocated to that customer. As new data flow into the primary buffer, they overwrite a corresponding quantity of data already on the buffer. The primary ingest buffer holds no more than 0.1 seconds of each channel's programming at any moment. Thus, every tenth of a second, the data residing on this buffer are automatically erased and replaced. The *125 data buffer in the BMR holds no more than 1.2 seconds of programming at any time. While buffering occurs at other points in the operation of the RS-DVR, only the BMR buffer and the primary ingest buffer are utilized absent any request from an individual subscriber.

As the district court observed, "the RS-DVR is not a single piece of equipment," but rather "a complex system requiring numerous computers, processes, networks of cables, and facilities staffed by personnel twenty-four hours a day and seven days a week." *Id.* at 612. To the

customer, however, the processes of recording and playback on the RS-DVR are similar to that of a standard set-top DVR. Using a remote control, the customer can record programming by selecting a program in advance from an on-screen guide, or by pressing the record button while viewing a given program. A customer cannot, however, record the earlier portion of a program once it has begun. To begin playback, the customer selects the show from an on-screen list of previously recorded programs. See *id.* at 614-16. The principal difference in operation is that, instead of sending signals from the remote to an on-set box, the viewer sends signals from the remote, through the cable, to the Arroyo Server at **Cablevision's** central facility. See *id.* In this respect, RS-DVR more closely resembles a VOD service, whereby a cable subscriber uses his remote and cable box to request transmission of content, such as a movie, stored on computers at the cable company's facility. *Id.* at 612. But unlike a VOD service, RS-DVR users can only play content that they previously requested to be recorded.

Cablevision has some control over the content available for recording: a customer can only record programs on the channels offered by **Cablevision** (assuming he subscribes to them). **Cablevision** can also modify the system to limit the number of channels available and considered doing so during development of the RS-DVR. *Id.* at 613.

II. The District Court's Decision

In the district court, plaintiffs successfully argued that **Cablevision's** proposed system would directly infringe their copyrights in three ways. First, by briefly storing data in the primary ingest buffer and other data buffers integral to the function of the RS-DVR, **Cablevision** would make copies of protected works and thereby directly infringe plaintiffs' exclusive right of reproduction under the Copyright Act. Second, by copying programs onto the Arroyo Server hard disks (the "playback copies"), **Cablevision** would again directly infringe the reproduction right. And third, by transmitting the data from the Arroyo Server hard disks to its RS-DVR customers in response to a "playback" request, **Cablevision** would directly infringe plaintiffs' exclusive right of public performance. See *id.* at 617. Agreeing with all three arguments, the district court awarded summary declaratory judgment to plaintiffs and enjoined **Cablevision** from operating the RS-DVR system without obtaining licenses from the plaintiff copyright holders.

As to the buffer data, the district court rejected defendants' arguments 1) that the data were not "fixed" and therefore were not "copies" as defined in the Copyright Act, and 2) that any buffer copying was de minimis because the buffers stored only small amounts of data for very short periods of time. In rejecting the latter argument, the district court noted that the "aggregate effect of the buffering" was to reproduce the entirety of **Cablevision's** programming, and such copying "can hardly be called de minimis." *Id.* at 621.

126 *126 On the issue of whether creation of the playback copies made **Cablevision** liable for direct infringement, the parties and the district court agreed that the dispositive question was "who makes the copies"? *Id.* at 617. Emphasizing **Cablevision's** "unfettered discretion" over the content available for recording, its ownership and maintenance of the RS-DVR components, and its "continuing relationship" with its RS-DVR customers, the district court concluded that "the copying of programming to the RS-DVR's Arroyo servers ... would be done not by the customer but by **Cablevision**, albeit at the customer's request." *Id.* at 618, 620, 621.

Finally, as to the public performance right, **Cablevision** conceded that, during the playback, "the streaming of recorded programming in response to a customer's request is a performance." *Id.* at 622. **Cablevision** contended, however, that the work was performed not by **Cablevision**, but by the customer, an argument the district court rejected "for the same reasons that [it] reject[ed] the argument that the customer is 'doing' the copying involved in the RS-DVR." *Id.* **Cablevision** also argued that such a playback transmission was not "to the public," and therefore not a public performance as defined in the Copyright Act, because it "emanates from a distinct copy of a program uniquely associated with one customer's set-top

box and intended for that customer's exclusive viewing in his or her home." *Id.* The district court disagreed, noting that "**Cablevision** would transmit *the same program* to members of the public, who may receive the performance at different times, depending on whether they view the program in real time or at a later time as an RS-DVR playback." *Id.* at 623 (emphasis added). The district court also relied on a case from the Northern District of California, [On Command Video Corp. v. Columbia Pictures Industries, 777 F.Supp. 787 \(N.D.Cal.1991\)](#), which held that when the relationship between the transmitter and the audience of a performance is commercial, the transmission is "to the public," see [Cablevision I, 478 F.Supp.2d at 623](#) (citing [On Command, 777 F.Supp. at 790](#)).

Finding that the operation of the RS-DVR would infringe plaintiffs' copyrights, the district court awarded summary judgment to plaintiffs and enjoined **Cablevision** from copying or publicly performing plaintiffs' copyrighted works "in connection with its proposed RS-DVR system," unless it obtained the necessary licenses. [Cablevision I, 478 F.Supp.2d at 624](#). **Cablevision** appealed.

DISCUSSION

We review a district court's grant of summary judgment de novo. [Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 607 \(2d Cir.2006\)](#).

"Section 106 of the Copyright Act grants copyright holders a bundle of exclusive rights..." *Id.* at 607-08. This case implicates two of those rights: the right "to reproduce the copyrighted work in copies," and the right "to perform the copyrighted work publicly." 17 U.S.C. § 106(1), (4). As discussed above, the district court found that **Cablevision** infringed the first right by 1) buffering the data from its programming stream and 2) copying content onto the Arroyo Server hard disks to enable playback of a program requested by an RS-DVR customer. In addition, the district court found that **Cablevision** would infringe the public performance right by transmitting a program to an RS-DVR customer in response to that customer's playback request. We address each of these three allegedly infringing acts in turn.

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*127 I. The Buffer Data

It is undisputed that **Cablevision**, not any customer or other entity, takes the content from one stream of programming, after the split, and stores it, one small piece at a time, in the BMR buffer and the primary ingest buffer. As a result, the information is buffered before any customer requests a recording, and would be buffered even if no such request were made. The question is whether, by buffering the data that make up a given work, **Cablevision** "reproduce[s]" that work "in copies," 17 U.S.C. § 106(1), and thereby infringes the copyright holder's reproduction right.

"Copies," as defined in the Copyright Act, "are material objects ... in which a work is fixed by any method ... and from which the work can be ... reproduced." *Id.* § 101. The Act also provides that a work is "'fixed' in a tangible medium of expression when its embodiment ... is sufficiently permanent or stable to permit it to be ... reproduced ... for a period of more than transitory duration." *Id.* (emphasis added). We believe that this language plainly imposes two distinct but related requirements: the work must be embodied in a medium, i.e., placed in a medium such that it can be perceived, reproduced, etc., from that medium (the "embodiment requirement"), and it must remain thus embodied "for a period of more than transitory duration" (the "duration requirement"). See 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.02[B][3], at 8-32 (2007). Unless both requirements are met, the work is not "fixed" in the buffer, and, as a result, the buffer data is not a "copy" of the original work whose data is buffered.

The district court mistakenly limited its analysis primarily to the embodiment requirement. As a result of this error, once it determined that the buffer data was "[c]learly ... capable of being

reproduced," i.e., that the work was embodied in the buffer, the district court concluded that the work was therefore "fixed" in the buffer, and that a copy had thus been made. [Cablevision I, 478 F.Supp.2d at 621-22](#). In doing so, it relied on a line of cases beginning with [MAI Systems Corp. v. Peak Computer Inc., 991 F.2d 511 \(9th Cir.1993\)](#). It also relied on the United States Copyright Office's 2001 report on the Digital Millennium Copyright Act, which states, in essence, that an embodiment is fixed "[u]nless a reproduction manifests itself so fleetingly that it cannot be copied." U.S. Copyright Office, *DMCA Section 104 Report* 111 (Aug.2001) ("*DMCA Report*") (emphasis added), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>.

The district court's reliance on cases like *MAI Systems* is misplaced. In general, those cases conclude that an alleged copy is fixed without addressing the duration requirement; it does not follow, however, that those cases assume, much less establish, that such a requirement does not exist. Indeed, the duration requirement, by itself, was not at issue in *MAI Systems* and its progeny. As a result, they do not speak to the issues squarely before us here: If a work is only "embodied" in a medium for a period of transitory duration, can it be "fixed" in that medium, and thus a copy? And what constitutes a period "of more than transitory duration"?

128 In *MAI Systems*, defendant Peak Computer, Inc., performed maintenance and repairs on computers made and sold by MAI Systems. In order to service a customer's computer, a Peak employee had to operate the computer and run the computer's copyrighted operating system software. See [MAI Sys., 991 F.2d at 513](#). The issue in *MAI Systems* was whether, *128 by loading the software into the computer's RAM,^[1] the repairman created a "copy" as defined in § 101. See *id.* at 517. The resolution of this issue turned on whether the software's embodiment in the computer's RAM was "fixed," within the meaning of the same section. The Ninth Circuit concluded that

by showing that Peak loads the software into the RAM and is then able to view the system error log and diagnose the problem with the computer, MAI has adequately shown that the representation created in the RAM is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration."

Id. at 518 (quoting 17 U.S.C. § 101).

The *MAI Systems* court referenced the "transitory duration" language but did not discuss or analyze it. The opinion notes that the defendants "vigorously" argued that the program's embodiment in the RAM was not a copy, but it does not specify the arguments defendants made. *Id.* at 517. This omission suggests that the parties did not litigate the significance of the "transitory duration" language, and the court therefore had no occasion to address it. This is unsurprising, because it seems fair to assume that in these cases the program was embodied in the RAM for at least several minutes.

Accordingly, we construe *MAI Systems* and its progeny as holding that loading a program into a computer's RAM *can* result in copying that program. We do not read *MAI Systems* as holding that, as a matter of law, loading a program into a form of RAM *always* results in copying. Such a holding would read the "transitory duration" language out of the definition, and we do not believe our sister circuit would dismiss this statutory language without even discussing it. It appears the parties in *MAI Systems* simply did not dispute that the duration requirement was satisfied; this line of cases simply concludes that when a program is loaded into RAM, the embodiment requirement is satisfied—an important holding in itself, and one we see no reason to quibble with here.^[2]

129 At least one court, relying on *MAI Systems* in a highly similar factual setting, has made this point explicitly. In *Advanced Computer Services of Michigan, Inc. v. MAI Systems Corp.*, the district court expressly noted that the unlicensed user in that case ran copyrighted diagnostic

software "for minutes or longer," but that the program's embodiment in the computer's RAM might be too ephemeral to be fixed if the computer had been shut down "within *129 seconds or fractions of a second" after loading the copyrighted program. 845 F.Supp. 356, 363 (E.D.Va.1994). We have no quarrel with this reasoning; it merely makes explicit the reasoning that is implicit in the other *MAI Systems* cases. Accordingly, those cases provide no support for the conclusion that the definition of "fixed" does not include a duration requirement. See [Webster v. Fall, 266 U.S. 507, 511, 45 S.Ct. 148, 69 L.Ed. 411 \(1924\)](#) ("Questions which merely lurk in the record, neither brought to the attention of the court nor ruled upon, are not to be considered as having been so decided as to constitute precedents.").

Nor does the Copyright Office's 2001 DMCA Report, also relied on by the district court in this case, explicitly suggest that the definition of "fixed" does not contain a duration requirement. However, as noted above, it does suggest that an embodiment is fixed "[u]nless a reproduction manifests itself so fleetingly that it cannot be copied, perceived or communicated." *DMCA Report, supra*, at 111. As we have stated, to determine whether a work is "fixed" in a given medium, the statutory language directs us to ask not only 1) whether a work is "embodied" in that medium, but also 2) whether it is embodied in the medium "for a period of more than transitory duration." According to the Copyright Office, if the work is capable of being copied from that medium *for any amount of time*, the answer to both questions is "yes." The problem with this interpretation is that it reads the "transitory duration" language out of the statute.

We assume, as the parties do, that the Copyright Office's pronouncement deserves only *Skidmore* deference, deference based on its "power to persuade." [Skidmore v. Swift & Co., 323 U.S. 134, 140, 65 S.Ct. 161, 89 L.Ed. 124 \(1944\)](#). And because the Office's interpretation does not explain why Congress would include language in a definition if it intended courts to ignore that language, we are not persuaded.

In sum, no case law or other authority dissuades us from concluding that the definition of "fixed" imposes both an embodiment requirement and a duration requirement. *Accord CoStar Group Inc. v. LoopNet, Inc., 373 F.3d 544, 551 (4th Cir. 2004)* (while temporary reproductions "may be made in this transmission process, they would appear not to be 'fixed' in the sense that they are 'of more than transitory duration'"). We now turn to whether, in this case, those requirements are met by the buffer data.

Cablevision does not seriously dispute that copyrighted works are "embodied" in the buffer. Data in the BMR buffer can be reformatted and transmitted to the other components of the RS-DVR system. Data in the primary ingest buffer can be copied onto the Arroyo hard disks if a user has requested a recording of that data. Thus, a work's "embodiment" in either buffer "is sufficiently permanent or stable to permit it to be perceived, reproduced," (as in the case of the ingest buffer) "or otherwise communicated" (as in the BMR buffer). 17 U.S.C. § 101. The result might be different if only a single second of a much longer work was placed in the buffer in isolation. In such a situation, it might be reasonable to conclude that only a minuscule portion of a work, rather than "a work" was embodied in the buffer. Here, however, where every second of an entire work is placed, one second at a time, in the buffer, we conclude that the work is embodied in the buffer.

130 Does any such embodiment last "for a period of more than transitory duration"? *Id.* No bit of data remains in any buffer for more than a fleeting 1.2 seconds. And unlike the data in cases like *MAI *130 Systems*, which remained embodied in the computer's RAM memory until the user turned the computer off, each bit of data here is rapidly and automatically overwritten as soon as it is processed. While our inquiry is necessarily fact-specific, and other factors not present here may alter the duration analysis significantly, these facts strongly suggest that the works in this case are embodied in the buffer for only a "transitory" period, thus failing the duration requirement.

Against this evidence, plaintiffs argue only that the duration is not transitory because the data

persist "long enough for **Cablevision** to make reproductions from them." Br. of Pls.-Appellees the **Cartoon Network** et al. at 51. As we have explained above, however, this reasoning impermissibly reads the duration language out of the statute, and we reject it. Given that the data reside in no buffer for more than 1.2 seconds before being automatically overwritten, and in the absence of compelling arguments to the contrary, we believe that the copyrighted works here are not "embodied" in the buffers for a period of more than transitory duration, and are therefore not "fixed" in the buffers. Accordingly, the acts of buffering in the operation of the RS-DVR do not create copies, as the Copyright Act defines that term. Our resolution of this issue renders it unnecessary for us to determine whether any copies produced by buffering data would be de minimis, and we express no opinion on that question.

II. Direct Liability for Creating the Playback Copies

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

Few cases examine the line between direct and contributory liability. Both parties cite a line of cases beginning with [Religious Technology Center v. Netcom On-Line Communication Services](#), 907 F.Supp. 1361 (N.D.Cal.1995). In *Netcom*, a third-party customer of the defendant Internet service provider ("ISP") posted a copyrighted work that was automatically reproduced by the defendant's computer. The district court refused to impose direct liability on the ISP, reasoning that "[a]lthough copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party." *Id.* at 1370. Recently, the Fourth Circuit endorsed the *Netcom* decision, noting that

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

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

131 *131 Here, the district court pigeon-holed the conclusions reached in *Netcom* and its progeny as "premised on the unique attributes of the Internet." [Cablevision I](#), 478 F.Supp.2d at 620. While the *Netcom* court was plainly concerned with a theory of direct liability that would effectively "hold the entire Internet liable" for the conduct of a single user, [907 F.Supp. at 1372](#), its reasoning and conclusions, consistent with precedents of this court and the Supreme Court, and with the text of the Copyright Act, transcend the Internet. Like the Fourth Circuit, we reject the contention that "the *Netcom* decision was driven by expedience and that its holding is inconsistent with the established law of copyright," [CoStar](#), 373 F.3d at 549, and we find it "a particularly rational interpretation of § 106," *id.* at 551, rather than a special-purpose rule applicable only to ISPs.

When there is a dispute as to the author of an allegedly infringing instance of reproduction, *Netcom* and its progeny direct our attention to the volitional conduct that causes the copy to be made. There are only two instances of volitional conduct in this case: **Cablevision's** conduct in

designing, housing, and maintaining a system that exists only to produce a copy, and a customer's conduct in ordering that system to produce a copy of a specific program. In the case of a VCR, it seems clear — and we know of no case holding otherwise — that the operator of the VCR, the person who actually presses the button to make the recording, supplies the necessary element of volition, not the person who manufactures, maintains, or, if distinct from the operator, owns the machine. We do not believe that an RS-DVR customer is sufficiently distinguishable from a VCR user to impose liability as a direct infringer on a different party for copies that are made automatically upon that customer's command.

The district court emphasized the fact that copying is "instrumental" rather than "incidental" to the function of the RS-DVR system. [*Cablevision I*, 478 F.Supp.2d at 620](#). While that may distinguish the RS-DVR from the ISPs in *Netcom* and *CoStar*, it does not distinguish the RS-DVR from a VCR, a photocopier, or even a typical copy shop. And the parties do not seem to contest that a company that merely makes photocopiers available to the public on its premises, without more, is not subject to liability for direct infringement for reproductions made by customers using those copiers. They only dispute whether **Cablevision** is similarly situated to such a proprietor.

The district court found **Cablevision** analogous to a copy shop that makes course packs for college professors. In the leading case involving such a shop, for example, "[t]he professor [gave] the copyshop the materials of which the coursepack [was] to be made up, and the copyshop [did] the rest." [*Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1384 \(6th Cir.1996\) \(en banc\)](#). There did not appear to be any serious dispute in that case that the shop itself was directly liable for reproducing copyrighted works. The district court here found that **Cablevision**, like this copy shop, would be "doing" the copying, albeit "at the customer's behest." [*Cablevision I*, 478 F.Supp.2d at 620](#).

132 But because volitional conduct is an important element of direct liability, the district court's analogy is flawed. In determining who actually "makes" a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct. In cases like *Princeton University Press*, the defendants operated a copying device and sold the product they made using that device. See [*99 F.3d at 1383*](#) ("The corporate defendant ... is a commercial copyshop that reproduced substantial segments of copyrighted works of scholarship, bound the copies into 'coursepacks,' and sold the coursepacks to students...."). Here, by selling access to a system that automatically produces copies on command, **Cablevision** more closely resembles a store proprietor who charges customers to use a photocopier on his premises, and it seems incorrect to say, without more, that such a proprietor "makes" any copies when his machines are actually operated by his customers. See [*Netcom*, 907 F.Supp. at 1369](#). Some courts have held to the contrary, but they do not explicitly explain why, and we find them unpersuasive. See, e.g., [*Elektra Records Co. v. Gem Elec. Distribs., Inc.*, 360 F.Supp. 821, 823 \(E.D.N.Y.1973\)](#) (concluding that, "regardless" of whether customers or defendants' employees operated the tape-copying machines at defendants' stores, defendant had actively infringed copyrights).

The district court also emphasized **Cablevision's** "unfettered discretion in selecting the programming that it would make available for recording." [*Cablevision I*, 478 F.Supp.2d at 620](#). This conduct is indeed more proximate to the creation of illegal copying than, say, operating an ISP or opening a copy shop, where all copied content was supplied by the customers themselves or other third parties. Nonetheless, we do not think it sufficiently proximate to the copying to displace the customer as the person who "makes" the copies when determining liability under the Copyright Act. **Cablevision**, we note, also has subscribers who use home VCRs or DVRs (like TiVo), and has significant control over the content recorded by these customers. But this control is limited to the channels of programming available to a customer and not to the programs themselves. **Cablevision** has no control over what programs are made available on individual channels or when those programs will air, if at all. In this respect,

Cablevision possesses far less control over recordable content than it does in the VOD context, where it actively selects and makes available beforehand the individual programs available for viewing. For these reasons, we are not inclined to say that **Cablevision**, rather than the user, "does" the copying produced by the RS-DVR system. As a result, we find that the district court erred in concluding that **Cablevision**, rather than its RS-DVR customers, makes the copies carried out by the RS-DVR system.

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

133 Most of the facts found dispositive by the district court—e.g., **Cablevision's** "continuing relationship" with its RS-DVR customers, its control over recordable content, and the "instrumental[ity]" of copying to the RS-DVR system, [Cablevision I, 478 F.Supp.2d at 618-20](#)—seem to us more relevant to the question of contributory liability. In *Sony Corp. of America v. Universal City Studios, Inc.*, the lack of an "ongoing relationship" between Sony and its VCR customers supported the Court's conclusion that it should not impose *contributory* liability on Sony for any infringing copying done by Sony VCR owners. 464 U.S. 417, 437-38, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). The *Sony* Court did deem it "just" to impose liability on a party in a "position to control" the infringing uses of another, but as a contributory, not direct, infringer. *Id.* at 437, 104 S.Ct. 774. And asking whether copying copyrighted material is only "incidental" to a given technology is akin to asking whether that technology has "commercially significant noninfringing uses," another inquiry the *Sony* Court found relevant to whether imposing *contributory* liability was just. *Id.* at 442, 104 S.Ct. 774.

The Supreme Court's desire to maintain a meaningful distinction between direct and contributory copyright infringement is consistent with congressional intent. The Patent Act, unlike the Copyright Act, expressly provides that someone who "actively induces infringement of a patent" is "liable as an infringer," 35 U.S.C. § 271(b), just like someone who commits the underlying infringing act by "us[ing]" a patented invention without authorization, *id.* § 271(a). In contrast, someone who merely "sells ... a material or apparatus for use in practicing a patented process" faces only liability as a "contributory infringer." *Id.* § 271(c). If Congress had meant to assign direct liability to both the person who actually commits a copyright-infringing act and any person who actively induces that infringement, the Patent Act tells us that it knew how to draft a statute that would have this effect. Because Congress did not do so, the *Sony* Court concluded that "[t]he Copyright Act does not expressly render anyone liable for infringement committed by another." 464 U.S. at 434, 104 S.Ct. 774. Furthermore, in cases like *Sony*, the Supreme Court has strongly signaled its intent to use the doctrine of contributory infringement, not direct infringement, to "identify[] the circumstances in which it is just to hold one individual accountable for the actions of another." *Id.* at 435, 104 S.Ct. 774. Thus, although *Sony* warns us that "the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn," *id.* at 435 n. 17, 104 S.Ct. 774 (internal quotation marks and citation omitted), that decision does not absolve us of our duty to discern where that line falls in cases, like this one, that require us to decide the question.

The district court apparently concluded that **Cablevision's** operation of the RS-DVR system would contribute in such a major way to the copying done by another that it made sense to say that **Cablevision** was a direct infringer, and thus, in effect, was "doing" the relevant copying. There are certainly other cases, not binding on us, that follow this approach. See, e.g., [Playboy Enters. v. Russ Hardenburgh, Inc., 982 F.Supp. 503, 513 \(N.D. Ohio 1997\)](#) (noting that defendant ISP's encouragement of its users to copy protected files was "crucial" to finding that

it was a direct infringer). We need not decide today whether one's contribution to the creation of an infringing copy may be so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy. We conclude only that on the facts of this case, copies produced by the RS-DVR system are "made" by the RS-DVR customer, and **Cablevision's** contribution to this reproduction by providing the system does not warrant the imposition of direct liability. Therefore, **Cablevision** is entitled to summary judgment on this point, and the district court erred in awarding summary judgment to plaintiffs.

134

*134 III. Transmission of RS-DVR Playback

Plaintiffs' final theory is that **Cablevision** will violate the Copyright Act by engaging in unauthorized public performances of their works through the playback of the RS-DVR copies. The Act grants a copyright owner the exclusive right, "in the case of ... motion pictures and other audiovisual works, to perform the copyrighted work publicly." 17 U.S.C. § 106(4). Section 101, the definitional section of the Act, explains that

[t]o 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 acquaintances 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 means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

Id. § 101.

The parties agree that this case does not implicate clause (1). Accordingly, we ask whether these facts satisfy the second, "transmit clause" of the public performance definition: Does **Cablevision** "transmit... a performance ... of the work ... to the public"? *Id.* No one disputes that the RS-DVR playback results in the transmission of a performance of a work—the transmission from the Arroyo Server to the customer's television set. **Cablevision** contends that (1) the RS-DVR customer, rather than **Cablevision**, does the transmitting and thus the performing and (2) the transmission is not "to the public" under the transmit clause.

As to **Cablevision's** first argument, we note that our conclusion in Part II that the customer, not **Cablevision**, "does" the copying does not dictate a parallel conclusion that the customer, and not **Cablevision**, "performs" the copyrighted work. The definitions that delineate the contours of the reproduction and public performance rights vary in significant ways. For example, the statute defines the verb "perform" and the noun "copies," but not the verbs "reproduce" or "copy." *Id.* We need not address **Cablevision's** first argument further because, even if we assume that **Cablevision** makes the transmission when an RS-DVR playback occurs, we find that the RS-DVR playback, as described here, does not involve the transmission of a performance "to the public."

The statute itself does not expressly define the term "performance" or the phrase "to the public." It does explain that a transmission may be "to the public ... whether the members of the public capable of receiving the performance ... receive it in the same place or in separate places and at the same time or at different times." *Id.* This plain language instructs us that, in determining whether a transmission is "to the public," it is of no moment that the potential recipients of the transmission are in different places, or that they may receive the transmission at different times. The implication from this same language, however, is that it is relevant, in determining whether a transmission is made to the public, to discern who is "capable of receiving" the performance being transmitted. The fact that the statute says "capable of receiving the performance," instead of "capable of receiving the transmission," underscores the

fact that a transmission of a performance is itself a performance. Cf. [Buck v. Jewell-La Salle Realty Co.](#), 283 U.S. 191, 197-98, 51 S.Ct. 410, 75 L.Ed. 971 (1931).

135 *135 The legislative history of the transmit clause supports this interpretation. The House Report on the 1976 Copyright Act states that

[u]nder the bill, as under the present law, a performance made available by *transmission to the public at large* is "public" even though the recipients are not gathered in a single place, and even if there is no proof that any of the *potential recipients* was operating his receiving apparatus at the time of the transmission. The same principles apply whenever the *potential recipients of the transmission* represent a limited segment of the public, such as the occupants of hotel rooms or the subscribers of a cable television service.

H.R.Rep. No. 94-1476, at 64-65 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5678 (emphases added).

Plaintiffs also reference a 1967 House Report, issued nearly a decade before the Act we are interpreting, stating that the same principles apply where the transmission is "*capable of reaching* different recipients at different times, as in the case of sounds or images stored in an information system and *capable of being performed or displayed* at the initiative of individual members of the public." H.R.Rep. No. 90-83, at 29 (1967) (emphases added). We question how much deference this report deserves. But we need not belabor the point here, as the 1967 report is consistent with both legislative history contemporaneous with the Act's passage and our own interpretation of the statute's plain meaning.

From the foregoing, it is evident that the transmit clause directs us to examine who precisely is "capable of receiving" a particular transmission of a performance. **Cablevision** argues that, because each RS-DVR transmission is made using a single unique copy of a work, made by an individual subscriber, one that can be decoded exclusively by that subscriber's cable box, only one subscriber is capable of receiving any given RS-DVR transmission. This argument accords with the language of the transmit clause, which, as described above, directs us to consider the potential audience of a given transmission. We are unpersuaded by the district court's reasoning and the plaintiffs' arguments that we should consider a larger potential audience in determining whether a transmission is "to the public."

The district court, in deciding whether the RS-DVR playback of a program to a particular customer is "to the public," apparently considered all of **Cablevision's** customers who subscribe to the channel airing that program and all of **Cablevision's** RS-DVR subscribers who request a copy of that program. Thus, it concluded that the RS-DVR playbacks constituted public performances because "**Cablevision** would transmit the *same program* to members of the public, who may receive the performance at different times, depending on whether they view the program in real time or at a later time as an RS-DVR playback." [Cablevision I](#), 478 F.Supp.2d at 623 (emphasis added). In essence, the district court suggested that, in considering whether a transmission is "to the public," we consider not the potential audience of a particular transmission, but the potential audience of the underlying work (i.e., "the program") whose content is being transmitted.

136 We cannot reconcile the district court's approach with the language of the transmit clause. That clause speaks of people capable of receiving a particular "transmission" or "performance," and not of the potential audience of a particular "work." Indeed, such an approach would render the "to the public" language surplusage. Doubtless the *potential* audience for every *136 copyrighted audiovisual work is the general public. As a result, any transmission of the content of a copyrighted work would constitute a public performance under the district court's interpretation. But the transmit clause obviously contemplates the existence of non-public transmissions; if it did not, Congress would have stopped drafting that clause after

"performance."

On appeal, plaintiffs offer a slight variation of this interpretation. They argue that both in its real-time cablecast and via the RS-DVR playback, **Cablevision** is in fact transmitting the "same performance" of a given work: the performance of the work that occurs when the programming service supplying **Cablevision's** content transmits that content to **Cablevision** and the service's other licensees. See Br. of Pls.-Appellees Twentieth Century Fox Film Corp. et al. at 27 ("Fox Br.") ("The critical factor ... is that the same *performance* is transmitted to different subscribers at different times more specifically, the *performance* of that program *by HBO or another programming service.*" (third emphasis added)).

Thus, according to plaintiffs, when Congress says that to perform a work publicly means to transmit ... a performance ... to the public, they really meant "transmit... the 'original performance' ... to the public." The implication of this theory is that to determine whether a given transmission of a performance is "to the public," we would consider not only the potential audience of that transmission, but also the potential audience of any transmission of the same underlying "original" performance.

Like the district court's interpretation, this view obviates any possibility of a purely private transmission. Furthermore, it makes **Cablevision's** liability depend, in part, on the actions of legal strangers. Assume that HBO transmits a copyrighted work to both **Cablevision** and Comcast. **Cablevision** merely retransmits the work from one **Cablevision** facility to another, while Comcast retransmits the program to its subscribers. Under plaintiffs' interpretation, **Cablevision** would still be transmitting the performance to the public, solely because Comcast has transmitted the same underlying performance to the public. Similarly, a hapless customer who records a program in his den and later transmits the recording to a television in his bedroom would be liable for publicly performing the work simply because some other party had once transmitted the same underlying performance to the public.

We do not believe Congress intended such odd results. Although the transmit clause is not a model of clarity, we believe that when Congress speaks of transmitting a performance to the public, it refers to the performance created by the act of transmission. Thus, HBO transmits its own performance of a work when it transmits to **Cablevision**, and **Cablevision** transmits its own performance of the same work when it retransmits the feed from HBO.

137 Furthermore, we believe it would be inconsistent with our own transmit clause jurisprudence to consider the potential audience of an upstream transmission by a third party when determining whether a defendant's own subsequent transmission of a performance is "to the public." In [National Football League v. PrimeTime 24 Joint Venture \(NFL\), 211 F.3d 10 \(2000\)](#), we examined the transmit clause in the context of satellite television provider PrimeTime, which captured protected content in the United States from the NFL, transmitted it from the United States to a satellite ("the uplink"), and then transmitted it from the satellite to subscribers in both the United States and Canada ("the downlink"). PrimeTime had a license to *137 transmit to its U.S. customers, but not its Canadian customers. It argued that although the downlink transmission to its Canadian subscribers was a public performance, it could not be held liable for that act because it occurred entirely outside of the United States and therefore was not subject to the strictures of the Copyright Act. It also argued that the uplink transmission was not a public performance because it was a transmission to a single satellite. See *id.* at 12.

The *NFL* court did not question the first assumption, but it flatly rejected the second on a specific and germane ground:

We believe the most logical interpretation of the Copyright Act is to hold that a public performance or display includes each step in the process by which a protected work wends its way to its audience. Under that analysis, it is clear that PrimeTime's uplink transmission of signals captured in the United States is a step

in the process by which NFL's protected work wends its way *to a public audience*.

Id. at 13 (emphasis added) (internal quotation and citation omitted). Thus, while the uplink transmission that took place in the United States was not, in itself, "to the public," the *NFL* court deemed it so because it ultimately resulted in an undisputed public performance. Notably, the *NFL* court did not base its decision on the fact that an upstream transmission by another party (the NFL) might have been to the public. Nor did the court base its decision on the fact that Primetime simultaneously transmitted a performance of the work to the public in the United States. Because *NFL* directs us to look downstream, rather than upstream or laterally, to determine whether any link in a chain of transmissions made by a party constitutes a public performance, we reject plaintiffs' contention that we examine the potential recipients of the content provider's initial transmission to determine who is capable of receiving the RS-DVR playback transmission.

Plaintiffs also rely on *NFL* for the proposition that **Cablevision** publicly performs a work when it splits its programming stream and transmits the second stream to the RS-DVR system. Because *NFL* only supports that conclusion if we determine that the final transmission in the chain (i.e., the RS-DVR playback transmission) is "to the public," plaintiffs' reliance on *NFL* is misplaced. *NFL* dealt with a chain of transmissions whose final link was undisputedly a public performance. It therefore does not guide our current inquiry.

In sum, none of the arguments advanced by plaintiffs or the district court alters our conclusion that, under the transmit clause, we must examine the potential audience of a given transmission by an alleged infringer to determine whether that transmission is "to the public." And because the RS-DVR system, as designed, only makes transmissions to one subscriber using a copy made by that subscriber, we believe that the universe of people capable of receiving an RS-DVR transmission is the single subscriber whose self-made copy is used to create that transmission.

Plaintiffs contend that it is "wholly irrelevant, in determining the existence of a public performance, whether 'unique' copies of the same work are used to make the transmissions." Fox Br. at 27. But plaintiffs cite no authority for this contention. And our analysis of the transmit clause suggests that, in general, any factor that limits the *potential* audience of a transmission is relevant.

138 Furthermore, no transmission of an audiovisual work can be made, we assume, without using a copy of that work: to transmit a performance of a movie, for *138 example, the transmitter generally must obtain a copy of that movie. As a result, in the context of movies, television programs, and other audiovisual works, the right of reproduction can reinforce and protect the right of public performance. If the owner of a copyright believes he is injured by a particular transmission of a performance of his work, he may be able to seek redress not only for the infringing transmission, but also for the underlying copying that facilitated the transmission. Given this interplay between the various rights in this context, it seems quite consistent with the Act to treat a transmission made using Copy A as distinct from one made using Copy B, just as we would treat a transmission made by **Cablevision** as distinct from an otherwise identical transmission made by Comcast. Both factors—the identity of the transmitter and the source material of the transmission—limit the potential audience of a transmission in this case and are therefore germane in determining whether that transmission is made "to the public."

Indeed, we believe that [Columbia Pictures Industries, Inc. v. Redd Home, Inc., 749 F.2d 154 \(3d Cir.1984\)](#), relied on by both plaintiffs and the district court, supports our decision to accord significance to the existence and use of distinct copies in our transmit clause analysis. In that case, defendant operated a video rental store, Maxwell's, which also housed a number of small private booths containing seats and a television. Patrons would select a film, enter the booth, and close the door. An employee would then load a copy of the requested movie into a bank of VCRs at the front of the store and push play, thereby transmitting the content of the tape to the

television in the viewing booth. See *id.* at 156-57.

The Third Circuit found that defendants' conduct constituted a public performance under both clauses of the statutory definition. In concluding that Maxwell's violated the transmit clause, that court explicitly relied on the fact that defendants showed the same copy of a work seriatim to its clientele, and it quoted a treatise emphasizing the same fact:

Professor Nimmer's examination of this definition is particularly pertinent: "*if the same copy ... of a given work is repeatedly played (i.e., 'performed') by different members of the public, albeit at different times, this constitutes a 'public' performance.*" 2 M. Nimmer, § 8.14[C][3], at 8-142 (emphasis in original).... Although Maxwell's has only one copy of each film, it shows each copy repeatedly to different members of the public. This constitutes a public performance.

Id. at 159 (first omission in original).

Unfortunately, neither the *Redd Horne* court nor Prof. Nimmer explicitly explains *why* the use of a distinct copy affects the transmit clause inquiry. But our independent analysis confirms the soundness of their intuition: the use of a unique copy may limit the potential audience of a transmission and is therefore relevant to whether that transmission is made "to the public." Plaintiffs' unsupported arguments to the contrary are unavailing.

Given that each RS-DVR transmission is made to a given subscriber using a copy made by that subscriber, we conclude that such a transmission is not "to the public," without analyzing the contours of that phrase in great detail. No authority cited by the parties or the district court persuades us to the contrary.

139 In addition to *Redd Horne*, the district court also cited and analyzed [On Command Video Corp. v. Columbia Pictures Industries, 777 F.Supp. 787 \(N.D.Cal. 1991\)](#), in its transmit clause analysis. In that case, defendant On Command developed *139 and sold "a system for the electronic delivery of movie video tapes," which it sold to hotels. *Id.* at 788. The hub of the system was a bank of video cassette players, each containing a copy of a particular movie. From his room, a hotel guest could select a movie via remote control from a list on his television. The corresponding cassette player would start, and its output would be transmitted to that guest's room. During this playback, the movie selected was unavailable to other guests. See *id.* The court concluded that the transmissions made by this system were made to the public "because the relationship between the transmitter of the performance, On Command, and the audience, hotel guests, is a commercial, 'public' one regardless of where the viewing takes place." *Id.* at 790.

Thus, according to the *On Command* court, any commercial transmission is a transmission "to the public." We find this interpretation untenable, as it completely rewrites the language of the statutory definition. If Congress had wished to make all commercial transmissions public performances, the transmit clause would read: "to perform a work publicly means ... to transmit a performance for commercial purposes." In addition, this interpretation overlooks, as Congress did not, the possibility that even non-commercial transmissions to the public may diminish the value of a copyright. Finally, like *Redd Horne*, *On Command* is factually distinguishable, as successive transmissions to different viewers in that case could be made using a single copy of a given work. Thus, at the moment of transmission, any of the hotel's guests was capable of receiving a transmission made using a single copy of a given movie. As a result, the district court in this case erred in relying on *On Command*.

Plaintiffs also rely on [Ford Motor Co. v. Summit Motor Products, Inc., 930 F.2d 277 \(3d Cir. 1991\)](#), in which the Third Circuit interpreted § 106(3) of the Copyright Act, which gives the copyright holder the exclusive right "to distribute copies ... of the copyrighted work *to the*

public," 17 U.S.C. § 106(3) (emphasis added). The court concluded that "even one person can be the public *for the purposes of section 106(3)*." [Ford, 930 F.2d at 299](#) (emphasis added). Commentators have criticized the *Ford* court for divesting the phrase "to the public" of "all meaning whatsoever," 2 Nimmer & Nimmer, *supra*, § 8.11[A], at 8-149, and the decision does appear to have that result. Whether this result was justified in the context of the distribution right is not for us to decide in this case. We merely note that we find no compelling reason, in the context of the transmit clause and the public performance right, to interpret the phrase "to the public" out of existence.

In sum, we find that the transmit clause directs us to identify the potential audience of a given transmission, i.e., the persons "capable of receiving" it, to determine whether that transmission is made "to the public." Because each RS-DVR playback transmission is made to a single subscriber using a single unique copy produced by that subscriber, we conclude that such transmissions are not performances "to the public," and therefore do not infringe any exclusive right of public performance. We base this decision on the application of undisputed facts; thus, **Cablevision** is entitled to summary judgment on this point.

140 This holding, we must emphasize, does not generally permit content delivery networks to avoid all copyright liability by making copies of each item of content and associating one unique copy with each subscriber to the **network**, or by giving their subscribers the capacity to make their own individual copies. We do not address whether such a **network** operator would be *140 able to escape any other form of copyright liability, such as liability for unauthorized reproductions or liability for contributory infringement.

In sum, because we find, on undisputed facts, that **Cablevision's** proposed RS-DVR system would not directly infringe plaintiffs' exclusive rights to reproduce and publicly perform their copyrighted works, we grant summary judgment in favor of **Cablevision** with respect to both rights.

CONCLUSION

For the foregoing reasons, the district court's award of summary judgment to the plaintiffs is REVERSED and the district court's injunction against **Cablevision** is VACATED. The case is REMANDED for further proceedings consistent with this opinion.

[1] To run a computer program, the data representing that program must be transferred from a data storage medium (such as a floppy disk or a hard drive) to a form of Random Access Memory ("RAM") where the data can be processed. The data buffers at issue here are also a form of RAM.

[2] The same reasoning also distinguishes this court's opinion in [Matthew Bender & Co. v. West Publishing Co., 158 F.3d 693 \(2d Cir. 1998\)](#). Language in that opinion, taken out of context, suggests that the definition of "fixed" imposes only an embodiment requirement: "Under § 101's definition of 'copies,' a work satisfies the fixation requirement when it is fixed in a material object from which it can be perceived or communicated directly or with the aid of a machine." *Id.* at 702. Like the *MAI Systems* cases, *Matthew Bender* only addresses the embodiment requirement: specifically, whether West's copyrighted arrangement of judicial opinions was "embedded" in a CD-ROM compilation of opinions when the cases were normally arranged differently but could be manipulated by the user to replicate West's copyrighted arrangement. *Id.* at 703. The opinion merely quotes the duration language without discussing it, see *id.* at 702; that case therefore does not compel us to conclude that the definition of "fixed" does not impose a duration requirement.

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Ley de Marcas del Gobierno de Puerto Rico
Ley Núm. 169 de 16 de diciembre de 2009

Para derogar la Ley Núm. 63 de 14 de agosto de 1991, según enmendada, conocida como “Ley de Marcas de Puerto Rico”, y adoptar un nuevo estatuto que regule el derecho marcario en el Estado Libre Asociado de Puerto Rico que se conocerá como “Ley de Marcas del Gobierno de Puerto Rico”.

EXPOSICIÓN DE MOTIVOS

En un mercado global los derechos de propiedad intelectual constituyen el principal activo de cualquier empresa. En específico, las marcas de fábrica tienen el propósito de identificar bienes y servicios de cualquier industria, además de representar lo que es plusvalía del negocio. Del mismo modo que otros estados de los Estados Unidos, Puerto Rico tiene una oficina, conocida como “Puerto Rico Trademark Office” (PRTO) que se encarga de administrar los procedimientos relacionados a registros de marca a nivel estatal. Por ello necesita un estatuto que de forma ordenada se atempere a las circunstancias modernas y propias de la práctica de derecho marcario en Puerto Rico.

La nueva Ley de Marcas del Gobierno de Puerto Rico integra elementos de la Ley Núm. 63 de 14 de agosto de 1991; el Lanham Act (US Trademark Act, 15 USC 1051 et. seq.) y el Model State Trademark Act, y forja un estatuto de avanzada.

Entre los aspectos más importantes de esta Ley se incluyen nuevas definiciones de marcas, las cuales tienen el efecto de traer más objetividad a la práctica de derecho de marcas y consecuentemente sobre el comercio de Puerto Rico. Se añaden, además, elementos que pueden ser objeto de registro como por ejemplo: diseños de producto y diseño de interior, sonidos y olores entre otros, como también métodos de identificación de productos o servicios.

Por otro lado, el nuevo estatuto detalla las prohibiciones de registro respondiendo a lo difícil que resulta hacer registros o identificar cuáles marcas son objeto de protección. Se especifica sobre la protección de nombres personales y designaciones geográficas y se incluye protección a empaques y envases y marcas famosas. Con este tipo de protección se pretende incentivar industrias relacionadas a marcas, mercadeo y “branding”, además de conferir protección a industrias multinacionales en Puerto Rico, de modo que tengan mayor confianza al hacer negocios en Puerto Rico.

En acorde con teorías económicas relevantes a la protección de marcas de fábrica a nivel internacional, en este nuevo estatuto se incluyen disposiciones expresas referentes al registro de marcas sin uso, confiriéndole mayor protección a esta vertiente. Al proteger marcas sin uso se incentiva a pequeñas y medianas empresas en proceso de expansión comercial.

La aprobación de este nuevo estatuto redundará en mayor confianza para empresas nacionales y aquellas multinacionales que hacen o interesen hacer negocios en Puerto Rico.

DECRETASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

ARTÍCULO 1.- TÍTULO

Esta Ley se conocerá como Ley de Marcas del Gobierno de Puerto Rico.

ARTÍCULO 2.- DEFINICIONES

A. **Disminución del Carácter Distintivo de una Marca:** disminución del carácter distintivo de una marca famosa por deslustre (“blurring”) o por deshonra (“tarnishment”), independientemente de la presencia o ausencia de:

- 1) competencia entre el dueño de la marca famosa y otras partes, o
- 2) confusión actual o probable, error, o engaño, o
- 3) daño económico

B. **Disminución del Carácter Distintivo de una Marca por Deslustre (“blurring”):** asociación que surge de la similitud entre una marca o un nombre comercial y una marca famosa que afecta la distinción de la marca famosa.

C. **Disminución del Carácter Distintivo de una Marca por Mancillar o Deshonrar (“tarnishment”):** asociación entre una marca o un nombre comercial y una marca famosa que afecta la reputación de la marca famosa.

D. **Imagen o estilo comercial (“trade dress”):** la totalidad de elementos, la imagen total o la apariencia de un producto o servicio que sirve para identificarlo y presentarlo a los consumidores. Puede incluir factores como tamaño, forma, color o la combinación de colores, texturas, gráficas, diseños, palabras, números u otros factores visuales en el envase, empaque, o envoltura del producto o en la estructura, fachada o decoración (interior o exterior) de un negocio, incluyendo técnicas de mercadeo y materiales de publicidad usados para promover la venta de los productos o servicios.

E. **Marca:** todo signo o medio que sirva para distinguir en el mercado productos o servicios de una persona, al igual que de productos o servicios de otra persona. El término incluye cualquier marca de fábrica, marca de servicio, marca de certificación y marca colectiva.

F. **Marca de Fábrica:** cualquier palabra, nombre, símbolo, imagen o estilo comercial (“trade dress”), medio, logo, diseño, color, sonido, olor, forma, objeto o una combinación de éstos que:

- 1) es utilizada por una persona natural o jurídica en el comercio; o
- 2) una persona natural o jurídica tiene la intención bona fide de utilizar en el comercio y solicita el registro para la misma; y que sirva para identificar y distinguir los bienes de aquellos manufacturados o vendidos por otra persona y para indicar la fuente de dichos bienes, aunque no sea conocida.

G. **Marca de Servicio:** cualquier palabra, nombre, símbolo, imagen o estilo comercial (“trade dress”), medio, logo, diseño, color, sonido, olor, forma, objeto o una combinación de éstos que:

- 1) es utilizada por una persona en el comercio; o
- 2) una persona tiene la intención bona fide de utilizar en el comercio y solicita el registro para la misma; y que sirva para identificar y distinguir los servicios de una persona de los servicios de otra y para indicar la fuente de los servicios, aunque no sea conocida.

H. **Marca de Certificación:** cualquier palabra, nombre, símbolo, imagen o estilo comercial (“trade dress”), medio, logo, diseño, color, sonido, olor, forma, objeto o una combinación de éstos que:

- 1) es utilizada en el comercio por una persona, que no es su dueño o titular; o
- 2) que su dueño o titular tenga la intención bona fide de permitir a una persona que no sea el dueño o titular a utilizar la marca en el comercio y solicita el registro para la misma.

I. **Marca Colectiva:** una marca de fábrica o marca de servicio que:

- 1) es utilizada por los miembros de una cooperativa, una asociación u otro grupo colectivo u organización; o
- 2) que dicha cooperativa, asociación o grupo colectivo u organización tiene la intención bona fide de utilizar en el comercio y solicita el registro para la misma. Además, incluye marcas que indican membresía a una unión, asociación u otra organización.

J. **Marca Abandonada:** una marca que se presume abandonada. Una marca se presume abandonada cuando:

- 1) su uso haya sido discontinuado con intención de no reanudarlo. Intención de no reanudar puede ser inferida de las circunstancias del caso. La falta de uso por tres (3) años consecutivos constituirá evidencia prima facie de abandono; o

- 2) cualquier conducta del titular o dueño de la marca, incluyendo actos de acción u omisión, que cause que la marca se convierta en genérica o de alguna otra manera pierda su significación o connotación como marca.
- K. **Marca Registrada:** marca registrada en el Registro de Marcas del Departamento de Estado del Gobierno de Puerto Rico.
- L. **Nombre Comercial:** cualquier nombre usado por una persona para identificar un negocio o vocación de tal persona.
- M. **Persona:** cualquier otra palabra o término usado para designar o identificar al solicitante o a cualquier parte con derecho a un beneficio o privilegio o que sea responsable bajo las disposiciones de esta Ley incluye cualquier persona natural o jurídica. El término “persona jurídica” incluye una firma, sociedad, corporación, unión, asociación o cualquier otra organización con capacidad para demandar y ser demandada.
- N. **Secretario:** El Secretario de Estado del Gobierno de Puerto Rico o el funcionario al cual éste delegue la administración de esta Ley.
- O. **Significación Secundaria:** el carácter distintivo o nuevo significado que adquiere una marca originalmente no distintiva cuando el consumidor asocia la marca con los bienes o servicios de una fuente en particular, aunque no sea conocida, como consecuencia del uso de la marca en el comercio. El Secretario podrá aceptar como evidencia que la marca ha adquirido significación secundaria para los bienes o servicios en cuestión, prueba de uso continuo de la marca en el comercio por cinco (5) años con anterioridad a la fecha en la cual se hace la alegación de que la marca ha adquirido significación secundaria.
- P. **Solicitante:** la persona que presenta una solicitud para el registro de una marca bajo esta Ley, sus representantes legales, sus sucesores y sus cesionarios.
- Q. **Titular Registral:** la persona a quien se le concedió el registro de una marca bajo las disposiciones de esta Ley, sus representantes legales, sus sucesores y sus cesionarios.
- R. **Uso en el Comercio:** uso legal de buena fe de una marca en el comercio de Puerto Rico. Para efectos de esta Ley, una marca se considerará que está en uso:
- 1) en bienes, cuando la marca es colocada de cualquier forma en los bienes; o en sus empaques o contenedores; o en las etiquetas adheridas a los bienes; o en los anaqueles, vitrinas o mostradores; o, si por la naturaleza del bien, se hace impráctico el adherirle una etiqueta con la marca; entonces en documentos asociados con los bienes o su venta; y los bienes son vendidos o transportados en Puerto Rico; y
 - 2) en servicios, cuando la marca es usada o desplegada en la venta o promoción de los servicios; y los servicios se llevan a cabo en Puerto Rico.

ARTÍCULO 3.- DERECHO A LA MARCA

El derecho a una marca se adquiere por:

- 1) el uso de la marca en el comercio; o
- 2) por el registro de la misma basado en la intención bona fide de utilizar la marca en el comercio.

ARTÍCULO 4.- REGISTRO DE MARCAS

A. Marcas utilizadas en el comercio:

El dueño o titular de una marca que es utilizada en el comercio puede solicitar el registro de su marca presentando:

1. Una solicitud dirigida al Secretario firmada por el solicitante o su representante, en la forma que mediante reglamentación disponga el Secretario;
2. Una declaración bajo pena de perjurio, al efecto de que: i) la marca se utiliza en el comercio; ii) ninguna otra persona, según su mejor conocimiento y creencia, tiene derecho a usar la marca en Puerto Rico; y iii) la descripción y especímenes o dibujos presentados representan en realidad la marca cuyo registro se solicita;
3. Espécimen de la marca, tal como se usa en el comercio en la forma y cantidad que mediante reglamentación disponga el Secretario; y
4. La cantidad correspondiente en pago de los derechos de radicación que mediante reglamentación disponga el Secretario.

B. Marcas sin uso:

Una persona que tenga la intención bona fide de utilizar una marca en el comercio de Puerto Rico puede solicitar el registro de la marca presentando:

1. Una solicitud dirigida al Secretario, firmada por el solicitante o su representante, en la forma que mediante reglamentación disponga el Secretario.
2. Una declaración bajo pena de perjurio, al efecto de que: i) el solicitante tiene la intención bona fide de utilizar la marca en el comercio; ii) ninguna otra persona, según su mejor conocimiento y creencia, tiene derecho a usar la marca en Puerto Rico; y iii) la descripción y especímenes o dibujos, de ser aplicables, representan la marca cuyo registro se solicita.
3. Espécimen de la marca, tal como se usará en el comercio, en la forma y cantidad que mediante reglamentación disponga el Secretario.
4. La cantidad correspondiente en pago de los derechos de radicación que mediante reglamentación disponga el Secretario.

Dentro de los cinco (5) años contados a partir de la fecha de radicación de la solicitud de registro de una marca sin uso en el comercio de Puerto Rico, el titular registral, como condición para mantener vigente dicho registro, tendrá que acreditar, bajo juramento y con evidencia de uso, que comenzó a utilizar y está utilizando la marca en el comercio. Transcurrido el referido término de cinco (5) años, sin que el titular registral haya acreditado bajo juramento el uso en el comercio de la marca, dicha marca se dará por cancelada. No obstante lo anterior, el titular registral de una marca sin uso podrá solicitar, antes de vencido el término de cinco (5) años y por justa causa, una extensión, hasta un máximo de un (1) año, según reglamentación que disponga el Secretario.

ARTÍCULO 5.- MARCAS NO REGISTRABLES

No se registrará una marca que consista de:

1. Materia que sea contraria a la ley, la moral o el orden público.
2. La bandera, escudo de armas o cualquier otra insignia, signo o símbolo de Puerto Rico o de los Estados Unidos, o de sus estados, municipios, territorios, ciudades, municipio, ciudad o nación extranjera; o una imitación de los mismos.
3. El nombre completo, uno o dos apellidos, imagen, apodo, firma o combinación de éstos de una persona, a menos que sea sustancialmente distintivo, que haya adquirido significación secundaria, o que se trate de un personaje histórico que se encuentre en el dominio público y su nombre sea usado de manera arbitraria y no describa los bienes o servicios que identifica.
4. Palabras descriptivas de los bienes o servicios en los cuales se usa, a menos que hayan adquirido significación secundaria.
5. Palabras para indicar el género de los bienes o servicios en los cuales se usa.
6. Forma o empaque, cuando la naturaleza, forma o empaque sean esenciales para su función.
7. Nombres o términos geográficos que indiquen la procedencia o el origen de los bienes o servicios, excepto cuando los mismos hayan adquirido significación secundaria, o términos geográficos engañosos. Los términos geográficos podrán registrarse si no existe relación entre el producto y el área geográfica en cuestión. Es decir, el uso arbitrario de un término geográfico es registrable como marca, siempre y cuando la localidad cuyo nombre se desea utilizar como marca, no sea conocida como productora de los artículos que se deseen identificar con la marca.
8. Una marca que sea igual o similar que cauce confusión con otra marca registrada o que se esté utilizando en el comercio por otra persona y que se use o usará en bienes o servicios iguales o similares a los de la marca registrada o previamente utilizada en el comercio.
9. Una marca igual o sustancialmente similar a una marca famosa o notoria de cualquier país que sea conocida por el sector relevante del mercado en Puerto Rico, aunque no se use en Puerto Rico.

ARTÍCULO 6.- RENUNCIA DE ASUNTOS NO REGISTRABLES

El Secretario podrá requerirle a un solicitante que renuncie a la protección de un componente no registrable de una marca. El solicitante puede voluntariamente renunciar a la protección de un componente de la marca que desea registrar.

No obstante lo anterior, la renuncia de un componente no registrable no impedirá que dicho componente adquiera significación secundaria en el futuro con todos sus derechos, inclusive el acceso al registro.

Igualmente, la renuncia de un componente, no perjudicará los derechos del solicitante sobre la marca registrada en su totalidad.

ARTÍCULO 7.- RADICACIÓN DE SOLICITUD

Una vez radicada una solicitud que cumpla con los requisitos del Artículo 4 de esta Ley, y pagados los derechos correspondientes, el Secretario procederá a tomar nota del día y la hora de recibo y hará un examen de la solicitud.

A. Si se rechaza el registro de la marca, el Secretario lo notificará al solicitante, dándole las razones para su rechazo.

B. Si se aprueba el registro de la marca, el Secretario lo comunicará al solicitante para que éste publique un edicto indicativo de la intención del registro de la marca, una (1) vez en un periódico de circulación general diaria de Puerto Rico. El edicto contendrá el nombre del solicitante o su abogado, dirección, nombre de la marca, número de la clase bajo la cual se presenta la solicitud, y una advertencia de que cualquier persona perjudicada por el registro solicitado tiene treinta (30) días para oponerse al mismo.

Una vez cumplido este requisito de publicación, el solicitante presentará en el Departamento de Estado una declaración jurada del administrador o cualquier otro funcionario del periódico, acreditativa de la fecha en que se hizo dicha publicación. Si no se presenta oposición dentro del término de treinta (30) días, el Secretario procederá a inscribir la marca y emitir el correspondiente certificado. Los efectos de la inscripción se retrotraerán a la fecha de presentación de la solicitud.

ARTÍCULO 8.- OPOSICIÓN AL REGISTRO, NOTIFICACIÓN y SUFICIENCIA

Cualquier persona que se considere perjudicada por el registro de una marca, puede oponerse a dicho registro presentando al Secretario un escrito de oposición, fundamentado dentro de los treinta (30) días siguientes a la publicación del edicto. No obstante lo anterior, el oponente podrá solicitar, antes de vencido el término y por justa causa, una prórroga de hasta veinte (20) días. El oponente notificará al solicitante copia del escrito de oposición mediante correo certificado con acuse de recibo o por cualquier otro medio con comprobante de recepción. El Secretario establecerá mediante reglamento el procedimiento a seguir en la adjudicación de la oposición.

ARTÍCULO 9.- CONFLICTO

Cuando dos o más marcas están pendientes de registro y estén en conflicto por su semejanza, el Secretario decidirá cuál de éstas tendrá acceso al mismo y notificará su determinación a la parte afectada.

Una marca sin uso debidamente registrada prevalecerá sobre una solicitud de registro de marca presentada posteriormente, siempre y cuando se cumplan con las disposiciones aplicables al registro sin uso dispuestas en esta Ley.

ARTÍCULO 10.- TRASPASO DE UNA MARCA

Toda marca registrada o solicitud de registro de marca puede ser transferida; disponiéndose que dicho traspaso no afectará el término de vigencia del registro establecido en esta Ley. Tal traspaso deberá hacerse por medio de un documento cumpliendo con los requisitos que establezca el Secretario mediante reglamento. El Secretario anotará en el Registro el traspaso y expedirá el correspondiente certificado.

ARTÍCULO 11.- LICENCIA O GRAVAMEN SOBRE UNA MARCA

El titular registral de una marca podrá presentar copia de la licencia otorgada para el uso de la marca, para que conste en el expediente de su marca, en las oficinas del Registro de Marcas.

El acreedor de un gravamen sobre una marca podrá presentar copia acreditativa de dicho gravamen en las oficinas del Registro de Marcas para que conste en el expediente de tal marca.

ARTÍCULO 12.- CERTIFICADOS DE REGISTRO

El Secretario expedirá, en representación del Gobierno de Puerto Rico, certificados de registro de las marcas bajo el Gran Sello de Puerto Rico.

El Secretario publicará en el plazo de un (1) mes, a contar desde la fecha de registro, la concesión del mismo. La publicación incluirá la misma información del edicto requerido para el registro de la marca.

Un Certificado de Registro de una marca bajo las disposiciones de esta Ley será evidencia prima facie de la validez de la marca; de que la marca se usa en el comercio desde la fecha que indica el certificado; que la marca es propiedad del titular registral; y que tiene derecho exclusivo a usarla en el comercio, sujeto a cualquier condición o limitación expresada en el certificado.

ARTÍCULO 13.- CERTIFICADO DE REGISTRO COMO EVIDENCIA

Los expedientes de marcas registradas, las declaraciones y los documentos en ellos archivados y los certificados de registro firmados y sellados como se ha indicado, serán prueba fehaciente en cualquier litigio en el que las referidas marcas sean objeto de controversia.

ARTÍCULO 14.- RETIRO VOLUNTARIO O ENMIENDA POR EL TITULAR REGISTRAL

El solicitante o titular registral podrá solicitar el retiro voluntario de la solicitud presentada o del registro de la marca. El Secretario hará la anotación correspondiente en el expediente del Departamento de Estado y emitirá un certificado de cancelación voluntaria al solicitante.

Un titular registral podrá enmendar parte de su registro; si dicha enmienda no alterará sustancialmente la marca. El Secretario hará la anotación correspondiente en el expediente del Departamento de Estado y en el certificado de registro. Si el certificado se pierde o se destruye la anotación se hará sobre una copia del mismo.

ARTÍCULO 15.- ENMIENDAS A SOLICITUDES Y DOCUMENTOS

Las enmiendas que a requerimiento del Secretario o a petición del solicitante hayan de hacerse en las solicitudes u otros documentos relativos al registro de marcas, podrán ser hechas por el propio solicitante o por la persona debidamente autorizada por éste para hacer tales gestiones en Puerto Rico.

ARTÍCULO 16.- CORRECCIÓN DE ERRORES DEL DEPARTAMENTO DE ESTADO

Los errores cometidos por el Departamento serán subsanados por el Secretario a su propia iniciativa o a solicitud de parte. El Secretario expedirá un nuevo documento en forma correcta que tendrá el mismo efecto que el que se expidió originalmente.

ARTÍCULO 17.- CORRECCIÓN DE ERROR DEL SOLICITANTE

Los errores cometidos por el Departamento que sean atribuibles al solicitante serán subsanados por el Secretario a su propia iniciativa o a solicitud de parte. El Secretario expedirá un nuevo documento en forma correcta que tendrá el mismo efecto que el que se expidió originalmente.

ARTICULO 18.- DECLARACION DE USO CONTINUO PARA MANTENIMIENTO DE LA MARCA REGISTRADA

El titular registral deberá presentar una declaración de uso continuo con evidencia que demuestre uso de la marca en el comercio de Puerto Rico, en la forma que mediante reglamentación disponga el Secretario, como requisito indispensable para mantener el registro de una marca. La declaración de uso continuo a la que hace referencia este Artículo, deberá ser presentada entre el quinto (5to) y sexto (6to) año a partir de la fecha del registro; y entre el noveno (9no) y décimo (10mo) año junto a la solicitud de renovación, y como condición para la renovación.

ARTÍCULO 19.- TÉRMINO DEL DERECHO A LA MARCA REGISTRADA; RENOVACIÓN

Todo registro de marca permanecerá en vigor por diez (10) años contados desde la fecha del registro. El registro de una marca puede renovarse de tiempo en tiempo por el mismo período de duración, a petición del titular registral, su representante legal o cesionarios registrados en el Departamento de Estado, mediante el pago de los derechos correspondientes que mediante reglamentación disponga el Secretario. Tal petición deberá hacerse en cualquier momento dentro del año anterior a la fecha en que expire el período de diez (10) años por el cual fue expedido o renovado el registro de la marca.

No obstante, transcurrido el período de diez (10) años antes dispuesto, el titular registral podrá presentar una solicitud de renovación dentro del período de seis (6) meses desde la expiración de dicho término, pagando los derechos adicionales que disponga el Secretario, según especificado en el reglamento.

Si el Secretario deniega la renovación de la marca, deberá notificar a la parte afectada exponiendo las razones para denegar la renovación.

ARTÍCULO 20.- CANCELACIÓN DE UNA MARCA REGISTRADA

A. Cualquier persona que se considere perjudicada por el registro de una marca, incluyendo por la disminución del carácter distintivo de la marca bajo el Artículo 27 de esta Ley, puede solicitar la cancelación de dicho registro presentando al Secretario un escrito jurado de cancelación, exponiendo los

fundamentos que tenga para ello. Salvo que mediare una orden judicial de cancelación de registro según se vislumbra en el Artículo 27 de esta Ley, el Secretario únicamente concederá tal cancelación cuando se justifique mediante un escrito de cancelación fundamentado y que se haya presentado:

1. dentro de los cinco (5) años siguientes a la fecha del registro o
2. en cualquier momento, si la marca registrada:
 - a. ha sido abandonada;
 - b. el registro fue obtenido mediante dolo, fraude o mala fe;
 - c. se ha convertido en el nombre genérico del producto o servicio para los cuales se usa; o
 - d. se usa por o con permiso del titular registral en forma tal que causa confusión o induce a error en cuanto a la naturaleza, la calidad, las características o procedencia geográfica de los productos o servicios para los cuales se usa.
3. En cualquier momento, si se trata de una marca de certificación, basado en que el titular registral:
 - a. no controla o no puede legítimamente ejercer control sobre el uso de la marca;
 - b. comienza a producir o mercadear cualquiera de los bienes o servicios objeto de la certificación;
 - c. permite el uso de la marca de certificación para otros propósitos que no tienen que ver con certificación; o
 - d. a modo discriminatorio, rehúsa certificar o continuar certificando bienes o servicios que cumplen con los estándares de calidad correspondientes a esa marca de certificación.

Presentada la solicitud de cancelación, el Secretario dará aviso al titular registral de la marca. Una vez evaluada las posiciones de las partes, el Secretario decidirá si el titular registral tiene o no derecho a mantener el registro de la marca.

- B. El Secretario también cancelará los siguientes Registros de marca:
1. cualquier registro para el cual se solicitó la cancelación voluntaria del mismo;
 2. cualquier registro sin uso para el cual no se acreditó el uso de la marca a tenor con el Artículo 4(B) de esta Ley;
 3. cualquier registro que no fue renovado a tenor con el Artículo 19 de esta Ley;
 4. cualquier registro con relación al cual un tribunal con jurisdicción competente determinó:
 - (a) que la marca registrada fue abandonada;
 - (b) que el titular registral no es el dueño de la marca;
 - (c) que el registro se concedió de forma impropia;
 - (d) que el registro se obtuvo fraudulentamente;
 - (e) que la marca se convirtió en el nombre genérico del producto o servicio para los cuales se usa; o
 - (f) que la marca causa confusión con una marca previamente usada o registrada en Puerto Rico.
- C. El Secretario también cancelará cualquier registro que un tribunal con jurisdicción competente haya ordenado su cancelación por cualquier otra razón.

ARTÍCULO 21.- CAMBIO DE NOMBRE, FUSIÓN, CONSOLIDACIÓN U OTROS CAMBIOS

Las corporaciones o entidades jurídicas cuyas marcas estén registradas o para las cuales se haya solicitado registro, y que durante su existencia sufran cambios, tales como cambios de nombre, fusiones, consolidaciones, o cualquier otro cambio de índole similar, podrán acreditar dicho cambio mediante la presentación en el Registro de Marcas de una certificación expedida por el Secretario de Estado u otro funcionario que mantenga la custodia del registro oficial en la jurisdicción, bajo cuyas leyes la misma se suscribe, u otro documento que bajo las leyes del país en que se suscribe sea suficiente para acreditar dicho cambio.

El Secretario tomará conocimiento registral de tales cambios y expedirá el correspondiente certificado.

ARTÍCULO 22.- CLASIFICACIONES DE BIENES Y SERVICIOS PARA EL REGISTRO DE UNA MARCA

Las clasificaciones para los bienes y servicios serán las clasificaciones internacionales adoptadas de tiempo en tiempo por la Oficina de Patentes y Marcas de los Estados Unidos o el World Intellectual Property Organization (WIPO).

ARTÍCULO 23.- DERECHOS A PAGAR

El Secretario establecerá mediante reglamentación los derechos correspondientes para el registro de las marcas y los demás procedimientos establecidos en esta Ley.

ARTÍCULO 24.- REGLAMENTACIÓN

Se autoriza al Secretario para aprobar reglas y reglamentos no incompatibles con esta Ley, que promuevan el buen funcionamiento de los asuntos relativos a marcas, incluidos en esta Ley.

ARTÍCULO 25.- REGISTRO MEDIANTE DOLO, FRAUDE O MALA FE Y REMEDIOS

Cualquier persona que obtenga el registro de una marca en el Departamento de Estado valiéndose de una manifestación o declaración falsa o fraudulenta, estará sujeta a un interdicto, acción en daños y perjuicios u orden de incautación por un titular registral; o personas perjudicadas quienes podrán, a su elección, llevar cualesquiera o todas las acciones mencionadas. Además, el tribunal podrá ordenar la cancelación del registro obtenido mediante dolo, fraude o mala fe.

El tribunal fijará la cuantía de los daños tomando como base los siguientes elementos: el beneficio bruto que hubiera realizado la parte infractora de la marca mediante el uso de la marca en cuestión; el importe de la ganancia que el titular registral o la persona perjudicada hubieren dejado de percibir como resultado de la actuación de la parte demandada; el valor del menoscabo que la actuación del demandado le hubiera ocasionado al demandante; y cualquier otro factor que a juicio del tribunal cuantifique adecuadamente los daños.

El Tribunal además fijará la cuantía de las costas, honorarios y gastos del pleito.

ARTÍCULO 26.- VIOLACIÓN AL DERECHO MARCARIO Y REMEDIOS

Cualquier persona que sin el consentimiento del titular registral o del dueño de una marca, reproduzca, falsifique, copie, imite, use o intente usar una marca igual o similar a una marca registrada bajo esta Ley, o usada en el comercio con anterioridad al uso por parte de tal persona en conexión con la venta, distribución, oferta para la venta o promoción de bienes o servicios iguales o similares a los del titular registral o del dueño, que cause confusión o engaño en cuanto al origen de los bienes o servicios, será responsable en una acción civil al titular registral, o al dueño, y/o a la persona con autorización por escrito de parte del dueño de la marca, quien podrá presentar una demanda contra tal persona y solicitar un interdicto, orden de incautación, daños y/o cualquier otro remedio que en derecho proceda.

Si el caso se resolviera a favor del demandante, el tribunal fijará la cuantía de los daños, tomando como base los siguientes elementos: la ganancia o el beneficio bruto que hubiere realizado la parte infractora de la marca mediante su uso; el importe de la ganancia que el demandante hubiere dejado de percibir como resultado de la actuación del demandado; el valor del menoscabo que la actuación del demandado le hubiere ocasionado al demandante; y cualquier otro factor que a juicio del tribunal cuantifique adecuadamente los daños.

El tribunal, en su discreción, podrá fijar la cuantía de los daños en una cantidad que no exceda tres veces la ganancia del demandado y/o la pérdida del demandante cuando determine que la violación fue intencional o de mala fe.

Del mismo modo, cuando el tribunal determine que el demandado desconocía y no tenía razón para saber o creer que sus actos constituían una violación a los derechos marcarios del demandante, el tribunal, en su discreción, podrá reducir la cuantía de daños.

En la alternativa, el titular registral podrá optar por solicitarle al tribunal, daños estatutarios. Los daños estatutarios podrán fijarse en una cuantía no menor de \$750 ni mayor de \$30,000 por violación, según el tribunal lo considere justo. Esta alternativa sólo está disponible para el titular registral de la marca. En un caso en el cual el titular registral pruebe, y el tribunal así lo determine, que la violación fue intencional, el tribunal, en su discreción, podrá aumentar la cuantía de daños estatutarios a una suma no mayor de \$150,000 por violación. En un caso en el cual el demandado pruebe, y el tribunal así lo determine, que tal demandado desconocía y no tenía razón para saber o creer que sus actos constituían una

violación a los derechos marcarios del demandante, el tribunal, en su discreción, podrá reducir la cuantía de daños estatutarios a una suma no menor de \$500.

Además, si el caso se resuelve a favor del titular registral, el tribunal siempre fijará la cuantía de las costas, honorarios y gastos del pleito a favor de éste.

ARTÍCULO 27.- FALSA DESIGNACIÓN DE ORIGEN O FALSA DESCRIPCIÓN

A. Cualquier persona que, en bienes o servicios, use en el comercio cualquier palabra, término, nombre, símbolo, lema, imagen o estilo comercial (“trade dress”), medio, logo, diseño, color, sonido, olor, forma, objeto o combinación de éstos; o cualquier falsa designación de origen; o cualquier descripción falsa o engañosa de un hecho; o cualquier representación falsa o engañosa de un hecho; que:

1. sea probable que cause confusión, error, equivocación o engaño en cuanto a la afiliación, conexión; o asociación de tal persona con otra persona; o en cuanto al origen, la fuente, endoso; o aprobación de sus bienes, servicios o actividad comercial por parte de otra persona, o
2. en anuncios o promociones comerciales; haga una falsa representación de la naturaleza, características, cualidades; u origen geográfico de sus bienes, servicios; o actividad comercial o de los bienes; servicios o actividad comercial de otra persona, será responsable a la persona que sufrió daños como consecuencia de tales actos.

B. Según usado en este Artículo, el término “cualquier persona” incluye al Gobierno de Puerto Rico a cualquier instrumentalidad del Estado, o a cualquier empleado del Estado o de una de sus instrumentalidades, actuando en su capacidad oficial que o quien responderá al demandante, de la misma forma que respondería cualquier entidad o persona no gubernamental.

C. En una acción bajo este Artículo por violación a una imagen o estilo comercial (“trade dress”) que no se encuentre registrado en Puerto Rico o en la Oficina de Patentes y Marcas de los Estados Unidos, la persona que reclame la protección de su imagen o estilo comercial (“trade dress”) tiene el peso de demostrar que el mismo, tomado en su totalidad, no es funcional.

ARTÍCULO 28.- DISMINUCIÓN DEL CARÁCTER DISTINTIVO DE MARCAS FAMOSAS

A. Cualquier persona que sin el consentimiento del dueño de una marca famosa, inherente o adquirida, use dicha marca o una sustancialmente similar en el comercio de Puerto Rico, estará sujeta a interdicto si dicho uso de la marca famosa o una marca sustancialmente similar, podría causar disminución del carácter distintivo de la marca por opacar o deslucir la misma (“blurring”) o por mancillar o deshonorar la marca (“tarnishment”), aunque se trate de productos o servicios diferentes o no haya confusión entre las marcas; o no haya daño económico. En aquellos casos en que el dueño de la marca famosa demuestre además que el demandado tuvo la intención de causar disminución de la marca famosa o de aprovecharse de su carácter distintivo, el dueño de la marca famosa también tendrá derecho a los remedios establecidos bajo el Artículo 26 de esta Ley, incluyendo el derecho de solicitar daños reales, estatutarios, las ganancias del demandado, y la destrucción de los productos, documentos, u objetos con la marca cuestionada, y/o la cancelación del registro de la marca que infringe la marca famosa en cualquier clasificación y sin importar el tiempo de registrada tal marca.

B. Una marca es famosa si es extensamente reconocida por el público consumidor general en Puerto Rico, o en un área geográfica de Puerto Rico como la fuente de los bienes o servicios del dueño de la marca famosa. En su determinación de si la marca es famosa, el Tribunal podrá tomar en consideración los siguientes factores, entre otros:

1. la duración, extensión y alcance geográfico de la promoción de la marca y si la promoción es por el dueño o terceros;
2. la cantidad, volumen, y extensión geográfica de la venta de los productos o servicios ofrecidos bajo la marca;
3. la extensión del reconocimiento de la marca en Puerto Rico; y
4. si la marca está registrada y, de estarlo, en qué jurisdicciones.

C. Para determinar si existe probabilidad de disminución del carácter distintivo de la marca por opacar o deslucir la marca (“blurring”), el Tribunal tomará en consideración los siguientes factores:

1. el grado de similitud entre las marcas;
2. el grado de distinción (inherente o adquirida) de la marca famosa;
3. la extensión del uso sustancialmente exclusivo de la marca famosa;
4. el grado de reconocimiento de la marca famosa;
5. si el usuario de la marca intentó crear una asociación con la marca famosa; y

6. cualquier asociación real entre la marca y la marca famosa.
- D. Los siguientes usos de una marca famosa, sin el consentimiento del dueño de la marca famosa, no darán derecho a una acción bajo el inciso A de este Artículo.
 1. Uso publicitario de la marca para comparar o describir productos o servicios que compiten entre sí;
 2. Uso no comercial de la marca; y/o
 3. Uso de la marca para propósitos noticiosos o periodísticos, de comentarios, críticas o parodia.
- E. En una acción bajo este Artículo, por disminución del carácter distintivo de una imagen o estilo comercial (“trade dress”) que no se encuentre registrado en Puerto Rico o en la Oficina de Patentes y Marcas de los Estados Unidos, la persona que reclame la protección de su imagen o estilo comercial (“trade dress”) tiene el peso de demostrar que:
 1. el mismo, tomado en su totalidad, no es funcional y es famoso; y
 2. si la imagen o estilo comercial (“trade dress”) incluye alguna marca o marcas registradas en Puerto Rico o en la Oficina de Patentes y Marcas de los Estados Unidos, la materia no registrada, tomada en su totalidad, es famosa separada y aparte de la fama de tales marcas registradas.

ARTÍCULO 29.- VIOLACIÓN AL DERECHO MARCARIO CON NOMBRES DE DOMINIO

A. Cualquier persona le responderá al dueño o al titular registral de una marca, incluyendo un nombre personal protegido como marca, cuando, sin considerar los bienes o servicios de las partes, esa persona:

1. tenía la intención de mala fe de beneficiarse de la marca o nombre personal protegido como marca; y
2. registró, mercadea, o usa un nombre de dominio que:
 - a. en caso de una marca que es distintiva al momento del registro del nombre de dominio, causa confusión con tal marca; o
 - b. en caso de una marca que es famosa al momento del registro del nombre de dominio, causa confusión o disminuye el carácter distintivo de tal marca.

Cuando el nombre de dominio registrado es igual o sustancialmente igual a una marca perteneciente a otro, existe una presunción de confusión.

B. Al determinar si la persona registró el nombre de dominio de mala fe, el tribunal puede considerar, entre otros, los siguientes factores:

1. si la persona tiene algún derecho marcario o algún otro derecho de propiedad intelectual sobre el nombre de dominio registrado;
2. si el nombre de dominio es el nombre legal de la persona u otro nombre por el cual se le conoce a esa persona;
3. el uso previo del nombre de dominio en conexión con la venta de buena fe de bienes o servicios;
4. el uso de buena fe del nombre de dominio de forma no comercial o con uso justo en un sitio en la red que se accede bajo el nombre de dominio en cuestión;
5. la intención de desviar a los consumidores del sitio en la red, del dueño de la marca al sitio en la red, que se accede bajo el nombre de dominio en cuestión que puede afectar el buen nombre (“goodwill”) de la marca, para obtener beneficio económico o para mancillar o deshonar la marca al crear una probabilidad de confusión en cuanto al origen, afiliación o endoso del sitio en la red;
6. la oferta de vender, ceder o traspasar el nombre de dominio al dueño de la marca; o a un tercero para beneficio económico, sin haber usado o haber tenido la intención de usar el nombre de dominio en la oferta bona fide de bienes o servicios; o la conducta previa de la persona que demuestre un patrón de esta conducta;
7. el haber ofrecido información de contacto falsa o engañosa cuando solicitó el registro del nombre de dominio; el no mantener intencionalmente la información de contacto actualizada o la conducta previa de la persona que demuestre un patrón de esta conducta;
8. el registro o adquisición de varios nombres de dominio que la persona sabe que son iguales o sustancialmente iguales a marcas pertenecientes a otros, que eran distintivas al momento del registro de tales nombres de dominio; o disminuyen el carácter distintivo de

marcas famosas que eran famosas al momento del registro de los nombres de dominio, sin considerar los bienes o servicios de las partes;

9. si la marca incorporada en el nombre de dominio es o no es famosa, según los criterios del Artículo 28 de esta Ley.

C. La intención de mala fe descrita en las secciones anteriores no se encontrará en los casos en los cuales el tribunal determine que la persona creía y tenía bases razonables para creer que el uso del nombre de dominio era uno justo o de otra forma, legal.

D. En cualquier acción civil en relación con el registro, mercadeo, venta, compra, licencia, préstamo, transferencia o uso de un nombre de dominio bajo este Artículo, el Tribunal puede ordenar la confiscación o la cancelación del nombre de dominio o la cesión del nombre de dominio al dueño de la marca. El dueño de la marca también tendrá derecho a los remedios establecidos bajo el Artículo 26 de esta Ley, incluyendo el derecho de solicitar daños reales o estatutarios.

ARTÍCULO 30.- PROCEDIMIENTO ESPECIAL

Cuando el titular registral de una marca con arreglo a esta Ley, presente demanda jurada o apoyada en declaración jurada con copia del Certificado de Registro ante el tribunal, alegando hechos específicos que evidencien que el demandado está violando sus derechos de propiedad sobre dicha marca registrada, mediante falsificación, copia, imitación o adopción de una marca cuyo parecido es tan similar al de la marca del titular registral que crea la probabilidad de confusión, el tribunal estará obligado a expedir una orden provisional ex parte dirigida a la parte demandada requiriéndole que paralice, cese o desista inmediatamente, bajo apercibimiento de desacato, el uso de la marca a que la demanda se refiere, hasta la celebración de una vista dentro de los diez (10) días contados a partir de la fecha en que se expida la orden provisional. En este Procedimiento Especial, el tribunal eximirá al titular registral del requisito de prestar fianza.

Dentro de los diez (10) días, contados a partir de la fecha en que se expida la orden provisional, se celebrará una vista para que la parte demandada muestre causa por la cual no debe dejarse sin efecto la referida orden provisional o la orden de incautación; y expedirse una orden de *injunction* preliminar en lo que se ventilan los derechos de las partes.

En los casos en que el titular registral lo solicite, el tribunal podrá ordenar el embargo preventivo e incautación de los bienes, rótulos, etiquetas, envolturas o cualquier otro medio sobre los cuáles la parte demandada hubiera fijado la marca en cuestión sin necesidad de prestar fianza.

El reclamo de los remedios que provee este Artículo al titular registral de una marca registrada en Puerto Rico, es sin perjuicio de solicitar cualquier otro remedio que en derecho le asista.

ARTÍCULO 31.- FONDO ESPECIAL

Las cantidades recaudadas por concepto de los derechos establecidos según dispuesto en el Artículo 23 de esta Ley, ingresarán en un fondo especial creado para esos efectos en el Departamento de Hacienda con el propósito de sufragar los gastos de funcionamiento del registro de marcas, que no fueran sufragados por asignaciones del Fondo General u otras asignaciones presupuestarias.

El Departamento de Estado, antes de utilizar los recursos depositados en el Fondo Especial, deberá someter anualmente para la aprobación de la Oficina de Presupuesto y Gerencia, un presupuesto de gastos con cargo a esos fondos.

ARTÍCULO 32.- DISPOSICIONES TRANSITORIAS

A. Los certificados de registro de las marcas que se encuentren en vigor al aprobarse esta Ley, quedarán protegidos por el período de tiempo por el cual fueron expedidos y podrán renovarse a tenor con las disposiciones de esta Ley.

B. Todas las solicitudes de registros que estén pendientes para la fecha de efectividad de esta Ley, podrán ser enmendadas bajo las disposiciones de esta Ley. Se procederá con el trámite de dichas solicitudes así enmendadas, si es viable, para atemperarlas a las disposiciones de esta Ley.

C. A partir de la vigencia de esta Ley y hasta la aprobación del Reglamento mencionado en el Artículo 23, continuarán vigentes los derechos establecidos en la Ley Número 63 de 14 de agosto de 1991, según enmendada.

ARTÍCULO 33.- DEROGACIÓN

Se deroga la Ley Número 63 de 14 de agosto de 1991, según enmendada, conocida como la Ley de Marcas de Fábricas de Puerto Rico.

ARTÍCULO 34.- CLÁUSULA DE SEPARABILIDAD

Si cualquier palabra, frase, oración, sección, inciso o parte de esta Ley fuere por cualquier razón impugnada ante un Tribunal y declarada inconstitucional o nula, tal sentencia no afectará, menoscabará o invalidará las restantes disposiciones y partes de esta Ley.

ARTÍCULO 35.- VIGENCIA

Esta Ley entrará en vigor inmediatamente después de su aprobación.



**SENADO DE PUERTO RICO
CAPITOLIO
SAN JUAN, PUERTO RICO 00901**

Yo, **MANUEL A. TORRES NIEVES**, Secretario del Senado de Puerto Rico,

CERTIFICO:

Que el **P. del S. 1827**, titulado:

“LEY

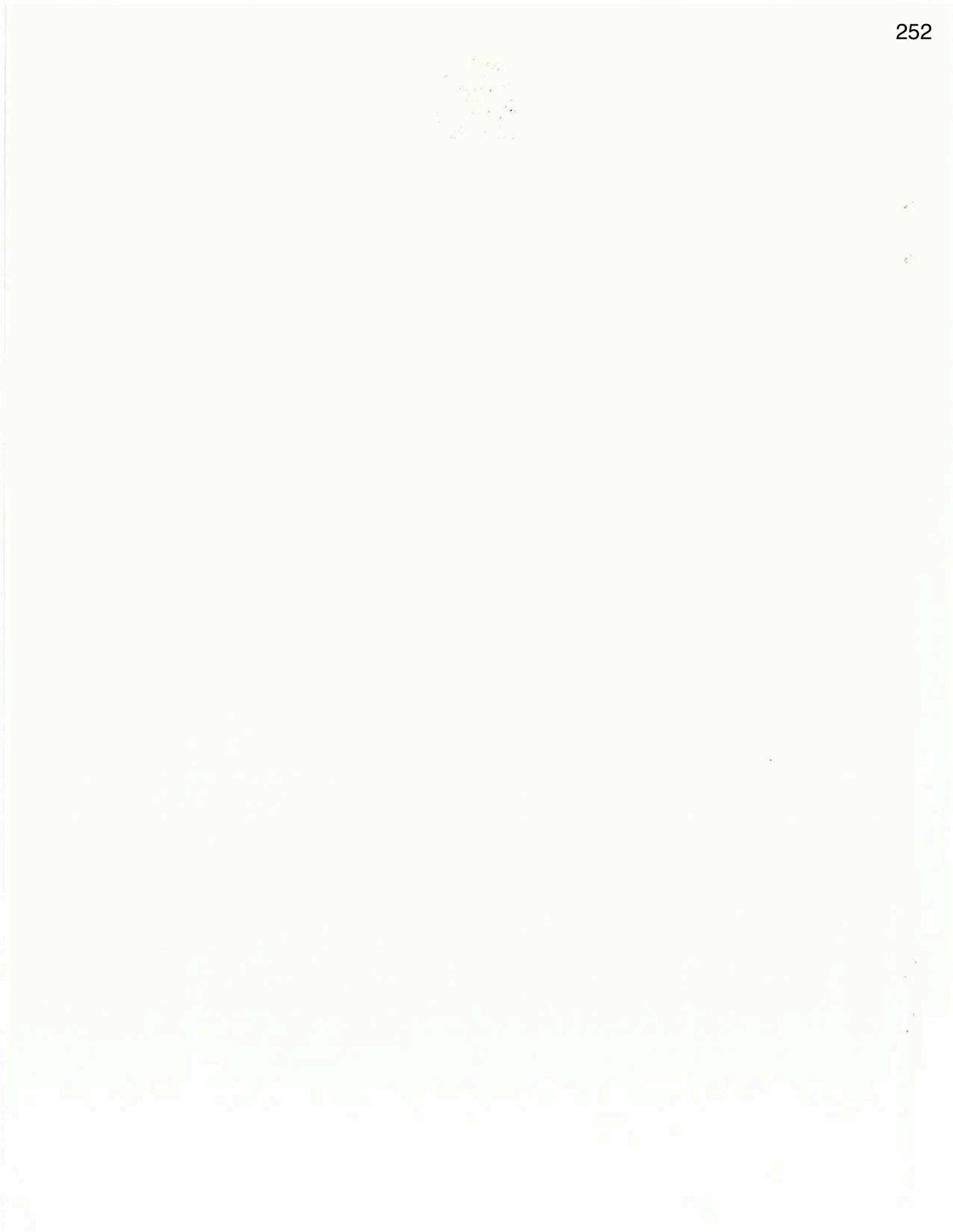
Para añadir un nuevo inciso A, enmendar los incisos F, H y J, reenumerar los incisos A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q y R, como incisos B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R y S, respectivamente, del Artículo 2; enmendar el Artículo 4; enmendar el inciso 8 del Artículo 5; enmendar el inciso B del Artículo 7; enmendar los Artículos 9, 18, 19 y 20; enmendar el primer párrafo del Artículo 26; y enmendar los Artículos 27, 28, 29 y 32 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, a los fines de aclarar disposiciones de la Ley relacionadas a su alcance y su aplicabilidad; y para otros fines.”

ha sido aprobado por el Senado de Puerto Rico y la Cámara de Representantes en la forma que expresa el ejemplar que se acompaña.

PARA QUE ASI CONSTE, y para notificar al Gobernador de Puerto Rico, expido la presente en mi oficina en el Capitolio, San Juan, Puerto Rico, el día veinticuatro (24) del mes de junio del año dos mil once y estampo en ella el sello del Senado de Puerto Rico.

Manuel A. Torres Nieves
Secretario

[Faint handwritten notes or markings]



(P. del S. 1827)

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Para añadir un nuevo inciso A, enmendar los incisos F, H y J, reenumerar los incisos A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q y R, como incisos B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R y S, respectivamente, del Artículo 2; enmendar el Artículo 4; enmendar el inciso 8 del Artículo 5; enmendar el inciso B del Artículo 7; enmendar los Artículos 9, 18, 19 y 20; enmendar el primer párrafo del Artículo 26; y enmendar los Artículos 27, 28, 29 y 32 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, a los fines de aclarar disposiciones de la Ley relacionadas a su alcance y su aplicabilidad; y para otros fines.

EXPOSICION DE MOTIVOS

La Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, integra elementos de nuestro anterior esquema marcario con elementos de su contraparte federal conocido como el Lanham Act, 15 U.S.C. 1051 et seq., y del “Model State Trademark Act”, para crear un estatuto de avanzada que protege derechos de propiedad intelectual en Puerto Rico. Los derechos adicionales que esta Ley confiere y la flexibilización del marco legal aplicable al proceso de registro de una marca que esta Ley implementa, son a su vez mecanismos que viabilizan la política pública del Gobierno de Puerto Rico relacionada a la promoción y el desarrollo de la economía del país. Estas enmiendas técnicas persiguen aclarar y corregir varias disposiciones contenidas en la mencionada Ley en aras de viabilizar e implantar aún más la consecución de sus propósitos.

Las enmiendas a las definiciones correspondientes al Artículo 2 reincorporan el concepto del depósito de un Certificado de Registro emitido por la Oficina de Patentes y Marcas Federal, permitiendo de este modo la publicidad local para marcas que están protegidas federalmente en nuestra jurisdicción. Además, las enmiendas a este Artículo tienen el propósito de aclarar la definición de lo que es una “marca de fábrica”, una “marca de certificación” y una “marca abandonada”. Por último, se reenumeran los incisos del Artículo 2 para mantener el orden alfabético de las definiciones contenidas en el mismo, a tenor con el nuevo inciso A.

Por otro lado, la Ley de Marcas del Gobierno de Puerto Rico, a diferencia de su contraparte Federal, permite el registro y protección de una marca que aún no ha sido utilizada en el mercado de Puerto Rico, mientras se desarrolla el plan de negocio necesario para introducir un nuevo producto o servicio en este mercado. La enmienda al Artículo 4(B) tiene el efecto de atemperar la disponibilidad de este importante remedio con la necesidad de evitar se creen barreras en el Comercio por medio de prácticas monopolísticas, como por ejemplo el que un comerciante mediante el uso del registro indiscriminado e irresponsable de los derechos del sistema marcario impida el uso de una marca en Puerto Rico, aun cuando éste no mercadee ningún producto o servicio que se identifique con la misma. Consecuentemente el período de

protección para una marca sin uso se reduce de cinco (5) a tres (3) años, estableciendo que previo al vencimiento de los tres (3) años se deberá presentar una declaración bajo pena de perjurio evidenciando el uso de la marca, con la alternativa de una extensión adicional de un (1) año si se presenta con la evidencia necesaria para corroborar que la falta de uso hasta esa fecha ha sido motivada por justa causa. Tal solicitud de extensión tendrá que ser presentada dentro del periodo de los tres (3) años iniciales. Tal periodo es cónsono con la presunción rebatible de abandono que establece la Ley en su Artículo 2 sobre la marca registrada que ha estado en desuso por un término de tres (3) años.

Mediante la enmienda al Artículo 9 se aclara el proceso registral, al disponer que las solicitudes de registro de marcas estén sujetas a un proceso de calificación, antes de ser objeto de registro.

Las enmiendas al Artículo 5, inciso 8, y al Artículo 26, reincorporan de manera expresa un concepto básico perteneciente al derecho marcario al aclarar que la “probabilidad de confusión”, ya sea con una marca registrada o con una marca que se usa en el Comercio en Puerto Rico, impide el acceso al registro y permite al dueño de la marca ya registrada o en uso, y/o a la persona con autorización por escrito de parte de dicho dueño, solicitar un interdicto, orden de incautación, daños y/o cualquier otro remedio que proceda en derecho.

Las enmiendas a los Artículos 27, 28 y 29 pretenden aclarar los remedios disponibles a los perjudicados en casos de una falsa designación de origen o falsa descripción, por disminución del carácter distintivo de una marca famosa, o por una violación al derecho marcario por el uso de nombres de dominio, además de aclarar que la disponibilidad del remedio correspondiente a daños estatutarios se limita a la violación de derecho sobre una marca registrada. Ello es cónsono con el fin de promover el registro de marcas en Puerto Rico, siempre que sirva de incentivo o remedio adicional para el titular registral de la marca. Además de que beneficia a un posible infractor de buena fe en circunstancias en que éste incurra en violación de una marca no registrada, y por ende no publicada. La publicación del registro de la marca equivale a una notificación a terceros referente a la titularidad de la marca. Si no existe la publicación de la marca, no existe una presunción sobre el conocimiento de la titularidad de la marca por terceras personas.

Finalmente, se clarifican las disposiciones de los Artículos 18, 19 y 32 en torno a los procesos de registro, de manera que queden claros los requisitos de registro tanto para marcas registradas al amparo de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como la “Ley de Marcas del Gobierno de Puerto Rico”, como para marcas registradas bajo el esquema estatutario anterior.

DECRETASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

Artículo 1.-Se añade un nuevo inciso A, se enmiendan los incisos F, H y J y se reenumeran los incisos A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q y R, como incisos B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R y S, respectivamente, del Artículo 2 de la Ley Núm. 169 de 16 de diciembre de 2009, mejor conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 2.- DEFINICIONES

- A. **Depósito U.S.:** todo depósito de un Certificado de Registro de Marca expedido por la Oficina de Marcas de Estados Unidos de América (Registro Federal), también conocido como “Depósito U.S.”, que se registre en el Registro de Marcas del Departamento de Estado del Gobierno de Puerto Rico y cuyo propósito es dar publicidad a terceros de la existencia de dicho Registro Federal.
- B. ...
- C. ...
- D. ...
- E. ...
- F. ...
- G. **Marca de Fábrica:** cualquier palabra, nombre, símbolo, imagen o estilo comercial (“trade dress”), medio, logo, diseño, color, sonido, olor, forma, objeto o una combinación de éstos que:
- 1) ...
 - 2) una persona natural o jurídica tiene la intención bona fide de utilizar en el Comercio y solicita el registro de la misma; y que sirva para distinguir su empresa, organización comercial o los bienes de esa persona de aquellos manufacturados o vendidos por otra persona y para indicar la fuente de dichos bienes, aunque no sea conocida.
- H. ...
- I. **Marca de Certificación:** cualquier palabra, nombre, símbolo, imagen o estilo comercial (“trade dress”), medio, logo, diseño, color, sonido, olor, forma, objeto o una combinación de éstos que se utilice para certificar el origen, material, modo de manufactura, calidad, certeza u otras características en común de los productos o servicios mercadeados bajo la misma y que:
- 1) es utilizada en el Comercio por una persona que no es su dueño o titular; o
 - 2) que su dueño o titular tenga la intención bona fide de permitir a una persona que no sea el dueño o titular a utilizar la marca en el Comercio y solicita el registro para la misma.
- J. ...
- K. **Marca Abandonada:** se refiere a una Marca cuyo uso en el Comercio de Puerto Rico se ha descontinuado con la intención de no reanudarlo o cuya significación como distintivo de los bienes y servicios provenientes de una misma fuente se ha perdido.

Una marca se presume abandonada cuando:

- 1) su uso haya sido discontinuado con intención de no reanudarlo. Intención de no reanudar puede ser inferida de las circunstancias del caso. La falta de uso por tres (3) años consecutivos constituirá evidencia rebatible de la intención de abandono de la Marca; o
- 2) el titular o dueño de la marca ha incurrido en conducta, incluyendo actos de acción u omisión, que cause que la marca se convierta en genérica o de alguna otra manera pierda su significación o connotación como marca.

L. ...

M. ...

N. ...

O. ...

P. ...

Q. ...

R. ...

S. ...”

Artículo 2.-Se enmienda el Artículo 4 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 4.- REGISTRO DE MARCAS

A. ...

B. **Marcas sin uso:**

...

...

Dentro de los tres (3) años contados a partir de la fecha de radicación de la solicitud de registro de una Marca sin uso en el Comercio de Puerto Rico, el titular registral, como condición para mantener vigente dicho registro, tendrá que acreditar, mediante declaración bajo pena de perjurio y con evidencia de uso, que comenzó a utilizar y está utilizando la Marca en el Comercio de Puerto Rico. Transcurrido el referido término de tres (3) años sin que el titular registral haya acreditado bajo pena de perjurio el uso de la Marca en el Comercio en Puerto Rico, dicho registro se dará por cancelado.

No obstante lo anterior, el titular registral de una Marca sin uso podrá solicitar, antes de vencido el término de tres (3) años aquí establecido y por justa causa, una prórroga de hasta un máximo de un (1) año para acreditar el uso requerido por este inciso B, según disponga el Secretario por reglamentación.”

Artículo 3.-Se enmienda el inciso 8 del Artículo 5 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 5.- MARCAS NO REGISTRABLES

No se registrará una marca que consista de:

1. ...

...

3. Un nombre, retrato o firma que identifica a un individuo particular que aún vive, a menos que se obtenga el consentimiento escrito de dicho individuo. Esta disposición no aplica a apellidos, excepto en los casos en que un individuo en particular es conocido por sus apellidos solamente. De igual modo, no se registrará una marca que de primera instancia es meramente un apellido, a menos que haya adquirido distintividad mediante significación secundaria.

8. Una marca que sea igual o similar y que pueda causar probabilidad de confusión en cuanto al origen de los bienes o servicios con otra marca registrada o que se esté utilizando en el Comercio en Puerto Rico por otra persona y que se use o usará en bienes o servicios iguales o similares a los de la marca registrada o previamente utilizada en el Comercio de Puerto Rico.

9. ...”

Artículo 4.- Se enmienda el inciso B del Artículo 7 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 7.- RADICACIÓN DE SOLICITUD

B. Si se aprueba el registro de la marca, el Secretario lo comunicará al solicitante para que se publique un edicto indicativo de la intención del registro de la marca una (1) vez en un periódico de circulación general diaria de Puerto Rico o en cualquier otro medio de comunicación, según disponga el Secretario por reglamentación. El edicto contendrá el nombre del solicitante, dirección, nombre de la marca, número de la clase bajo la cual se presenta la solicitud, y una advertencia de que cualquier persona perjudicada por el registro de la marca solicitada, tiene treinta (30) días para oponerse al mismo, siguiendo el proceso a establecerse por el Secretario.”

Artículo 5.- Se enmienda el Artículo 9 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 9.- CONFLICTO

Cuando dos (2) o más solicitudes de marcas son objeto de calificación y estén en conflicto por su semejanza, el Secretario decidirá cuál de éstas tendrá acceso al registro y notificará su determinación a la parte afectada.

....”

Artículo 6.- Se enmienda el Artículo 18 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 18.- DECLARACIÓN DE USO DE LA MARCA COMO CONDICIÓN PARA LA VIGENCIA DEL REGISTRO

Como requisito indispensable para mantener la vigencia del registro de una Marca, todo titular registral tendrá que presentar una declaración bajo pena de perjurio que acredite el uso de la Marca en el Comercio de Puerto Rico, acompañada de un espécimen o especímenes, en la forma y cantidad que mediante reglamentación disponga el Secretario. La declaración de uso a la que hace referencia este Artículo, se presentará una sola vez entre el quinto (5to.) y el sexto (6to.) año, pero no más tarde del sexto (6to.) año, a partir de la fecha de la radicación de la solicitud del registro de la marca.

Al finalizar el sexto (6to.) año, sin que el titular registral haya presentado la declaración de uso bajo pena de perjurio, dicho registro se dará por cancelado.

No obstante, transcurrido el término aquí establecido, sin haberse presentado la referida declaración de uso y la correspondiente evidencia de uso, el titular registral podrá presentar la referida declaración, previo el pago de los derechos que disponga el Secretario mediante reglamentación, siempre que lo haga no más tarde de seis (6) meses desde la expiración de dicho término. Al expirar dicho término, el registro será cancelado.

Las disposiciones de este Artículo no le aplican a los registros de marcas efectuados al amparo de la Ley Núm. 63 de 14 de agosto de 1991, según enmendada.”

Artículo 7.-Se enmienda el Artículo 19 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTICULO 19.- RENOVACIÓN DEL REGISTRO DE UNA MARCA

Todo registro de marca permanecerá en vigor por diez (10) años, contados desde la fecha de la radicación de la solicitud del registro, siempre que se haya cumplido con los requisitos establecidos en esta Ley. El registro de una marca puede renovarse de tiempo en tiempo por el mismo período de duración, a petición del titular registral, conforme y según disponga el Secretario mediante reglamentación. Tal petición deberá hacerse en cualquier momento dentro del año anterior a la fecha en que expire el período de diez (10) años por el cual fue originalmente expedido o dentro del año anterior a la fecha en que expire cada período de diez (10) años por el cual fuere renovado dicho registro. La petición de renovación del registro de una marca a la que hace referencia este Artículo deberá presentarse acompañada de una declaración de uso bajo pena de perjurio y con un espécimen o especímenes, en la forma y cantidad que mediante reglamentación disponga el Secretario, que acredite dicho uso de la marca en el Comercio de Puerto Rico.

No obstante, transcurrido el período de diez (10) años, antes dispuesto, el titular registral podrá presentar la solicitud de renovación a la que hace referencia este Artículo, dentro de los seis (6) meses desde la expiración de dicho término, junto con el pago de los derechos que mediante reglamentación disponga el Secretario. Al expirar dicho término el registro será cancelado.

Si el Secretario deniega la renovación de la marca, deberá notificar a la parte afectada exponiendo las razones para denegar la renovación.”

Artículo 8.-Se enmienda el Artículo 20 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 20.- CANCELACIÓN DE UNA MARCA REGISTRADA

A. Cualquier persona que se considere perjudicada por el registro de una marca, incluyendo el perjuicio causado por la disminución del carácter distintivo de la marca bajo el Artículo 28 de esta Ley, podrá solicitar al Secretario la cancelación de dicho registro. Excepto, según se dispone en el inciso (C) de este Artículo 20, el Secretario únicamente cancelará un registro cuando se solicite mediante un escrito fundamentado de cancelación, suscrito bajo pena de perjurio, y que se haya presentado oportunamente bajo uno de los siguientes incisos:

1. Dentro de los cinco (5) años siguientes a la fecha del registro.
2. En cualquier momento, si:
 - a. la marca registrada ha sido abandonada;
 - b. la marca registrada es funcional;
 - c. el registro fue obtenido mediante fraude o en contravención de los incisos (1) ó (2) del Artículo 5 de esta Ley;
 - d. el registro fue obtenido no obstante la marca consistir de, o incluir un nombre, retrato o firma que identifica a una persona natural que aún vive, a menos que se haya obtenido el consentimiento y por escrito de dicha persona;
 - e. la marca registrada se ha convertido en el nombre genérico de los bienes o servicios en relación con los cuales está registrada, o de la porción de los bienes o servicios en relación con los cuales está registrada y con respecto a los cuales se solicita la cancelación; o
 - f. la marca registrada se usa por o con permiso del titular registral para producir una falsa representación de la fuente de los bienes o servicios en o en relación con los cuales se usará la marca.
3. En cualquier momento, si se trata de una marca de certificación y el titular registral:
 - a. no controla o no puede legítimamente ejercer control sobre el uso de la marca;
 - b. comienza a producir o mercadear cualquiera de los bienes o servicios objeto de la certificación;
 - c. permite el uso de la marca de certificación para otros propósitos que no tienen que ver con la certificación; o
 - d. discriminatoriamente, rehúsa certificar o continuar certificando bienes o servicios que cumplen con los estándares de calidad correspondientes a esa marca de certificación.

B. El término de cinco (5) años establecido en el inciso (A)(1) de este Artículo 20 es un término de caducidad cuyo incumplimiento impide la cancelación de un registro, excepto según se dispone en los incisos (A)(2), (A)(3) y (D) de este Artículo 20.

C. Presentada la solicitud de cancelación, la misma se adjudicará según el procedimiento que para dicho propósito establezca el Secretario mediante reglamento.

D. El Secretario también cancelará los siguientes Registros de marca cuando:

1. cualquier registro para el cual se solicitó la cancelación voluntaria del mismo;
2. cualquier registro sin uso para el cual no se acreditó el uso de la marca a tenor con el Artículo 4(B) de esta Ley;
3. cualquier registro que no fue renovado a tenor con el Artículo 19 de esta Ley;
4. cualquier registro con relación al cual un Tribunal con jurisdicción competente determinó lo siguiente:
 - (a) que procede la cancelación de la marca registrada bajo los incisos (A)(2) o (A)(3); o
 - (b) que el uso de la marca registrada infringe un derecho adquirido mediante el registro de una marca en el Registro Principal establecido en "Lanham Act", siempre que tal derecho sea efectivo en Puerto Rico mediante el uso de esta marca en el Comercio y sujeto a las defensas del titular de la marca registrada que en derecho procedan.

E. Será irrefutable el derecho del titular registral de una marca a utilizar la marca en el Comercio en o con relación a los bienes o servicios respecto de los cuales la marca registrada aún está en uso en el Comercio y ha estado en uso ininterrumpido en el Comercio, en cualquier periodo de cinco (5) años consecutivos subsiguientes a la fecha de registro, sujeto al cumplimiento de los requisitos establecidos en el inciso 1 y las defensas establecidas en el inciso 3 de este Artículo 20 (E).

1. a. que no exista decisión final adversa al reclamo de titularidad de la marca en o con relación a los bienes o servicios o al derecho del titular registral de registrar la misma o de mantener la misma en el registro;
- b. que no exista procedimiento que envuelva el derecho sobre la marca ante el Registro o un Tribunal y que no haya sido resuelto finalmente;
- c. se presente una declaración bajo pena de perjurio dentro del año siguiente a cualquier periodo de cinco (5) años consecutivos de uso ininterrumpido subsiguiente a la fecha del registro de la marca, especificando los bienes o servicios identificados en el Certificado de Registro, en o en relación con los cuales la marca registrada ha estado en uso ininterrumpido en el Comercio por el mencionado término consecutivo de cinco (5) años y aún está siendo utilizada en el Comercio y los demás asuntos identificados en los sub-incisos (a) y (b) ante;
- d. el pago de derechos que mediante reglamento disponga el Secretario; y
- e. no se obtendrá un derecho irrefutable en una marca que sea la denominación genérica de los bienes o servicios, o una porción de éstos, para la cual fue registrada.

2. En la medida que el registro de la marca ha advenido irrefutable, ello constituye evidencia concluyente de la validez de la marca registrada y del registro; que el titular registral es el dueño de la marca y del derecho exclusivo del titular registral a utilizar la marca registrada en el Comercio. Tal evidencia concluyente se refiere al derecho exclusivo de utilizar la marca registrada, en o con relación a los bienes o servicios indicados en la declaración de irrefutabilidad, según éstos sean limitados posteriormente en el registro, y sujeto a las demás condiciones o limitaciones establecidas en dicha declaración o en el registro.
3. La evidencia concluyente del derecho exclusivo a usar la marca únicamente puede contrarrestarse si se prueba una infracción de la marca, y una de las siguientes defensas:
 - a. que procede la cancelación del registro de la marca irrefutable bajo el inciso (A) (2) o (A) (3) de este Artículo;
 - b. que el derecho de irrefutabilidad se obtuvo fraudulentamente;
 - c. que se trata de un uso no-marcario de la marca registrada e irrefutable para describir los bienes o servicios del alegado infractor o el origen geográfico de los mismos;
 - d. que el uso de la marca registrada e irrefutable infringe un derecho adquirido y no abandonado por el uso en el Comercio de una marca desde una fecha previa a la fecha de primer uso y a la fecha de registro de la marca registrada. Cuando proceda esta defensa, el Tribunal determinará los derechos de las partes según los principios de la equidad y los propósitos de esta Ley, incluyendo, por ejemplo, si el titular de la marca registrada adoptó la misma de buena o mala fe, si el primer usuario incurrió en incuria, y la medida en que las marcas puedan coexistir con determinadas limitaciones para evitar una probabilidad de confusión;
 - e. que el uso de la marca registrada e irrefutable infringe un derecho previo adquirido mediante el registro de una marca en el Registro Principal establecido en la “Lanham Act”, siempre que tal derecho sea efectivo en Puerto Rico mediante el uso de esta marca en el Comercio y sujeto a las defensas del titular de la marca registrada e irrefutable que en derecho procedan;
 - f. que la marca registrada e irrefutable ha sido usada o se usa para violar las leyes sobre monopolios;
 - g. que son aplicables de algún otro modo los principios de equidad, incluyendo incuria, estoppel, y aquiescencia; o
 - h. las disposiciones sobre irrefutabilidad de una marca establecidas en este Artículo 20(E) serán aplicables a todas las marcas registradas, previo el cumplimiento con todos los requisitos establecidos en este Artículo 20(E).”

Artículo 9.-Se enmienda el primer párrafo del Artículo 26 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como “Ley de Marcas del Gobierno de Puerto Rico”, para que lea como sigue:

“ARTÍCULO 26.- VIOLACIÓN AL DERECHO MARCARIO Y REMEDIOS

Cualquier persona que, sin el consentimiento del titular registral o del dueño de una marca, reproduzca, falsifique, copie, imite, use o intente usar una marca igual o similar a una marca registrada bajo esta Ley, o que se usa en el Comercio de Puerto Rico con anterioridad al uso por parte de tal persona, que pueda causar probabilidad de confusión o engaño en cuanto al origen de los bienes o servicios o en cuanto a endoso o asociación, será responsable en una acción civil al titular registral, o al dueño, y/o a la persona con autorización por escrito de parte del dueño de la marca, y cualquiera de los cuales podrá presentar una demanda contra tal persona y solicitar un interdicto, orden de incautación, daños y/o cualquier otro remedio que en derecho proceda.

...

..."

Artículo 10.-Se enmienda el Artículo 27 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como "Ley de Marcas del Gobierno de Puerto Rico", para que lea como sigue:

"ARTÍCULO 27.- FALSA DESIGNACIÓN DE ORIGEN O FALSA DESCRIPCIÓN

A. ...

1. ...

2. En anuncios o promociones comerciales haga una falsa representación de la naturaleza, características, cualidades u origen geográfico de sus bienes, servicios o actividad comercial o de los bienes; servicios o actividad comercial de otra persona, será responsable a la persona que sufrió daños como consecuencia de tales actos.

El perjudicado tendrá derecho a los remedios pertinentes establecidos bajo el Artículo 26 de esta Ley."

Artículo 11.-Se enmienda el Artículo 28 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como "Ley de Marcas del Gobierno de Puerto Rico", para que lea como sigue:

"ARTÍCULO 28.- DISMINUCIÓN DEL CARÁCTER DISTINTIVO DE MARCAS FAMOSAS

Cualquier persona que sin el consentimiento del dueño de una marca famosa, use dicha marca o un término sustancialmente similar en el Comercio de Puerto Rico, estará sujeta a interdicto si dicho uso de la marca famosa o un término sustancialmente similar, podría causar disminución del carácter distintivo de la marca por opacar o deslucir la misma ("blurring") o por mancillar o deshonorar la marca ("tarnishment"), aunque se trate de productos o servicios diferentes o no haya probabilidad de confusión entre las marcas; o no haya daño económico. En aquellos casos en que el dueño de la marca famosa demuestre además que el demandado tuvo la intención de causar disminución de la marca famosa o de aprovecharse de su carácter distintivo, el dueño de la marca famosa también tendrá derecho a los remedios establecidos bajo el Artículo 26 de esta Ley.

....

...."

Artículo 12.-Se enmienda el Artículo 29 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como "Ley de Marcas del Gobierno de Puerto Rico", para que lea como sigue:

“ARTÍCULO 29.- VIOLACIÓN AL DERECHO MARCARIO CON NOMBRES DE DOMINIO

A.

....

D. En cualquier acción civil en relación con el registro, mercadeo, venta, compra, licencia, préstamo, transferencia o uso de un nombre de dominio bajo este Artículo, el Tribunal puede ordenar la confiscación o la cancelación del nombre de dominio o la cesión del nombre de dominio al dueño de la marca. El dueño de la marca también tendrá derecho a los remedios establecidos bajo el Artículo 26 de esta Ley.”

Artículo 13.-Se enmienda el Artículo 32 de la Ley Núm. 169 de 16 de diciembre de 2009, conocida como "Ley de Marcas del Gobierno de Puerto Rico", para que lea como sigue:

“ARTICULO 32.- DISPOSICIONES TRANSITORIAS

Las disposiciones procesales contenidas en la Ley Núm. 169 de 16 de diciembre de 2009 y en esta Ley sobre el proceso de calificación, examen, mantenimiento, y/o renovación del registro de una marca, serán aplicables a toda solicitud de registro de marca presentada con posterioridad a la fecha de vigencia de la Ley Núm. 169.

No obstante lo anterior, toda disposición de esta Ley, ya sea sustantiva o procesal, que de alguna manera pueda beneficiar al titular registral o dueño de una marca, podrá ser reclamada oportunamente por dicho titular o dueño de la marca a partir de la vigencia de esta Ley.”

Artículo 14.- Esta Ley comenzará a regir inmediatamente después de su aprobación.



 Presidenta de la Cámara



 Presidente del Senado

Aprobada en 12 de julio de 2011


 Gobernador

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Fue recibida por el Gobernador

Hoy 30 de Junio

De 2011 a las 10:20 pm


Resol

DEPARTAMENTO DE ESTADO

Número: 8075
 Fecha: 19 de septiembre de 2011
 Aprobado: Hon. Kenneth D. McClintock
 Secretario de Estado



Por: Eduardo Arosemena Muñoz
 Secretario Auxiliar de Servicios



Gobierno de Puerto Rico
 Departamento de Estado

**REGLAMENTO DE PROCEDIMIENTOS DEL REGISTRO DE MARCAS
 DEL DEPARTAMENTO DE ESTADO DEL GOBIERNO DE PUERTO RICO**

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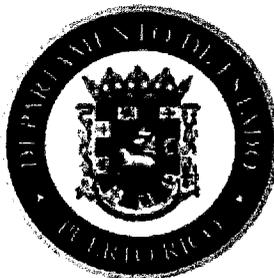
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REGLAMENTO DE PROCEDIMIENTOS DEL REGISTRO DE MARCAS
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Gobierno de Puerto Rico
Departamento de Estado

**REGLAMENTO DE PROCEDIMIENTOS DEL REGISTRO DE MARCAS
DEL DEPARTAMENTO DE ESTADO DEL GOBIERNO DE PUERTO RICO**

Regla 1. Base legal y propósito

Este reglamento se promulga de acuerdo con las disposiciones del artículo 24 de la Ley Núm. 169 de 2009, según enmendada, conocida como Ley de Marcas del Gobierno de Puerto Rico, (en adelante, Ley) y de acuerdo con la Ley Núm. 170 de 12 de agosto de 1988, conocida como Ley de Procedimiento Administrativo Uniforme, (en adelante, LPAU).

La adopción de este nuevo Reglamento se hace necesaria ante la reciente aprobación de la Ley, cuyas disposiciones van dirigidas a incentivar el aumento del inventario de marcas que se registren en Puerto Rico. Con este nuevo Reglamento esperamos facilitar la implantación de la política pública esgrimida en la Ley impartiendo celeridad al trámite administrativo de calificación y ofreciendo una mayor confianza a las empresas nacionales y multinacionales que hacen o interesan hacer negocios en Puerto Rico.

La flexibilización del marco legal aplicable al proceso de registro de una marca, que resulta de la aplicación de la Ley es, a su vez, un mecanismo que viabiliza la política pública del Gobierno de Puerto Rico encaminada a la promoción y desarrollo de la economía de Puerto Rico.

Regla 2. Derogaciones

Mediante la aprobación de este Reglamento, queda derogado el Reglamento Núm. 4638 del 21 de febrero de 1992, conocido como el Reglamento de Procedimiento del Registro de Marcas, según enmendado por el Reglamento Núm. 7223 del 3 de octubre de 2006, al igual que cualquier disposición inconsistente que esté incluida en cualquier otro reglamento aprobado por el Departamento de Estado previo a la fecha de la aprobación de este Reglamento.

Regla 3. Definiciones

En adición a las definiciones que se incluyen en la Ley, las siguientes palabras tendrán el siguiente significado:

- A. **Certificado de Archivo de Registro de Marca Federal/Depósito US** – se refiere al certificado de publicidad que se le emite a todo Solicitante que interese hacer constar el hecho del registro federal relacionado a su Marca en el Registro de Marcas de Puerto Rico.
- B. **Clase** – se refiere a la Clase de Niza, correspondiente al producto o servicio en relación al cual se usa o se pretende usar la Marca en el Comercio. La Clase de Niza está basada en un tratado multinacional administrado por el “World Intellectual Property Organization” (WIPO). Este tratado se conoce como el “Nice Agreement Concerning the International

Classification of Goods and Services for the Purposes of the Registration of Marks” de 1957.

- C. **Comercio** – se refiere al Comercio en Puerto Rico.
- D. **Compañía Relacionada** – se refiere a cualquier Persona cuyo uso de una marca es controlado por el dueño de la marca, con respecto a la naturaleza y calidad de los bienes o servicios en, o en relación a, los cuales se utiliza la Marca.
- E. **Declaración o Afirmación** – se refiere a la declaración o afirmación que, bajo pena de perjurio, hace todo Solicitante o Representante y que contiene el lenguaje al que hace referencia la Regla 9 de este Reglamento.
- F. **Día Feriado** – se refiere a cualquier día, excepto sábados y domingos, cuando el Registro éste oficialmente cerrado por el día completo.
- G. **Dueño de la Marca:** se refiere a la Persona que tenga, y lo pueda evidenciar, mejor derecho sobre esa Marca.
- H. **Edicto de la Marca:** se refiere a la publicación, en un periódico de circulación general o en cualquier otro método de publicidad que de tiempo en tiempo disponga el Secretario mediante Carta Circular, que contenga la Marca a registrarse, el nombre del Solicitante, la dirección de éste, la Clase de productos o servicios a que aplica o en relación con los cuales se usa o usará la Marca y el Número de Presentación.
- I. **Fecha de Presentación:** se refiere a la hora, el día, el mes y el año en que se presenta una Solicitud al Registro que contenga los requisitos mínimos que establece este Reglamento.
- J. **Firma:** se refiere a toda firma, ya sea física o electrónica, según sea requerido por el Registro.

- K. **Ley:** se refiere a la Ley de Marcas del Gobierno de Puerto Rico, Ley 169 de 16 de diciembre de 2009, según enmendada.
- L. **Marca Irrefutable:** se refiere al derecho concluyente del Titular Registral de una marca a utilizar la marca en el Comercio en o en relación a los bienes o servicios respecto de los cuales la Marca registrada aún está en uso en el Comercio y ha estado en uso ininterrumpido en el Comercio en cualquier periodo de cinco (5) años consecutivos subsiguiente a la fecha del registro, sujeto al cumplimiento de los requisitos establecidos en este Reglamento.
- M. **Número de Presentación:** se refiere al número que el Registro asigna al momento en que el Solicitante presenta una Solicitud que cumpla con los requisitos mínimos establecidos en este Reglamento.
- N. **Número de Registro:** se refiere al número que el Registro le asigna a una Solicitud de registro de Marca que haya sido adjudicada favorablemente y con finalidad.
- O. **Opositor:** se refiere a la Persona natural o jurídica que presenta ante el Registro una Oposición en relación a una Solicitud de registro de Marca.
- P. **Petición de Inscripción:** se refiere al requerimiento formal que mediante Solicitud de registro hace un Solicitante al Registro para que se registre su Marca. La petición de inscripción es sólo uno de los requisitos de la Solicitud.
- Q. **Registrador:** se refiere a la Persona designada dentro de la Ley y este Reglamento para dirigir el Registro. Para efectos del proceso de adjudicación de registro de Marca, el término también se referirá a la persona o personas designadas y autorizadas por el Registrador a tramitar y adjudicar las Solicitudes presentadas.

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- R. **Registro** – se refiere al Registro de Marcas del Gobierno de Puerto Rico.
- S. **Solicitud**: se refiere al formulario que deberá presentar todo Solicitante ante el Registro y que deberá reunir todos los requisitos de forma que sean establecidos mediante la Ley y este Reglamento.
- T. **Representante**: se refiere a la Persona con capacidad para representar al Solicitante según establecido en este Reglamento.
- U. **Uso en el Comercio**: se refiere al uso legal de buena fe de una Marca en el Comercio de Puerto Rico.
- V. **Intención *bona fide* de uso** – se refiere a la intención de buena fe de todo Solicitante de usar la Marca en el Comercio de Puerto Rico según se dispone en la Ley y este Reglamento.

Regla 4. Información de Servicio al Consumidor

Formularios: Los formularios relacionados a los procesos ante el Registro podrán ser obtenidos del portal electrónico del Departamento de Estado o en el Registro. El Registro, mediante Carta Circular o cualquier otro mecanismo que entienda necesario, determinará cuáles formularios serán de uso mandatorio. El uso de los formularios que el Registro determine mandatorios será obligatorio a partir del término de treinta (30) días contados de su publicación en dicho portal electrónico.

Portal Electrónico: El Registro mantiene un Portal Electrónico que contiene, entre otras

cosas:

- Información general del Registro
- Un sistema de búsqueda de Solicitudes de Marcas
- Formularios y circulares
- Copia de las leyes y reglamentos aplicables al proceso de calificación o examen de una Solicitud
- Instrucciones de cómo completar una Solicitud

El Portal Electrónico puede ser accedido vía la página del portal del Departamento de Estado del Gobierno de Puerto Rico en www.estado.pr.gov o www.estado.gobierno.pr.

Dirección postal: La dirección postal del Registro es:

**Gobierno de Puerto Rico
Departamento de Estado
Registro de Marcas
P.O. Box 9023271
San Juan, PR 00902-3271**

Dirección Física: La dirección física del Registro es:

**Calle San José, Esq.
San Francisco
San Juan, Puerto Rico 00902**

Regla 5. Comunicación dirigida al Registro de Marcas

Toda comunicación dirigida al Registro, será enviada a nombre del Secretario de Estado a la siguiente dirección:

**Departamento de Estado
Registro de Marcas
P.O. Box 9023271
San Juan, Puerto Rico, 00902-3271**

No obstante, a partir de la fecha en que el Registro así lo establezca mediante Carta Circular o cualquier otro mecanismo, la comunicación al Registro, incluyendo la presentación de la Solicitud, será tramitada electrónicamente. A partir de dicha fecha toda Persona habrá de presentar cualquier comunicación o documento electrónicamente. Sólo mediante solicitud previa por escrito al Secretario y mediando justa causa, el Registro podrá permitir que la comunicación o el documento sea presentado por otro método que no sea electrónico.

Regla 6. Los asuntos serán transmitidos por escrito

- A. Todo asunto que un Solicitante o una Persona gestione en el Registro será tramitado por escrito, y las resoluciones que se tomen se basarán exclusivamente en los expedientes, salvo por aquellos procedimientos inter partes en los que se lleve a cabo una vista evidenciaria.
- B. Sin embargo, las comunicaciones originadas por el Registro hacia las partes se pueden perfeccionar por teléfono, telefacsímil, correo electrónico u otro método de comunicación comúnmente utilizado. Esta apertura a los mecanismos de comunicación se establece para agilizar los procesos de calificación y adjudicación que se tramitan en el Registro.
- C. El Registrador deberá establecer una bitácora para llevar constancia de las comunicaciones no escritas que sean trascendentales al proceso de calificación.

Regla 7. Referencia de identificación en las comunicaciones por escrito

- A. En toda comunicación por escrito relacionada con una Solicitud se mencionará el nombre del Solicitante y el Número de Presentación.
- B. En las comunicaciones relacionadas con una Marca Registrada se identificará el Titular Registral, la Marca y el Número de Registro.

Regla 8. Representante

- A. El Dueño de una Marca podrá tramitar en el Registro los asuntos relacionados con su Marca, por sí o a través de un Representante.
- B. Para efectos de la Ley y de este Reglamento, Representante se refiere a cualquiera de los siguientes:
 - 1. Abogado: se refiere a un Abogado(a) autorizado a ejercer la profesión por el Tribunal Supremo de Puerto Rico y que no haya sido desaforado o suspendido permanente o provisionalmente del ejercicio de la profesión.
 - 2. Director u Oficial de la Corporación: en el caso de que el Dueño de la Marca sea una Corporación, se refiere a un oficial o director de dicha Corporación, según dicha designación de oficial o director surja de un documento oficial de la Corporación que así lo designe.

3. Socio o Miembro: en el caso de que el Dueño de la Marca sea una Sociedad o Compañía de Responsabilidad Limitada, el Representante podrá ser cualquiera de los socios de la Sociedad o miembro de la Compañía, siempre que la facultad para realizar actos ante el Registro no haya sido restringida en el Contrato de Sociedad en virtud del cual se creó dicha Sociedad.
- C. Para efectos de toda Solicitud tramitada por una persona jurídica no residente, dicha persona jurídica, entiéndase, Sociedad, Compañía de Responsabilidad Limitada, Corporación o cualquier otra entidad jurídica no residente, deberá tramitar el registro de la Marca a través de un Abogado admitido a practicar la profesión en Puerto Rico que no haya sido desaforado, suspendido provisional o permanentemente de ejercer la profesión en Puerto Rico.
- D. Para efectos de toda solicitud tramitada por persona jurídica domiciliada (residente), será necesario incluir con la Solicitud el documento oficial de la Corporación, Sociedad o Compañía de Responsabilidad Limitada que autorice al Representante a tramitar la Solicitud.
- E. Se aclara que en todo caso entre partes en el que esté envuelto una persona jurídica ya sea residente o no residente, la representación tendrá que ser por Abogado admitido a practicar la profesión en Puerto Rico que no haya sido desaforado, suspendido provisional o permanentemente de ejercer la profesión en Puerto Rico.
- F. La firma de un Abogado en un documento relacionado con los procedimientos del Registro o su comparecencia ante dicho foro administrativo, actuando en su capacidad de Representante, constituirá prueba suficiente de su designación por parte de aquel a nombre de quien actúa.

- G. Un Solicitante puede presentar ante el Registro un poder ("power of attorney") que esté relacionado a más de una Solicitud o registro, o a todas las Solicitudes de registro existentes y futuras.
- H. La revocación o renuncia del Representante deberá ser notificada por escrito al Registro. Una vez notificada la renuncia o revocación, el Registro continuará comunicándose con el Solicitante o cualquier otro Representante que sea designado para representarlo.
- I. Un Representante podrá solicitar, en cualquier momento, la renuncia a la representación del Solicitante, siempre que lo haga por escrito y su renuncia será efectiva cuando sea aprobada por el Registrador.
- J. Salvo que de otra manera se informe, la comparecencia de un nuevo abogado constituirá una sustitución de Representante y el Registro vendrá obligado a notificarle de cualquier procedimiento a dicho nuevo Representante.

Regla 9. Comunicación con el Registro

- A. La comunicación emitida por del Registro será enviada a la dirección que aparece en la Solicitud a la que se refiere la comunicación, o que resulte de la documentación presentada, cuando se trate de otro procedimiento. El Registro únicamente vendrá obligado a enviar la comunicación del Registro a una sola dirección, aunque haya más de un Solicitante o Representante.
- B. El Solicitante será responsable de mantener al Registro informado de cualquier cambio de dirección y método de comunicación para efectos de notificación a través de la correspondiente notificación de Cambio de Dirección. De lo contrario, toda comunicación

continuará siendo enviada a la dirección que aparece en la Solicitud. Una alegación de falta de responder a una comunicación del Registro por falta de recibo de la notificación no será excusa válida del Solicitante, a menos que éste pruebe haber informado al Registro del cambio de dirección y el error en la notificación haya sido cometido por el Registro al no tomar como dirección de notificación la nueva dirección informada por el Solicitante. En todo caso en que ocurra un cambio en la dirección a la que se emitirá la comunicación o notificación, será necesario que medie una notificación de cambio de dirección por escrito acompañado del pago de los derechos que mediante Reglamento disponga el Secretario.

- C. Si en el proceso surge alguna otra parte interesada en la tramitación de una Solicitud, como por ejemplo en casos de Oposición a una Solicitud o Solicitud de Cancelación de un registro de Marca, el Registro enviará la comunicación al Solicitante y a esas otras partes interesadas.
- D. Mientras el Registro no disponga lo contrario mediante Carta Circular o cualquier otro documento al efecto la parte interesada, Titular Registral o Solicitante deberá hacer constar su elección en cuanto al método de comunicación:

1. Correo regular: en caso de seleccionar el método de recibo de comunicación por correo regular de toda comunicación o notificación emitida por el Registro, el Registro emitirá dicha notificación o comunicación a la dirección postal que la Persona haya designado en la Solicitud o documento pertinente. El Registro no vendrá obligado a enviar notificación o comunicación por correo regular a más de una dirección. Es la entera responsabilidad del Solicitante, Titular Registral o parte interesada notificar

al Registro de cualquier cambio en la dirección postal informada para propósitos de notificación.

- i. La Fecha de Presentación asignada a un documento enviado por correo regular será aquella en que se registre del sobre en que fue enviado. El Registro no retiene los sobres en los que se recibe el material o registra la fecha del matasellos.
 - ii. La comunicación enviada por correo regular será considerada enviada a tiempo cuando sea enviada dentro del término (esto incluye el último día del término o el próximo día que no sea sábado, domingo o día feriado cuando el último día del período caiga en sábado, domingo, o día feriado).
 - iii. Si la documentación enviada por correo regular o certificado no es recibida o se pierde dentro del Registro, el Registro considerará la documentación como radicada a tiempo basándose en la evidencia que pueda someter el remitente de dicho envío, tal como, el acuse de recibo del envío, o Declaración a esos efectos.
2. Correo electrónico: en caso de comunicación emitida por el Registro, el Registro remitirá dicha comunicación a la dirección electrónica que haya designado el Solicitante en la Solicitud o la parte interesada en el escrito correspondiente. Se recomienda que toda comunicación enviada por este método sea enviada con confirmación de recibo por la parte que lo genere. El Registro NO vendrá obligado a enviar notificación por correo electrónico a más de una dirección de correo electrónico. Es la entera responsabilidad del Solicitante, Titular Registral

o parte interesada el notificar al Registro de cualquier cambio en la dirección de correo electrónico, informada para propósitos de notificación electrónica.

- i. La fecha de recibo de una comunicación enviada por correo electrónico será aquella en que se registre la llegada del correo electrónico en el sistema de comunicación electrónica del Registro.
- ii. La comunicación enviada por correo electrónico será considerada enviada en tiempo cuando sea transmitida al Registro en o antes de la fecha de vencimiento.
- iii. Si el correo electrónico enviado resulta devuelto por no poder ser enviado a la dirección informada por la Persona a quien se dirige, el Registro le notificará la comunicación a su correspondiente dirección postal.
- iv. Si el correo electrónico fue enviado a tiempo, pero no es recibido por el Registro o resultó extraviado, la comunicación será considerada como radicada en tiempo basándose en la evidencia que pueda someter el remitente de dicho envío, tal como, el acuse de recibo d envío, o Declaración a esos efectos.
- v. El Registro no estará obligado a notificar la comunicación por correo electrónico por el sólo hecho de que la Persona haya designado este método de comunicación en la Solicitud u otro escrito correspondiente. Quedará sujeto a la discreción del Registro notificar por correo regular, fax u otro método apropiado.

- vi. La Persona o Representante deberá firmar la comunicación a ser enviada electrónicamente entrando su nombre y apellido entre dos barras diagonales tal como sigue: /fulanodetal/, o a puño y letra y escanearlo, para luego ser enviado por correo electrónico en formato .jpg, .pdf o cualquier otro formato que de tiempo en tiempo establezca el Registro mediante Carta Circular o cualquier otro documento a tal efecto. El uso de la firma electrónica se entenderá que constituirá una certificación de que:
- (1) la presentación está autorizada;
 - (2) según la información o creencia del firmante, la presentación de la comunicación está justificada;
 - (3) la comunicación no se radica para dilatar procedimientos.
- vii. Cuando el Registro autorice al Solicitante, Titular Registral o parte interesada a comunicarse por vía electrónica con el Registro, cualquier comunicación deberá ser enviada a la dirección electrónica notificada por el Registro.
3. Telefacsimil- en caso de seleccionar el método de envío de comunicación por telefacsimil de toda comunicación emitida por el Registro, la transmisión será dirigida a la oficina particular dentro del Registro. La lista de números de telefacsimil del Registro se encuentra en el portal electrónico del Registro. El Registro no enviará un recibo oficial de la recepción del telefacsimil, pero

usualmente las máquinas confirmarán enviando una hoja que indica que la transmisión fue completada. Se recomienda que cada transmisión incluya una hoja de portada, además de indicar el Número de Presentación o de registro, el nombre de la Marca, el número de páginas transmitidas, y el nombre, dirección, número de telefacsímil y número de teléfono de la parte remitente. Cada documento transmitido tendrá que ser legible. El tamaño ideal del documento transmitido será 8.5 pulgada por 11 pulgadas. Las máquinas de facsímil del Registro no imprimirán hojas de tamaño mayor al indicado. Se recomienda que la máquina del remitente imprima recibo de envío, el cual debe ser retenido por el remitente, junto a la comunicación original, como evidencia de contenido y transmisión.

- i. La Fecha de Presentación asignada a una comunicación enviada por telefacsímil será aquella en que se registre la llegada de la transmisión completa en la máquina de telefacsímil del Registro, a menos que la transmisión sea completada en un sábado, domingo o día feriado. Cuando la comunicación sea recibida en un sábado, domingo o día feriado, la misma recibirá una Fecha de Presentación del próximo día laborable. La frase "transmisión completa" significa que la transmisión se haya recibido en su totalidad. Por ejemplo, si la primera página de diez fue recibida en el Registro a las 11:45pm un lunes y la décima página fue recibida a las 12:19am del martes, la Fecha de Presentación corresponderá a martes (asumiendo que el martes no es un día feriado).

- ii. Todos los documentos relacionados a Marcas podrán ser transmitidos por telefacsimil con la excepción de los documentos a continuación:

(1) Solicitud de Marcas

(2) Dibujos

(3) Certificados de registro

(4) y aquellos otros trámites que requieran el pago de derechos, hasta tanto no esté disponible un mecanismo que acredite dicho pago.

- iii. Si la comunicación enviada vía facsimil no es recibida o se pierde dentro del Registro, el Registro considerará la comunicación como radicada a tiempo basándose en la evidencia que pueda someter el remitente de dicho envío, tal como, el acuse de recibo de envío, o Declaración a esos efectos.

F. Si el Solicitante, Titular Registral o parte interesada está compareciendo a través de Representante, según lo dispuesto en este Reglamento, el Registro se comunicará directamente y únicamente con el Representante.

G. No obstante, a partir de la fecha en que el Registro así lo establezca mediante Carta Circular o cualquier otro mecanismo al efecto, la comunicación al Registro será tramitada solamente electrónicamente. A partir de dicha fecha toda Persona habrá de presentar cualquier comunicación o solicitud de servicio electrónicamente según lo establecido en la Ley del Gobierno Electrónico, Ley Núm. 151 de 22 de junio de 2004, según enmendada, 3 L.P.R.A. § 998 et seq. (en adelante, Ley 151). Sólo mediante solicitud previa por escrito al

Secretario y mediando justa causa, el Secretario podrá permitir la comunicación o solicitud de servicio por otro método que no sea electrónico mediante la correspondiente dispensa establecida en la referida Ley 151.

Regla 10. Declaración o Afirmación

Cuando un trámite requiera una Declaración bajo pena de perjurio, el siguiente lenguaje podrá ser utilizado:

El/la suscribiente reconoce que expresiones o declaraciones falsas, con conocimiento de su falsedad, podrían conllevar una convicción por el delito de perjurio y/o la invalidación de la Solicitud de registro o documento o del registro resultante de la Solicitud. El/la suscribiente, manifiesta que todo lo vertido por él/ella, es cierto por serle de conocimiento personal; y que todo lo vertido basado en información o creencia es creído como cierto.

Regla 11. Consultas sobre la registrabilidad de las Marcas

El Registro no contestará consultas para determinar si una Marca podría o no ser registrada.

Regla 12. Solicitud de certificaciones y copias simples o certificadas

Cualquier Persona podrá, previa Solicitud y el pago de los derechos correspondientes, obtener una certificación, una copia simple o una copia certificada de todo o parte de un expediente de una Marca. Las certificaciones y las copias certificadas llevarán el Gran Sello del Gobierno de Puerto Rico y estarán firmadas por un funcionario con autoridad a nombre del Secretario.

D. Cualquier documento que sea objeto de una orden de protección y se haya ordenado mantener el mismo bajo sello y confidencialidad por un tribunal en cualquier procedimiento que envuelva una Solicitud o un registro, será mantenido en confidencialidad y no podrá ser objeto de inspección, ni podrá ser fotocopiado, a menos que de otro modo disponga el tribunal o a menos que la parte que resulte beneficiada de la orden voluntariamente divulgue el documento o materia objeto de confidencialidad. Siempre que sea posible, sólo las secciones confidenciales de los documentos serán presentadas bajo sello.

C. En la medida en que el Registro se convierta a un registro digital, dichos expedientes podrán ser examinados por los medios digitales disponibles que viabilicen dicho acceso.

B. Excepto por los documentos cuyo contenido haya sido ordenado a permanecer bajo sello mediante orden de protección emitida por un tribunal, los expedientes de las Marcas estarán disponibles al público para ser inspeccionados y copiados previo el pago de los derechos correspondiente que mediante reglamento establezca el Secretario.

A. En el Registro existe un índice de las Solicitudes pendientes, que incluye el nombre y dirección del Solicitante; Nombre y dirección del Representante; una reproducción o descripción de la Marca; los productos o servicios en relación a los que se usa o se pretende usar la Marca; el número de la Clase, la fecha de uso (si aplica); el Número de Presentación y la Fecha de Presentación de la Solicitud.

Regla 13. Índice de Solicitudes Pendientes; Acceso a Expedientes



E. El Registro también mantendrá un sistema de búsqueda de Solicitudes pendientes de calificación, Marcas Registradas y trámites relacionados a una Marca. Dicho mecanismo o sistema facilitará el acceso a información de la Marca, incluyendo, pero sin limitarse a, los siguientes:

1. Marca;
2. El nombre y la dirección del Solicitante o el Titular Registral;
3. El nombre y la dirección del Representante;
4. Identificación de los productos en los cuales se usa la Marca o servicios en relación a los cuales se usa la Marca en el Comercio;
5. La Clase de bienes o servicios;
6. La fecha de uso de la Marca en el Comercio;
7. El Número de Presentación;
8. Copia del facsímil o espécimen conteniendo la Marca;
9. La Fecha de Presentación de la Solicitud;
10. El dibujo de la Marca;
11. La evidencia de uso;
12. Cesión de derechos sobre la Marca;
13. Gravámenes que afectan la Marca; y
14. Cualquier otro documento pertinente

Regla 14. Base para Presentar la Solicitud

La Solicitud deberá indicar si la Marca se usa en el Comercio o si la misma se basa en la intención *bona fide* de usar la Marca en el Comercio

1. Una Solicitud basada en uso de la Marca en el Comercio deberá incluir:

i. Una Declaración bajo pena de perjurio que indique:

Que el Solicitante cree ser el Dueño de la Marca; que la Marca está en uso en el Comercio; que según el mejor conocimiento y creencia del Solicitante, ninguna otra Persona tiene el derecho a utilizar la Marca en el Comercio, sea idéntica o en forma que sea probable que, al aplicarse a los bienes o servicios de la otra Persona, , pueda causar confusión, error, o engaño; que el facsímil o espécimen muestra la Marca de la manera en que es utilizada en el Comercio en o en conexión con los bienes o servicios; y que los hechos vertidos en la Solicitud son ciertos.

Si la Solicitud que contiene la Declaración bajo pena de perjurio no es presentada dentro de un tiempo razonable luego de ser firmada la Declaración, el Registro podría requerirle al Solicitante someter una declaración sustituta.

ii. la fecha de primer uso de la Marca en el Comercio; y

iii. un facsímil o espécimen de la Marca tal como se usa en el Comercio.

2. Una Solicitud basada en la intención *bona fide* de usar la Marca en el Comercio, deberá incluir una Declaración bajo pena de perjurio que indique:

Que el Solicitante tiene una intención bona fide de utilizar la Marca en el Comercio en o en relación a los bienes o servicios especificados; que el Solicitante cree tener derecho al uso de la Marca en el Comercio; que según el mejor conocimiento y creencia del Solicitante, ninguna otra Persona tiene el derecho de utilizar la Marca en el Comercio, sea de forma idéntica o en forma que se asemeje de tal manera que, al aplicarse a los bienes o servicios de la otra Persona, pueda causar confusión, error, o engaño; y que los hechos vertidos en la Solicitud son ciertos.

Si la Solicitud que contiene la Declaración bajo pena de perjurio no es presentada dentro de un tiempo razonable luego de ser firmada la Declaración, el Registro podría requerirle al Solicitante someter una declaración sustituta de la intención *bona fide* de usar la Marca en el Comercio.

3. Una Solicitud ya sea basada en uso en el Comercio o en intención *bona fide* de usar la Marca en el Comercio podrá amparar productos o servicios, propios de una sola Clase.

Regla 15. Identificación de registros previos

El Solicitante podrá identificar en la Solicitud los registros anteriores de la misma Marca o Marcas similares pertenecientes al Solicitante o Compañías Relacionadas.

Cuando una marca registrada o cuyo registro se procura es o puede ser utilizada legítimamente por Compañías Relacionadas, tal uso será en beneficio del Titular Registral o del Solicitante, y tal uso no afectará la validez de tal Marca ni de su registro, siempre que tal marca no se utilice de

tal forma que se engañe al público. Si el primer uso de una Marca por una persona es controlado por el Titular Registral o el Solicitante, con respecto a la naturaleza y calidad de los bienes o servicios, tal primer uso será en beneficio del Titular Registral o Solicitante, según sea el caso.

Regla 16. Descripción de la Marca

La Solicitud contendrá una descripción detallada de la Marca cuando la Marca no esté en caracteres estándar. En una Solicitud donde la Marca esté en caracteres estándar, se podría incluir una descripción. No obstante, en todo caso en que así lo requiera el Oficial Examinador a cargo de la calificación o examen de la Solicitud, el Solicitante tendrá que proveer la descripción detallada, según solicitada. Si en la Solicitud se reclama color o una combinación de colores como parte de la Marca, los colores deberán ser identificados y descritos en el espacio correspondiente de la Solicitud.

Regla 17. Uso por predecesor o por Compañías Relacionadas

- A. Si el primer uso de la Marca fue por un predecesor en título o por una Compañía Relacionada, y el uso resulta en beneficio para el Solicitante, la fecha del primer uso podrá ser confirmada con una Declaración de que el primer uso fue por el predecesor en título, o por la Compañía Relacionada, según sea apropiado.

- B. En casos en que la Marca no está siendo utilizada por el Solicitante, pero está siendo utilizada por una o más Compañías Relacionadas cuyo uso resulta para beneficio del Solicitante, tales hechos podrán ser indicados en la Solicitud.
- C. El Registro podría requerir los detalles concernientes a la naturaleza de la relación y las pruebas que puedan ser necesarias y apropiadas para el propósito de demostrar que el uso de las compañías relacionadas resulta en beneficio para el Solicitante y no afecta la validez de la Marca.

Regla 18. Prueba de distintividad

- A. Cuando se solicite el registro de una Marca que de otro modo no hubiese tenido acceso al Registro por disposición de los incisos 3, 4, y 7 del Art. 5 de la Ley, pero para la cual el Solicitante alegue que se ha convertido en distintiva en el Comercio en relación a los bienes o servicios identificados en la Solicitud, el Solicitante podrá, en apoyo de tal registro, presentar con la Solicitud, o en respuesta a una notificación del Oficial Examinador evidencia de que ha adquirido significación secundaria, tal como: affidavit o declaraciones, deposiciones u otra evidencia acreditativa de la duración, extensión y naturaleza del uso de la Marca en el Comercio, gastos de publicidad en relación con la Marca (identificando los tipos de medios de publicidad y adjuntando anuncios), cartas o declaraciones del comerciante o del público o cualquier otra evidencia que resulte apropiada y que tienda a demostrar que la Marca distingue la fuente o el origen de los productos o servicios.

- B. En casos apropiados, el poseer uno o más registros previos o una Marca similar que esté en uso en productos o servicios relacionados de la misma Marca podrá aceptarse como prueba *prima facie* de distintividad. Adicionalmente, si la Marca se ha convertido distintiva de los bienes o servicios del Solicitante por razón de uso sustancialmente exclusivo y continuo en el Comercio por el Solicitante durante los cinco (5) años previos a la fecha en que se realiza el reclamo de distintividad, podrá en casos apropiados, aceptarse una demostración por medio de Declaración bajo pena de perjurio como prueba *prima facie* de distintividad. Sin embargo, de surgir alguna inconsistencia registral, se le podrá requerir información adicional al Solicitante.

Regla 19. Forma de pagar los derechos por servicios

El pago de los derechos requeridos para obtener servicios del Registro se evidenciará con la presentación del recibo de pago del Departamento de Hacienda del Gobierno de Puerto Rico o cualquier otro método de pago que, de tiempo en tiempo, establezca el Registro como método válido de acreditar el pago.

Regla 20. Solicitud de registro de Marca

- A. Además de la declaración bajo pena de perjurio especificada en la Regla 13, la Solicitud debe incluir:
1. Una Petición de Inscripción dirigida al Secretario;
 2. El nombre completo del Solicitante y su denominación comercial, si la tuviere;
 3. En todo caso, la dirección postal del Solicitante y, en caso de Personas jurídicas, la dirección física del lugar principal de negocios;

4. El número de teléfono, telefacsímil y el correo electrónico del Solicitante o Representante;
5. La dirección postal y/o física donde el Solicitante desee recibir las comunicaciones o notificaciones relacionadas a la Solicitud, así como el número de teléfono, telefacsímil y correo electrónico;
6. La ciudadanía del Solicitante, o si fuere una persona jurídica, el país o estado con arreglo a cuyas leyes se hubiere organizado;
7. El número de la Clase a la que pertenecen los bienes o los servicios;
8. Una enumeración de los bienes o los servicios en relación con los cuales se desea obtener el registro de la Marca;
9. Identificación del tipo de Marca cuyo registro se solicita (servicio, fabrica, colectiva o certificación);
10. En caso de una Solicitud basada en uso de la Marca en el Comercio, la fecha completa desde la cual se usa la Marca en el Comercio;
11. Una descripción detallada de los componentes de la Marca;
12. En caso de una Solicitud basada en uso de la Marca en el Comercio, un facsímil de la Marca tal y como se usa en los productos o en relación a los servicios;
13. Para toda Solicitud, ya sea basada en uso o en la intención *bona fide* de usar la Marca en el Comercio, un dibujo de la Marca tal como se usa o pretende usarse en el Comercio;
14. La firma del Solicitante o su Representante; y

15. La Solicitud deberá ir acompañada del pago que de tiempo en tiempo establezca el Secretario. El pago podrá ser hecho en cheque, giro postal, o cualquier otro instrumento que permita el Departamento de Estado, pagadero al Secretario de Hacienda. Este pago no será reembolsado al Solicitante.
- B. El Registro publicará un formulario que constituye la Solicitud y su uso será obligatorio según lo dispone la Regla 3. Se podrá presentar con dicho formulario cualquier anejo que resulte pertinente a la calificación o examen de la Solicitud.
- C. En una Solicitud para registrar una Marca de servicio, la Solicitud debe especificar y contener todos los elementos requeridos para el registro de una Marca de fábrica, pero debe ser modificada para relacionarse a los servicios, en vez de a productos. En una Solicitud para registrar una Marca colectiva basada en uso de la Marca, la Solicitud deberá especificar y contener todos los elementos aplicables requeridos para el registro de Marcas, pero deberá adicionalmente especificar la clase de Personas destinadas a tener derecho a usar la Marca, indicando cuál es o será su relación con el Solicitante, y la naturaleza del control que el Solicitante ejerce sobre el uso de la Marca.
- D. En una Solicitud para registrar una Marca colectiva basada en la intención bona fide de usar la Marca en el Comercio, la Solicitud deberá especificar y contener todos los elementos aplicables requeridos por las secciones precedentes de Marcas, pero deberá adicionalmente especificar la clase de Personas que tendrán derecho a usar la Marca, indicando cuál será su relación para con el Solicitante, y la naturaleza del control que el Solicitante ejercerá sobre el uso de la Marca.

E. En una solicitud para registrar una Marca de certificación, la solicitud deberá incluir todos los elementos aplicables requeridos para las solicitudes de Marcas, pero deberá adicionalmente:

1. Especificar las condiciones bajo las cuales la Marca de certificación es usada o se pretende utilizar;
2. Indicar que el Solicitante ejercita o tiene la intención de ejercitar control legítimo sobre el uso de la Marca;
3. Establecer que el Solicitante no se dedica a la producción o mercadeo de los productos o servicios a los cuales la Marca es aplicada; e
4. Incluir una copia de los estándares que determinan si otros podrán usar la Marca de certificación en sus productos y/o en conexión con sus servicios.

Regla 21. Requisitos para obtener una Fecha de Presentación

A. El Registro le adjudicará una Fecha de Presentación a toda Solicitud en el idioma español o inglés que contenga, como mínimo, los siguientes elementos:

1. El nombre del Solicitante;
2. Una dirección que permita que el Registro pueda comunicarse con el Solicitante o su Representante;
3. Un dibujo de la Marca;
4. Un listado de los productos o servicios en relación a los cuales se usa o usará la Marca; y
5. El pago de los derechos correspondientes a la Solicitud.

- B. Si el Solicitante no incluye todos los elementos requeridos en esta Regla, el Registro denegará la Fecha de Presentación. El Registro expedirá una notificación explicando el por qué la Fecha de Presentación fue denegada y solicitando la corrección necesaria con el pago de los derechos correspondientes. Al Solicitante se le concederá el término uniforme de noventa (90) días para subsanar el defecto.

- C. Si el Solicitante no presenta una Solicitud aceptable dentro del término de noventa (90) días establecido en esta Regla, la Solicitud se entenderá abandonada.

- D. Una Solicitud corregida conforme lo dispuesto en esta sección tendrá la Fecha de Presentación del recibo de la Solicitud corregida.

Regla 22. Dibujo

- A. Para toda Solicitud, ya sea basada en uso o en la intención *bona fide* de usar la Marca en el Comercio, el Solicitante deberá presentar un dibujo de la Marca tal como se usa o pretende usarse en el Comercio. El dibujo no tendrá un tamaño mayor de 8-1/2" x 11". Cuando la Marca no sea susceptible de ser captada en un dibujo, será permisible referirse a la descripción de la misma. En el caso de que el Solicitante solicite proteger color(es) como parte de la Marca, el dibujo deberá ser a color y deberá constar la descripción del color o los colores tal como se proyectan en el dibujo de la Marca.

B. Si se somete el dibujo de la Marca por algún método electrónico, éste será en formato .JPG, .PDF o cualquier otro formato que, de tiempo en tiempo, el Registro establezca como aceptable; y digitalizada a no menos de 300 puntos por pulgadas (dpi) y no más de 350 puntos por pulgadas (dpi) con un largo y anchura no menor de 250 pixeles y no mayor de 944 pixeles. Todas las líneas tendrán que estar limpias, claras y sólidas, no finas o saturadas, y tendrán que producir una imagen de alta calidad al ser reproducidas.

C. Existen dos tipos de dibujos:

1. Dibujo de caracteres estándar (tipografiados). El Solicitante que desee registrar palabras, letras, números, o cualquier combinación sin reclamar algún tipo de letra ("font"), estilo, tamaño o color en particular deberá someter un dibujo de caracteres estándar que demuestre la Marca en negro sobre un fondo blanco. Un Solicitante podrá someter un dibujo de carácter estándar si:

- i. La Solicitud incluye una Declaración de que la Marca está en caracteres estándar y que no se ha hecho algún reclamo a algún tipo de letra ("font"), estilo, tamaño o color;
- ii. La Marca no incluye un elemento de diseño;
- iii. Todas las palabras y letras en la Marca son representadas en caracteres en latín;

- iv. Todos los numerales en la Marca son representados en numerales romanos o arábigos; y
- v. La Marca contiene sólo signos de puntuación comunes o Marcas diacríticas.

2. Dibujo de forma estilizada. El Solicitante que desee registrar una Marca que incluye un diseño de dos o tres dimensiones; color; y/o palabras, letras o números o la combinación de estos en un estilo de letra ("font") particular deberá presentar un dibujo de forma estilizada. El dibujo deberá demostrar la Marca en un fondo ("background") negro o blanco, a menos que se esté reclamando color como un componente de la Marca.

D. Marcas que incluyen color. Cuando el Solicitante reclame color(es) como un componente de la Marca, el dibujo deberá ilustrar la Marca a color y el Solicitante deberá identificar el(los) color(es), describir dónde aparecerá(n) el (los) color(es) en la Marca, y reclamar que el(los) color(es) es(son) un componente de la Marca.

E. Marcas tridimensionales. Cuando una Marca tenga características tridimensionales, el dibujo deberá proyectar una sola interpretación de la Marca y el Solicitante deberá indicar que la Marca es tridimensional.

F. Marcas de movimiento. Cuando una Marca tenga movimiento, el dibujo deberá ilustrar hasta cinco (5) imágenes congeladas o escenas inmóviles mostrando varios puntos en el

movimiento de la manera que mejor demuestre la imagen comercial de la Marca. El Solicitante deberá también describir la Marca.

- G. Líneas entrecortadas. De ser necesario ilustrar adecuadamente la imagen comercial de la Marca, se le podrá requerir al Solicitante presentar un dibujo que muestre la colocación de la Marca, rodeando la Marca con una representación de líneas entrecortadas proporcionalmente precisas, de los productos particulares, empaques o publicidad en los que aparece la Marca. El Solicitante deberá también utilizar líneas entrecortadas para demostrar cualquier otra materia no reclamada como parte de la Marca. Para cualquier dibujo que utilice líneas entrecortadas para indicar la posición de la Marca, o materia no reclamada como parte de la Marca, el Solicitante deberá describir la Marca y explicar el propósito de las líneas entrecortadas.
- H. Sonido, olor o fragancia y Marcas no-visuales. No se requiere que un Solicitante radique un dibujo si la Marca consiste sólo de un sonido, un olor o fragancia, u otra materia completamente no-visual. Para estos tipos de Marcas, el Solicitante tendrá que presentar una descripción detallada de la Marca.

Regla 23. Facsimiles o Especímenes

- A. Toda Solicitud basada en uso de la Marca en el Comercio y toda Declaración de Uso deberá incluir un espécimen. El facsímil o espécimen no tendrá un tamaño mayor de 8-1/2"x 11". Si se somete el espécimen de la Marca por algún método electrónico, éste será en formato JPG o PDF o cualquier otro formato que, de tiempo en tiempo, el Registro establezca como aceptable; y no excederá del tamaño que mediante

Reglamento o Carta Circular establezca el Secretario. En caso de que el Solicitante solicite proteger color(es) como parte de la Marca, el espécimen o facsímil deberá ser a color y deberá evidenciar el color(es) tal como se proyecta(n) en el dibujo de la Marca.

Sin que se entienda como taxativa, los siguientes son ejemplos de especímenes aceptables relacionados al uso de una Marca para identificar bienes en el Comercio:

1. Etiquetas fijadas al producto;
2. Empaques comerciales del producto;
3. Contenedores o envases de productos;
4. Fotografía de góndola asociada a los productos;
5. Catálogos o páginas de Internet que demuestren los productos, siempre que muestren la Marca suficientemente cerca a la imagen o descripción de los productos e incluya información que viabilice la compra o adquisición del producto (a modo de ejemplo dicha información puede ser la siguiente: hoja de pedido, número de teléfono para poder ordenar el producto, formulario para ordenar y comprar el producto ya sea por correo regular o por correo electrónico);
6. Para programas de computadora, juegos de video o películas, fotografías de una imagen de la pantalla que proyecta la Marca identificando el programa de computadora, video o película; o fotografías de imágenes ("frames") de la película o cinta de video que muestre la Marca; o
7. Para programas de computadoras disponibles mediante descarga electrónica, páginas del Internet evidenciando el uso de la Marca, siempre que la página de Internet provea suficiente información para permitir al usuario descargar el

programa de la página de Internet.

Los siguientes NO constituyen especímenes aceptables para bienes:

1. Material de promoción y publicidad de los productos, a menos que no se trate de material proveniente del "point of sale";
2. Catálogos de publicidad o mercadeo de los productos;
3. Listas de precios;
4. Anuncios;
5. Directorios comerciales; o
6. Tarjetas de negocios.

No obstante lo anterior, en aquellos casos en que debido a la naturaleza de los productos no sea posible o resulte impráctico fijar la Marca en el producto, empaque del producto o la góndola relacionada al producto, el Solicitante podrá someter para la consideración del registro especímenes que de otro modo resultarían inadecuados, siempre que, a satisfacción del examinador, el espécimen sea suficiente para demostrar el uso en el Comercio en relación a los productos.

B. Para las Marcas de servicio, los especímenes tienen que mostrar la Marca tal como se utiliza en la venta o publicidad del servicio y el servicio ofrecido debe aparecer descrito en los especímenes. Sin que se entienda como taxativa, los siguientes son ejemplos de especímenes aceptables relacionados al uso de una Marca para identificar Marcas de

servicio:

1. Anuncios en periódicos o revistas;
2. Catálogos;
3. Letreros ("billboards");
4. Menús; o
5. Papeles o documentos timbrados, tarjetas de presentación y facturas, siempre que en alguna parte de dichos documentos se describan los servicios que se ofrecen bajo la Marca.

Los siguientes NO constituyen especímenes aceptables para Marcas de servicio:

1. Lanzamientos de publicidad para prensa ("press release"); o
 2. Artículos que resulten del lanzamiento de publicidad para prensa.
- C. El espécimen de una Marca de fábrica o de servicio colectiva tendrá que mostrar el uso dado por los miembros en los productos de los miembros o en la venta o publicidad de los servicios de los miembros. El espécimen de una Marca colectiva de membresía tendrá que mostrar el uso dado por los miembros para indicar membresía en la organización colectiva
- D. El espécimen de una Marca de certificación tendrá que mostrar cómo una Persona que no es el dueño utiliza la Marca para certificar características regionales o de otro origen, material, modo de manufactura, calidad, precisión, u otras, de los productos o servicios de tal Persona; o que los miembros de una unión u otra organización desempeñaron el

trabajo o labor de los productos o servicios.

- E. Los especímenes o facsímiles que forman parte de la Solicitud no serán devueltos al Solicitante.
- F. En una Solicitud basada en uso de la Marca en el Comercio, el Solicitante puede presentar especímenes sustitutos de la Marca según utilizados en o en conexión con los productos, o en la venta o publicidad de los servicios. El Solicitante tendrá que declarar, mediante Declaración bajo pena de perjurio al efecto, que los especímenes sustitutos fueron utilizados en el Comercio al menos tan temprano como la Fecha de Presentación de la Solicitud. No se requiere la Declaración si el espécimen es un duplicado o facsímil de un espécimen que ya se encuentra en el archivo de la Solicitud.
- G. En una Solicitud basada en intención *bona fide* de usar la Marca en el Comercio, luego de presentada la Declaración de Uso, el Solicitante podría someter especímenes sustitutos de la Marca según utilizada en o en relación a los bienes, o en la venta o publicidad de los servicios. Si el Solicitante presenta espécimen(es) sustituto(s), el Solicitante deberá declarar, mediante Declaración bajo pena de perjurio al efecto, que el Solicitante utilizó los espécimen(es) sustituto(s) en el Comercio antes de presentar la Declaración de Uso o antes de la expiración de la fecha límite para presentar la Declaración de Uso.

Regla 24. Solicitud de registro y Presentación

- A. La Solicitud deberá ser completada por el Solicitante o su Representante. Una Solicitud incompleta retrasará el proceso de calificación de la Marca.
- B. La Solicitud deberá ser presentada al Registro ubicada en el Departamento de Estado mediante el mecanismo que establezca el Registro mediante Carta Circular.
- C. Una vez recibida la Solicitud, de ésta cumplir con los requisitos mínimos establecidos en este Reglamento, el Registro emitirá un recibo con la fecha y hora de presentación de la Solicitud. Esa fecha y hora serán la fecha y hora oficial de Presentación para la Solicitud.

Regla 25. Calificación de la Solicitud

- A. Las Solicitudes de registro y las declaraciones de uso serán examinadas por el Oficial Examinador al que le ha sido asignada y, una vez examinada, si el Solicitante no tiene derecho al registro por cualquier razón, el Solicitante será notificado y advertido de las razones por las que su Solicitud fue denegada y de cualquier requisito de forma u objeción en relación a ésta.
- B. El examinador podrá requerir del Solicitante cualquier información, documentación o enmienda que sea razonablemente necesaria para una calificación adecuada de la Solicitud.
- C. En cualquier momento que se determine que dos o más partes que puedan tener intereses en conflicto estén representadas por el mismo Abogado, cada parte y también el Abogado será notificado de este hecho.

- D. Suspensión de Procedimientos: Los procedimientos pendientes ante el Registro podrán ser suspendidos a petición de parte, ello de acuerdo con la Regla sobre Suspensión de Trámite establecida en este Reglamento.

Regla 26. Reexaminación, Reconsideración y Revisión Judicial

- A. La respuesta del Solicitante a una notificación emitida por el Oficial Examinador producirá un reexamen de la Solicitud. El Oficial Examinador tendrá discreción para emitir las notificaciones que estime apropiadas para proveer al Solicitante la oportunidad de responder con información o documentación adicional que conlleve un reexamen. En cualquier etapa del proceso, el Oficial Examinador tendrá la alternativa de emitir una Resolución final, con las advertencias correspondientes en cuanto a los mecanismos de revisión disponibles.
- B. Cuando el Registro notifique una Resolución la parte adversamente afectada podrá, dentro del término de veinte (20) días desde la fecha de archivo en autos de la notificación de la Resolución, presentar una moción de reconsideración ante el Registro. La presentación de dicha solicitud de reconsideración será atendida y tendrá el efecto en el término para recurrir en alzada al tribunal, que disponga la LPAU, según la misma sea enmendada de tiempo en tiempo.
- C. Cuando el Registro notifique una Resolución final, la parte adversamente afectada podrá presentar una solicitud de revisión ante el foro judicial con competencia, a tenor con las disposiciones aplicables de la LPAU, según la misma sea enmendada de tiempo en tiempo.

Regla 27. Término para responder a Notificación ("Office Action")

El Registro concederá un término mínimo uniforme de noventa (90) días para responder a toda notificación ("*office action*") emitida por el Registro. El Registro prorrogará dicho término a petición del Solicitante hasta un máximo de sesenta (60) días, mediante el pago de los derechos correspondientes que mediante reglamento establezca el Secretario.

Regla 28. Abandono de Solicitud

- A. Transcurrido el término de noventa (90) días, contado a partir de la fecha de la notificación sin haberse recibido una respuesta completa, una respuesta sustancialmente completa, o una Solicitud de prórroga para extender dicho término, la Solicitud o cualquier otro trámite pendiente se considerará abandonado.
- B. Si el Solicitante presenta una respuesta dentro del término de noventa (90) días aquí establecido y esa respuesta, aunque incompleta constituye un intento de buena fe de adelantar el proceso de calificación de la Solicitud y la respuesta está sustancialmente completa, pero por inadvertencia se ha omitido atender algún asunto o requerimiento, el Registro le dará oportunidad al Solicitante para explicar y suplir lo omitido antes de considerar que el trámite o la Solicitud ha resultado abandonada.

Regla 29. Solicitud para Revivir Trámite

Habiendo resultado abandonada(o) una Solicitud o un trámite, el Solicitante podrá revivir la Solicitud o el trámite dentro del término improrrogable de treinta (30) días siguientes a la

expiración del término original o su prórroga. Dicho documento deberá estar acompañado del pago de los derechos correspondientes que mediante reglamento establezca el Secretario.

Regla 30. Abandono expreso y voluntario, Retiro de una Solicitud

El Solicitante podrá notificar al Registro su intención expresa y voluntaria de abandonar un trámite pendiente ante el Registro o su intención expresa y voluntaria de retirar una Solicitud de registro pendiente de calificación presentando una petición escrita a esos efectos firmada por el Solicitante, o su Representante. Una vez expresamente abandonado un trámite o retirada una Solicitud de registro, el(la) mismo(a) no podrá ser revivido(a) conforme lo disponen estas Reglas.

Regla 31. Cómputo de términos

Cuando el Registro conceda a una parte un término de días para responder a alguna notificación o presentar algún documento, se entenderá que se trata de días calendarios. Cuando el último día del término caiga un sábado, domingo o Día Feriado, se entenderá extendido dicho término al próximo día laborable. Todo término concedido por el Registro se comenzará a contar desde la fecha en que se envíe la notificación o, en los casos de Resolución, desde el archivo en autos de la misma; proveyéndose que en aquellos casos en que el Solicitante haya autorizado el método de notificación por vía electrónica o por medio de telefacsímil, la fecha de la notificación será la fecha de la confirmación del envío por telefacsímil o correo electrónico.

Regla 32. Suspensión de Trámite

Un trámite ante el Registro puede ser suspendido a solicitud de parte o *motu proprio* por el Registro por un término razonable de tiempo y mediando justa causa. A modo de ejemplo, justa causa para efectos de esta Regla puede ser el hecho de que exista un procedimiento pendiente ante un tribunal o ante el mismo Registro cuyo resultado pueda afectar el proceso de registro pendiente. Para que proceda la suspensión del trámite, el Solicitante deberá solicitar la suspensión por escrito, previo el pago de los derechos correspondientes que mediante reglamento disponga el Secretario, y dentro del término de noventa (90) días contados a partir de que se adviene en conocimiento de las bases para la solicitud de suspensión. En todo caso en que el trámite sea suspendido *motu proprio*, el Registro notificará a la parte afectada del hecho de la suspensión.

Regla 33. Enmiendas a la Solicitud

El Solicitante puede enmendar su Solicitud en el transcurso de la calificación, cuando sea requerido por el Oficial Examinador o por otras razones.

A. El Solicitante podrá enmendar su Solicitud para:

1. Aclarar o limitar, pero no ampliar, la identificación de los bienes o servicios;
2. Sustituir la Declaración que acompaña la Solicitud cuando la Declaración bajo pena de perjurio haya sido firmada por una parte equivocada;

3. Enmendar las fechas de uso, siempre que el Solicitante fundamente la enmienda con una Declaración bajo pena de perjurio;
 4. Corregir el nombre del Solicitante, de haber un error en la manera en el que el nombre del Solicitante fue indicado en la Solicitud;
 5. En una Solicitud basada en el uso en el Comercio, enmendar la descripción o el dibujo de la Marca sólo si:
 - (i) Los especímenes presentados originalmente o especímenes sustitutos apoyan o validan la enmienda propuesta; y
 - (ii) La enmienda propuesta no altera materialmente la Marca. El Registro determinará si una enmienda propuesta altera materialmente una Marca comparando la enmienda propuesta con la descripción o dibujo de la Marca radicado con la Solicitud original.
- B. La Solicitud NO podrá ser enmendada para nombrar una Persona diferente como Solicitante. Una Solicitud será cancelada cuando sea radicada a nombre de una entidad a la cual no pertenecía la Marca en la Fecha de Presentación de la Solicitud o que no fuese la entidad con intención *bona fide* de uso de la Marca.
- C. No se permitirá modificar mediante enmienda la Declaración jurada o Declaración bajo pena de perjurio. Cuando una Solicitud contenga un error subsanable mediante enmienda, la enmienda presentada deberá contener una nueva Declaración bajo pena de perjurio.

Regla 34. Enmiendas entre el Certificado de Registro y la declaración de uso

A. Un Certificado de Registro resultante de una Solicitud basada en intención *bona fide* de usar la Marca en el Comercio no podrá ser enmendado excepto únicamente para los siguientes:

1. Eliminar productos o servicios identificados en el Certificado de Registro;
2. Cambiar al Representante o la dirección para efectos de notificación

B. Cualquier enmienda radicada durante este periodo será mantenida en el record de la Marca, pero no será evaluada sino hasta el momento en que se examine la Declaración de Uso.

Regla 35. Enmiendas relacionadas a Solicitudes presentadas con intención *bona fide* de uso en el Comercio y a la Declaración de Uso

A. En una Solicitud basada en intención *bona fide* de uso de la Marca en el Comercio, el Solicitante podrá enmendar la descripción o el dibujo de la Marca sólo si:

1. Los especímenes presentados con la Declaración de Uso, o especímenes sustitutos presentados apoyan o validan la enmienda propuesta; y
2. La enmienda propuesta no altera materialmente la Marca. El Registro determinará si una enmienda propuesta altera materialmente una Marca comparando la

enmienda propuesta con la descripción o dibujo de la Marca radicado con la Solicitud original.

- B. El Solicitante o Titular Registral podrá enmendar la Solicitud o el Registro basada(o) en intención *bona fide* de uso para indicar una fecha de uso anterior a su presentación siempre que la petición incluya:
1. El hecho del error que se solicita corregir;
 2. La razón que provocó el error;
 3. La declaración de que el error ocurrió de buena fe; y
 4. La evidencia necesaria que acredite la presencia de la Marca o del Titular Registral en el Comercio en Puerto Rico a la fecha de uso declarada.
- C. En una Solicitud basada en intención *bona fide* de usar la Marca en el Comercio, el Solicitante no podrá enmendar la Declaración de uso para especificar una fecha de uso que es posterior a la expiración de la fecha límite para presentar la Declaración de Uso.

Regla 36. Requisitos de toda Solicitud de Enmienda

- A. Formato de la enmienda. Las solicitudes de enmienda tendrán que hacerse de forma clara y específica. El Solicitante deberá especificar con exactitud el texto completo, incluyendo los cambios propuestos o, si fuese más eficiente, indicar qué palabras deberán ser añadidas o eliminadas. El Oficial Examinador de ser necesario para aclarar el record, podría requerir del Solicitante reescribir la enmienda completa.

- B. Alteraciones a la Solicitud. Ni el Solicitante ni su Representante podrán hacer borrones, adiciones, insertar palabras, ni de ninguna otra forma mutilar una Solicitud pendiente de registro. No obstante, el Registro podrá realizar con el consentimiento del Solicitante, aquellas enmiendas necesarias para la calificación.
- C. Declaración. La Solicitud de enmienda tendrá que estar acompañada de una Declaración bajo pena de perjurio firmada por el Solicitante conforme lo dispone la Regla 9 de este Reglamento.
- D. Firma. Una petición para enmendar de una Solicitud tendrá que ser firmada por el Solicitante o su Representante.
- E. Pago. Una petición para enmendar de una Solicitud tendrá que estar acompañada del pago de los derechos correspondientes.

Regla 37. Publicación del aviso

Una vez aprobada la Solicitud, el Registro emitirá un Aviso de Publicación que será notificado al Solicitante para que éste proceda al trámite de publicación correspondiente en un periódico de circulación general, o en cualquier método de publicidad aprobado por el Registro, de un edicto que incluya la Marca, el nombre del Solicitante, la dirección de éste, la Clase de bienes o servicios en relación a los que se usa o se tiene la intención *bona fide* de usar la Marca en el Comercio, y el Número de Presentación de la Marca. El Solicitante, una vez cumplido este requisito, presentará en el Registro, para el correspondiente archivo, una Declaración jurada del

administrador o cualquier otro funcionario del periódico en donde tal publicación se efectuó, acreditativa de la fecha en que se hizo dicha publicación, dentro de los noventa (90) días siguientes a la fecha de notificación del Aviso de Publicación.

No obstante lo anterior, el Registro podrá designar, mediante notificación oficial otro método de publicación para publicar, como por ejemplo, una Gaceta Oficial, para dar publicidad a los Avisos de Publicación que sean emitidos relacionados a las Marcas. Dicho método de publicidad podrá ser en formato digital o cualquier otro formato que el Registro apruebe. En todo caso en que la Marca sea publicada oficialmente a través de la Gaceta o cualquier otro medio oficial que determine el Registro, el Registro notificará al Solicitante la fecha de la publicación oficial de la Marca, a partir de cuya fecha comenzará a transcurrir el término de treinta (30) días para presentar cualquier escrito de Oposición relacionado al registro de la Marca.

Regla 38. Clase

- A. Toda Solicitud habrá de identificar la Clase de Niza a la cual pertenece o pertenecen los bienes o servicios en relación a los cuales se utiliza o se utilizará la Marca en el Comercio. Para la lista de las Clases de Niza más reciente puede acceder a la siguiente página Web:
<http://www.wipo.int/classifications/nivilo/nice/index.htm?lang=ES>
- B. Para todo Registro objeto de renovación, cuya inscripción o última renovación haya sido bajo un sistema de Clasificación previo, la Solicitud de renovación será examinada y reclasificada conforme al sistema de Clasificación vigente.

Regla 39. Petición para Dividir una Solicitud

- A. Una Solicitud puede ser dividida en dos o más Solicitudes separadas, previo el pago de los derechos correspondientes para cada nueva Solicitud que resulte y previa presentación de una petición de división. Una petición para dividir una Solicitud deberá ser presentada por el Solicitante o su Representante en un documento separado y deberá ser intitulada "Petición para Dividir Solicitud".
- B. Una Petición para Dividir una Solicitud podrá ser presentada en cualquier momento entre la Fecha de Presentación de la Solicitud y la fecha en que el Oficial Examinador apruebe la Marca para publicación; o durante un proceso de Oposición o Cancelación, previo la presentación de Moción a tal efecto por el Solicitante.
- C. La petición para dividir una Solicitud podrá ser presentada entre la Fecha de Presentación de una Solicitud basada en intención *bona fide* de uso de la Marca en el Comercio y la fecha establecida para presentar la evidencia de uso según lo establecido en este Reglamento.

Regla 40. Solicitudes basadas en intención *bona fide* de uso de la Marca en el Comercio

- A. Una Persona que tenga la intención *bona fide* de utilizar una Marca en el Comercio de Puerto Rico puede solicitar el registro de la Marca presentando:
 1. Una Solicitud dirigida al Secretario firmada por el Solicitante o su Representante. Para efectos del contenido de la Solicitud será de aplicación lo establecido en este Reglamento en la Regla aplicable al contenido de la Solicitud, excepto por lo que por la naturaleza del tipo de Solicitud no le sea aplicable.

2. Una Declaración bajo pena de perjurio, al efecto de que: i) el Solicitante tiene la intención *bona fide* de utilizar la Marca el Comercio y ii) ninguna otra Persona, según su mejor conocimiento y creencia, tiene derecho a usar la Marca en Puerto Rico; y
 3. La descripción y un dibujo que representa la Marca cuyo registro se solicita, tal como el Solicitante pretende utilizarla en el Comercio.
- B. Las Solicitudes basadas en intención *bona fide* de uso en el Comercio serán examinadas tal como se examinan las Solicitudes basadas en uso en el Comercio; excepto que, por no haber sido utilizadas en el Comercio al momento de la presentación de la Solicitud, las mismas no incluirán un facsímil o espécimen y sólo incluirán un dibujo de la Marca tal como se pretende utilizar en el Comercio y de conformidad con lo establecido para dibujos en este Reglamento.
- C. Una vez examinada y aprobada la Solicitud basada en intención *bona fide* de uso de la Marca en el Comercio, el Oficial Examinador emitirá un Aviso de Publicación que, previo el cumplimiento con los procedimientos de publicación establecidos en este Reglamento para Marcas con uso, resultará en el registro de la Marca con el correspondiente Certificado de Registro.
- D. No obstante lo anterior, y como condición para mantener la vigencia del Certificado de Registro resultante de la Solicitud basada en intención *bona fide* de uso de la Marca en el Comercio, el Titular Registral tendrá que, dentro del término establecido en la Ley contados a partir de la Fecha de Presentación de la Solicitud de registro, acreditar bajo pena de perjurio y con evidencia de uso, que comenzó a utilizar y está utilizando la Marca

en el Comercio (en adelante, Declaración de Primer Uso). Trascurrido el referido término sin que el Titular Registral haya acreditado bajo pena de perjurio el uso de la Marca en el Comercio, o solicitado la prórroga correspondiente según establecido en este Reglamento, el registro de la Marca será cancelado.

E. La Declaración de Primer Uso ha de ser presentada en el Registro deberá contener:

1. Una Declaración bajo pena de perjurio por el Solicitante o su Representante en la que exponga que:
 - i. El Solicitante entiende ser el dueño de la Marca; y
 - ii. La Marca está siendo utilizada en el Comercio, con expresión de la fecha de primer uso en el Comercio y los productos o servicios identificados en el Certificado de Registro en relación a los cuales el Titular Registral usa la Marca en el Comercio;
2. Un facsímil o espécimen de la Marca tal como se usa en el Comercio. Para una lista de facsímiles o especímenes aceptables favor referirse a la Regla sobre facsímiles en este Reglamento.
3. El pago de los derechos que disponga el Secretario mediante Reglamento.

F. La Registro evaluará la Declaración de Primer Uso siempre que haya sido presentada dentro del término dispuesto en la Ley y este Reglamento, y esté acompañada de los siguientes requisitos mínimos:

1. El pago de los derechos que mediante Reglamento disponga el Secretario;

2. Un facsímil o espécimen de la Marca;
 3. La Declaración de Primer Uso bajo pena de perjurio según se establece en esta Regla.
- G. Una Declaración de Primer Uso presentada dentro del término especificado en esta Regla y que cumpla con los requisitos mínimos enumerados antes, será examinada por el Oficial Examinador. Si como resultado del proceso de examen, el Oficial Examinador determina que la Declaración de Primer Uso no es aceptable, la misma será notificada al Titular Registral haciendo constar las razones para el rechazo y el término de tiempo dentro del cual el Titular Registral habrá de responder a dicha notificación. De la Declaración de Primer Uso ser aceptada, el Titular Registral será notificado de la aceptación.
- H. Si la Declaración de Primer Uso no contiene los requisitos mínimos para ser examinada según lo dispone esta Regla, el Oficial Examinador notificará la deficiencia al Titular Registral. Si el término establecido en la Ley, para presentar la Declaración de Primer Uso no ha expirado, el Titular Registral podrá corregir la deficiencia notificada. De haber expirado dicho término el Certificado de Registro resultará abandonado.
- I. Los productos o servicios identificados en la Declaración de Primer Uso deberán ser los mismos a los identificados en el Certificado de Registro. El Titular Registral podrá hacer referencia a este hecho en su Declaración utilizando el siguiente lenguaje: "los productos o servicios identificados en el Certificado de Registro" o en la medida en que

sea correcto, "los productos o servicios identificados en el Certificado de Registro excepto los siguientes: ...", seguido de los productos o servicios a ser eliminados.

- J. Si algún producto o servicio fue omitido en la Declaración de Primer Uso, el Oficial Examinador notificará al Titular Registral de este hecho para que corrija la omisión o proceda a eliminar el producto o servicio, de ser necesario.
- K. Si la Declaración de Primer Uso no es presentada dentro de un término razonable luego de haber sido firmada, el oficial examinador podrá requerir una declaración sustituta que acredite que la Marca todavía está siendo utilizada en el Comercio

Regla 41. Prórroga para Presentar Declaración de Primer Uso

- A. El Titular Registral de una Marca sin uso podrá solicitar, antes de vencido el término establecido en la Ley, para presentar la Declaración de Primer Uso y por justa causa, una prórroga de hasta un máximo de un (1) año para acreditar que comenzó y está utilizando la Marca en el Comercio dentro de este término adicional. Expirado dicho término adicional de un (1) año sin que el Titular Registral haya acreditado bajo pena de perjurio el uso de la Marca en el Comercio, el Certificado de Registro de la Marca resultará cancelado y el único remedio del Titular Registral será presentar una nueva Solicitud, perdiendo así la prioridad de la Fecha de Presentación de la Solicitud que resultó cancelada.
- B. La petición del término adicional de un (1) año deberá presentarse por escrito.

C. Para efectos de esta Regla, y sin que se entienda como una lista taxativa, justa causa podrá ser:

1. Retraso en obtener los permisos del Gobierno que impidan al Titular Registral comenzar a usar la Marca en el Comercio;
2. Interrupción de los servicios o productos en relación con los cuales se utiliza la Marca en el Comercio, siempre que la interrupción esté fuera del control del Titular Registral;
3. Por enfermedad o incapacidad sobrevenida del Titular Registral que le impida utilizar la Marca en el Comercio; o
4. Cualquier otra razón que el Registrador estime constituye justa causa.

D. En todo caso, la petición del término adicional de un (1) año deberá ser presentada por escrito acompañada de:

1. El pago que mediante reglamento disponga el Secretario;
2. Una Declaración bajo pena de perjurio por el Titular Registral o su Representante haciendo constar la justa causa;
3. El hecho de que continúa su intención *bona fide* de usar la Marca en el Comercio;
y
4. Expresión de los productos o servicios en relación a los cuales mantiene su intención *bona fide* de usar la Marca.

E. Si la Declaración que acompaña la Solicitud de prórroga no es presentada dentro de un término razonable luego de haber sido firmada, el Oficial Examinador podrá requerir una

Declaración sustituta que acredite que el declarante aún mantiene la intención *bona fide* de usar la Marca en el Comercio.

- F. Cuando la Declaración bajo perjurio relacionada a la petición de prórroga para someter una Declaración de Primer Uso sea firmada por una parte equivocada, el Solicitante tendrá que someter una Declaración sustituta antes de la expiración de la fecha límite establecida por Ley para presentar la Declaración de Primer Uso.

Regla 42. Oposición

- A. Inicio. Un proceso de Oposición a una Solicitud iniciará con la presentación del escrito correspondiente dentro del término que establece la Ley.
- B. Causal. Cualquier Persona que crea que ha de perjudicarse con el registro de una Marca solicitado con arreglo a la Ley podrá oponerse a dicho registro presentando un escrito de Oposición, dirigido al Secretario y firmado bajo pena de perjurio, en el cual exponga las razones para oponerse. De no presentarse el escrito de Oposición o la correspondiente prórroga dentro del término establecido en la Ley, la petición no procederá en derecho sin perjuicio al derecho de esa parte de iniciar un proceso de Cancelación conforme lo dispone este Reglamento.
- C. Pago de Derechos y Acumulación de Clases. El escrito de Oposición deberá ir acompañado del pago de los derechos que mediante reglamento disponga el Secretario. El Opositor podrá acumular distintas Clases para una misma Marca en su escrito de Oposición. No obstante, se cancelarán derechos correspondientes por cada Clase a la que atiende la Oposición.

En caso de no haber pagado los derechos correspondientes a cada Clase que es objeto de la Oposición, la Oposición se entenderá válida siempre que esté acompañada de al menos los derechos correspondientes a la Oposición para una (1) Clase y que dentro del término provisto en la notificación del defecto, la parte que presenta la Oposición emita el pago correspondiente al resto de las Clases objeto del recurso de Oposición. En la eventualidad de que el Opositor no pague los derechos correspondientes a la totalidad de las Clases objeto de Oposición, se aplicará el pago hecho a las Clases en orden ascendente de las Clases, es decir, del número menor al número mayor y hasta donde alcance el monto pagado.

D. Prórroga para presentar Oposición. Cualquier Persona, que crea que ha de perjudicarse con el registro de una Marca solicitado con arreglo a la Ley, podrá solicitar prórroga para presentar su escrito de Oposición, siempre que dicha Solicitud se presente dentro del término establecido en la Ley. El Oficial Examinador podrá conceder un término adicional de hasta veinte (20) días para presentar la Oposición, siempre y cuando se demuestre justa causa para la prórroga.

E. Contenido de la Oposición

1. Todo escrito de Oposición deberá incluir:
 - a. Una exposición breve de las alegaciones del Opositor;
 - b. Una relación concisa y organizada en párrafos enumerados, de todos los hechos esenciales y pertinentes sobre los cuales apoya su Oposición, con indicación de los párrafos o las páginas de las declaraciones juradas u otra prueba donde se establecen los mismos; y

- c. Las razones por las cuales debe ser denegado el registro de la marca, argumentando el derecho aplicable.
 2. El original del escrito de Oposición se presentará ante el Registro, acompañado de cualquier anejo que forme parte del mismo.
 3. La Oposición no debe exceder quince (15) páginas tamaño carta, sin incluir anejos o "exhibits", a doble espacio y letra no menor de 12 puntos. No se aceptarán anejos o "exhibits" argumentativos.
- F. Deber de Notificación del escrito de Oposición. Será deber del Opositor notificar su escrito de Oposición al Solicitante dentro de un término que no ha de exceder de dos (2) días laborables contados a partir de la presentación del escrito de Oposición. El Registro no se encargará del trámite de notificación al Solicitante. A estos efectos, el Opositor certificará en su escrito de Oposición haber notificado al Solicitante conforme lo dispone este Reglamento.
- G. Contestación a Oposición. Una vez notificada la petición de Oposición, el Solicitante tendrá un término de treinta (30) días contados a partir de la fecha del envío de la notificación para responder formalmente a la Oposición. El Solicitante podrá a su vez solicitar un término adicional para formular su alegación responsiva a la Oposición, disponiéndose que en ningún caso se concederá un término mayor de sesenta (60) días a partir de la notificación para responder a la misma. Si el Solicitante no presenta su alegación responsiva dentro del término de treinta (30) días a partir de la notificación o del término adicional concedido a partir de la solicitud de prórroga, el recurso podrá ser decidido por el Oficial Examinador tomando al Solicitante como si estuviese en rebeldía.

La contestación a la Oposición deberá expresar en términos claros y simples las defensas del Solicitante a las alegaciones del Opositor y deberá admitir o denegar las alegaciones del Opositor haciendo referencia a los párrafos enumerados del escrito de Oposición. Si el Solicitante no puede admitir o denegar una alegación por falta de información o creencia para poder formular una alegación, deberá así indicarlo en el texto de la oposición. La contestación podrá incluir cualquier defensa, incluyendo defensas afirmativas.

H. Calendario de Manejo del Proceso de Oposición. Una vez recibida la contestación, el oficial examinador al que le haya sido asignado el recurso señalará una conferencia inicial para el manejo del caso. Al menos diez (10) días con antelación a dicha conferencia inicial, las partes presentaran un informe conjunto para el manejo del caso que incluirá:

1. Hechos Estipulados:

Las partes habrán de intercambiarse propuestas de hechos estipulados con el propósito de reducir el número de las cuestiones de hecho que tendrán que dilucidarse en la vista adjudicativa.

Aquellas estipulaciones propuestas que no sean aceptadas por la otra parte deberán ser incluidas en esta sección en un acápite separado, identificando su fuente.

2. Hechos de los cuales se solicita se tome conocimiento judicial:

Las partes habrán de incluir las bases evidenciarias, según serían requeridas por las Reglas 201 y 202 de Evidencia de 2009, según sean enmendadas de tiempo en tiempo, para que el Oficial Examinador pueda tomar conocimiento de lo solicitado. No será necesario solicitar que se tome conocimiento judicial de cualquier hecho que haya sido objeto de estipulación por las partes.

3. Presunciones legales aplicables a la controversia.

4. Lista de testigos:

Las partes habrán de identificar los testigos que proponen utilizar en la vista. La designación de cada testigo deberá identificar los hechos materiales en controversia sobre los que habrá de testificar en la vista.

La presencia de un testigo en la vista no será necesaria si las partes estipulan el contenido de su testimonio, aun cuando no se estipule la veracidad del mismo. En dicho caso, la parte someterá una Declaración jurada del testigo vertiendo los hechos que el testigo habría de declarar en la vista.

Si cualquiera de las partes identifica un perito como testigo para la vista, deberá incluir toda información necesaria para establecer que el testigo cuenta con las cualificaciones requeridas por la Regla 703 de Evidencia del 2009, según sea enmendada de tiempo en tiempo, para declarar en forma de opiniones.

Si las partes estipulan las cualificaciones de un perito, sólo será necesario incluir su *curriculum vitae*. Por otro lado, si una de las partes objeta la designación de un perito como testigo para la vista, deberá consignar su objeción y fundamentarla debidamente.

5. Evidencia Documental:

Las partes deberán designar la evidencia documental conjunta y de cada parte, y someterán copia de la misma. Se aceptará copia digital de la evidencia documental para propósitos del cumplimiento con esta disposición.

La parte que impugne la admisibilidad de cualquier documento, por no ser auténtico o por un fundamento constitucional o legal basado en un privilegio evidenciario reconocido en Puerto Rico, deberá levantar la impugnación en el Informe Conjunto y debidamente fundamentarla. Cualquier objeción basada en estos fundamentos que no se levante en el Informe Conjunto se entenderá renunciada. Objeciones a la admisibilidad de un documento basadas en cualquier otro fundamento se reservarán para el día de la vista.

6. Hechos materiales en controversia que deben ser dilucidados en la vista adjudicativa:

La designación de un hecho en controversia como *material* debe estar apoyada con una explicación de la relevancia de dicho hecho a la controversia.

7. Controversias de derecho a ser sometidas para determinación.

8. La teoría legal de cada una de las partes:

Las partes deben someter copia de la jurisprudencia, tratados o documentos históricos (*e.g.*, historial legislativo) que consideren importantes para sostener su teoría legal.

9. Tiempo necesario para la presentación de prueba y fechas propuestas para la celebración de la vista adjudicativa:

Las partes proveerán tres (3) fechas alternas para la celebración de la vista adjudicativa.

Las partes en el informe de manejo de caso podrán expresar su renuncia a procedimientos ulteriores y solicitar que se dilucide la controversia a base de los escritos presentados.

La conferencia inicial para el manejo del caso se celebrará en la ubicación que decida el Registro y podrá llevarse a cabo utilizando la tecnología disponible que las partes, con la anuencia del Oficial Examinador, determinen viable para realizarla a distancia.

En la conferencia inicial, el Oficial Examinador producirá un calendario para atender asuntos relacionados a descubrimiento de prueba, mociones dispositivas, mociones ulteriores y número de páginas de dichas mociones, establecer la fecha de la vista

administrativa en su fondo y cualquier otro asunto sobre el manejo del caso que las partes y el Oficial Examinador estimen pertinente. Dicho calendario podrá ser enmendado, según resulte necesario, con el consentimiento de las partes y según sea aprobado por el Oficial Examinador.

- I. Desistimiento Voluntario del Proceso de Oposición. La Oposición o la Solicitud de Registro podrán ser retiradas voluntariamente, por la parte correspondiente, en cualquier momento. Si dicho retiro ocurre a en una etapa adelantada del procedimiento y el Oficial Examinador determina que la parte que se retira actuó con temeridad, el Oficial Examinador podrá, a solicitud de parte debidamente fundamentada y apoyada mediante declaración bajo pena de perjurio, imponer a dicha parte una cantidad razonable por los gastos y honorarios de abogados envueltos.
- J. Réplica a la Contestación y Dúplica. De haberse acordado en la conferencia inicial la presentación de escritos ulteriores, el Registro aceptará una (1) réplica a la contestación por parte del Opositor y una (1) dúplica a la réplica por parte del Solicitante, ninguna de las cuales excederán el número de páginas acordado en la conferencia inicial.
- K. Deber de notificar. Además de lo dispuesto para el escrito de Oposición, todo escrito sometido por alguna parte en el trámite de Oposición deberá ser notificado a las demás partes conforme lo dispone este Reglamento.

Regla 43. Cancelación

- A. Inicio. Un proceso de Cancelación de un Certificado de Registro iniciará con la presentación del escrito correspondiente dentro del término que establece la Ley.

- B. Causal. Cualquier Persona perjudicada por el registro de una Marca obtenido con arreglo a la Ley podrá solicitar la Cancelación de dicho registro presentando un escrito de Cancelación, dirigido al Secretario y firmado bajo pena de perjurio, en el cual exponga las razones para cancelar el registro de conformidad con lo establecido en la Ley. De no presentarse el escrito de Cancelación dentro del término establecido en la Ley, la petición no procederá en derecho.
- C. Pago de Derechos y Acumulación de Clases. El escrito de Cancelación deberá ir acompañado del pago de los derechos que mediante reglamento disponga el Secretario. Una Persona podrá acumular distintas Clases para una misma Marca en su escrito de Cancelación. No obstante se cancelarán derechos correspondientes por cada Clase a la que atiende la Cancelación.

En caso de no haber pagado los derechos correspondientes a cada Clase que es objeto de la Cancelación, la Cancelación se entenderá válida siempre que esté acompañada de al menos los derechos correspondientes a la Cancelación para una (1) Clase y que dentro del término provisto en la notificación del defecto, la parte que presenta la Cancelación, emita el pago correspondiente al resto de las Clases objeto del recurso de cancelación. En la eventualidad de que el la Persona no pague los derechos correspondientes a la totalidad de las Clases objeto de cancelación, se aplicará el pago hecho a las Clases en orden ascendiente de las Clases, es decir, del número menor al número mayor y hasta donde alcance el monto pagado.

D. Contenido de la Cancelación

1. Todo escrito de Cancelación deberá incluir:

- a. Una exposición breve de las alegaciones del Peticionario;
 - b. Una relación concisa y organizada en párrafos enumerados, de todos los hechos esenciales y pertinentes sobre los cuales apoya su cancelación, con indicación de los párrafos o las páginas de las declaraciones juradas u otra prueba donde se establecen los mismos; y
 - c. Las razones por las cuales debe ser cancelado el registro de la marca, argumentando el derecho aplicable.
2. El original del escrito de Cancelación se presentará ante el Registro, acompañado de cualquier anejo que forme parte del mismo.
 3. Todo escrito de Cancelación deberá estar firmado por la Persona que solicita la Cancelación del Certificado de Registro o su Representante, de conformidad con lo establecido en este Reglamento.
- E. Deber de Notificación del escrito de Cancelación. Será deber del Peticionario el notificar su escrito de Cancelación al Titular Registral dentro de un término que no ha de exceder de dos (2) días laborables contados a partir de la presentación del escrito. El Registro no se encargará del trámite de notificación al Titular Registral. A estos efectos, el Peticionario certificará en su escrito de Cancelación el haber notificado conforme lo establecido en este Reglamento.
- F. Contestación a Cancelación. Una vez notificada la petición de Cancelación, el Titular Registral tendrá un término de treinta (30) días contados a partir de la fecha del envío de la notificación para responder formalmente a la petición de Cancelación. El Titular Registral podrá a su vez solicitar un término adicional para formular su alegación

responsiva a la Petición de Cancelación, disponiéndose que en ningún caso se concederá un término mayor de sesenta (60) días a partir de la notificación para responder a la misma. Si el Titular Registral no presenta su alegación dentro del término de treinta (30) días a partir de la notificación o del término adicional concedido a partir de la solicitud de prórroga, el recurso podrá ser decidido por el oficial examinador tomando al Titular Registral como si estuviese en rebeldía.

La contestación a la Cancelación deberá expresar en términos claros y simples las defensas del Titular Registral a las alegaciones del Peticionario y deberá admitir o denegar las alegaciones haciendo referencia a los párrafos enumerados en el escrito de Cancelación. Si el Titular Registral no puede admitir o denegar una alegación por falta de información o creencia para poder formular una alegación, deberá así indicarlo en el texto de la contestación. La contestación podrá incluir cualquier defensa, incluyendo defensas afirmativas.

G. Calendario de Manejo de reclamación. Una vez recibida la contestación, el oficial examinador al que le haya sido asignado el recurso señalará una conferencia inicial para el manejo del caso. Al menos diez (10) días con antelación a dicha conferencia inicial, las partes presentaran un informe conjunto para el manejo del caso que incluirá:

1. Hechos Estipulados:

Las partes habrán de intercambiarse propuestas de hechos estipulados con el propósito de reducir el número de las cuestiones de hecho que tendrán que dilucidarse en la vista adjudicativa.

Aquellas estipulaciones propuestas que no sean aceptadas por la otra parte deberán ser incluidas en esta sección en un acápite separado, identificando su fuente.

2. Hechos de los cuales se solicita se tome conocimiento judicial:

Las partes habrán de incluir las bases evidenciarías requeridas por las Reglas 201 y 202 de Evidencia de 2009, según sean enmendadas de tiempo en tiempo, para que el Oficial Examinador pueda tomar conocimiento de lo solicitado. No será necesario solicitar que se tome conocimiento judicial de cualquier hecho que haya sido objeto de estipulación por las partes.

3. Presunciones legales aplicables a la controversia.

4. Lista de testigos:

Las partes habrán de identificar los testigos que proponen utilizar en la vista. La designación de cada testigo deberá identificar los hechos materiales en controversia sobre los que habrá de testificar en la vista.

La presencia de un testigo en la vista no será necesaria si las partes estipulan el contenido de su testimonio, aun cuando no se estipule la veracidad del mismo. En dicho caso, la parte someterá una declaración jurada del testigo vertiendo los hechos que el testigo habría de declarar en la vista.

Si cualquiera de las partes identifica un perito como testigo para la vista, deberá incluir toda información necesaria para establecer que el testigo cuenta con las cualificaciones requeridas por la Regla 703 de Evidencia de 2009, según sea enmendada de tiempo en tiempo, para declarar en forma de opiniones.

Si las partes estipulan las cualificaciones de un perito, sólo será necesario incluir su *curriculum vitae*. Por otro lado, si una de las partes objeta a la designación de un perito como testigo para la vista, deberá consignar su objeción y fundamentarla debidamente.

5. Evidencia Documental:

Las partes deberán designar la evidencia documental conjunta y de cada parte, y someterán copia de la misma. Se aceptará copia digital de la evidencia documental para propósitos del cumplimiento con esta disposición.

La parte que impugne la admisibilidad de cualquier documento por no ser auténtico o por un fundamento constitucional o legal basado en un privilegio evidenciario reconocido en Puerto Rico deberá levantar la impugnación en el Informe Conjunto y debidamente fundamentarla. Cualquier objeción basada en estos fundamentos que no se levante en el Informe Conjunto se entenderá renunciada. Objeciones a la admisibilidad de un documento basadas en cualquier otro fundamento se reservarán para el día de la vista.

6. Hechos materiales en controversia que deben ser dilucidados en la vista adjudicativa:

La designación de un hecho en controversia como *material* debe estar apoyada con una explicación de la relevancia de dicho hecho a la controversia.

7. Controversias de derecho a ser sometidas para determinación.
8. La teoría legal de cada una de las partes:

Las partes deben someter copia de la jurisprudencia, tratados o documentos históricos (*e.g.*, historial legislativo) que consideren importante para sostener su teoría legal.

9. Tiempo necesario para la presentación de prueba y fechas propuestas para la celebración de la vista adjudicativa:

Las partes proveerán tres (3) fechas alternas para la celebración de la vista adjudicativa.

Las partes en el informe de manejo de caso podrán expresar su renuncia a procedimientos ulteriores y solicitar que se dilucide la controversia a base de los escritos presentados.

La conferencia inicial para el manejo de caso se celebrará en la ubicación que decida el Registro y podrá llevarse a cabo utilizando la tecnología disponible que las partes, con la anuencia del Oficial Examinador, determinen viable para realizarla a distancia.

En la conferencia inicial, el Oficial Examinador producirá un calendario para atender asuntos relacionados a descubrimiento de prueba, mociones dispositivas, mociones ulteriores y número de páginas de dichas mociones, establecer la fecha de la vista administrativa en su fondo y cualquier otro asunto sobre el manejo del caso que las partes y el Oficial Examinador estimen pertinente. Dicho calendario podrá ser enmendado según resulte necesario con el consentimiento de las partes y según sea aprobado por el Oficial Examinador.

- H. Desistimiento Voluntario del Proceso de Cancelación. La Cancelación podrá ser retirada o el Registro podrá ser cancelado voluntariamente, por la parte correspondiente, en cualquier momento del trámite. Si ello ocurre a en una etapa adelantada del procedimiento y el Oficial Examinador determina que la parte que se retira actuó con temeridad, el Oficial Examinador podrá, a solicitud de parte debidamente fundamentada y apoyada mediante Declaración bajo pena de perjurio, imponer a dicha parte una cantidad razonable por los gastos y honorarios de abogados envueltos.
- I. Réplica a la Contestación y Dúplica. De haberse acordado en la conferencia inicial la presentación de escritos ulteriores, el Registro aceptará una (1) réplica a la contestación por parte del Peticionario y una (1) dúplica a la réplica por parte del Titular Registral, ninguna de las cuales excederá el número de páginas acordado en la conferencia inicial.

- J. Deber de notificar. Además de lo dispuesto para el escrito de Cancelación, todo escrito sometido por alguna parte en el trámite de Cancelación deberá ser notificado a las demás partes conforme lo dispone este Reglamento.

Regla 44. Vista Adjudicativa

- A. Salvo renuncia expresa de las partes, se señalará una vista adjudicativa en la fecha determinada por el Oficial Examinador. Con al menos dos (2) días de anticipación a la fecha de la vista, las partes podrán presentar acuerdo escrito renunciando a la misma.
- B. El Registro le notificará por escrito a todas las partes o su Representante, con no menos de quince (15) días de antelación, la fecha de la vista. La notificación contendrá:
1. La fecha, la hora y el lugar en que se celebrará la vista así como su naturaleza y propósito;
 2. Una advertencia de que las partes podrán comparecer asistidas de abogados, pero no estarán obligadas a estar así representadas, salvo que se trate de una persona jurídica;
 3. Una cita de la disposición legal o reglamentaria que autoriza la celebración de la vista;

4. Una referencia a las disposiciones legales o reglamentarias presuntamente infringidas, si se imputa una infracción a las mismas, y a los hechos constitutivos de tal infracción.
5. El apercibimiento de las medidas que la agencia podrá tomar si una parte no comparece a la vista.

C. Procedimiento

1. La vista será grabada y el funcionario que presida la misma preparará un informe para la consideración del Registrador. Las reglas de evidencia no serán aplicadas administrativamente, pero los principios fundamentales de evidencia se podrán utilizar para lograr una solución rápida, justa y económica.
2. El funcionario que presida la vista, dentro de un marco de relativa informalidad, ofrecerá a todas las partes el tiempo necesario para una divulgación completa de todos los hechos y cuestiones en discusión, la oportunidad de responder, presentar evidencia y argumentar, conducir contra-interrogatorio y someter evidencia en refutación, excepto según haya sido restringida o limitada por las estipulaciones de las partes.
3. El funcionario que presida la vista podrá aplicar los fundamentos evidenciaros con la liberalidad que se expresa en la Ley de Procedimiento Administrativo Uniforme.
4. El funcionario que presida la vista podrá tomar conocimiento oficial de todo aquello que pudiera ser objeto de conocimiento judicial en los tribunales de justicia.

5. El funcionario que presida la vista podrá conceder a cualquiera o a todas las partes un término de quince (15) días después de concluida la misma para la presentación de documentación o evidencia que se determine necesaria para la resolución de la controversia, incluyendo un proyecto de sentencia.
- D. Resolución. Se emitirá una orden o resolución final dentro de noventa (90) días después de concluida la vista. La parte adversamente afectada tendrá derecho a pedir reconsideración de conformidad con la Regla 25 de este Reglamento.
- E. Revisión Judicial. Luego de la vista las partes tendrán derecho a los remedios establecidos en la Regla 25 de este Reglamento. La parte notificará la presentación de la Solicitud de revisión al Registrador y a todas las partes dentro del término para solicitar dicha revisión. La notificación podrá hacerse mediante entrega Personal o por correo. La parte que resulte afectada a su vez por una determinación del Tribunal de Apelaciones podrá recurrir de dicha determinación mediante recurso de Certiorari conforme lo establece la Ley de Procedimientos Administrativo Uniforme de Puerto Rico, según la misma sea enmendada de tiempo en tiempo.
- F. Sanciones: El Registro, a través del Oficial Examinador a cargo del procedimiento entre partes, podrá imponer las sanciones pertinentes a la parte que incumpla con cualquier orden que emita el Oficial Examinador, incluyendo la desestimación de cualquier recurso incoado por dicha parte. La utilización de tácticas dilatorias por cualquiera de las partes también podrá ser sancionada por el Oficial Examinador que presida el recurso.

Regla 45. Designación de Oficiales Examinadores

- A. El Registrador designará Oficiales Examinadores para calificar y presidir los procedimientos relacionados a las Solicitudes o Certificados de registros de Marcas que se efectúen en el Registro. Los Oficiales Examinadores estarán autorizados a ejercer la profesión de la abogacía en Puerto Rico.
- B. En los casos donde el interés público lo justifique, el Registrador podrá designar Abogados que sean funcionarios del Departamento como Oficiales Examinadores.
- C. Todo Oficial Examinador presidirá los procedimientos administrativos encomendados y rendirá un informe sobre determinaciones de hechos y conclusiones de derecho. En los procedimientos entre partes el Oficial Examinador emitirá una recomendación al Registrador, quien adoptará o no la recomendación. En el proceso de calificación o de examen de una Marca la determinación del Registrador será final.

Regla 46. Certificado de Registro

- A. Si el Registro determina que procede el registro de una Marca y si no se presenta escrito de Oposición oportunamente, la Marca se considerará registrada y el Registro expedirá un Certificado de Registro que indicará:
 - 1. La Marca.
 - 2. El Titular Registral
 - 3. Ciudadanía del Titular Registral
 - 4. La Fecha de Presentación de la Solicitud.
 - 5. El número de registro.

6. El número de la Clase.
 7. Los productos o servicios en relación a los cuales se usa o se tiene la intención *bona fide* de usar la Marca.
 8. Requisitos para el mantenimiento de la Marca.
- B. Toda Persona a la que se le conceda un Certificado de Registro podrá, a partir de la fecha de registro, usar las palabras "Marca Registrada" o las letras "MR" junto a la Marca, disponiéndose que el Secretario podrá imponerle una multa administrativa de \$500.00, a tenor con el Artículo 7.1 de la LPAU a todo aquel que haga uso de dichas palabras o letras junto a su Marca sin ser ésta una registrada.

Regla 47. Cancelación o Enmienda por el Titular Registral

- A. Un Titular Registral podrá presentar una Solicitud de Cancelación de su Certificado de Registro y el Registro podrá permitir dicha cancelación, previo al pago de los derechos correspondientes que mediante Reglamento establezca el Secretario. Al completarse la Cancelación se hará la anotación correspondiente en el expediente y en la base de datos.
- B. Un Titular Registral podrá presentar una solicitud para enmendar el registro o para renunciar a parte de la marca registrada. Tal solicitud deberá incluir:
 1. el pago de los derechos que mediante reglamento establezca el Secretario,
y
 2. deberá estar firmada por el Titular Registral o su Representante.

Si la enmienda solicitada constituiría un cambio de la marca, la solicitud deberá incluir, además:

1. un nuevo espécimen que demuestre la marca según se utiliza en o en relación con los bienes o servicios;
2. una Declaración bajo pena de perjurio mediante la cual se indique que el espécimen estaba en uso en el Comercio al menos tan temprano como la Fecha de Presentación de la solicitud de enmienda; y
3. un nuevo dibujo de la marca enmendada.

Si el registro incluye una renuncia, una descripción de la marca, u otras declaraciones misceláneas, cualquier solicitud de enmienda deberá incluir también una solicitud de que se efectúen las enmiendas correspondientes a la renuncia, la descripción, o la declaración. El registro enmendado tendrá que contener aún materia registrable, y la marca enmendada tendrá que ser registrable en su totalidad. La enmienda o renuncia no podrá alterar sustancialmente el carácter de la marca.

No se permitirá enmendar la descripción de los bienes o servicios, excepto para restringir dicha descripción o para cambiarla de tal forma que no se requiera una nueva publicación de la marca. No se permitirá una enmienda para eliminar una renuncia, a menos que se solicite también la eliminación de la porción renunciada de la marca.

Regla 48. Corrección de errores en el Certificado

- A. Siempre que se haya cometido un error en relación con un registro, de buena fe, por el Solicitante o por el Registro, el Registro podrá expedir un certificado de corrección o, a su discreción, un nuevo certificado. La corrección no podrá provocar cambios en el registro que requieran volver a publicar la Marca.
- B. Una Solicitud para tal acción deberá especificar el error que se pretende sea corregido, y que se cometió de buena fe. Dicha Solicitud deberá estar firmada por el Solicitante o su Representante y acompañada por el pago de los derechos correspondientes que establezca el Secretario mediante reglamento.
- C. El Registro expedirá un certificado de corrección haciendo constar el contenido de ésta y anejará copia de dicho certificado al Certificado de Registro.

Regla 49. Renovación

- A. Todo registro de Marca tendrá una vigencia de DIEZ (10) años a partir de la fecha del registro de la Marca.
- B. No obstante lo anterior, como condición para mantener dicho registro más allá de la fecha de vencimiento del Periodo de DIEZ (10) años de vigencia, el Titular Registral tendrá que declarar bajo pena de perjurio el uso de la Marca en el Comercio de Puerto Rico (o el no uso excusable) y presentar la correspondiente evidencia de uso, acompañada por el pago de los derechos que mediante Reglamento establezca el Secretario. Dicha solicitud de renovación y documentos complementarios deberán ser radicados entre el 9^{no} y 10^{mo} año previo a la fecha de vencimiento del registro. Este requisito de solicitud de renovación,

condición para mantener la vigencia del registro, tendrá que cumplimentarse además, entre el 9^{no} y 10^{mo} año para cada periodo de DIEZ (10) subsiguiente a la fecha de registro de la Marca.

- C. Conforme al Artículo 19 de la Ley, el Titular Registral tendrá un periodo de gracia adicional de SEIS (6) meses, a partir de la expiración del término de DIEZ (10) años antes mencionado, para presentar la Solicitud de renovación acompañada de los correspondientes documentos evidenciando uso, previo el pago de los derechos que mediante reglamento establezca el Secretario.
- D. El Registro no le enviará un recordatorio o notificación para que el Titular Registral cumpla con estos requisitos. Por consiguiente, será responsabilidad del Titular Registral comunicarse con el Registro dentro del año anterior a la fecha de vencimiento del registro para determinar los requisitos y los derechos de pagos vigentes y aplicables.
- E. De no cumplir con las radicaciones establecidas en esta Regla, como condición para mantener la vigencia del Certificado de Registro, el mismo será cancelado sin necesidad de notificación adicional por parte de la Registro.
- F. El Registro proveerá un formulario para la presentación de la Solicitud de Renovación, y su uso será mandatorio según lo dispone la Regla 3. Se podrá presentar con dicho formulario cualquier anejo que resulte pertinente para la presentación de dicha solicitud.

- G. El Registro denegará toda solicitud de renovación de Marca presentada pasado el período de gracia a partir de la fecha de expiración del Certificado de Registro o la anterior renovación. Transcurrido dicho período, el dueño de la Marca podrá presentar una nueva Solicitud cumpliendo con todos los requisitos de la Ley y este Reglamento.

Regla 50. Requisitos para mantener el registro de la Marca Solicitudes presentadas bajo la Ley 169 (Declaración de Uso Continuo)

- A. Para evitar la CANCELACIÓN del Certificado de Registro, resultante de una Solicitud presentada bajo la Ley el Titular Registral tendrá que presentar una Declaración de Uso Continuo (o de no-uso excusable) entre el QUINTO y SEXTO (5to y 6to) año luego de la fecha de registro de la Marca, acompañada de la correspondiente evidencia de uso en el Comercio. Asumiendo que dicha Declaración fue adecuadamente presentada , el Certificado de Registro permanecerá en vigor por DIEZ (10) años, a menos que sea cancelado en una fecha anterior bajo alguna otra disposición de la Ley.
- B. La declaración de uso a la que hace referencia esta Regla tendrá que presentarse una sola vez, entre el 5to y 6to año a partir de la fecha del registro de la Marca, y tendrá que estar acompañada del pago de derechos que mediante Reglamento disponga el Secretario.
- C. De presentarse incompleta la declaración de uso a la que hace referencia esta Regla, siempre que el Titular Registral esté dentro del término (entre el 5to y 6to año) podrá corregir la deficiencia o el defecto de que se trate. Expirado dicho término, el Certificado de Registro se tendrá por cancelado.

D. En el caso específico de las Solicitudes presentadas basadas en la intención *bona fide* de usar la Marca en el Comercio el Solicitante tendrá que, en adición a dar cumplimiento a lo dispuesto en esta Regla, acreditar haber comenzado uso y estar usando la Marca dentro de los tres (3) años a partir de la fecha del registro, es decir, haber presentado la correspondiente Declaración de Uso Inicial. Una Declaración no sustituye la otra.

E. El Oficial Examinador a cargo de la evaluación de la Declaración de Uso a la que hace referencia esta Regla calificará la misma conforme lo aquí establecido, y el facsímil o espécimen presentado será evaluado conforme a lo establecido en estas Reglas.

F. De presentarse una Declaración de Uso a la que hace referencia esta Regla que esté incompleta o inconforme a lo aquí establecido, el Registro le notificará la deficiencia o el rechazo al Solicitante y le dará un término de noventa (90) días para responder a la misma. Si el Titular Registral no responde satisfactoriamente dentro del término de noventa (90) días aquí establecido, el Certificado de Registro se tendrá por cancelado.

Regla 51. Declaración de Uso sobre Irrefutabilidad

Para que una Marca adquiriera el carácter o denominación de irrefutable, el Titular Registral deberá presentar una Declaración de Uso Continuo, bajo pena de perjurio que deberá:

1. Estar firmada por el Titular Registral o su Representante;
2. Identificar el Certificado de Registro mediante el número de registro y la fecha de registro;

3. Identificar los productos o servicios identificados en el Certificado de Registro en los cuales se ha usado la Marca o en relación a los cuales se ha usado la Marca en el Comercio de manera continua por un periodo de cinco (5) años luego de la fecha del registro y hasta la fecha de la declaración;
4. Especificar que no ha habido ninguna determinación final adversa que afecte la titularidad de la Marca en relación al Titular Registral;
5. Especificar además que al momento no existe ningún procedimiento pendiente ante ningún foro que pueda afectar los derechos sobre la Marca;
6. Ser presentada dentro del año siguiente a cualquier periodo de cinco (5) años consecutivos de uso ininterrumpido subsiguiente a la fecha del registro de la marca especificando los bienes o servicios identificados en el Certificado de Registro en o en relación con los cuales la marca registrada ha estado en uso ininterrumpido en el Comercio por el mencionado término consecutivo de cinco (5) años y aún está siendo utilizada en el Comercio; e
7. Incluir el pago de los derechos correspondientes que mediante reglamento establezca el Secretario.

Regla 52. Cambio de Titular

- A. La titularidad sobre una Marca registrada o pendiente de registro puede ser traspasada o cambiada ya sea mediante cesión, traspaso, cambio de nombre o fusiones. Para obtener acceso al Registro tal cambio de titular deberá evidenciarse mediante la presentación del documento que evidencie el hecho del cambio de titular. En el caso de Marcas pendientes de registro, la petición para el cambio de titular deberá identificar la

Solicitud por el nombre de la Marca, el Número de Presentación y la Fecha de Presentación; y en el caso de Marcas Registradas, la petición para el cambio de titular identificará el nombre de la Marca, el Número de registro y fecha del Certificado de Registro.

- B. El Registro expedirá un certificado haciendo constar el hecho del cambio de titular de la Marca.
- C. Para obtener un nuevo Certificado de registro a nombre del nuevo titular según el trámite del cambio de titular, tendrá que mediar una Solicitud para un nuevo Certificado de Registro previo el pago de los derechos que mediante reglamento establezca el Secretario. Cuando se presente un documento de cambio de titular de una Marca en proceso de calificación para al cual el Registrador aún no haya expedido Aviso de Publicación, éste habrá de expedirse a favor del nuevo titular de la Marca.

Regla 53. Solicitud de Archivo de registro de Marca Federal/Depósito U.S.

- A. El Titular de un Certificado de Registro Federal podrá solicitar del Registro, el archivo del registro de Marca Federal ("Depósito U.S."). La Solicitud de archivo del registro de Marcas Federal debe ser completada solamente por el dueño actual de la marca o su Representante y deberá estar acompañada de copia certificada del Certificado de Registro Federal y cualquier otro documento que acredite su vigencia y nombre del actual titular. Esta solicitud no puede enmendar o corregir alguna información en relación con el Certificado de Registro Federal.

- B. En el proceso de calificación de una Marca el Oficial Examinador realizará una búsqueda en los archivos del Registro identificados como Depósitos U.S. para efectos de determinar si la Marca cuyo registro se solicita puede causar confusión en relación a cualquiera de las marcas objeto de archivo o Depósito U.S. El Oficial Examinador no podrá utilizar el hecho de la existencia del archivo o Depósito U.S. como impedimento para permitir el registro de la Marca, pero deberá notificar al Solicitante el hecho de que existe una Marca igual o similar que pueda causar confusión y el efecto que puede producir el hecho de que un día la Marca identificada en el Depósito U.S. entre al mercado de Puerto Rico.
- C. En ningún caso podrá el Oficial Examinador utilizar la existencia ni de un Certificado de Registro Federal previo, ni de un Depósito U.S. como razón para el rechazo de una Solicitud.
- D. Toda solicitud de Archivo de Registro de Marca Federal o Depósito U.S. estará vigente durante la vigencia del registro de la marca en el Registro Federal o USPTO. Cuando se trate de un Certificado de Registro Federal que incorpora múltiples clases, éste se tratará como un Depósito US y no como múltiples Depósitos. Dicho Archivo o Depósito U.S. cancelará los derechos correspondientes a una sola clase.
- E. La renovación del Certificado de Registro Federal deberá acreditarse en el Registro para que el Archivo o Depósito U.S. pueda ser renovado. El Archivo o Depósito U.S. podrá ser renovado presentando copia del documento que la oficina de marcas Federal emita como acreditación del hecho de la Renovación, y que especifique el período de renovación de

que se trate, acompañado del pago de los derechos que mediante reglamento disponga el Secretario.

- F. Un cambio de titular de un Archivo o Depósito U.S. podrá ser acreditado mediante presentación de copia del "Abstract of Title" o del documento que la oficina de marcas Federal emita como acreditación de dicho cambio de titular, acompañado del pago de los derechos que mediante reglamento disponga el Secretario.

Regla 54. Registro de marcas cuyo titular es el Gobierno, Municipios o sus instrumentalidades

- A. El Gobierno Federal, el Gobierno Estatal, sus Municipios e Instrumentalidades Gubernamentales con capacidad para demandar y ser demandada podrán solicitar el registro de cualquier Marca que esté en uso o se tenga la intención *bona fide* de usar en relación a bienes o servicios ofrecidos en el comercio de Puerto Rico.
- B. La designación o Marca escogida por la entidad gubernamental no puede incorporar o consistir de elementos que están vedados por el Art. 5 de la Ley o una imitación de estos, como por ejemplo, marcas que contengan o consistan de la bandera, escudo de armas u otra insignia de Puerto Rico, los Estados Unidos, cualquier estado, municipios o de cualquier nación extranjera, o una imitación de estos.
- C. En cuanto a insignias en particular, en la medida en que una insignia no represente la autoridad del gobierno central de Puerto Rico o a Puerto Rico como un todo y meramente constituya un emblema o insignia de un departamento o agencia que sea utilizado para

identificar un servicio o facilidad o bienes del gobierno, ésta no constituye una insignia bajo el Art. 5 de la Ley y por consiguiente puede tener acceso al Registro.

Regla 55. Cláusula de separabilidad

Si cualquier palabra, frase, oración sección, inciso o parte de este Reglamento fuere por cualquier razón impugnada ante un tribunal y declarada inconstitucional o nula, tal sentencia no afectará, menoscabará o invalidará las restantes disposiciones y partes de este Reglamento.

Regla 56. Procedimientos Internos

Este Reglamento no dispone ni limita el derecho del Registro de establecer sus procedimientos internos para viabilizar los procesos que se le han encomendado.

Regla 57. Vigencia

Este Reglamento empezará a regir a los treinta (30) días a partir de su radicación en el Departamento de Estado.

Aprobado en San Juan, Puerto Rico, hoy 19 de septiembre de 2011.


KENNETH McCLINTOCK HERNANDEZ
Secretario de Estado

II. DISCUSSION

A. Background

Plaintiff owns and operates an online diamond and fine jewelry retail sales business through three websites: www.bluenile.com; www.bluenile.ca; and www.bluenile.co.uk. Defendant Ice.com is also in the retail diamond and fine jewelry business and owns and operates its own website at www.diamond.com. Defendant Odimo Inc. owned and operated the www.diamond.com website until about May 11, 2006, when it was purchased by Ice.com.

Plaintiff alleges that defendants copied two distinct portions of its website. First, plaintiff alleges that defendants copied certain elements of plaintiff's website protected by the Copyright Act. See Response at 1 (stating this action "arises from Ice.com's and Odimo's intentional copying of specific copyrighted elements of Blue Nile's website."). Second, plaintiff alleges that defendants copied the "overall look and feel" of plaintiff's diamond search webpages. Id. at 2 ("This is a separate and distinct wrong for which Blue Nile is entitled to recover separate and apart from infringement of limited elements of its website.").

On July 25, 2006, plaintiff filed an amended complaint asserting eight causes of action for: (1) copyright infringement of its "Blue Nile Diamond Search" webpages; (2) copyright infringement of a "cushion-cut" diamond photograph; (3) trade dress infringement under the Lanham Act; (4) violation of the Washington CPA; (5) unfair competition; (6) breach of contract; (7) breach of the implied covenant of good faith and fair dealing; and (8) unjust enrichment and restitution.

B. Analysis

Defendant moves to dismiss only plaintiff's Lanham Act claim and three state law claims based on Fed. R. Civ. P. 12(b)(6) and principles of copyright preemption. For clarity, plaintiff's Lanham Act claim and the state law claims are discussed separately below.

1 **1. Plaintiff's Third Cause of Action for Trade Dress Infringement, 15 U.S.C. §**
2 **1125(a) of the Lanham Act**

3 Defendant asserts that plaintiff's trade dress claim under § 1125(a) of the Lanham Act
4 should be dismissed because it overlaps with plaintiff's copyright claims. The Court, however,
5 denies dismissal of the trade dress claim at this stage of the proceeding for two reasons.

6 First, given the novelty of plaintiff's trade dress claim,¹ greater factual development is
7 necessary before the Court can ascertain whether plaintiff's copyright claims provide an
8 "adequate remedy" justifying dismissal of its trade dress claim. See Shaw v. Lindheim, 919
9 F.2d 1353, 1364-65 (9th Cir. 1990) ("We decline to expand the scope of the Lanham Act to
10 cover cases in which the Federal Copyright Act provides an adequate remedy."); Van Buskirk v.
11 Cable News Network, Inc., 284 F.3d 977, 980 (9th Cir. 2002) ("[A] court may look only at the
12 face of the complaint to decide a motion to dismiss.").

13 Section 301(a) of the Copyright Act preempts certain claims arising under state common
14 law or statutes. See 17 U.S.C. § 301(a) ("Thereafter, no person is entitled to any such right or
15 equivalent right in any such work under the common law or statutes of any State."). Section
16 301, however, does not limit rights or remedies under other federal statutes. Id. § 301(d).
17 Despite this provision, "courts have long limited application of the Lanham Act so as not to
18 encroach on copyright interests." 1 Melville B. Nimmer & David Nimmer, Nimmer on
19 Copyright § 1.01[D][2] at 1-83 (2005). Courts limit application of the Lanham Act in areas
20 traditionally occupied by copyright or where the copyright laws "provide[] an adequate remedy."
21 See Shaw, 919 F.2d at 1365; Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23,
22 34 (2003) ("Thus, in construing the Lanham Act, we have been careful to caution against misuse
23 or over-extension of trademark and related protections into areas traditionally occupied by patent
24 or copyright.") (internal quotation omitted). Parallel claims under the Copyright Act and

25 ¹ See infra note 8 and accompanying text.

1 Lanham Act, however, are not per se impermissible. See Nintendo of Am., Inc. v. Dragon Pac.
2 Int'l, 40 F.3d 1007, 1011 (9th Cir. 1994) (“[W]hen a defendant violates both the Copyright Act
3 and the Lanham Act, an award of [statutory and actual] damages is appropriate.”).

4 Here, defendant alleges that plaintiff’s copyright claims provide it with an adequate
5 remedy because the trade dress claim “simply reiterates its copyright claims” since “[b]oth rest
6 on the same allegation that defendants copied specified portions of Blue Nile’s website.” See
7 Motion at 4. Plaintiff counters by claiming that its trade dress claim is not limited by the
8 Copyright Act because the “look and feel” of its website is not copyrightable. While defendant
9 claims that “[t]he Court will search in vain for this [“look and feel”] allegation in the complaint,”
10 on a motion to dismiss, the court must “read the complaint charitably . . . and . . . assume that all
11 general allegations embrace whatever specific facts might be necessary to support them.” See
12 Reply at 2; Pelozza v. Capistrano Unified Sch. Dist., 37 F.3d 517, 521 (9th Cir. 1994).

13 Charitably read, the Court finds that plaintiff’s allegations in paragraph 52 of its amended
14 complaint relating to the “design and presentation of diamond search features” is sufficient to
15 support a claim that plaintiff is seeking to protect the “look and feel” of its website. See Dkt. #3.
16 While plaintiff’s failure to describe the elements of its trade dress with greater specificity in its
17 complaint might prove fatal during later stages of this litigation,² at this point, defendant has
18 cited no authority for proposition that plaintiff cannot qualify its trade dress description as one
19 seeking protection for the “look and feel” of its website in response to a motion to dismiss.³

21 ² See Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters, 280 F.3d 619, 635 (6th Cir.
22 2002) (“A complaint is neither an injunction nor a judgment; it merely puts the defendant on notice of the
23 plaintiff’s claims. . . . Had the case proceeded further, Abercrombie would have been expected to list the
24 elements of the designs and the unique combinations it sought to protect[.]”).

25 ³ See Maharishi Hardy Blechman Ltd. v. Abercrombie & Fitch Co., 292 F. Supp. 2d 535, 545
26 (S.D.N.Y. 2003) (“It is unclear, however, whether a trade dress plaintiff must cling to the precise
language of a trade dress as stated in a complaint, or whether a plaintiff may offer a revised formulation in
another filing. There is at least some support for the proposition that a plaintiff may offer an updated

1 Plaintiff also alleges that protection of “the look and feel of the website” is a subject
2 outside the purview of the Copyright Act. In reply, defendant has provided no legal support that
3 plaintiff has an adequate remedy in copyright law to protect the “look and feel” of its website.⁴
4 Determining the elements of plaintiff’s website that are subject to copyright protection, and what
5 portions of the website relate to the “look and feel” of its trade dress claim requires greater
6 factual development. Johnson Controls, Inc. v. Phoenix Control Sys., Inc., 886 F.2d 1173 (9th
7 Cir. 1989), a case dealing with computer software, is instructive on this point. The court defined
8 the “user interface,” or “look and feel” of a program, as generally referring to “the design of the
9 video screen and the manner in which information is presented to the user.” Id. at n.3. The
10 Court later concluded: “Whether the nonliteral components of a program, including . . . the user
11 interface [the “look and feel” of the program], are protected [by copyright] depends on whether,
12 on the particular facts of each case, the component in question qualifies as an expression of an
13 idea, or an idea itself.” Id. at 1175 (emphasis added). Because section 102(b) of the Copyright
14 Act states: “In no case does copyright protection for an original work of authorship extend to
15 any idea,” factual development is necessary here before the Court can determine what portions
16 of plaintiff’s website are protected. Accordingly, the Court concludes that defendant’s 12(b)(6)
17 motion to dismiss is not the appropriate procedural vehicle through which the Court should
18 _____
19 formulation at a later stage in the litigation.”).

20 ⁴ The Court notes, to the contrary, that the Copyright Office and at least one author have
21 commented that copyright protection may not cover the overall format, or the look and feel, of a website.
22 In Darden v. Peters, 402 F. Supp. 2d 638, 644 (E.D.N.C. 2005), plaintiff sought review of the Copyright
23 Office’s denial of copyright registration for a website. In granting the Copyright Office’s motion for
24 summary judgment, the court quoted the examiner’s determination that ““protection for the overall
25 format of a web page is inconsistent with copyrightability.””). See Lisa M. Byerly, Comment, Look and
26 Feel Protection of Web Site User Interfaces: Copyright or Trade Dress? 14 Santa Clara Computer &
High Tech. L.J. 221, 246 (1997) (“It is apparent that copyright protection will fall short of completely
protecting a Web site owner from someone else using his creative Web site interface look and feel. . . .
[E]ven if some copyright protection is afforded, it may not be for the entire look and feel of the Web site,
and it is this total presentation that is so valuable for marketing purposes in cyberspace.”).

ORDER GRANTING IN PART AND DENYING
IN PART DEFENDANT ICE.COM’S
MOTION TO DISMISS

1 address the overlap between the Lanham Act and Copyright Act in the context of a claim
2 attempting to protect a website's "look and feel."⁵

3 Although defendant cites several cases in this jurisdiction and the Ninth Circuit involving
4 dismissal of Lanham Act claims overlapping with copyright claims, all of these cases were
5 decided with a developed factual background on summary judgment.⁶ See Motion at 4, citing
6 Corbis Corp. v. Amazon.com, Inc., 351 F. Supp. 2d 1090, 1115-16 (W.D. Wash. 2004) (decided
7 on a motion for summary judgment); Shaw, 919 F.2d at 1364-65 (9th Cir. 1990) (affirming
8 district court's dismissal of plaintiff's Lanham Act claim on summary judgment); and CD Law,
9 Inc. v. LawWorks, Inc., 1994 U.S. Dist. Lexis 20776, at *14 (W.D. Wash. Dec. 21, 1994)
10 (dismissing Lanham Act claim on a motion for summary judgment). Defendant has presented no
11 authority supporting Rule 12(b)(6) dismissal of a Lanham Act claim based on the availability of
12 an adequate remedy under copyright.⁷ Therefore, the Court denies defendant's request for
13 dismissal of plaintiff's trade dress claim at this early stage of the litigation.

14 Second, the Court denies defendant's motion to dismiss the trade dress claim in light of
15

16 ⁵ There are not yet enough facts for the Court to determine the similarities between plaintiff's and
17 defendants' website, and defendant has not raised any argument that plaintiff has an adequate remedy in
18 copyright for its "look and feel" claim. See Apple Computer, Inc. v. Microsoft Corp., 35 F.3d 1435,
19 1446 (9th Cir. 1994); 4 Nimmer on Copyright § 13.03[A][1][c] (discussing the "total concept and feel"
test under substantial similarity).

20 ⁶ The cases cited by defendant are also distinguishable because they addressed claims for reverse
21 passing off under the Lanham Act, which is not at issue in this case.

22 ⁷ The determination of whether the Lanham Act is limited by copyright is a narrower inquiry than
23 the two-part test for preemption of state law claims under § 301 of the Copyright Act. The Lanham Act
24 limitation is aimed at whether copyright provides an "adequate remedy." There can be no "adequate
25 remedy" if the work cannot be copyrighted. As discussed below, however, a work may be unprotected
26 under § 102(b) of the Copyright Act and yet be within the subject matter of copyright for preemption
purposes under § 301. Although the Ninth Circuit has not addressed this issue, most circuits have held
that for preemption, the "scope of the Copyright Act's subject matter is broader than the scope of the
Act's protections." See Wrench LLC v. Taco Bell Corp., 256 F.3d 446, 455 (6th Cir. 2001).

1 the presumption that Fed. R. Civ. P. 12(b)(6) motions should rarely be granted, especially when
2 the claim involves a novel legal theory. See McGary v. City of Portland, 386 F.3d 1259, 1270
3 (9th Cir. 2004) (“Rule 12(b)(6) dismissals are especially disfavored in cases where the complaint
4 sets forth a novel legal theory that can best be assessed after factual development” and “the court
5 should be especially reluctant to dismiss on the basis of the pleadings when the asserted theory
6 of liability is novel or extreme, since it is important that new legal theories be explored and
7 assayed in the light of actual facts rather than a pleader’s suppositions.”) (internal citations
8 omitted); Hall v. City of Santa Barbara, 833 F.2d 1270, 1274 (9th Cir. 1986) (“It is axiomatic
9 that the motion to dismiss for failure to state a claim is viewed with disfavor and is rarely
10 granted.”) (internal quotation and citation omitted).

11 Here, plaintiff seeks protection for the “look and feel” of its website under the Lanham
12 Act. This is a novel legal theory as evidenced by plaintiff’s resort to two unpublished district
13 court cases to support its trade dress claim and the Court’s survey of recent scholarship
14 regarding protection for the “look and feel” of websites.⁸ See Response at 4-5, citing Peri Hall

15
16 ⁸ As a novel theory legal, there are more articles supporting trade dress protection for the “look
17 and feel” of websites than there are published cases deciding the merits of this theory. See G. Peter
18 Albert, Jr. & Laff, Whitesel & Saret, Ltd., Intellectual Property Law in Cyberspace 198-99 (1999 &
19 Supp. 2005) (“One of the next conflicts to arise between the Internet and trademark law is likely to be the
20 question of whether a Web page contains elements protectable as trade dress. . . . Trade dress protection
21 of Web pages has yet to be the central issue in an infringement claim.”); Xuan-Thao N. Nguyen, Should
22 It Be a Free For All? The Challenge of Extending Trade Dress Protection to the Look and Feel of Web
23 Sites in the Evolving Internet, 49 Am. U.L. Rev. 1233, 1276-77 (2000) (“The purpose of Section 43(a)
24 of the Lanham Act is to protect consumers from being deceived as to the source of a product or service.
25 To fulfill that purpose, it is logical to extend trade dress protection to the overall look and feel of web
26 sites that are inherently distinctive or have acquired secondary meaning and are non-functional.”); Jason
R. Berne, Comment, Court Intervention But Not In a Classic Form: A Survey of Remedies in Internet
Trademark Cases, 43 St. Louis L.J. 1157, 1172 (1999) (“One as yet barely broached area of Internet
trademark litigation involves trade dress of a website. In such a case, a plaintiff may claim that the
defendant has in some way infringed on the ‘total image and overall appearance’ of a site, rather than one
single trademark. Although no cases of trade dress infringement of a website have been reported, at least
one claim has been filed on this basis.”).

1 & Assoc., Inc. v. Elliot Inst. for Soc. Sci. Research, 2006 U.S. Dist. Lexis 26234, at *2 (W.D.
2 Mo. Mar. 20, 2006); Faegre & Benson LLP v. Purdy, 2004 U.S. Dist. Lexis 896, at *2 (D. Minn.
3 Jan. 5, 2004). Accordingly, the Court concludes that factual development of plaintiff's novel
4 trade dress theory is necessary before the Court will consider conclusive disposition of this
5 claim. Defendant's motion to dismiss plaintiff's trade dress claim is therefore denied.

6 **2. Plaintiff's State Law Claims**

7 Defendant also moves for dismissal of plaintiff's state law claims for: (1) violation of the
8 Washington CPA; (2) unfair competition; and (3) unjust enrichment and restitution based on §
9 301(a) of the Copyright Act, which states:

10 On and after January 1, 1978, all legal or equitable rights that are equivalent to any
11 of the exclusive rights within the general scope of copyright as specified by
12 section 106 in works of authorship that are fixed in tangible medium of expression
13 and come within the subject matter of copyright as specified by sections 102 and
14 103 and, whether created before or after that date and whether published or
15 unpublished, are governed exclusively by this title. Thereafter, no person is
16 entitled to any such right or equivalent right in any such work under the common
17 law or statutes of any State.

18 Under this section, “[c]opyright preemption is both explicit and broad[.]” G.S.
19 Rasmussen & Assoc., Inc. v. Kalitta Flying Serv., Inc., 958 F.2d 896, 904 (9th Cir. 1992). The
20 Ninth Circuit utilizes a two-part test to determine whether a state law claim is preempted. A
21 claim is preempted if: (1) the work at issue comes within the subject matter of copyright as
22 described in 17 U.S.C. §§ 102 and 103; and (2) the rights granted under the state law are
23 equivalent to the rights contained in 17 U.S.C. § 106. See Laws v. Sony Music Entm't, Inc., 448
24 F.3d 1134, 1137-38 (9th Cir. 2006).

25 **a. Subject Matter of Copyright**

26 Under the first part of the preemption test in this case, the Court must determine whether
the “look and feel” of plaintiff's website is within the subject matter of copyright. Portions of
plaintiff's website, including “Diamond Wire Frames, V 1”; “Blue Nile Diamond Search (Public
Beta Version) - Sliders Section”; “Blue Nile Diamond Search with Vertical Sliders (Public Beta

1 Version”); and “Blue Nile Diamond Search (Public Beta Version) - ‘How to Narrow Your
2 Search’ Section” are within the subject matter of copyright because plaintiff alleges it has
3 registered copyrights in these elements of its websites. See Dkt. #3; Exhibits A & B. Despite
4 this fact, plaintiff asserts that its state law claims are not preempted, because like its Lanham Act
5 claim, the state law claims at issue relate to the “look and feel” its website. See Response at 9
6 (“Blue Nile’s state law claims, like its trade dress claim, address Ice.com’s efforts to unfairly
7 and unlawfully profit from the success of Blue Nile’s industry-leading website. This is not a
8 matter within the subject of copyright, supra, Part II.A, and is therefore not preempted under the
9 Copyright Act.”). This assertion, however, is contrary to the allegations of the state law claims
10 that expressly include the copyright claim allegations. Paragraphs 33 - 50 of plaintiff’s first
11 amended complaint contain the copyright causes of action. Plaintiff’s claims for violation of the
12 Washington CPA, unfair competition, and unjust enrichment and restitution all incorporate these
13 paragraphs by reference. See Dkt. #3 (¶57 “Blue Nile realleges and incorporates by reference
14 the allegations in paragraphs 1 through 56 above as if fully set forth herein”; ¶61 “Blue Nile
15 realleges and incorporates by reference the allegations in paragraphs 1 though 60 above as if
16 fully set forth herein”; ¶75 “Blue Nile realleges and incorporates by reference the allegations in
17 paragraphs 1 through 74 above as if fully set forth herein.”). Plaintiff cannot both expressly rely
18 on the copyright allegations in all of its state law claims and assert that the state law claims are
19 outside copyright’s subject matter for purposes of avoiding preemption.

20 Plaintiff also argues that “[t]his is not a matter within the subject matter of copyright”
21 because a website’s “look and feel” is not among the enumerated works in 17 U.S.C. § 102(a).
22 See Response at 4, 9. This argument is neither persuasive nor dispositive, however, because
23 computer programs for example, are not identified in the eight categories of works listed in §
24 102(a) and yet the Ninth Circuit has held that they are within the subject matter of copyright.
25 See Johnson Controls, Inc., 886 F.2d at 1175 (“Computer software is subject to copyright

1 protection.”);1 Nimmer on Copyright § 2.04[C] (stating that the legislative history of the
2 Copyright Act itself shows that computer programs are within the subject matter of copyright
3 and that subsequent amendments to the Act dispelled any “lingering doubts as to the
4 copyrightability of computer programs”).

5 Finally, plaintiff suggests that its state law claims should not be preempted because
6 defendant Odimo asserted in its ninth affirmative defense and second counterclaim that the
7 subject matter of plaintiff’s copyright registrations is excluded from copyright protection. In
8 making these assertions, however, defendant Odimo relied on § 102(b) of the Copyright Act,
9 which states: “[i]n no case does copyright protection for an original work of authorship extend
10 to any idea, procedure, process, system, method of operation, concept, principle, or discovery,
11 regardless of the form in which it is described, explained, illustrated or embodied in such a
12 work.” Even if, as defendant Odimo asserts, plaintiff’s website or elements thereof are
13 unprotected under § 102(b), this does not mean that the website is outside copyright’s subject
14 matter for the preemption purposes under § 301.

15 Although the Ninth Circuit has not addressed the issue of whether a website’s “look and
16 feel” is protected under § 102, other circuits have held that a work may be unprotected by
17 copyright under § 102(b) and yet be within copyright’s subject matter for preemption purposes.
18 See Wrench LLC, 256 F.3d at 455 (“the scope of the Copyright Act’s subject matter extends
19 beyond the tangible expressions that can be protected under the Act to elements of expression
20 which themselves cannot be protected.”). And, at least one district court in this Circuit has
21 concluded that a claim based on an unprotected work under § 102(b) may still be preempted:

22 When read together, subsections (a) and (b) of § 102 define what works fall
23 within the subject matter of copyright. However, only works that meet the
24 criteria articulated by subsection (a) are entitled to copyright protection.
25 Therefore, an item listed in subsection (b), such as an idea, procedure, process,
26 etc., does not receive copyright protection but is nevertheless within the subject
matter of copyright for purposes of preemption.

Selby v. New Line Cinema Corp., 96 F. Supp. 2d 1053, 1058 (C.D. Cal. 2000) (relying on U.S.

1 Ex Rel. Berge v. Board of Trustees of Univ. of Ala., 104 F.3d 1453, 1463 (4th Cir. 1997) and 4
2 Nimmer on Copyright § 16.04[C]). Therefore, plaintiff's reference to defendant Odimo's ninth
3 affirmative defense and second amended counterclaim is not a sufficient justification to exempt
4 plaintiff's state law claims from preemption.

5 As alleged in its complaint, plaintiff's state law claims rest expressly on the same
6 allegations as its copyright claims and plaintiff has failed to justify how the state law claims at
7 issue are exempt from the reach of § 301. Accordingly, for the limited purpose of preemption
8 analysis under § 301, the Court concludes that the "look and feel" of plaintiff's website is within
9 the subject matter of copyright. Having made this determination, the Court must next determine
10 whether the rights granted under the state laws forming the basis of plaintiff's claims are
11 equivalent to the rights contained in 17 U.S.C. § 106.

12 **b. Equivalent Rights**

13 Under the second, or "equivalent rights" part the Ninth Circuit's two-part test,
14 the state law claim must contain an "extra element" in order to survive preemption:

15 To satisfy the "equivalent rights" part of the preemption test . . . the . . . alleged
16 misappropriation . . . must be equivalent to rights within the general scope of
17 copyright as specified by section 106 of the Copyright Act. Section 106 provides
18 a copyright owner with the exclusive rights of reproduction, preparation of
19 derivative works, distribution, and display. 17 U.S.C. § 106. To survive
20 preemption, the state cause of action must protect rights which are qualitatively
21 different from the copyright rights. The state claim must have an "extra element"
22 which changes the nature of the action.

19 Del Madera Props. v. Rhodes & Gardner, Inc., 820 F.2d 973, 977 (9th Cir. 1987) (internal
20 citation omitted) (overruled on other grounds). The three state law claims subject to preemption
21 are analyzed individually under this framework below.

22 **1. Washington Consumer Protection Act Claim**

23 Defendant argues that plaintiff's fourth cause of action for violation of Washington's
24 CPA is preempted "because there are no 'extra elements' of CPA claims that 'makes the right
25 asserted qualitatively different from the rights protected under the Copyright Act.'" See Motion

26 ORDER GRANTING IN PART AND DENYING
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1 at 5 (citation omitted). Plaintiff's CPA claim contains no distinct factual allegations. It simply
2 includes the "foregoing acts of Defendants" and "incorporates by reference the allegations" set
3 forth earlier in the amended complaint as constituting the violation of RCW 19.86 et seq. See
4 Dkt. #3 at 11. The allegations and claims expressly incorporated by reference into the CPA
5 claim include paragraphs 33 through 50, which set forth plaintiff's copyright claims.

6 In Kodadek v. MTV Networks, Inc., 152 F.3d 1209 (9th Cir. 1998), plaintiff filed a
7 complaint alleging causes of action for copyright infringement and unfair competition.
8 Plaintiff's unfair competition claim was dismissed on summary judgment as preempted by the
9 Copyright Act. The unfair competition claim "incorporate[d] by reference paragraphs from the
10 copyright infringement claim." Id. at 1212. For this reason, the Ninth Circuit affirmed
11 dismissal of the unfair competition claim because it explicitly relied on the same allegations as
12 the copyright claim, and held:

13 Kodadek's complaint expressly bases his unfair competition claim on rights
14 granted by the Copyright Act. The Copyright Act grants rights "to reproduce the
15 copyrighted work in copies," "to prepare derivative works based upon the
16 copyrighted work," "to distribute copies to . . . to the public," and "to display the
17 copyrighted work publically." 17 U.S.C. § 106, Del Madera Properties v. Rhodes
18 & Gardner, Inc., 820 F.2d 973, 977 (9th Cir. 1987) (overruled on other grounds).
19 Thus, it is clear that Kodadek's state law unfair competition claim is based solely
20 on rights equivalent to those protected by the federal copyright laws.

21 Id. at 1213 (emphasis added). It is the same here. Based on Kodadek's holding,
22 plaintiff's CPA claim is preempted because it incorporates the copyright claims by reference and
23 is therefore based on rights equivalent to those protected by copyright.

24 The CPA claim is also preempted because despite plaintiff's assertion in its response that
25 the claim contains "essential elements of deception, misrepresentation, and public interest
26 impact," this does not change the underlying nature of the action in this case. See Response at
27 7; Laws, 448 F.3d at 1144 ("The mere presence of an additional element ('commercial use') in
28 section 3344 is not enough to qualitatively distinguish Laws's right of publicity claim from a

1 claim in copyright. The extra element must transform the nature of the action.) (emphasis
2 added). The gravamen of the action here is plaintiff's claim that defendants copied portions of
3 plaintiff's website. See Dkt. #3 at 1, ¶1 ("This action arises from Ice.com, Inc.'s and Odimo
4 Inc.'s knowing, willful and intentional copying of protected elements of Blue Nile's website.").
5 Under § 106(1) of the Copyright Act, a copyright owner has the exclusive right "to reproduce
6 the copyrighted work." Therefore, while the elements of plaintiff's CPA claim may not be
7 identical to the copyright claims, "the underlying nature of [Blue Nile's] state law claims is part
8 and parcel of a copyright claim" for preemption purposes, and the Court finds that the additional
9 allegations of "deception, misrepresentation, and public impact" do "not change the underlying
10 nature of the action" of the CPA claim. See Laws, 448 F.3d at 1144. Accordingly, plaintiff's
11 claim for violation of the Washington CPA is preempted and dismissed without prejudice with
12 leave to amend.⁹

13 2. Unfair Competition Claim

14 Plaintiff's claim for unfair competition is preempted for the reasons set forth above in
15 section II.B.2(b)(1) justifying dismissal of the CPA claim. Plaintiff's cause of action for unfair
16 competition simply alleges: "The foregoing acts of Defendants constitute unfair competition in
17 violation of the common law of the State of Washington." Dkt. #3 at ¶62. Paragraph 61 of the
18 claim, however, also incorporates by reference all of the complaint's prior allegations and
19 claims, including the allegations supporting the two claims for copyright infringement in
20 paragraphs 33 - 50. Under Kodadek, 152 F.3d at 1213, plaintiff's unfair competition claim is
21 dismissed as preempted because by incorporating the copyright claims by reference, the unfair
22

23 ⁹ Defendant did not move for dismissal with prejudice. Furthermore, "[i]n dismissing for failure
24 to state a claim, 'a district court should grant leave to amend even if no request to amend the pleading
25 was made, unless it determines that the pleading could not possibly be cured by the allegation of other
26 facts.'" Doe v. United States, 58 F.3d 494, 497 (9th Cir. 1995) (quoting Cook, Perkiss & Liehe v. N.
Cal. Collection Serv., 911 F.2d 242, 247 (9th Cir. 1990)).

1 competition claim is based on rights equivalent to those protected by copyright. See also
2 Litchfield v. Spielberg, 736 F.2d 1352, 1358 (9th Cir. 1984) (holding that because the unfair
3 competition and misrepresentation claims are “restatements of the copyright infringement
4 claims, they are preempted by federal copyright law”). Furthermore, like plaintiff’s CPA claim,
5 the underlying nature of plaintiff’s unfair competition claim “is part and parcel of a copyright
6 claim.” Laws, 448 F.3d at 1144. For these reasons, plaintiff’s unfair competition claim is
7 dismissed without prejudice with leave to amend.

8 **3. Unjust Enrichment and Restitution Claim**

9 Plaintiff’s eighth cause of action for unjust enrichment and restitution is also preempted
10 for the reasons set forth above in section II.B.2(b)(1) justifying dismissal of the CPA claim.
11 Plaintiff’s claim simply states: “Through the improper conduct of the Defendants, the
12 Defendants obtained profits to which they were not entitled. It would be unjust for the
13 Defendants to retain those ill-gotten gains.” See Dkt. #3, ¶76. Paragraph 75 of the claim,
14 however, also incorporates by reference all of the complaint’s prior allegations and claims,
15 including the allegations supporting the two claims for copyright infringement in paragraphs in
16 paragraphs 33 - 50. Based on Kodadek’s holding, plaintiff’s unjust enrichment and restitution
17 claim is dismissed as preempted because by incorporating the copyright claims by reference, the
18 eighth cause of action is based on rights equivalent to those protected by copyright.
19 Furthermore, the underlying nature of plaintiff’s unjust enrichment claim “is part and parcel of a
20 copyright claim” like plaintiff’s CPA claim. Laws, 448 F.3d at 1144. Finally, the Court finds
21 the reasoning of this Circuit’s prior decisions preempting unjust enrichment claims controlling
22 and persuasive. See Del Madera, 820 F.2d at 977 (preempting unjust enrichment claim);
23 Firoozye v. Earthlink Network, 153 F. Supp. 2d 1115, 1128 (N.D. Cal. 2001) (dismissing unjust
24 enrichment claim without prejudice on a 12(b)(6) motion because “plaintiff’s unjust enrichment
25 claim, which at its core alleges that the defendants unfairly benefitted from their unauthorized

1 use of WebStash, is equivalent to the rights protected in section 106 of the Copyright Act and is
2 therefore preempted.”); Zito v. Steeplechase Films, Inc., 267 F. Supp. 2d 1022, 1027 (N.D. Cal.
3 2003) (dismissing claim on a 12(b)(6) motion because “[w]hile a claim for unjust enrichment
4 may require proof that a benefit was conferred on the defendant, where the unjust enrichment
5 arises from defendants’ unauthorized use of a copyrighted work, such an extra element does not
6 qualitatively change the rights at issue, the rights the plaintiff holds in the copyrighted work, and
7 does not avoid preemption.”). For all of these reasons, plaintiff’s claim for unjust enrichment
8 and restitution is dismissed without prejudice with leave to amend.

9 **4. Contract Rights**

10 As a final matter, plaintiff asserts that its state law claims for violation of the Washington
11 CPA, unfair competition, and unjust enrichment and restitution, “are not preempted for the
12 additional or alternate reason that they also relate to contract rights, especially the right of good
13 faith and fair dealing, arising under the prior settlement agreement over Diamond.com.” See
14 Response at 8. Plaintiff states that “[i]t is well established that contractual rights are not
15 equivalent to rights protected by the Copyright Act,” citing Grosso v. Miramax Film Corp., 383
16 F.3d 965, 968 (9th Cir. 2004), and Altera, 424 F.3d at 1089.

17 In Grosso, the state claim subject to preemption, however, was itself a contract claim.
18 See Grosso, 383 F.3d at 968 (“Therefore, his claim for breach of an implied-in-fact contract is
19 not preempted by the Copyright Act, because it alleges an extra element that transforms the
20 action from one arising under the ambit of the federal statute to one sounding in contract.”). In
21 Altera, the court relied on the Seventh Circuit’s reasoning in ProCD, Inc. v. Zeidenberg, 86 F.3d
22 1447 (7th Cir. 1996) as “compelling” in affirming the district court’s ruling rejecting preemption
23 of plaintiff’s state cause of action for intentional interference of a contractual relationship. Id. at
24 1089-90. The court in ProCD noted that “courts usually read preemption clauses to leave
25 private contracts unaffected” in reaching its holding that “a simple two-party contract is not

1 'equivalent to any of the exclusive rights within the general scope of copyright' and therefore
2 may be enforced." ProCD, Inc., 86 F.3d at 1454-55.

3 The Altera decision is distinguishable because the parties in the case were not in privity.
4 Instead, Altera's claims were based on its contract with its customers, not a contract with
5 defendant Clear Logic. In contrast here, plaintiff and defendants are parties to a Settlement
6 Agreement and plaintiff is seeking to enforce its rights under this contract through its sixth and
7 seventh causes of action for breach of contract and breach of the implied covenant of good faith
8 and fair dealing. Both of these claims expressly rely on the parties' Settlement Agreement. In
9 contrast, there is no reference to the Settlement Agreement in the body of plaintiff's claims for
10 violation of the Washington CPA, unfair competition, and unjust enrichment and restitution.
11 This case is also distinguishable from Grosso, because here the breach of contract claim is not
12 subject to preemption. To the contrary, defendant did not move for dismissal of the contract
13 claim or the claim for breach of the implied covenant of good faith and fair dealing. Therefore,
14 the Court's dismissal of the state law claims at issue accords with the holding of ProCD because
15 the Court is leaving enforcement of the parties' private contract unaffected because the claims
16 for breach of contract and breach of the implied covenant remain part of the litigation. See
17 ProCD, 86 F.3d at 1454.

18 III. CONCLUSION

19 For all of the foregoing reasons, "Defendant Ice.com's Motion to Dismiss Claims
20 Preempted by the Copyright Act" (Dkt. #24) is GRANTED IN PART and DENIED IN PART.
21 Defendant's motion to dismiss plaintiff's third cause of action for trade dress infringement under
22 15 U.S.C. § 1125(a) is DENIED. Defendant's motion to dismiss plaintiff's fourth cause of
23 action for violation of the Washington CPA, plaintiff's fifth cause of action for unfair
24 competition, and plaintiff's eighth cause of action for unjust enrichment and restitution without
25 prejudice is GRANTED with leave to amend.

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1 DATED this 18th day of January, 2007.

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4 Robert S. Lasnik
5 United States District Judge
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26 ORDER GRANTING IN PART AND DENYING
IN PART DEFENDANT ICE.COM'S
MOTION TO DISMISS

08-3947-cv
Tiffany (NJ) Inc. v. eBay Inc.

1 UNITED STATES COURT OF APPEALS
2 FOR THE SECOND CIRCUIT

3 August Term, 2008

4 (Argued: July 16, 2009 Decided: April 1, 2010)

5 Docket No. 08-3947-cv

6 -----
7 TIFFANY (NJ) INC. and TIFFANY and COMPANY,
8 Plaintiffs-Appellants,

9 - v. -

10 eBay Inc.,

11 Defendant-Appellee.
12 -----

13 Before: SACK and B.D. PARKER, Circuit Judges, and Goldberg,
14 Judge.*

15
16 Appeal from a judgment of the United States District
17 Court for the Southern District of New York. The district court
18 (Richard J. Sullivan, Judge) concluded, inter alia, that eBay --
19 the proprietor of a website through which counterfeit Tiffany
20 merchandise was sold -- did not, on the facts presented, engage
21 in trademark infringement, false advertising, or trademark
22 dilution. We affirm the judgment with respect to Tiffany's
23 claims of trademark infringement and dilution, but remand for
24 further proceedings with respect to Tiffany's claim of false
25 advertising.

* The Honorable Richard W. Goldberg, Senior Judge, United States Court of International Trade, sitting by designation.

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1 SACK, Circuit Judge:

2 eBay, Inc. ("eBay"), through its eponymous online
3 marketplace, has revolutionized the online sale of goods,
4 especially used goods. It has facilitated the buying and selling
5 by hundreds of millions of people and entities, to their benefit
6 and eBay's profit. But that marketplace is sometimes employed by
7 users as a means to perpetrate fraud by selling counterfeit
8 goods.

9 Plaintiffs Tiffany (NJ) Inc. and Tiffany and Company
10 (together, "Tiffany") have created and cultivated a brand of
11 jewelry bespeaking high-end quality and style. Based on
12 Tiffany's concern that some use eBay's website to sell
13 counterfeit Tiffany merchandise, Tiffany has instituted this
14 action against eBay, asserting various causes of action --
15 sounding in trademark infringement, trademark dilution and false
16 advertising -- arising from eBay's advertising and listing
17 practices. For the reasons set forth below, we affirm the
18 district court's judgment with respect to Tiffany's claims of
19 trademark infringement and dilution but remand for further
20 proceedings with respect to Tiffany's false advertising claim.

21 **BACKGROUND**

22 By opinion dated July 14, 2008, following a week-long
23 bench trial, the United States District Court for the Southern
24 District of New York (Richard J. Sullivan, Judge) set forth its
25 findings of fact and conclusions of law. Tiffany (NJ) Inc. v.
26 eBay, Inc., 576 F. Supp. 2d 463 (S.D.N.Y. 2008) ("Tiffany").

1 When reviewing a judgment following a bench trial in the district
2 court, we review the court's findings of fact for clear error and
3 its conclusions of law de novo. Giordano v. Thomson, 564 F.3d
4 163, 168 (2d Cir. 2009). Except where noted otherwise, we
5 conclude that the district court's findings of fact are not
6 clearly erroneous. We therefore rely upon those non-erroneous
7 findings in setting forth the facts of, and considering, this
8 dispute.

9 eBay

10 eBay¹ is the proprietor of www.ebay.com, an Internet-
11 based marketplace that allows those who register with it to
12 purchase goods from and sell goods to one another. It
13 "connect[s] buyers and sellers and [] enable[s] transactions,
14 which are carried out directly between eBay members." Tiffany,
15 576 F. Supp. 2d at 475.² In its auction and listing services, it
16 "provides the venue for the sale [of goods] and support for the
17 transaction[s], [but] it does not itself sell the items" listed
18 for sale on the site, id. at 475, nor does it ever take physical

¹ eBay appears to be short for Echo Bay -- the name of eBay's founder's consulting firm was Echo Bay Technology Group. The name "EchoBay" was already in use, so eBay was employed as the name for the website. See http://en.wikipedia.org/wiki/EBay#Origins_and_history (last visited Feb. 26, 2010); <http://news.softpedia.com/news/eBay-Turns-Ten-Happy-Birthday-7502.shtml> (last visited Feb. 26, 2010).

² In addition to providing auction-style and fixed-priced listings, eBay is also the proprietor of a traditional classified service. Id. at 474.

1 possession of them, id. Thus, "eBay generally does not know
2 whether or when an item is delivered to the buyer." Id.

3 eBay has been enormously successful. More than six
4 million new listings are posted on its site daily. Id. At any
5 given time it contains some 100 million listings. Id.

6 eBay generates revenue by charging sellers to use its
7 listing services. For any listing, it charges an "insertion fee"
8 based on the auction's starting price for the goods being sold
9 and ranges from \$0.20 to \$4.80. Id. For any completed sale, it
10 charges a "final value fee" that ranges from 5.25% to 10% of the
11 final sale price of the item. Id. Sellers have the option of
12 purchasing, at additional cost, features "to differentiate their
13 listings, such as a border or bold-faced type." Id.

14 eBay also generates revenue through a company named
15 PayPal, which it owns and which allows users to process their
16 purchases. PayPal deducts, as a fee for each transaction that it
17 processes, 1.9% to 2.9% of the transaction amount, plus \$0.30.
18 Id. This gives eBay an added incentive to increase both the
19 volume and the price of the goods sold on its website. Id.

20 Tiffany

21 Tiffany is a world-famous purveyor of, among other
22 things, branded jewelry. Id. at 471-72. Since 2000, all new
23 Tiffany jewelry sold in the United States has been available
24 exclusively through Tiffany's retail stores, catalogs, and
25 website, and through its Corporate Sales Department. Id. at 472-
26 73. It does not use liquidators, sell overstock merchandise, or

1 put its goods on sale at discounted prices. Id. at 473. It does
2 not -- nor can it, for that matter -- control the "legitimate
3 secondary market in authentic Tiffany silvery jewelry," i.e., the
4 market for second-hand Tiffany wares. Id. at 473. The record
5 developed at trial "offere[d] little basis from which to discern
6 the actual availability of authentic Tiffany silver jewelry in
7 the secondary market." Id. at 474.

8 Sometime before 2004, Tiffany became aware that
9 counterfeit Tiffany merchandise was being sold on eBay's site.
10 Prior to and during the course of this litigation, Tiffany
11 conducted two surveys known as "Buying Programs," one in 2004 and
12 another in 2005, in an attempt to assess the extent of this
13 practice. Under those programs, Tiffany bought various items on
14 eBay and then inspected and evaluated them to determine how many
15 were counterfeit. Id. at 485. Tiffany found that 73.1% of the
16 purported Tiffany goods purchased in the 2004 Buying Program and
17 75.5% of those purchased in the 2005 Buying Program were
18 counterfeit. Id. The district court concluded, however, that
19 the Buying Programs were "methodologically flawed and of
20 questionable value," id. at 512, and "provide[d] limited evidence
21 as to the total percentage of counterfeit goods available on eBay
22 at any given time," id. at 486. The court nonetheless decided
23 that during the period in which the Buying Programs were in
24 effect, a "significant portion of the 'Tiffany' sterling silver
25 jewelry listed on the eBay website . . . was counterfeit," id.,
26 and that eBay knew "that some portion of the Tiffany goods sold

1 on its website might be counterfeit," id. at 507. The court
2 found, however, that "a substantial number of authentic Tiffany
3 goods are [also] sold on eBay." Id. at 509.

4 Reducing or eliminating the sale of all second-hand
5 Tiffany goods, including genuine Tiffany pieces, through eBay's
6 website would benefit Tiffany in at least one sense: It would
7 diminish the competition in the market for genuine Tiffany
8 merchandise. See id. at 510 n.36 (noting that "there is at least
9 some basis in the record for eBay's assertion that one of
10 Tiffany's goals in pursuing this litigation is to shut down the
11 legitimate secondary market in authentic Tiffany goods"). The
12 immediate effect would be loss of revenue to eBay, even though
13 there might be a countervailing gain by eBay resulting from
14 increased consumer confidence about the bona fides of other goods
15 sold through its website.

16 Anti-Counterfeiting Measures

17 Because eBay facilitates many sales of Tiffany goods,
18 genuine and otherwise, and obtains revenue on every transaction,
19 it generates substantial revenues from the sale of purported
20 Tiffany goods, some of which are counterfeit. "eBay's Jewelry &
21 Watches category manager estimated that, between April 2000 and
22 June 2004, eBay earned \$4.1 million in revenue from completed
23 listings with 'Tiffany' in the listing title in the Jewelry &
24 Watches category." Id. at 481. Although eBay was generating
25 revenue from all sales of goods on its site, including
26 counterfeit goods, the district court found eBay to have "an

1 interest in eliminating counterfeit Tiffany merchandise from
2 eBay . . . to preserve the reputation of its website as a safe
3 place to do business." Id. at 469. The buyer of fake Tiffany
4 goods might, if and when the forgery was detected, fault eBay.
5 Indeed, the district court found that "buyers . . . complain[ed]
6 to eBay" about the sale of counterfeit Tiffany goods. Id. at
7 487. "[D]uring the last six weeks of 2004, 125 consumers
8 complained to eBay about purchasing 'Tiffany' items through the
9 eBay website that they believed to be counterfeit." Id.

10 Because eBay "never saw or inspected the merchandise in
11 the listings," its ability to determine whether a particular
12 listing was for counterfeit goods was limited. Id. at 477-78.
13 Even had it been able to inspect the goods, moreover, in many
14 instances it likely would not have had the expertise to determine
15 whether they were counterfeit. Id. at 472 n.7 ("[I]n many
16 instances, determining whether an item is counterfeit will
17 require a physical inspection of the item, and some degree of
18 expertise on the part of the examiner.").

19 Notwithstanding these limitations, eBay spent "as much
20 as \$20 million each year on tools to promote trust and safety on
21 its website." Id. at 476. For example, eBay and PayPal set up
22 "buyer protection programs," under which, in certain
23 circumstances, the buyer would be reimbursed for the cost of
24 items purchased on eBay that were discovered not to be genuine.
25 Id. at 479. eBay also established a "Trust and Safety"
26 department, with some 4,000 employees "devoted to trust and

1 safety" issues, including over 200 who "focus exclusively on
2 combating infringement" and 70 who "work exclusively with law
3 enforcement." Id. at 476.

4 By May 2002, eBay had implemented a "fraud engine,"
5 "which is principally dedicated to ferreting out illegal
6 listings, including counterfeit listings." Id. at 477. eBay had
7 theretofore employed manual searches for keywords in listings in
8 an effort to "identify blatant instances of potentially
9 infringing ... activity." Id. "The fraud engine uses rules and
10 complex models that automatically search for activity that
11 violates eBay policies." Id. In addition to identifying items
12 actually advertised as counterfeit, the engine also incorporates
13 various filters designed to screen out less-obvious instances of
14 counterfeiting using "data elements designed to evaluate listings
15 based on, for example, the seller's Internet protocol address,
16 any issues associated with the seller's account on eBay, and the
17 feedback the seller has received from other eBay users." Id. In
18 addition to general filters, the fraud engine incorporates
19 "Tiffany-specific filters," including "approximately 90 different
20 keywords" designed to help distinguish between genuine and
21 counterfeit Tiffany goods. Id. at 491. During the period in
22 dispute,³ eBay also "periodically conducted [manual] reviews of

³ In its findings, the district court often used the past tense to describe eBay's anticounterfeiting efforts. We do not take this usage to suggest that eBay has discontinued these efforts, but only to emphasize that its findings are issued with respect to a particular period of time prior to the completion of trial and issuance of its decision.

1 listings in an effort to remove those that might be selling
2 counterfeit goods, including Tiffany goods." Id.

3 For nearly a decade, including the period at issue,
4 eBay has also maintained and administered the "Verified Rights
5 Owner ('VeRO') Program" -- a "'notice-and-takedown' system"
6 allowing owners of intellectual property rights, including
7 Tiffany, to "report to eBay any listing offering potentially
8 infringing items, so that eBay could remove such reported
9 listings." Id. at 478. Any such rights-holder with a
10 "good-faith belief that [a particular listed] item infringed on a
11 copyright or a trademark" could report the item to eBay, using a
12 "Notice Of Claimed Infringement form or NOCI form." Id. During
13 the period under consideration, eBay's practice was to remove
14 reported listings within twenty-four hours of receiving a NOCI,
15 but eBay in fact deleted seventy to eighty percent of them within
16 twelve hours of notification. Id.

17 On receipt of a NOCI, if the auction or sale had not
18 ended, eBay would, in addition to removing the listing, cancel
19 the bids and inform the seller of the reason for the
20 cancellation. If bidding had ended, eBay would retroactively
21 cancel the transaction. Id. In the event of a cancelled
22 auction, eBay would refund the fees it had been paid in
23 connection with the auction. Id. at 478-79.

24 In some circumstances, eBay would reimburse the buyer
25 for the cost of a purchased item, provided the buyer presented

1 evidence that the purchased item was counterfeit. Id. at 479.⁴
2 During the relevant time period, the district court found, eBay
3 "never refused to remove a reported Tiffany listing, acted in
4 good faith in responding to Tiffany's NOCIs, and always provided
5 Tiffany with the seller's contact information." Id. at 488.

6 In addition, eBay has allowed rights owners such as
7 Tiffany to create an "About Me" webpage on eBay's website "to
8 inform eBay users about their products, intellectual property
9 rights, and legal positions." Id. at 479. eBay does not
10 exercise control over the content of those pages in a manner
11 material to the issues before us.

12 Tiffany, not eBay, maintains the Tiffany "About Me"
13 page. With the headline "**BUYER BEWARE,**" the page begins: "**Most**
14 **of the purported TIFFANY & CO. silver jewelry and packaging**
15 **available on eBay is counterfeit.**" Pl.'s Ex. 290 (bold face type
16 in original). It also says, inter alia:

17 The only way you can be certain that you are
18 purchasing a genuine TIFFANY & CO. product is
19 to purchase it from a Tiffany & Co. retail
20 store, via our website (www.tiffany.com) or
21 through a Tiffany & Co. catalogue. Tiffany &
22 Co. stores do not authenticate merchandise.
23 A good jeweler or appraiser may be able to do
24 this for you.

25 Id.

⁴ We note, however, that, Tiffany's "About Me" page on the eBay website states that Tiffany does not authenticate merchandise. Pl.'s Ex. 290.

Thus, it may be difficult for a purchaser to proffer evidence to eBay supporting a suspicion that the "Tiffany" merchandise he or she bought is counterfeit.

1 In 2003 or early 2004, eBay began to use "special
2 warning messages when a seller attempted to list a Tiffany item."
3 Tiffany, 576 F. Supp. 2d at 491. These messages "instructed the
4 seller to make sure that the item was authentic Tiffany
5 merchandise and informed the seller that eBay 'does not tolerate
6 the listing of replica, counterfeit, or otherwise unauthorized
7 items' and that violation of this policy 'could result in
8 suspension of [the seller's] account.'" Id. (alteration in
9 original). The messages also provided a link to Tiffany's "About
10 Me" page with its "buyer beware" disclaimer. Id. If the seller
11 "continued to list an item despite the warning, the listing was
12 flagged for review." Id.

13 In addition to cancelling particular suspicious
14 transactions, eBay has also suspended from its website "'hundreds
15 of thousands of sellers every year,' tens of thousands of whom
16 were suspected [of] having engaged in infringing conduct." Id.
17 at 489. eBay primarily employed a "'three strikes rule'" for
18 suspensions, but would suspend sellers after the first violation
19 if it was clear that "the seller 'listed a number of infringing
20 items,' and '[selling counterfeit merchandise] appears to be the
21 only thing they've come to eBay to do.'" Id. But if "a seller
22 listed a potentially infringing item but appeared overall to be a
23 legitimate seller, the 'infringing items [were] taken down, and
24 the seller [would] be sent a warning on the first offense and
25 given the educational information, [and] told that . . . if they

1 do this again, they will be suspended from eBay.'" Id.
2 (alterations in original).⁵

3 By late 2006, eBay had implemented additional anti-
4 fraud measures: delaying the ability of buyers to view listings
5 of certain brand names, including Tiffany's, for 6 to 12 hours so
6 as to give rights-holders such as Tiffany more time to review
7 those listings; developing the ability to assess the number of
8 items listed in a given listing; and restricting one-day and
9 three-day auctions and cross-border trading for some brand-name
10 items. Id. at 492.

11 The district court concluded that "eBay consistently
12 took steps to improve its technology and develop anti-fraud
13 measures as such measures became technologically feasible and
14 reasonably available." Id. at 493.

15 eBay's Advertising

16 At the same time that eBay was attempting to reduce the
17 sale of counterfeit items on its website, it actively sought to
18 promote sales of premium and branded jewelry, including Tiffany
19 merchandise, on its site. Id. at 479-80. Among other things,

⁵ According to the district court, "eBay took appropriate steps to warn and then to suspend sellers when eBay learned of potential trademark infringement under that seller's account." Tiffany, 576 F. Supp. 2d at 489. The district court concluded that it was understandable that eBay did not have a "hard-and-fast, one-strike rule" of suspending sellers because a NOCI "did not constitute a definitive finding that the listed item was counterfeit" and because "suspension was a very serious matter, particularly to those sellers who relied on eBay for their livelihoods." Id. The district court ultimately found eBay's policy to be "appropriate and effective in preventing sellers from returning to eBay and re-listing potentially counterfeit merchandise." Id.

1 eBay "advised its sellers to take advantage of the demand for
2 Tiffany merchandise as part of a broader effort to grow the
3 Jewelry & Watches category." Id. at 479. And prior to 2003,
4 eBay advertised the availability of Tiffany merchandise on its
5 site. eBay's advertisements trumpeted "Mother's Day Gifts!,"
6 Pl.'s Exs. 392, 1064, a "Fall FASHION BRAND BLOWOUT," Pl.'s Ex.
7 392, "Jewelry Best Sellers," id., "GREAT BRANDS, GREAT PRICES,"
8 Pl.'s Ex. 1064, or "Top Valentine's Deals," Pl.'s Ex. 392, among
9 other promotions. It encouraged the viewer to "GET THE FINER
10 THINGS." Pl.'s Ex. 392. These advertisements provided the
11 reader with hyperlinks, at least one of each of which was related
12 to Tiffany merchandise -- "Tiffany," "Tiffany & Co. under \$150,"
13 "Tiffany & Co," "Tiffany Rings," or "Tiffany & Co. under \$50."
14 Pl.'s Exs. 392, 1064.

15 eBay also purchased sponsored-link advertisements on
16 various search engines to promote the availability of Tiffany
17 items on its website. Tiffany, 576 F. Supp. 2d at 480. In one
18 such case, in the form of a printout of the results list from a
19 search on Yahoo! for "tiffany," the second sponsored link read
20 "**Tiffany** on eBay. Find **tiffany** items at low prices. With over 5
21 million items for sale every day, you'll find all kinds of unique
22 [unreadable] Marketplace. www.ebay.com." Pl.'s Ex. 1065 (bold
23 face type in original). Tiffany complained to eBay of the
24 practice in 2003, and eBay told Tiffany that it had ceased buying
25 sponsored links. Tiffany, 576 F. Supp. 2d at 480. The district

1 court found, however, that eBay continued to do so indirectly
2 through a third party. Id.

3 Procedural History

4 By amended complaint dated July 15, 2004, Tiffany
5 initiated this action. It alleged, inter alia, that eBay's
6 conduct -- i.e., facilitating and advertising the sale of
7 "Tiffany" goods that turned out to be counterfeit -- constituted
8 direct and contributory trademark infringement, trademark
9 dilution, and false advertising. On July 14, 2008, following a
10 bench trial, the district court, in a thorough and thoughtful
11 opinion, set forth its findings of fact and conclusions of law,
12 deciding in favor of eBay on all claims.

13 Tiffany appeals from the district court's judgment for
14 eBay.

15 **DISCUSSION**

16 We review the district court's findings of fact for
17 clear error and its conclusions of law de novo. Giordano v.
18 Thomson, 564 F.3d 163, 168 (2d Cir. 2009).

19 I. Direct Trademark Infringement

20 Tiffany alleges that eBay infringed its trademark in
21 violation of section 32 of the Lanham Act.⁶ The district court

⁶ That section states in pertinent part:

Any person who shall, without the consent of the registrant -- (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such

1 described this as a claim of "direct trademark infringement,"
2 Tiffany, 576 F. Supp. 2d at 493, and we adopt that terminology.
3 Under section 32, "the owner of a mark registered with the Patent
4 and Trademark Office can bring a civil action against a person
5 alleged to have used the mark without the owner's consent." ITC
6 Ltd. v. Punchgini, Inc., 482 F.3d 135, 145-46 (2d Cir.), cert.
7 denied, 552 U.S. 827 (2007). We analyze such a claim "under a
8 familiar two-prong test. The test looks first to whether the
9 plaintiff's mark is entitled to protection, and second to whether
10 the defendant's use of the mark is likely to cause consumers
11 confusion as to the origin or sponsorship of the defendant's
12 goods." Savin Corp. v. Savin Group, 391 F.3d 439, 456 (2d Cir.
13 2004) (alterations incorporated and ellipses omitted), cert.
14 denied, 546 U.S. 822 (2005).

15 In the district court, Tiffany argued that eBay had
16 directly infringed its mark by using it on eBay's website and by
17 purchasing sponsored links containing the mark on Google and
18 Yahoo! Tiffany, 576 F. Supp. 2d at 494. Tiffany also argued
19 that eBay and the sellers of the counterfeit goods using its site
20 were jointly and severally liable. Id. The district court

use is likely to cause confusion, or to cause
mistake, or to deceive; . . . shall be liable
in a civil action by the registrant for the
remedies hereinafter provided.

15 U.S.C. § 1114(1)(a). Tiffany's complaint asserts causes of
action under both the Lanham Act and New York State common law.
The claims are composed of the same elements. We therefore
analyze them together. See, e.g., Standard & Poor's Corp. v.
Commodity Exch., Inc., 683 F.2d 704, 708 (2d Cir. 1982).

1 rejected these arguments on the ground that eBay's use of
2 Tiffany's mark was protected by the doctrine of nominative fair
3 use. Id. at 494-95.

4 The doctrine of nominative fair use allows "[a]
5 defendant [to] use a plaintiff's trademark to identify the
6 plaintiff's goods so long as there is no likelihood of confusion
7 about the source of [the] defendant's product or the mark-
8 holder's sponsorship or affiliation." Merck & Co. v. Mediplan
9 Health Consulting, Inc., 425 F. Supp. 2d 402, 413 (S.D.N.Y.
10 2006). The doctrine apparently originated in the Court of
11 Appeals for the Ninth Circuit. See New Kids on the Block v. News
12 Am. Publ'g, Inc., 971 F.2d 302 (9th Cir. 1992). To fall within
13 the protection, according to that court: "First, the product or
14 service in question must be one not readily identifiable without
15 use of the trademark; second, only so much of the mark or marks
16 may be used as is reasonably necessary to identify the product or
17 service; and third, the user must do nothing that would, in
18 conjunction with the mark, suggest sponsorship or endorsement by
19 the trademark holder." Id. at 308.

20 The Court of Appeals for the Third Circuit has endorsed
21 these principles. See Century 21 Real Estate Corp. v.
22 Lendingtree, Inc., 425 F.3d 211, 222 (3d Cir. 2005).⁷ We have

⁷ The Third Circuit treats the doctrine as an affirmative defense, see Century 21, 425 F.3d at 217-32, while the Ninth Circuit views the doctrine as a modification to the likelihood-of-confusion analysis of the plaintiff's underlying infringement claim, see Playboy Enters. v. Welles, 279 F.3d 796, 801 (9th Cir. 2002).

1 referred to the doctrine, albeit without adopting or rejecting
2 it. See, e.g., Chambers v. Time Warner, Inc., 282 F.3d 147, 156
3 (2d Cir. 2002) (noting that the district court had "[a]ppl[ied]
4 the standard for non-trademark or 'nominative' fair use set forth
5 by the Ninth Circuit"). Other circuits have done similarly.
6 See, e.g., Univ. Commc'n Sys., Inc. v. Lycos, Inc., 478 F.3d 413,
7 424 (1st Cir. 2007); Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d
8 526, 547 (5th Cir. 1998), abrogated on other grounds by Traffix
9 Devices, Inc. v. Mktg. Displays, Inc., 532 U.S. 23 (2001).

10 We need not address the viability of the doctrine to
11 resolve Tiffany's claim, however. We have recognized that a
12 defendant may lawfully use a plaintiff's trademark where doing so
13 is necessary to describe the plaintiff's product and does not
14 imply a false affiliation or endorsement by the plaintiff of the
15 defendant. "While a trademark conveys an exclusive right to the
16 use of a mark in commerce in the area reserved, that right
17 generally does not prevent one who trades a branded product from
18 accurately describing it by its brand name, so long as the trader
19 does not create confusion by implying an affiliation with the
20 owner of the product." Dow Jones & Co. v. Int'l Sec. Exch.,
21 Inc., 451 F.3d 295, 308 (2d Cir. 2006); see also Polymer Tech.
22 Corp. V. Mimran, 975 F.2d 58, 61-62 (2d Cir. 1992) ("As a general
23 rule, trademark law does not reach the sale of genuine goods
24 bearing a true mark even though the sale is not authorized by the
25 mark owner" (footnote omitted)); cf. Prestonettes, Inc. v. Coty,
26 264 U.S. 359, 368 (1924) (when a "mark is used in a way that does

1 not deceive the public," there is "no such sanctity in the word
2 as to prevent its being used to tell the truth. It is not
3 taboo.").

4 We agree with the district court that eBay's use of
5 Tiffany's mark on its website and in sponsored links was lawful.
6 eBay used the mark to describe accurately the genuine Tiffany
7 goods offered for sale on its website. And none of eBay's uses
8 of the mark suggested that Tiffany affiliated itself with eBay or
9 endorsed the sale of its products through eBay's website.

10 In addition, the "About Me" page that Tiffany has
11 maintained on eBay's website since 2004 states that "[m]ost of
12 the purported 'TIFFANY & CO.' silver jewelry and packaging
13 available on eBay is counterfeit." Tiffany, 576 F. Supp. 2d at
14 479 (internal quotation marks omitted). The page further
15 explained that Tiffany itself sells its products only through its
16 own stores, catalogues, and website. Id.

17 Tiffany argues, however, that even if eBay had the
18 right to use its mark with respect to the resale of genuine
19 Tiffany merchandise, eBay infringed the mark because it knew or
20 had reason to know that there was "a substantial problem with the
21 sale of counterfeit [Tiffany] silver jewelry" on the eBay
22 website. Appellants' Br. 45. As we discuss below, eBay's
23 knowledge vel non that counterfeit Tiffany wares were offered
24 through its website is relevant to the issue of whether eBay
25 contributed to the direct infringement of Tiffany's mark by the
26 counterfeiting vendors themselves, or whether eBay bears

1 liability for false advertising. But it is not a basis for a
2 claim of direct trademark infringement against eBay, especially
3 inasmuch as it is undisputed that eBay promptly removed all
4 listings that Tiffany challenged as counterfeit and took
5 affirmative steps to identify and remove illegitimate Tiffany
6 goods. To impose liability because eBay cannot guarantee the
7 genuineness of all of the purported Tiffany products offered on
8 its website would unduly inhibit the lawful resale of genuine
9 Tiffany goods.

10 We conclude that eBay's use of Tiffany's mark in the
11 described manner did not constitute direct trademark
12 infringement.

13 II. Contributory Trademark Infringement

14 The more difficult issue, and the one that the parties
15 have properly focused our attention on, is whether eBay is liable
16 for contributory trademark infringement -- i.e., for culpably
17 facilitating the infringing conduct of the counterfeiting
18 vendors. Acknowledging the paucity of case law to guide us, we
19 conclude that the district court correctly granted judgment on
20 this issue in favor of eBay.

21 A. Principles

22 Contributory trademark infringement is a judicially
23 created doctrine that derives from the common law of torts. See,
24 e.g., Hard Rock Café Licensing Corp. v. Concession Servs., Inc.,
25 955 F.2d 1143, 1148 (7th Cir. 1992); cf. Metro-Goldwyn-Mayer
26 Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 930 (2005)

1 ("[T]hese doctrines of secondary liability emerged from common
 2 law principles and are well established in the law.") (citations
 3 omitted). The Supreme Court most recently dealt with the subject
 4 in Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S.
 5 844 (1982). There, the plaintiff, Ives, asserted that several
 6 drug manufacturers had induced pharmacists to mislabel a drug the
 7 defendants produced to pass it off as Ives'. See id. at 847-50.
 8 According to the Court, "if a manufacturer or distributor
 9 intentionally induces another to infringe a trademark, or if it
 10 continues to supply its product to one whom it knows or has
 11 reason to know is engaging in trademark infringement, the
 12 manufacturer or distributor is contributorially responsible for
 13 any harm done as a result of the deceit." Id. at 854.⁸ The

⁸ The Supreme Court cited two cases in support of this proposition: William R. Warner & Co. v. Eli Lilly & Co., 265 U.S. 526 (1924), and Coca-Cola Co. v. Snow Crest Beverages, Inc., 64 F. Supp. 980 (D. Mass. 1946) (Wyzanski, J.), aff'd, 162 F.2d 280 (1st Cir.), cert. denied, 332 U.S. 809 (1947).

Like Inwood, Eli Lilly involved an allegation by a plaintiff drug manufacturer that a defendant drug manufacturer had intentionally induced distributors to pass off the defendant's drug to purchasers as the plaintiff's. 265 U.S. at 529-30. The Supreme Court granted the plaintiff's request for an injunction, stating that "[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury." Id. at 530-31.

In Snow Crest, the Coca-Cola Company claimed that a rival soft drink maker had infringed Coca-Cola's mark because bars purchasing the rival soft drink had substituted it for Coca-Cola when patrons requested a "rum (or whiskey) and Coca-Cola." 64 F. Supp. at 982, 987. Judge Wyzanski entered judgment in favor of the defendant primarily because there was insufficient evidence of such illicit substitutions taking place. Id. at 990. In doing so, the court stated that "[b]efore he can himself be held as a wrongdoer o[r] contributory infringer one who supplies another with the instruments by which that other commits a tort, must be shown to have knowledge that the other will or can

1 Court ultimately decided to remand the case to the Court of
2 Appeals after concluding it had improperly rejected factual
3 findings of the district court favoring the defendant
4 manufacturers. Id. at 857-59.

5 Inwood's test for contributory trademark infringement
6 applies on its face to manufacturers and distributors of goods.
7 Courts have, however, extended the test to providers of services.

8 The Seventh Circuit applied Inwood to a lawsuit against
9 the owner of a swap meet, or "flea market," whose vendors were
10 alleged to have sold infringing Hard Rock Café T-shirts. See
11 Hard Rock Café, 955 F.2d at 1148-49. The court "treated
12 trademark infringement as a species of tort," id. at 1148, and
13 analogized the swap meet owner to a landlord or licensor, on whom
14 the common law "imposes the same duty . . . [as Inwood] impose[s]
15 on manufacturers and distributors," id. at 1149; see also
16 Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir.
17 1996) (adopting Hard Rock Café's reasoning and applying Inwood to
18 a swap meet owner).

19 Speaking more generally, the Ninth Circuit concluded
20 that Inwood's test for contributory trademark infringement
21 applies to a service provider if he or she exercises sufficient
22 control over the infringing conduct. Lockheed Martin Corp. v.
23 Network Solutions, Inc., 194 F.3d 980, 984 (9th Cir. 1999); see

reasonably be expected to commit a tort with the supplied
instrument." Id. at 989.

1 also id. ("Direct control and monitoring of the instrumentality
2 used by a third party to infringe the plaintiff's mark permits
3 the expansion of Inwood Lab.'s 'supplies a product' requirement
4 for contributory infringement.").

5 We have apparently addressed contributory trademark
6 infringement in only two related decisions, see Polymer Tech.
7 Corp. v. Mimran, 975 F.2d 58, 64 (2d Cir. 1992) ("Polymer I");
8 Polymer Tech. Corp. v. Mimran, 37 F.3d 74, 81 (2d Cir. 1994)
9 ("Polymer II"), and even then in little detail. Citing Inwood,
10 we said that "[a] distributor who intentionally induces another
11 to infringe a trademark, or continues to supply its product to
12 one whom it knows or has reason to know is engaging in trademark
13 infringement, is contributorially liable for any injury."
14 Polymer I, 975 F.2d at 64.

15 The limited case law leaves the law of contributory
16 trademark infringement ill-defined. Although we are not the
17 first court to consider the application of Inwood to the
18 Internet, see, e.g., Lockheed, 194 F.3d 980, supra (Internet
19 domain name registrar), we are apparently the first to consider
20 its application to an online marketplace.⁸

⁸ European courts have done so. A Belgian court declined to hold eBay liable for counterfeit cosmetic products sold through its website. See Lancôme v. eBay, Brussels Commercial Court (Aug. 12, 2008), Docket No. A/07/06032. French courts, by contrast, have concluded that eBay violated applicable trademark laws. See, e.g., S.A. Louis Vuitton Malletier v. eBay, Inc., Tribunal de Commerce de Paris, Première Chambre B. (Paris Commercial Court), Case No. 200677799 (June 30, 2008); Hermes v. eBay, Troyes High Court (June 4, 2008), Docket No. 06/0264; see also Max Colchester, "eBay to Pay Damages To Unit of LVMH," The Wall Street Journal, Feb. 12, 2010,

1 B. Discussion

2 1. Does Inwood Apply?

3 In the district court, the parties disputed whether
4 eBay was subject to the Inwood test. See Tiffany, 576 F. Supp.
5 2d at 504. eBay argued that it was not because it supplies a
6 service while Inwood governs only manufacturers and distributors
7 of products. Id. The district court rejected that distinction.
8 It adopted instead the reasoning of the Ninth Circuit in Lockheed
9 to conclude that Inwood applies to a service provider who
10 exercises sufficient control over the means of the infringing
11 conduct. Id. at 505-06. Looking "to the extent of the control
12 exercised by eBay over its sellers' means of infringement," the
13 district court concluded that Inwood applied in light of the
14 "significant control" eBay retained over the transactions and
15 listings facilitated by and conducted through its website. Id.
16 at 505-07.

http://online.wsj.com/article_email/SB10001424052748704337004575059523018541764-1MyQjAxMTAwMDEwMjExNDIyWj.html (last visited Mar. 1, 2010) ("A Paris court Thursday ordered eBay to pay Louis Vuitton €200,000 (\$275,000) in damages and to stop paying search engines to direct certain key words to the eBay site."); see generally, Valerie Walsh Johnson & Laura P. Merritt, TIFFANY v. EBAY: A Case of Genuine Disparity in International Court Rulings on Counterfeit Products, 1 No. 2 Landslide 22 (2008) (surveying decisions by European courts in trademark infringement cases brought against eBay).

1 On appeal, eBay no longer maintains that it is not
2 subject to Inwood.⁹ We therefore assume without deciding that
3 Inwood's test for contributory trademark infringement governs.

4 2. Is eBay Liable Under Inwood?

5 The question that remains, then, is whether eBay is
6 liable under the Inwood test on the basis of the services it
7 provided to those who used its website to sell counterfeit
8 Tiffany products. As noted, when applying Inwood to service
9 providers, there are two ways in which a defendant may become
10 contributorially liable for the infringing conduct of another:
11 first, if the service provider "intentionally induces another to
12 infringe a trademark," and second, if the service provider
13 "continues to supply its [service] to one whom it knows or has
14 reason to know is engaging in trademark infringement." Inwood,
15 456 U.S. at 854. Tiffany does not argue that eBay induced the
16 sale of counterfeit Tiffany goods on its website -- the
17 circumstances addressed by the first part of the Inwood test. It
18 argues instead, under the second part of the Inwood test, that
19 eBay continued to supply its services to the sellers of

⁹ Amici do so claim. See Electronic Frontier Foundation et al. Amici Br. 6 (arguing that Inwood should "not govern where, as here, the alleged contributory infringer has no direct means to establish whether there is any act of direct infringement in the first place"). We decline to consider this argument. "Although an amicus brief can be helpful in elaborating issues properly presented by the parties, it is normally not a method for injecting new issues into an appeal, at least in cases where the parties are competently represented by counsel." Universal City Studios, Inc. v. Corley, 273 F.3d 429, 445 (2d Cir. 2001).

1 counterfeit Tiffany goods while knowing or having reason to know
2 that such sellers were infringing Tiffany's mark.

3 The district court rejected this argument. First, it
4 concluded that to the extent the NOCIs that Tiffany submitted
5 gave eBay reason to know that particular listings were for
6 counterfeit goods, eBay did not continue to carry those listings
7 once it learned that they were specious. Tiffany, 576 F. Supp.
8 2d at 515-16. The court found that eBay's practice was promptly
9 to remove the challenged listing from its website, warn sellers
10 and buyers, cancel fees it earned from that listing, and direct
11 buyers not to consummate the sale of the disputed item. Id. at
12 516. The court therefore declined to hold eBay contributorially
13 liable for the infringing conduct of those sellers. Id. at 518.
14 On appeal, Tiffany does not appear to challenge this conclusion.
15 In any event, we agree with the district court that no liability
16 arises with respect to those terminated listings.

17 Tiffany disagrees vigorously, however, with the
18 district court's further determination that eBay lacked
19 sufficient knowledge of trademark infringement by sellers behind
20 other, non-terminated listings to provide a basis for Inwood
21 liability. Tiffany argued in the district court that eBay knew,
22 or at least had reason to know, that counterfeit Tiffany goods
23 were being sold ubiquitously on its website. Id. at 507-08. As
24 evidence, it pointed to, inter alia, the demand letters it sent
25 to eBay in 2003 and 2004, the results of its Buying Programs that
26 it shared with eBay, the thousands of NOCIs it filed with eBay

1 alleging its good faith belief that certain listings were
2 counterfeit, and the various complaints eBay received from buyers
3 claiming that they had purchased one or more counterfeit Tiffany
4 items through eBay's website. Id. at 507. Tiffany argued that
5 taken together, this evidence established eBay's knowledge of the
6 widespread sale of counterfeit Tiffany products on its website.
7 Tiffany urged that eBay be held contributorially liable on the
8 basis that despite that knowledge, it continued to make its
9 services available to infringing sellers. Id. at 507-08.

10 The district court rejected this argument. It
11 acknowledged that "[t]he evidence produced at trial demonstrated
12 that eBay had generalized notice that some portion of the Tiffany
13 goods sold on its website might be counterfeit." Id. at 507
14 (emphasis in original). The court characterized the issue before
15 it as "whether eBay's generalized knowledge of trademark
16 infringement on its website was sufficient to meet the 'knowledge
17 or reason to know' prong of the Inwood test." Id. at 508
18 (emphasis in original). eBay had argued that "such generalized
19 knowledge is insufficient, and that the law demands more specific
20 knowledge of individual instances of infringement and infringing
21 sellers before imposing a burden upon eBay to remedy the
22 problem." Id.

23 The district court concluded that "while eBay clearly
24 possessed general knowledge as to counterfeiting on its website,
25 such generalized knowledge is insufficient under the Inwood test
26 to impose upon eBay an affirmative duty to remedy the problem."

1 Id. at 508. The court reasoned that Inwood's language explicitly
2 imposes contributory liability on a defendant who "continues to
3 supply its product [-- in eBay's case, its service --] to one
4 whom it knows or has reason to know is engaging in trademark
5 infringement." Id. at 508 (emphasis in original). The court
6 also noted that plaintiffs "bear a high burden in establishing
7 'knowledge' of contributory infringement," and that courts have

8 been reluctant to extend contributory
9 trademark liability to defendants where there
10 is some uncertainty as to the extent or the
11 nature of the infringement. In Inwood,
12 Justice White emphasized in his concurring
13 opinion that a defendant is not
14 "require[d] . . . to refuse to sell to
15 dealers who merely might pass off its goods."

16
17 Id. at 508-09 (quoting Inwood, 456 U.S. at 861 (White, J.,
18 concurring) (emphasis and alteration in original)).¹⁰

19 Accordingly, the district court concluded that for
20 Tiffany to establish eBay's contributory liability, Tiffany would
21 have to show that eBay "knew or had reason to know of specific
22 instances of actual infringement" beyond those that it addressed
23 upon learning of them. Id. at 510. Tiffany failed to make such
24 a showing.

25 On appeal, Tiffany argues that the distinction drawn by
26 the district court between eBay's general knowledge of the sale
27 of counterfeit Tiffany goods through its website, and its
28 specific knowledge as to which particular sellers were making

¹⁰ The district court found the cases Tiffany relied on for the proposition that general knowledge of counterfeiting suffices to trigger liability to be inapposite. Id. at 510.

1 such sales, is a "false" one not required by the law.
2 Appellants' Br. 28. Tiffany posits that the only relevant
3 question is "whether all of the knowledge, when taken together,
4 puts [eBay] on notice that there is a substantial problem of
5 trademark infringement. If so and if it fails to act, [eBay] is
6 liable for contributory trademark infringement." Id. at 29.

7 We agree with the district court. For contributory
8 trademark infringement liability to lie, a service provider must
9 have more than a general knowledge or reason to know that its
10 service is being used to sell counterfeit goods. Some
11 contemporary knowledge of which particular listings are
12 infringing or will infringe in the future is necessary.

13 We are not persuaded by Tiffany's proposed
14 interpretation of Inwood. Tiffany understands the "lesson of
15 Inwood" to be that an action for contributory trademark
16 infringement lies where "the evidence [of infringing activity] -
17 direct or circumstantial, taken as a whole - . . . provide[s] a
18 basis for finding that the defendant knew or should have known
19 that its product or service was being used to further illegal
20 counterfeiting activity." Appellants' Br. 30. We think that
21 Tiffany reads Inwood too broadly. Although the Inwood Court
22 articulated a "knows or has reason to know" prong in setting out
23 its contributory liability test, the Court explicitly declined to
24 apply that prong to the facts then before it. See Inwood, 456
25 U.S. at 852 n.12 ("The District Court also found that the
26 petitioners did not continue to provide drugs to retailers whom

1 they knew or should have known were engaging in trademark
2 infringement. The Court of Appeals did not discuss that finding,
3 and we do not address it.") (internal citation omitted). The
4 Court applied only the inducement prong of the test. See id. at
5 852-59.

6 We therefore do not think that Inwood establishes the
7 contours of the "knows or has reason to know" prong. Insofar as
8 it speaks to the issue, though, the particular phrasing that the
9 Court used -- that a defendant will be liable if it "continues to
10 supply its product to one whom it knows or has reason to know is
11 engaging in trademark infringement," id. at 854 (emphasis
12 added) -- supports the district court's interpretation of Inwood,
13 not Tiffany's.

14 We find helpful the Supreme Court's discussion of
15 Inwood in a subsequent copyright case, Sony Corp. of America v.
16 Universal City Studios, Inc., 464 U.S. 417 (1984). There,
17 defendant Sony manufactured and sold home video tape recorders.
18 Id. at 419. Plaintiffs Universal Studios and Walt Disney
19 Productions held copyrights on various television programs that
20 individual television-viewers had taped using the defendant's
21 recorders. Id. at 419-20. The plaintiffs contended that this
22 use of the recorders constituted copyright infringement for which
23 the defendants should be held contributorily liable. Id. In
24 ruling for the defendants, the Court discussed Inwood and the
25 differences between contributory liability in trademark versus
26 copyright law.

1 If Inwood's narrow standard for contributory
2 trademark infringement governed here, [the
3 plaintiffs'] claim of contributory
4 infringement would merit little discussion.
5 Sony certainly does not 'intentionally
6 induce[]' its customers to make infringing
7 uses of [the plaintiffs'] copyrights, nor
8 does it supply its products to identified
9 individuals known by it to be engaging in
10 continuing infringement of [the plaintiffs']
11 copyrights.

12 Id. at 439 n.19 (quoting Inwood, 456 U.S. at 855; emphases
13 added).

14 Thus, the Court suggested, had the Inwood standard
15 applied in Sony, the fact that Sony might have known that some
16 portion of the purchasers of its product used it to violate the
17 copyrights of others would not have provided a sufficient basis
18 for contributory liability. Inwood's "narrow standard" would
19 have required knowledge by Sony of "identified individuals"
20 engaging in infringing conduct. Tiffany's reading of Inwood is
21 therefore contrary to the interpretation of that case set forth
22 in Sony.

23 Although the Supreme Court's observations in Sony, a
24 copyright case, about the "knows or has reason to know" prong of
25 the contributory trademark infringement test set forth in Inwood
26 were dicta, they constitute the only discussion of that prong by
27 the Supreme Court of which we are aware. We think them to be
28 persuasive authority here.¹¹

¹¹ In discussing Inwood's "knows or has reason to know"
prong of the contributory infringement test, Sony refers to a
defendant's knowledge, but not to its constructive knowledge, of
a third party's infringing conduct. Sony, 464 U.S. at 439 n.19.
We do not take the omission as altering the test Inwood

1 Applying Sony's interpretation of Inwood, we agree with
2 the district court that "Tiffany's general allegations of
3 counterfeiting failed to provide eBay with the knowledge required
4 under Inwood." Tiffany, 576 F. Supp. 2d at 511. Tiffany's
5 demand letters and Buying Programs did not identify particular
6 sellers who Tiffany thought were then offering or would offer
7 counterfeit goods. Id. at 511-13.¹² And although the NOCIs and
8 buyer complaints gave eBay reason to know that certain sellers
9 had been selling counterfeits, those sellers' listings were
10 removed and repeat offenders were suspended from the eBay site.
11 Thus Tiffany failed to demonstrate that eBay was supplying its
12 service to individuals who it knew or had reason to know were
13 selling counterfeit Tiffany goods.

14 Accordingly, we affirm the judgment of the district
15 court insofar as it holds that eBay is not contributorially
16 liable for trademark infringement.

17 3. Willful Blindness.

18 Tiffany and its amici express their concern that if
19 eBay is not held liable except when specific counterfeit listings
20 are brought to its attention, eBay will have no incentive to root
21 out such listings from its website. They argue that this will
22 effectively require Tiffany and similarly situated retailers to
23 police eBay's website -- and many others like it -- "24 hours a

articulates.

¹² The demand letters did say that eBay should presume that sellers offering five or more Tiffany goods were selling counterfeits, id. at 511, but we agree with the district court that this presumption was factually unfounded, id. at 511-12.

1 day, and 365 days a year." Council of Fashion Designers of
2 America, Inc. Amicus Br. 5. They urge that this is a burden that
3 most mark holders cannot afford to bear.

4 First, and most obviously, we are interpreting the law
5 and applying it to the facts of this case. We could not, even if
6 we thought it wise, revise the existing law in order to better
7 serve one party's interests at the expense of the other's.

8 But we are also disposed to think, and the record
9 suggests, that private market forces give eBay and those
10 operating similar businesses a strong incentive to minimize the
11 counterfeit goods sold on their websites. eBay received many
12 complaints from users claiming to have been duped into buying
13 counterfeit Tiffany products sold on eBay. Tiffany, 576 F. Supp.
14 2d at 487. The risk of alienating these users gives eBay a
15 reason to identify and remove counterfeit listings.¹³ Indeed, it
16 has spent millions of dollars in that effort.

17 Moreover, we agree with the district court that if eBay
18 had reason to suspect that counterfeit Tiffany goods were being
19 sold through its website, and intentionally shielded itself from
20 discovering the offending listings or the identity of the sellers
21 behind them, eBay might very well have been charged with
22 knowledge of those sales sufficient to satisfy Inwood's "knows or
23 has reason to know" prong. Tiffany, 576 F. Supp. 2d at 513-14.

¹³ At the same time, we appreciate the argument that insofar as eBay receives revenue from undetected counterfeit listings and sales through the fees it charges, it has an incentive to permit such listings and sales to continue.

1 A service provider is not, we think, permitted willful blindness.
2 When it has reason to suspect that users of its service are
3 infringing a protected mark, it may not shield itself from
4 learning of the particular infringing transactions by looking the
5 other way. See, e.g., Hard Rock Café, 955 F.2d at 1149 ("To be
6 willfully blind, a person must suspect wrongdoing and
7 deliberately fail to investigate."); Fonovisa, 76 F.3d at 265
8 (applying Hard Rock Café's reasoning to conclude that "a swap
9 meet can not disregard its vendors' blatant trademark
10 infringements with impunity").¹⁴ In the words of the Seventh
11 Circuit, "willful blindness is equivalent to actual knowledge for
12 purposes of the Lanham Act." Hard Rock Café, 955 F.2d at 1149.¹⁵

¹⁴ To be clear, a service provider is not contributorially liable under Inwood merely for failing to anticipate that others would use its service to infringe a protected mark. Inwood, 456 U.S. at 854 n.13 (stating that for contributory liability to lie, a defendant must do more than "reasonably anticipate" a third party's infringing conduct (internal quotation marks omitted)). But contributory liability may arise where a defendant is (as was eBay here) made aware that there was infringement on its site but (unlike eBay here) ignored that fact.

¹⁵ The principle that willful blindness is tantamount to knowledge is hardly novel. See, e.g. Harte-Hanks Commc'ns, Inc. v. Connaughton, 491 U.S. 657, 659, 692 (1989) (concluding in public-official libel case that "purposeful avoidance of the truth" is equivalent to "knowledge that [a statement] was false or [was made] with reckless disregard of whether it was false" (internal quotation marks omitted)); United States v. Khorozian, 333 F.3d 498, 504 (3d Cir. 2003) (acting with willful blindness satisfies the intent requirement of the federal bank fraud statute); Friedman v. Comm'r, 53 F.3d 523, 525 (2d Cir. 1995) ("The 'innocent spouse' exemption [from the rule that married couples who file a joint tax return are jointly and severally liable for any tax liability found] was not designed to protect willful blindness or to encourage the deliberate cultivation of ignorance."); Mattingly v. United States, 924 F.2d 785, 792 (8th Cir. 1991) (concluding in civil tax fraud case that "the element of knowledge may be inferred from deliberate acts amounting to willful blindness to the existence of fact or acts constituting

1 eBay appears to concede that it knew as a general
2 matter that counterfeit Tiffany products were listed and sold
3 through its website. Tiffany, 576 F. Supp. 2d at 514. Without
4 more, however, this knowledge is insufficient to trigger
5 liability under Inwood. The district court found, after careful
6 consideration, that eBay was not willfully blind to the
7 counterfeit sales. Id. at 513. That finding is not clearly
8 erroneous.¹⁶ eBay did not ignore the information it was given
9 about counterfeit sales on its website.

conscious purpose to avoid enlightenment."); Morrow Shoe Mfg. Co. v. New England Shoe Co., 57 F. 685, 694 (7th Cir. 1893) ("The mind cannot well avoid the conclusion that if they did not know of the fraudulent purposes of Davis it was because they were willfully blind. Such facility of belief, it has been well said, invites fraud, and may justly be suspected of being its accomplice."); State Street Trust Co. v. Ernst, 278 N.Y. 104, 112, 15 N.E.2d 416, 419 (1938) ("[H]eedlessness and reckless disregard of consequence [by an accountant] may take the place of deliberate intention.").

¹⁶ Tiffany's reliance on the "flea market" cases, Hard Rock Café and Fonovisa, is unavailing. eBay's efforts to combat counterfeiting far exceeded the efforts made by the defendants in those cases. See Hard Rock Café, 955 F.2d at 1146 (defendant did not investigate any of the seizures of counterfeit products at its swap meet, even though it knew they had occurred); Fonovisa, 76 F.3d at 265 (concluding that plaintiff stated a claim for contributory trademark infringement based on allegation that swap meet "disregard[ed] its vendors' blatant trademark infringements with impunity"). Moreover, neither case concluded that the defendant was willfully blind. The court in Hard Rock Café remanded so that the district court could apply the correct definition of "willful blindness," 955 F.2d at 1149, and the court in Fonovisa merely sustained the plaintiff's complaint against a motion to dismiss, 76 F.3d at 260-61, 265.

1 III. Trademark Dilution

2
3 A. Principles

4 Federal law allows the owner of a "famous mark" to
5 enjoin a person from using "a mark or trade name in commerce that
6 is likely to cause dilution by blurring or dilution by
7 tarnishment of the famous mark." 15 U.S.C. § 1125(c)(1).

8 "Dilution by blurring" is an "association arising from
9 the similarity between a mark or trade name and a famous mark
10 that impairs the distinctiveness of the famous mark." Id.
11 § 1125(c)(2)(B). It can occur "regardless of the presence or
12 absence of actual or likely confusion, of competition, or of
13 actual economic injury." Id. § 1125(c)(1). "Some classic
14 examples of blurring include 'hypothetical anomalies as Dupont
15 shoes, Buick aspirin tablets, Schlitz varnish, Kodak pianos,
16 Bulova gowns, and so forth.'" Starbucks Corp. v. Wolfe's Borough
17 Coffee, Inc., 588 F.3d 97, 105 (2d Cir. 2009) (quoting Mead Data
18 Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026,
19 1031 (2d Cir. 1989)). It is not a question of confusion; few
20 consumers would likely confuse the source of a Kodak camera with
21 the source of a "Kodak" piano. Dilution by blurring refers
22 instead to "'the whittling away of [the] established trademark's
23 selling power and value through its unauthorized use by others.'" Id.
24 (quoting Mead Data Cent., 875 F.2d at 1031).

25 Federal law identifies a non-exhaustive list of six
26 factors that courts "may consider" when determining whether a
27 mark is likely to cause dilution by blurring. These are: (1)

1 "[t]he degree of similarity between the mark or trade name and
2 the famous mark";¹⁷ (2) "[t]he degree of inherent or acquired
3 distinctiveness of the famous mark"; (3) "[t]he extent to which
4 the owner of the famous mark is engaging in substantially
5 exclusive use of the mark"; (4) "[t]he degree of recognition of
6 the famous mark"; (5) "[w]hether the user of the mark or trade
7 name intended to create an association with the famous mark"; and
8 (6) "[a]ny actual association between the mark or trade name and
9 the famous mark." 15 U.S.C. § 1125(c)(2)(B)(i-vi).

10 In contrast to dilution by blurring, "dilution by
11 tarnishment" is an "association arising from the similarity
12 between a mark or trade name and a famous mark that harms the
13 reputation of the famous mark." 15 U.S.C. § 1125(c)(2)(C). This
14 "generally arises when the plaintiff's trademark is linked to
15 products of shoddy quality, or is portrayed in an unwholesome or
16 unsavory context likely to evoke unflattering thoughts about the
17 owner's product." Deere & Co. v. MTD Prods., Inc., 41 F.3d 39,
18 43 (2d Cir. 1994).

19 New York State law also "provide[s] for protection
20 against both dilution by blurring and tarnishment." Starbucks
21 Corp., 588 F.3d at 114; see N.Y. Gen. Bus. Law § 360-1. The

¹⁷ We have recently explained that under the Trademark Dilution Revision Act of 2006 ("TDRA"), Pub. L. No. 109-312, 120 Stat. 1730, 1731 (Oct. 6, 2006), the similarity between the famous mark and the allegedly blurring mark need not be "substantial" in order for the dilution by blurring claim to succeed. See Starbucks Corp., 588 F.3d at 107-09. The district court concluded that the TDRA governs Tiffany's claim. See Tiffany, 576 F. Supp. 2d at 522-23. We agree and note that Tiffany does not dispute this conclusion on appeal.

1 state law is not identical to the federal one, however. New York
2 "does not[, for example,] require a mark to be 'famous' for
3 protection against dilution to apply." Starbucks Corp., 588 F.3d
4 at 114. Nor are the factors used to determine whether blurring
5 has occurred the same. "Most important to the distinction here,
6 New York law does not permit a dilution claim unless the marks
7 are 'substantially' similar." Id.

8 B. Discussion

9 The district court rejected Tiffany's dilution by
10 blurring claim on the ground that "eBay never used the TIFFANY
11 Marks in an effort to create an association with its own product,
12 but instead, used the marks directly to advertise and identify
13 the availability of authentic Tiffany merchandise on the eBay
14 website." Tiffany, 576 F. Supp. 2d at 524. The court concluded
15 that "just as the dilution by blurring claim fails because eBay
16 has never used the [Tiffany] Marks to refer to eBay's own
17 product, the dilution by tarnishment claim also fails." Id. at
18 525.

19 We agree. There is no second mark or product at issue
20 here to blur with or to tarnish "Tiffany."

21 Tiffany argues that counterfeiting dilutes the value of
22 its product. Perhaps. But insofar as eBay did not itself sell
23 the goods at issue, it did not itself engage in dilution.

24 Tiffany argued unsuccessfully to the district court
25 that eBay was liable for contributory dilution. Id. at 526.
26 Assuming without deciding that such a cause of action exists, the

1 court concluded that the claim would fail for the same reasons
2 Tiffany's contributory trademark infringement claim failed. Id.
3 Tiffany does not contest this conclusion on appeal. We therefore
4 do not address it. See Palmieri v. Allstate Ins. Co., 445 F.3d
5 179 (2d Cir. 2006) (issues not raised on appeal are treated as
6 waived).

7 IV. False Advertising

8 Finally, Tiffany claims that eBay engaged in false
9 advertising in violation of federal law.

10 A. Principles

11 Section 43(a) of the Lanham Act prohibits any person
12 from, "in commercial advertising or promotion, misrepresent[ing]
13 the nature, characteristics, qualities, or geographic origin of
14 his or her or another person's goods, services, or commercial
15 activities." 15 U.S.C. § 1125(a)(1)(B). A claim of false
16 advertising may be based on at least one of two theories: "that
17 the challenged advertisement is literally false, i.e., false on
18 its face," or "that the advertisement, while not literally false,
19 is nevertheless likely to mislead or confuse consumers." Time
20 Warner Cable, Inc. v. DIRECTV, Inc., 497 F.3d 144, 153 (2d Cir.
21 2007).

22 In either case, the "injuries redressed in false
23 advertising cases are the result of public deception." Johnson &
24 Johnson * Merck Consumer Pharm. Co. v. Smithkline Beecham Corp.,
25 960 F.2d 294, 298 (2d Cir. 1992) ("Merck"). And "[u]nder either
26 theory, the plaintiff must also demonstrate that the false or

1 misleading representation involved an inherent or material
2 quality of the product." Time Warner Cable, 497 F.3d at 153
3 n.3.¹⁸

4 Where an advertising claim is literally false, "the
5 court may enjoin the use of the claim without reference to the
6 advertisement's impact on the buying public." McNeil-P.C.C.,
7 Inc. v. Bristol-Myers Squibb Co., 938 F.2d 1544, 1549 (2d Cir.
8 1991) (internal quotation marks omitted). To succeed in a
9 likelihood-of-confusion case where the statement at issue is not
10 literally false, however, a plaintiff "must demonstrate, by
11 extrinsic evidence, that the challenged commercials tend to
12 mislead or confuse consumers," and must "demonstrate that a
13 statistically significant part of the commercial audience holds
14 the false belief allegedly communicated by the challenged
15 advertisement." Merck, 960 F.2d at 297, 298; Time Warner Cable,
16 497 F.3d at 153 ("[W]hereas plaintiffs seeking to establish a
17 literal falsehood must generally show the substance of what is
18 conveyed, . . . a district court must rely on extrinsic evidence
19 [of consumer deception or confusion] to support a finding of an
20 implicitly false message." (internal quotation marks omitted and

¹⁸ We recently adopted "the 'false by necessary implication' doctrine," under which "a district court evaluating whether an advertisement is literally false 'must analyze the message conveyed in full context.'" Time Warner Cable, 497 F.3d at 158; cf. S.C. Johnson & Son, Inc. v. Clorox Co., 241 F.3d 232, 238 (2d Cir. 2001) ("In considering a false-advertising claim, [f]undamental to any task of interpretation is the principle that text must yield to context." (quoting Avis Rent A Car Sys., Inc. v. Hertz Corp., 782 F.2d 381, 385 (2d Cir. 1986) (internal quotation marks omitted))).

1 emphasis and alterations in original)).

2 B. Discussion

3 eBay advertised the sale of Tiffany goods on its
4 website in various ways. Among other things, eBay provided
5 hyperlinks to "Tiffany," "Tiffany & Co. under \$150," "Tiffany &
6 Co.," "Tiffany Rings," and "Tiffany & Co. under \$50." Pl.'s Exs.
7 290, 392, 1064, 1065. eBay also purchased advertising space on
8 search engines, in some instances providing a link to eBay's site
9 and exhorting the reader to "Find **tiffany** items at low prices."
10 Pl.'s Ex. 1065 (bold face type in original). Yet the district
11 court found, and eBay does not deny, that "eBay certainly had
12 generalized knowledge that Tiffany products sold on eBay were
13 often counterfeit." Tiffany, 576 F. Supp. 2d at 520-21. Tiffany
14 argues that because eBay advertised the sale of Tiffany goods on
15 its website, and because many of those goods were in fact
16 counterfeit, eBay should be liable for false advertising.

17 The district court rejected this argument. Id. at 519-
18 21. The court first concluded that the advertisements at issue
19 were not literally false "[b]ecause authentic Tiffany merchandise
20 is sold on eBay's website," even if counterfeit Tiffany products
21 are sold there, too. Id. at 520.

22 The court then considered whether the advertisements,
23 though not literally false, were nonetheless misleading. It
24 concluded they were not for three reasons. First, the court
25 found that eBay's use of Tiffany's mark in its advertising was
26 "protected, nominative fair use." Id. Second, the court found

1 that "Tiffany has not proven that eBay had specific knowledge as
2 to the illicit nature of individual listings," implying that such
3 knowledge would be necessary to sustain a false advertising
4 claim. Id. at 521. Finally, the court reasoned that "to the
5 extent that the advertising was false, the falsity was the
6 responsibility of third party sellers, not eBay." Id.

7 We agree with the district court that eBay's
8 advertisements were not literally false inasmuch as genuine
9 Tiffany merchandise was offered for sale through eBay's website.
10 But we are unable to affirm on the record before us the district
11 court's further conclusion that eBay's advertisements were not
12 "likely to mislead or confuse consumers." Time Warner Cable, 497
13 F.3d at 153.

14 As noted, to evaluate Tiffany's claim that eBay's
15 advertisements misled consumers, a court must determine whether
16 extrinsic evidence indicates that the challenged advertisements
17 were misleading or confusing. The reasons the district court
18 gave for rejecting Tiffany's claim do not seem to reflect this
19 determination, though. The court's first rationale was that
20 eBay's advertisements were nominative fair use of Tiffany's mark.

21 But, even if that is so, it does not follow that eBay
22 did not use the mark in a misleading advertisement. It may,
23 after all, constitute fair use for Brand X Coffee to use the
24 trademark of its competitor, Brand Y Coffee, in an advertisement
25 stating that "In a blind taste test, 9 out of 10 New Yorkers said
26 they preferred Brand X Coffee to Brand Y Coffee." But if 9 out

1 of 10 New Yorkers in a statistically significant sample did not
2 say they preferred X to Y, or if they were paid to say that they
3 did, then the advertisement would nonetheless be literally false
4 in the first example, or misleading in the second.

5 There is a similar difficulty with the district court's
6 reliance on the fact that eBay did not know which particular
7 listings on its website offered counterfeit Tiffany goods. That
8 is relevant, as we have said, to whether eBay committed
9 contributory trademark infringement. But it sheds little light
10 on whether the advertisements were misleading insofar as they
11 implied the genuineness of Tiffany goods on eBay's site.

12 Finally, the district court reasoned that if eBay's
13 advertisements were misleading, that was only because the sellers
14 of counterfeits made them so by offering inauthentic Tiffany
15 goods. Again, this consideration is relevant to Tiffany's direct
16 infringement claim, but less relevant, if relevant at all, here.
17 It is true that eBay did not itself sell counterfeit Tiffany
18 goods; only the fraudulent vendors did, and that is in part why
19 we conclude that eBay did not infringe Tiffany's mark. But eBay
20 did affirmatively advertise the goods sold through its site as
21 Tiffany merchandise. The law requires us to hold eBay
22 accountable for the words that it chose insofar as they misled or
23 confused consumers.

24 eBay and its amici warn of the deterrent effect that
25 will grip online advertisers who are unable to confirm the
26 authenticity of all of the goods they advertise for sale. See,

1 e.g., Yahoo! Inc. Amicus Br. 15; Electronic Frontier Foundation
2 et al. Amicus Br. 18-19. We rather doubt that the consequences
3 will be so dire. An online advertiser such as eBay need not
4 cease its advertisements for a kind of goods only because it
5 knows that not all of those goods are authentic. A disclaimer
6 might suffice. But the law prohibits an advertisement that
7 implies that all of the goods offered on a defendant's website
8 are genuine when in fact, as here, a sizeable proportion of them
9 are not.

10 Rather than vacate the judgment of the district court
11 as to Tiffany's false advertising claim, we think it prudent to
12 remand the cause so that the district court, with its greater
13 familiarity with the evidence, can reconsider the claim in light
14 of what we have said. The case is therefore remanded pursuant to
15 United States v. Jacobson, 15 F.3d 19 (2d Cir. 1994), for further
16 proceedings for the limited purpose of the district court's re-
17 examination of the false advertising claim in accordance with
18 this opinion. We retain jurisdiction so that any of the parties
19 may seek appellate review by notifying the Clerk of the Court
20 within thirty days of entry of the district court's judgment on
21 remand. See, e.g., Galviz Zapata v. United States, 431 F.3d 395,
22 399 (2d Cir. 2005). Such notification will not require the
23 filing of a new notice of appeal. Id. If notification occurs,
24 the matter will be referred automatically to this panel for
25 disposition.

Google Inc. Advertising Program Terms

These Google Inc. Advertising Program Terms ("**Terms**") are entered into by, as applicable, the customer signing these Terms or any document that references these Terms or that accepts these Terms electronically ("**Customer**") and Google Inc. ("**Google**"). These Terms govern Customer's participation in Google's advertising program(s) ("**Program**") and, as applicable, any insertion orders or service agreements ("**IO**") executed by and between the parties and/or Customer's online management of any advertising campaigns. These Terms and any applicable IO are collectively referred to as the "**Agreement**." Google and Customer hereby agree and acknowledge:

1 Policies. Program use is subject to all applicable Google and Partner policies, including without limitation the Editorial Guidelines (adwords.google.com/select/guidelines.html), Google Privacy Policy (www.google.com/privacy.html) and Trademark Guidelines (www.google.com/permissions/guidelines.html), and Google and Partner ad specification requirements (collectively, "**Policies**"). Policies may be modified at any time. Customer shall direct only to Google communications regarding Customer ads on Partner Properties. Some Program features are identified as "**Beta**," "**Ad Experiment**," or otherwise unsupported ("**Beta Features**"). To the fullest extent permitted by law, Beta Features are provided "**as is**" and at Customer's option and risk. Customer shall not disclose to any third party any information from Beta Features, existence of non-public Beta Features or access to Beta Features. Google may modify ads to comply with any Policies.

2 The Program. Customer is solely responsible for all: (a) ad targeting options and keywords (collectively "**Targets**") and all ad content, ad information, and ad URLs ("**Creative**"), whether generated by or for Customer; and (b) web sites, services and landing pages which Creative links or directs viewers to, and advertised services and products (collectively "**Services**"). Customer shall protect any Customer passwords and takes full responsibility for Customer's own, and third party, use of any Customer accounts. Customer understands and agrees that ads may be placed on (y) any content or property provided by Google ("**Google Property**"), and, unless Customer opts out of such placement in the manner specified by Google, (z) any other content or property provided by a third party ("**Partner**") upon which Google places ads ("**Partner Property**"). Customer authorizes and consents to all such placements. With respect to AdWords online auction-based advertising, Google may send Customer an email notifying Customer it has 72 hours ("**Modification Period**") to modify keywords and settings as posted. The account (as modified by Customer, or if not modified, as initially posted) is deemed approved by Customer in all respects after the Modification Period. Customer agrees that all placements of Customer's ads shall conclusively be deemed to have been approved by Customer unless Customer produces contemporaneous documentary evidence showing that Customer disapproved such placements in the manner specified by Google. With respect to all other advertising, Customer must provide Google with all relevant Creative by the due date set forth in that Program's applicable frequently asked questions at www.google.com ("**FAQ**") or as otherwise communicated by Google. Customer grants Google permission to utilize an automated software program to retrieve and analyze websites associated with the Services for ad quality and serving purposes, unless Customer specifically opts out of the evaluation in a manner specified by Google. Google may modify any of its Programs at any time without liability. Google also may modify these Terms at any time without liability, and Customer's use of the Program after notice that these Terms have changed constitutes Customer's acceptance of the new Terms. Google or Partners may reject or remove any ad or Target for any or no reason.

3 Cancellation. Customer may cancel advertising online through Customer's account if online cancellation functionality is available, or, if not available, with prior written notice to Google, including without limitation electronic mail. AdWords online auction-based advertising cancelled online will cease serving shortly after cancellation. The cancellation of all other advertising may be subject to Program policies or Google's ability to re-schedule reserved inventory or cancel ads already in production. Cancelled ads may be published despite cancellation if cancellation of those ads occurs after any applicable commitment date as set forth in advance by the Partner or Google, in which case Customer must pay for those ads. Google may cancel immediately any IO, any of its Programs, or these Terms at any time with notice, in which case Customer will be responsible for any ads already run. Sections 1, 2, 3, 5, 6, 7, 8, and 9 will survive any expiration or termination of this Agreement.

4 Prohibited Uses; License Grant; Representations and Warranties. Customer shall not, and shall not authorize any party to: (a) generate automated, fraudulent or otherwise invalid impressions, inquiries, conversions, clicks or other actions; (b) use any automated means or form of scraping or data extraction to access, query or otherwise collect Google advertising related information from any Program website or property except as expressly permitted by Google; or (c) advertise anything illegal or engage in any illegal or fraudulent business practice. Customer represents and warrants that it holds and hereby grants Google and Partners all rights (including without limitation any copyright, trademark, patent, publicity or other rights) in Creative, Services and Targets needed for Google and Partner to operate Programs (including without limitation any rights needed to host, cache, route, transmit, store, copy, modify, distribute, perform, display, reformat, excerpt, analyze, and create algorithms from and derivative works of Creative or Targets) in connection with this Agreement ("**Use**"). Customer represents and warrants that (y) all Customer information is complete, correct and current; and (z) any Use hereunder and Customer's Creative, Targets, and Customer's Services will not violate or encourage violation of any applicable laws, regulations, code of conduct, or third party rights (including without limitation intellectual property rights). Violation of the foregoing may result in immediate termination of this Agreement or customer's account without notice and may subject Customer to legal penalties and consequences.

5 Disclaimer and Limitation of Liability. To the fullest extent permitted by law, GOOGLE DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION FOR NONINFRINGEMENT, SATISFACTORY QUALITY, MERCHANTABILITY AND FITNESS FOR ANY PURPOSE. To the fullest extent permitted by law, Google disclaims all guarantees regarding positioning, levels, quality, or timing of: (i) costs per click; (ii) click through rates; (iii) availability and delivery of any impressions, Creative, or Targets on any Partner Property, Google Property, or section thereof; (iv) clicks; (v) conversions or other results for any ads or Targets; (vi) the accuracy of Partner data (e.g. reach, size of audience, demographics or other purported characteristics of audience); and (vii) the adjacency or placement of ads within a Program. Customer understands that third parties may generate impressions or clicks on Customer's ads for prohibited or improper purposes, and Customer accepts the risk of any such impressions and clicks. Customer's exclusive remedy, and Google's exclusive liability, for suspected invalid impressions or clicks is for Customer to make a claim for a refund in the form of advertising credits for Google Properties within the time period required under Section 7 below. Any refunds for suspected invalid impressions or clicks are within Google's sole discretion. EXCEPT FOR INDEMNIFICATION AMOUNTS PAYABLE TO THIRD PARTIES HEREUNDER AND CUSTOMER'S BREACHES OF SECTION 1, TO THE FULLEST EXTENT PERMITTED BY LAW: (a) NEITHER PARTY WILL BE LIABLE FOR ANY CONSEQUENTIAL, SPECIAL, INDIRECT, EXEMPLARY, OR PUNITIVE DAMAGES (INCLUDING WITHOUT LIMITATION LOSS OF PROFITS, REVENUE, INTEREST, GOODWILL, LOSS OR CORRUPTION OF DATA OR FOR ANY LOSS OR INTERRUPTION TO CUSTOMER'S BUSINESS) WHETHER IN CONTRACT, TORT (INCLUDING WITHOUT LIMITATION NEGLIGENCE) OR ANY OTHER LEGAL THEORY, EVEN IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY; AND (b) EACH PARTY'S AGGREGATE LIABILITY TO THE OTHER IS LIMITED TO AMOUNTS PAID OR PAYABLE TO GOOGLE BY CUSTOMER FOR THE AD GIVING RISE TO THE CLAIM. Except for payment obligations, neither party is liable for failure or delay resulting from a condition beyond the reasonable control of the party, including without limitation to acts of God, government, terrorism, natural disaster, labor conditions and power failures.

6 Agency. Customer represents and warrants that (a) it is authorized to act on behalf of and has bound to this Agreement any third party for which Customer advertises (a "**Principal**"), (b) as between Principal and Customer, the Principal owns any rights to Program information in connection with those ads, and (c) Customer shall not disclose Principal's Program information to any other party without Principal's consent.

7 Payment. Customer shall be responsible for all charges up to the amount of each IO, or as set in an online account, and shall pay all charges in U.S. Dollars or in such other currency as agreed to in writing by the parties. Unless agreed to by the parties in writing, Customer shall pay all charges in accordance with the payment terms in the applicable IO or Program FAQ. Late payments bear interest at the rate of 1.5% per month (or the highest rate permitted by law, if less). Charges are exclusive of taxes. Customer is responsible for paying (y) all taxes,

government charges, and (z) reasonable expenses and attorneys fees Google incurs collecting late amounts. To the fullest extent permitted by law, Customer waives all claims relating to charges (including without limitation any claims for charges based on suspected invalid clicks) unless claimed within 60 days after the charge (this does not affect Customer's credit card issuer rights). Charges are solely based on Google's measurements for the applicable Program, unless otherwise agreed to in writing. To the fullest extent permitted by law, refunds (if any) are at the discretion of Google and only in the form of advertising credit for only Google Properties. Nothing in these Terms or an IO may obligate Google to extend credit to any party. Customer acknowledges and agrees that any credit card and related billing and payment information that Customer provides to Google may be shared by Google with companies who work on Google's behalf, such as payment processors and/or credit agencies, solely for the purposes of checking credit, effecting payment to Google and servicing Customer's account. Google may also provide information in response to valid legal process, such as subpoenas, search warrants and court orders, or to establish or exercise its legal rights or defend against legal claims. Google shall not be liable for any use or disclosure of such information by such third parties.

8 Indemnification. Customer shall indemnify and defend Google, its Partners, agents, affiliates, and licensors from any third party claim or liability (collectively, "**Liabilities**"), arising out of Use, Customer's Program use, Targets, Creative and Services and breach of the Agreement. Partners shall be deemed third party beneficiaries of the above Partner indemnity.

9 Miscellaneous. THE AGREEMENT MUST BE CONSTRUED AS IF BOTH PARTIES JOINTLY WROTE IT AND GOVERNED BY CALIFORNIA LAW EXCEPT FOR ITS CONFLICTS OF LAWS PRINCIPLES. ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE GOOGLE PROGRAM(S) SHALL BE LITIGATED EXCLUSIVELY IN THE FEDERAL OR STATE COURTS OF SANTA CLARA COUNTY, CALIFORNIA, USA, AND GOOGLE AND CUSTOMER CONSENT TO PERSONAL JURISDICTION IN THOSE COURTS. The Agreement constitutes the entire and exclusive agreement between the parties with respect to the subject matter hereof, and supersedes and replaces any other agreements, terms and conditions applicable to the subject matter hereof. No statements or promises have been relied upon in entering into this Agreement except as expressly set forth herein, and any conflicting or additional terms contained in any other documents (e.g. reference to a purchase order number) or oral discussions are void. Each party shall not disclose the terms or conditions of these Terms to any third party, except to its professional advisors under a strict duty of confidentiality or as necessary to comply with a government law, rule or regulation. Customer may grant approvals, permissions, extensions and consents by email, but any modifications by Customer to the Agreement must be made in a writing executed by both parties. Any notices to Google must be sent to Google Inc., Advertising Programs, 1600 Amphitheatre Parkway, Mountain View, CA 94043, USA, with a copy to Legal Department, via confirmed facsimile, with a copy sent via first class or air mail or overnight courier, and are deemed given upon receipt. A waiver of any default is not a waiver of any subsequent default. Unenforceable provisions will be modified to reflect the parties' intention and only to the extent necessary to make them enforceable, and remaining provisions of the Agreement will remain in full effect. Customer may not assign any of its rights hereunder and any such attempt is void. Google and Customer and Google and Partners are not legal partners or agents, but are independent contractors. In the event that these Terms or a Program expire or is terminated, Google shall not be obligated to return any materials to Customer. Notice to Customer may be effected by sending an email to the email address specified in Customer's account, or by posting a message to Customer's account interface, and is deemed received when sent (for email) or no more than 15 days after having been posted (for messages in Customer's AdWords interface).

August 22, 2006

PUBLISHED

**UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT**

ROSETTA STONE LTD,
Plaintiff-Appellant,
v.
GOOGLE, INCORPORATED,
Defendant-Appellee.

THE UK INTELLECTUAL PROPERTY
LAW SOCIETY,
Amicus Curiae,
ERIC GOLDMAN; PUBLIC CITIZEN;
MARTIN SCHWIMMER,
Limited Intervenors.

INTERNATIONAL TRADEMARK
ASSOCIATION; BLUES DESTINY
RECORDS, LLC; CARFAX,
INCORPORATED; FORD MOTOR
COMPANY; HARMON INTERNATIONAL
INDUSTRIES, INCORPORATED; THE
MEDIA INSTITUTE; VIACOM, INC.;
BURLINGTON COAT FACTORY
WAREHOUSE CORPORATION; BUSINESS
SOFTWARE ALLIANCE; CHANEL,
INCORPORATED; COACH,
INCORPORATED;

No. 10-2007

GOVERNMENT EMPLOYEES INSURANCE
COMPANY; HARRAH'S
ENTERTAINMENT, INCORPORATED;
LONGCHAMP USA, INCORPORATED;
NATIONAL FOOTBALL LEAGUE;
OAKLEY, INCORPORATED;
PROFESSIONAL GOLFERS'
ASSOCIATION OF AMERICA,
INCORPORATED; ROLLS-ROYCE
NORTH AMERICA, INCORPORATED;
S.A.S. JEAN CASSEGRAIN; SUNKIST
GROWERS, INCORPORATED;
SWAROVSKI NORTH AMERICA, LTD.;
THE ASSOCIATION FOR COMPETITIVE
TECHNOLOGY; THE SUNRIDER
CORPORATION; TIVO, INCORPORATED;
TIFFANY & COMPANY; TUMI,
INCORPORATED; UNITED
CONTINENTAL HOLDINGS,
INCORPORATED; 1-800 CONTACTS,
INCORPORATED; CONVA TEC,
INCORPORATED; GURU DENIM,
INCORPORATED; MONSTER CABLE
PRODUCTS, INCORPORATED; PETMED
EXPRESS, INC.; VOLUNTEERS OF
AMERICA,

Amici Supporting Appellant,

PUBLIC CITIZEN; PUBLIC
KNOWLEDGE; ELECTRONIC FRONTIER
FOUNDATION; EBAY INCORPORATED;
YAHOO! INCORPORATED,

Amici Supporting Appellee.

ROSETTA STONE v. GOOGLE

3

Appeal from the United States District Court
for the Eastern District of Virginia, at Alexandria.
Gerald Bruce Lee, District Judge.
(1:09-cv-00736-GBL-TCB)

Argued: September 22, 2011

Decided: April 9, 2012

Before TRAXLER, Chief Judge, KEENAN, Circuit Judge,
and HAMILTON, Senior Circuit Judge.

Affirmed in part, vacated in part, and remanded by published
opinion. Chief Judge Traxler wrote the opinion, in which
Judge Keenan and Senior Judge Hamilton joined.

COUNSEL

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Insurance Company, Harrah's Entertainment, Incorporated,
Longchamp USA, Incorporated, National Football League,
Oakley, Incorporated, Professional Golfers' Association of
America, Incorporated, Rolls-Royce North America, Incorpo-
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OPINION

TRAXLER, Chief Judge:

Appellant Rosetta Stone Ltd. appeals from an order, *see Rosetta Stone Ltd. v. Google Inc.*, 730 F. Supp. 2d 531 (E.D. Va. 2010), granting summary judgment against Rosetta Stone on its claims against Appellee Google Inc. for trademark infringement, *see* 15 U.S.C. § 1114(1)(a); contributory and vicarious trademark infringement; and trademark dilution, *see* 15 U.S.C. § 1125(c)(1). Rosetta Stone also appeals from an order dismissing its unjust enrichment claim under Virginia Law. *See Rosetta Stone Ltd. v. Google Inc.*, 732 F. Supp. 2d 628 (E.D. Va. 2010). For the reasons that follow, we affirm the district court's order with respect to the vicarious infringement and unjust enrichment claims; however, we vacate the district court's order with respect to the direct infringement, contributory infringement and dilution claims and remand these claims for further proceedings.

I. Background

In conducting a *de novo* review of the district court's order granting summary judgment in favor of Google, "we view the facts and draw all reasonable inferences therefrom in the light most favorable to [Rosetta Stone], as the nonmoving party." *Georgia Pac. Consumer Prods., LP v. Von Drehle Corp.*, 618

F.3d 441, 445 (4th Cir. 2010). Bearing this standard in mind, we review the underlying facts briefly.

Rosetta Stone began in 1992 as a small, family-owned business that marketed its language-learning software under the brand name "Rosetta Stone."¹ By 2006, Rosetta Stone had become an industry leader in technology-based language-learning products and online services, and, by January 2010, it had become a publicly traded corporation with 1,738 employees and gross revenues of approximately \$252 million. Its products consist of "software, online services and audio practice tools" available in over thirty languages. J.A. 203.

Rosetta Stone owns and uses several registered marks in connection with its products and services: ROSETTA STONE, ROSETTA STONE LANGUAGE LEARNING SUCCESS, ROSETTASTONE.COM, and ROSETTA WORLD. Using this family of registered marks, Rosetta Stone markets its brand through various types of media, including the Internet, television, radio, magazines and other print media, and kiosks in public venues. From 2003 through 2009, Rosetta Stone spent approximately \$57 million for television and radio advertising, \$40 million for print media marketing, and \$12.5 million to advertise on the Internet. In 2009, Rosetta Stone's marks enjoyed the highest level of brand recognition by far in the domestic language-learning market.²

¹The actual Rosetta Stone, discovered in 1799, is a granite stele bearing a royal Egyptian decree etched in three languages: Greek, hieroglyphic, and demotic. The discovery of this stone became the "key to the deciphering of Egyptian hieroglyphics." Barbara Green, *Cracking the Code: Interpreting and Enforcing the Appellate Court's Decision and Mandate*, 32 Stet. L. Rev. 393, 393 (2003) (internal quotation marks omitted). The term "Rosetta Stone" has become somewhat of a common metaphor for anything that provides the means for solving a difficult problem or understanding a code.

²Rosetta Stone conducted a brand equity study in February 2009 showing a substantial gap in actual recognition of the Rosetta Stone mark and the closest competing brand. When asked to identify without prompting

Rosetta Stone has achieved international success as well, with its products in use in over 150 countries.

Rosetta Stone began advertising in connection with Google's website and online services in 2002 and has continued to do so since that time. Google operates one of the world's most popular Internet search engines—programs that enable individuals to find websites and online content, generally through the use of a "keyword" search. *See Retail Servs., Inc. v. Freebies Publ'g*, 364 F.3d 535, 541 n.1 (4th Cir. 2004). When an Internet user enters a word or phrase—the keyword or keywords—into Google's search engine, Google returns a results list of links to websites that the search engine has determined to be relevant based on a proprietary algorithm.

In addition to the natural list of results produced by the keyword search, Google's search engine also displays paid advertisements known as "Sponsored Links" with the natural results of an Internet search. Google's AdWords advertising platform permits a sponsor to "purchase" keywords that trigger the appearance of the sponsor's advertisement and link when the keyword is entered as a search term. In other words, an advertiser purchases the right to have his ad and accompanying link displayed with the search results for a keyword or combination of words relevant to the advertiser's business. Most sponsors advertising with Google pay on a "cost-per-click" basis, meaning that the advertiser pays whenever a user of Google's search engine clicks on the sponsored link.

Google displays up to three sponsored links in a highlighted box immediately above the natural search results, and

"all brand names that come to mind when you think of language learning," almost 45% of the respondents were able to recall "Rosetta Stone," while only about 6% thought of "Berlitz," the second-place finisher. J.A. 2288. When prompted, 74% indicated they had heard of Rosetta Stone language products. Berlitz, again the closest competitor, was familiar to only 23% of the respondents when prompted.

it also displays sponsored links to the right of the search results, but separated by a vertical line. As this suggests, more than one sponsor can purchase the same keyword and have a link displayed when a search for that keyword is conducted. Would-be advertisers purchase their desired keywords through an auction where advertisers bid competitively against each other for page position on the search results page. Generally speaking, users of the Internet are apparently more likely to click on ads that appear higher up on the search results page. Accordingly, an advertiser will try to outbid its competitors for the top positions in order to maximize the number of clicks on the advertiser's text ads. For the advertiser, more clicks yield increased web traffic, which means more potential website sales. Google, in turn, benefits by placing the most relevant ads in the most desirable locations, which increases the likelihood of a high click-through rate and leads to increased advertising revenue.

An advertiser must register for a Google AdWords account before bidding on a keyword. Under AdWords' boilerplate terms and conditions, the account holder must agree to assume responsibility for its selected keywords, for all advertising content, and for "ensuring that [its] use of the keywords does not violate any applicable laws." J.A. 4081. Account holders must also agree to refrain from "advertis[ing] anything illegal or engag[ing] in any illegal or fraudulent business practice." J.A. 2382.

Prior to 2004, Google's policy precluded both the use of trademarks in the text of an advertisement and the use of trademarks as keywords upon request of the trademark owner. In 2004, Google loosened its trademark usage policy to allow the use of third-party trademarks as keywords even over the objection of the trademark owner. Google later even introduced a trademark-specific keyword tool that suggested relevant trademarks for Google's advertising clients to bid on as keywords. Google, however, continued to block the use of trademarks in the actual advertisement text at the request of

a trademark owner. At that time, Google's internal studies suggested the unrestricted use of trademarks in the text of an advertisement might confuse Internet users.

Finally, in 2009, Google changed its policy to permit the limited use of trademarks in advertising text in four situations: (1) the sponsor is a reseller of a genuine trademarked product; (2) the sponsor makes or sells component parts for a trademarked product; (3) the sponsor offers compatible parts or goods for use with the trademarked product; or (4) the sponsor provides information about or reviews a trademarked product. Google's policy shift came after it developed the technology to automatically check the linked websites to determine if the sponsor's use of the trademark in the ad text was legitimate.³

Rosetta Stone contends that Google's policies concerning the use of trademarks as keywords and in ad text created not only a likelihood of confusion but also actual confusion as well, misleading Internet users into purchasing counterfeit ROSETTA STONE software. Moreover, Rosetta Stone alleges that it has been plagued with counterfeiters since Google announced its policy shift in 2009. According to Rosetta Stone, between September 3, 2009, and March 1, 2010, it was forced to report 190 instances to Google in which one of Google's sponsored links was marketing counterfeit ROSETTA STONE products.

Rosetta Stone filed this action against Google, asserting several claims: direct trademark infringement under the Lanham Act, *see* 15 U.S.C. § 1114(1)(a); contributory trademark infringement; (3) vicarious trademark infringement; (4) trade-

³This automated tool checks the "landing page"—*i.e.*, the page linked to the ad referring to the trademark—and determines whether the page uses the trademark prominently; whether the page contains commercial information suggesting the sponsor is a reseller; and whether the landing page is a review site.

mark dilution, *see* 15 U.S.C. § 1125(c)(1); and (5) unjust enrichment. Google filed a motion for summary judgment as to all claims except unjust enrichment. As to that claim, Google moved to dismiss. The district court granted Google's motion for summary judgment on all claims and granted the motion to dismiss the unjust enrichment claim. The district court denied Rosetta Stone's cross-motion for partial summary judgment.

II. Direct Infringement

The district court entered summary judgment against Rosetta Stone as to its direct trademark infringement claim, concluding (A) that there is not a genuine issue of fact as to whether Google's use of ROSETTA STONE created a likelihood of confusion; and (B) that the "functionality doctrine" shielded Google from liability in any event. We conclude that neither ground can sustain the summary judgment order as to this claim. Accordingly, we vacate the district court's order as it pertains to the direct infringement claim and remand for further proceedings.

A. Likelihood of Confusion

To establish trademark infringement under the Lanham Act, a plaintiff must prove: (1) that it owns a valid mark; (2) that the defendant used the mark "in commerce" and without plaintiff's authorization; (3) that the defendant used the mark (or an imitation of it) "in connection with the sale, offering for sale, distribution, or advertising" of goods or services; and (4) that the defendant's use of the mark is likely to confuse consumers. 15 U.S.C. § 1114(a); *see Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 259 (4th Cir. 2007); *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359, 364 (4th Cir. 2001).

According to the district court, Google did not dispute that Rosetta Stone was able to surmount the summary judgment

barrier on all of the infringement elements except the likelihood of confusion element. *See Rosetta Stone*, 730 F. Supp. 2d at 540-41. On appeal, Google does not take issue with this statement.⁴ Thus, we assume for purposes of this appeal that Google's policy permitting advertisers to use Rosetta Stone's marks as keywords in the AdWords program and to use Rosetta Stone's marks in the text of advertisements constituted an unauthorized use "in commerce" and "in connection with the sale, offering for sale, distribution, or advertising of any goods or services." 15 U.S.C. § 1114(1)(a). The only question for us on Rosetta Stone's direct trademark infringement claim is whether there is sufficient evidence for a finder of fact to conclude that Google's "use" of the mark in its AdWords program is "likely to produce confusion in the minds of consumers about the origin of the goods or services in question." *CareFirst of Md., Inc. v. First Care, P.C.*, 434 F.3d 263, 267 (4th Cir. 2006) (internal quotation marks omitted).

This court has articulated at least nine factors that generally are relevant to the "likelihood of confusion" inquiry:

- (1) the strength or distinctiveness of the plaintiff's mark as actually used in the marketplace;
- (2) the similarity of the two marks to consumers;
- (3) the similarity of the goods or services that the marks

⁴We note, however, that Google, in its memorandum filed in support of its motion for summary judgment, argued that it had not "used" Rosetta Stone's marks as contemplated by 15 U.S.C. § 1114(a), but rather had merely sold advertising space to others who were "using" the mark. J.A. 4103. And, we see nothing in the hearing transcript suggesting that Google conceded that it "used" the mark "in commerce" and "in connection with the sale, offering for sale, distribution, or advertising of any goods or services." 15 U.S.C. § 1114(1)(a). Since it is not an issue in this appeal, we express no opinion today as to whether Google "used" these marks as contemplated by the Lanham Act. *See, e.g., Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 129-31 (2d Cir. 2009) (holding that Google's auctioning of trademarks qualifies as a "use in commerce").

identify; (4) the similarity of the facilities used by the markholders; (5) the similarity of advertising used by the markholders; (6) the defendant's intent; (7) actual confusion; (8) the quality of the defendant's product; and (9) the sophistication of the consuming public.

George & Co., LLC v. Imagination Entm't Ltd., 575 F.3d 383, 393 (4th Cir. 2009). Although summary judgment on the likelihood of confusion issue is certainly permissible in appropriate cases, we have noted this is "an inherently factual issue that depends on the facts and circumstances in each case." *Lone Star Steakhouse & Saloon, Inc. v. Alpha of Va., Inc.*, 43 F.3d 922, 933 (4th Cir. 1995) (internal quotation marks omitted).

The district court indicated that "only three of the nine confusion factors are in dispute: (1) defendant's intent; (2) actual confusion; and (3) the consuming public's sophistication." *Rosetta Stone*, 730 F. Supp. 2d at 541. Weighing both Rosetta Stone's evidence and Google's rebuttal evidence, the district court concluded that all three "disputed" factors favored Google. The district court then stated that it had "[b]alanc[ed] all of the disputed likelihood of confusion factors, . . . [and] conclude[d] that Google's use of the Rosetta Stone Marks d[id] not amount to direct trademark infringement." *Id.* at 545. On appeal, Rosetta Stone argues that the district court failed to consider the effect of the other "undisputed" confusion factors, suggesting that all of these factors favor Rosetta Stone. Rosetta Stone also contends that there was sufficient evidence to create a genuine issue of fact as to whether the three "disputed" confusion factors favored Google or Rosetta Stone. We address these arguments in turn.

1. Failure to Address All Factors

Rosetta Stone contends that the district court's failure to consider all nine of the traditional likelihood-of-confusion

factors was reversible error. We cannot agree. This judicially created list of factors is not intended to be exhaustive or mandatory. *See Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir. 1984) (setting forth factors one through seven); *see also Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 463–64 (4th Cir. 1996) (identifying factors eight and nine). These "factors are not always weighted equally, and not all factors are relevant in every case." *Louis Vuitton*, 507 F.3d at 259–60. In fact, "there is no need for each factor to support [the plaintiff's] position on the likelihood of confusion issue." *Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 171 (4th Cir. 2006). Rather, the confusion "factors are only a guide—a catalog of various considerations that may be relevant in determining the ultimate statutory question of likelihood of confusion." *Anheuser-Busch, Inc. v. L & L Wings, Inc.*, 962 F.2d 316, 320 (4th Cir. 1992). Accordingly, there is no hard and fast rule that obligates the district court to discuss each non-mandatory factor.

This is especially true when the offending use of the plaintiff's trademark is referential or nominative in nature. *See Century 21 Real Estate Corp. v. Lendingtree, Inc.*, 425 F.3d 211, 217 (3d Cir. 2005). Unlike the typical infringement fact-pattern wherein the defendant "passe[s] off another's mark as its own" and "confus[es] the public as to precisely whose goods are being sold," *id.*, a nominative use is one in which the defendant uses the plaintiff's trademark to identify the plaintiff's own goods, *see Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 102 (2d Cir. 2010), and "makes it clear to consumers that the plaintiff, not the defendant, is the source of the trademarked product or service," *Century 21*, 425 F.3d at 220; *see Tiffany*, 600 F.3d at 102 (explaining that a "nominative fair use" does not create "confusion about the source of [the] defendant's product" (internal quotation marks omitted)). An example of this type of use would be where an automobile repair shop specializing in foreign vehicles runs an advertisement using the trademarked names of various makes and models to highlight the kind of cars it repairs. *See New Kids*

On The Block v. News Am. Publ'g, Inc., 971 F.2d 302, 306-07 (9th Cir. 1992).

In the context of a referential or nominative type of use, the application of the traditional multi-factor test is difficult because often many of the factors "are either unworkable or not suited or helpful as indicators of confusion in this context." *Century 21*, 425 F.3d at 224; see *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 801 (9th Cir. 2002). For example, the first two factors in our list—the similarity of the marks and the strength of the plaintiff's mark—are clearly of limited value for assessing the kind of use at issue here. Consideration of the similarity of the marks will *always* suggest the presence of consumer confusion—the mark used will always be *identical* "because, by definition, nominative use involves the use of *another's* trademark in order to describe the trademark owner's *own* product." *Century 21*, 425 F.3d at 224. The similarity factor does not account for context and "lead[s] to the incorrect conclusion that virtually all nominative uses are confusing." *Playboy Enters.*, 279 F.3d at 801.

The strength of the plaintiff's mark is also of limited probative value as to the confusion created by a nominative use. When a defendant creates an association between its goods or services and plaintiff's mark, the strength of the mark is relevant since encroachment upon a strong mark is more likely to cause confusion. See *CareFirst of Md.*, 434 F.3d at 270 ("A strong trademark is one that is rarely used by parties other than the owner of the trademark, while a weak trademark is one that is often used by other parties." (internal quotation marks omitted)). Of course, in the nominative use context, the defendant is not passing off its products under the plaintiff's mark but rather is using plaintiff's mark to refer to plaintiff's own products. The strength of the mark is often not informative as to confusion in this context. See *Century 21*, 425 F.3d at 225.

The district court also did not address the two factors relating to the trademarked goods—the similarity of the parties'

goods and services and the quality of the defendant's goods. Because Google offers no products or services under Rosetta Stone's mark, these factors are irrelevant in this context.

The final two factors not addressed by the district court—the similarity of facilities and the similarity of advertising—are likewise of no relevance here. When considering the similarity of facilities, courts are trying to determine if confusion is likely based on "how and to whom the respective goods of the parties are sold," and the key question is whether "both products [are] sold in the same 'channels of trade.'" 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 24:51 [hereinafter *McCarthy on Trademarks*]; see *Sara Lee Corp.*, 81 F.3d at 466 (similarity of distribution channels favored confusion where the parties' products were sold, "often side-by-side," in the same mass merchandising outlets). As Google distributes no respective product via the Internet or other outlets, this factor does not aid the likelihood-of-confusion analysis in this case.

We hasten to add that we are not adopting a position about the viability of the nominative fair-use doctrine as a defense to trademark infringement or whether this doctrine should formally alter our likelihood-of-confusion test in some way. That question has not been presented here and we leave it for another day. We have merely attempted to highlight the problems inherent in the robotic application of each and every factor in a case involving a referential, nontrademark use. Accordingly, the district court did not commit reversible error in failing to address every factor. In the future, however, a district court opting not to address a given factor or group of factors should provide at least a brief explanation of its reasons.

2. Remaining "Disputed" Factors: Genuine Issues of Fact

Nevertheless, we agree that summary judgment should not have been granted. As explained in the discussion that fol-

lows, the district court did not properly apply the summary judgment standard of review but instead viewed the evidence much as it would during a bench trial.

(a) Intent

The district court concluded that no reasonable trier of fact could find that Google intended to create confusion by permitting the use of ROSETTA STONE in the text of sponsored links or as keywords in Google's AdWords program. The court found it especially significant that "there is no evidence that Google is attempting to pass off its goods or services as Rosetta Stone's." *Id.* at 541.

The record shows that prior to 2004, Google did not allow the use of trademarks as keyword search triggers for unauthorized advertisers or in the body or title of the text of an advertisement. In 2004, Google loosened its restrictions on the use of trademarks as keywords to "[p]rovide users with more choice and greater access to relevant information." J.A. 4264. The underlying reason was largely financial, as Google's research showed that "[a]bout 7% [of its] total revenue [was] driven by [trademark]ed keywords." J.A. 4265. With the policy shift, Google understood that "[t]here [would be] a slight increase in risk that we and our partners will be the subject of lawsuits from unhappy trademark owners." J.A. 4271. At that time, however, Google "continue[d] to prevent advertisers from using . . . trademarks in their *ad text* or *ad titles* unless the advertiser is authorized to do so by the trademark owner." J.A. 4263. Indeed, internal studies performed by Google at this time suggested that there was significant source confusion among Internet searchers when trademarks were included in the title or body of the advertisements.

Nonetheless, Google shifted its policy again in 2009, telling its customers and potential customers that "we are adjusting our trademark policy . . . to allow some ads to use trademarks in the ad text. Under certain criteria, you can use trademark

terms in your ad text . . . even if you don't own that trademark or have explicit approval from the trademark owner to use it." J.A. 4383. Google expected a substantial boost in revenue from the policy change as well as an uptick in litigation from trademark owners. The record does not contain further Google studies or any other evidence suggesting that in 2009 source confusion relating to the use of trademarks in the body of an advertisement was any less significant than in 2004. Viewing the evidence and all reasonable inferences in a light most favorable to Rosetta Stone, as we are required to do on a motion for summary judgment, we conclude that a reasonable trier of fact *could* find that Google intended to cause confusion in that it acted with the knowledge that confusion was very likely to result from its use of the marks.

(b) Actual Confusion

(i) Actual Purchaser Confusion

Rosetta Stone presented both survey and anecdotal evidence of actual confusion in connection with Google's use of trademarks in its AdWords program. *See George & Co.*, 575 F.3d at 398 ("Actual confusion can be demonstrated by both anecdotal and survey evidence."). Both types of evidence are relevant, and neither category is necessarily required to prove actual confusion. *See Tools USA & Equip. Co. v. Champ Frame Straightening Equip., Inc.*, 87 F.3d 654, 661 (4th Cir. 1996).

First, the record includes the deposition testimony of five consumers who attempted to buy a ROSETTA STONE software package via the Internet in 2009 after Google began permitting use of ROSETTA STONE and other trademarks in the text of the sponsored links. Each of these would-be customers purchased bogus ROSETTA STONE software from a sponsored link that they mistakenly believed to be either affiliated with Rosetta Stone or authorized by Rosetta Stone to resell or distribute genuine software. In each instance, the customer

received fake software that would not load onto his or her computer or was so faulty after loading as to be altogether useless. Each witness testified that he or she called Rosetta Stone directly, believing that Rosetta Stone would assist because it was a defective genuine product or that Rosetta Stone had empowered the reseller to offer its products. Typical of this set of witnesses was Steve Dubow, a college-educated founder and owner of a software company. Mr. Dubow testified that he wanted to learn Spanish and, after conducting his own research on the Internet, concluded that the ROSETTA STONE brand was best for him. Mr. Dubow then described how he arrived at the decision to purchase from "bossdisk.com," one of the sponsored links that was selling counterfeit ROSETTA STONE products:

. . . At the time that you entered the terms . . . "Rosetta Stone" in the Google search engine . . . in October 2009, do you recall whether any advertisements appeared on the first page?

. . . [W]hat do you mean by advertisements?

Q. Links that appear to you to be companies selling goods in response to your query.

A. Yes. . . . There were quite a few under that description, yes.

Q. What do you recall seeing on the search page results when you entered Rosetta Stone in the Google search engine?

A. I saw a number of sites . . . advertising Rosetta Stone software for a number of different discounted prices. What attracted us to this particular site was that they presumed to be a Rosetta Stone reseller reselling OEM or original equipment manufactured product.

...

Q. What do you mean by reseller?

A. That they were a . . . sanctioned reseller of Rosetta Stone product.

J.A. 4614c-4615a. Once Mr. Dubow received the shipment from bossdisk.com and determined that the software appeared to need a key code to become fully operational, he called Rosetta Stone because he "thought that since this company was a representative perhaps they just forgot to put the welcome kit in this package and they would have a key." J.A. 4620c.

The district court dismissed this anecdotal customer testimony as evidence of actual confusion for several reasons. We agree with Rosetta Stone that none of these reasons provide a proper basis for rejecting this testimony completely.

First, the district court concluded that the witnesses indicated they knew they were not purchasing directly from Rosetta Stone's site and, therefore, "none of the Rosetta Stone witnesses were confused about the source of their purchase but only as to whether what they purchased was genuine or counterfeit." *Rosetta Stone*, 730 F. Supp. 2d at 544. More than just source confusion is at issue in an infringement claim since "[t]he unauthorized use of a trademark infringes the trademark holder's rights if it is likely to confuse an ordinary consumer as to the source *or sponsorship* of the goods." *Doughney*, 263 F.3d at 366 (emphasis added) (internal quotation marks omitted). "The confusion that is remedied by trademark and unfair competition law is confusion not only as to source, but also as to affiliation, connection or sponsorship." 4 *McCarthy on Trademarks* § 23:8.

The district court also reasoned that none of the five witnesses were confused by a sponsored link "that conformed to

Google's policies—*i.e.*, used the Rosetta Stone Marks in connection with advertising genuine goods." *Rosetta Stone*, 730 F. Supp. 2d at 543. This is no basis, however, for rejecting this testimony. Whether the sponsored link conforms to Google's policy is not an issue that bears upon whether the consuming public, which is not privy to these policies, is confused by the *actual* use of the trademarks in sponsored links. What matters is whether "the defendant's *actual practice* is likely to produce confusion in the minds of consumers about the origin of the goods or services in question." *CareFirst of Md.*, 434 F.3d at 267 (emphasis added) (internal quotation marks omitted).

Finally, the district court dismissed the anecdotal evidence as *de minimis* given that there were only five instances of actual confusion out of more than "100,000 impressions over six years." *Rosetta Stone*, 730 F. Supp. 2d at 543. And, indeed, "[e]vidence of only a small number of instances of actual confusion may be dismissed as *de minimis*" where the number of opportunities for confusion is great. *George & Co.*, 575 F.3d at 398; *see* 4 McCarthy § 23:14 ("If there is a very large volume of contacts or transactions which could give rise to confusion and there is only a handful of instances of actual confusion, the evidence of actual confusion may receive relatively little weight."). Rosetta Stone presented the deposition testimony of five individuals who had experienced actual confusion—the maximum number of "actual confusion" depositions permitted by the district court in this case. The record, however, contains other evidence of actual confusion. Rosetta Stone presented evidence that from April 1, 2009, through December 9, 2009, Rosetta Stone's customer care center received 123 complaints "from individuals who ha[d] purchased pirated/counterfeit software believing the software to be genuine Rosetta Stone product," J.A. 5427, and Rosetta Stone received 139 additional complaints from December 9, 2009, through March 8, 2010. Although this evidence does not indicate whether each customer logging a complaint made the purchase via a sponsored link, it is reasonable, for pur-

poses of summary judgment, to infer that a great number of these individuals were confused by the apparent relationship between Rosetta Stone and the sponsored link given that Google began allowing trademarks to be displayed in the ad text in 2009 and in light of the evidence showing a substantial "proliferation of sponsored links to pirate/counterfeit sites." *Id.*

(ii) Google's In-House Studies and Google's Corporate Designees

The record also includes various in-house studies conducted by Google "to analyze user confusion (if any) associated with ads using [trademark] terms." J.A. 4362. One of the studies showed that "the likelihood of confusion remains high" when trademark terms are used in the title or body of a sponsored link appearing on a search results page. J.A. 4366. The study recommended "that the only effective [trademark] policy . . . is: (1) [to] [a]llow [trademark] usage for keywords; (2) [but] not allow [trademark] usage in ad text – title or body." *Id.* And, in fact, Google's official policy change in 2004 that continued to prohibit trademark usage in ad text was based, in part, on these internal studies. The district court concluded these studies were not evidence of actual confusion because the studies did not test consumer impressions of the ROSETTA STONE mark specifically, but of a broad cross-section of 16 different brand names of varying strengths. We conclude that these studies, one of which reflected that "94% of users were confused at least once," are probative as to actual confusion in connection with Google's use of trademarks; indeed, Google determined that there was "[n]o difference between strong and weak trademarks" with respect to confusion. J.A. 4375.

Additionally, when testifying on behalf of Google as its Rule 30(b)(6) designees, two of Google's in-house trademark attorneys were shown a Google search results page for the keyword phrase "Rosetta Stone," and they were unable to

determine without more research which sponsored links were authorized resellers of ROSETTA STONE products. The district court rejected this evidence as proof of actual confusion because the testimony appeared to the district court to "reflect a mere uncertainty about the source of a product rather than actual confusion." *Rosetta Stone*, 730 F. Supp. 2d at 544. "[U]ncertain[ty about] the origin" of a product, however, is quintessential actual confusion evidence. *Sara Lee Corp.*, 81 F.3d at 466. The district court should have accepted it as evidence of actual confusion for summary judgment purposes; whether it is entitled to enough weight to carry the day on the ultimate issue is a matter for trial.

(iii) Dr. Kent Van Liere's Report

Rosetta Stone also presented a consumer confusion survey report from Dr. Kent Van Liere. Dr. Van Liere is an expert in market analysis and consumer behavior, with "experience conducting and using focus groups and surveys to measure consumer opinions . . . regarding products and services," J.A. 5448, and "design[ing] and review[ing] studies on the application of sampling and survey research methods in litigation for a variety of matters including trademark/trade dress infringement," J.A. 5449. Dr. Van Liere "tested for actual confusion regarding the appearance of sponsored links when consumers conducted a Google search for 'Rosetta Stone.'" J.A. 5449. Based on this study, Dr. Van Liere concluded that

a significant portion of consumers in the relevant population are likely to be confused as to the origin, sponsorship or approval of the "sponsored links" that appear on the search results page after a consumer has conducted a Google search using a Rosetta Stone trademark as a keyword and/or are likely to be confused as to the affiliation, endorsement, or association of the websites linked to those "sponsored links" with Rosetta Stone.

J.A. 5450. Specifically, Dr. Van Liere's survey "yield[ed] a net confusion rate of 17 percent"—that is, "17 percent of consumers demonstrate actual confusion." J.A. 5459. This result is clear evidence of actual confusion for purposes of summary judgment. *Cf. Sara Lee Corp.*, 81 F.3d at 467 n.15 (suggesting that survey evidence "clearly favors the defendant when it demonstrates a level of confusion much below ten percent" but noting caselaw that "hold[s] that survey evidence indicating ten to twelve percent confusion was sufficient to demonstrate actual confusion").

The district court, however, concluded that the survey report was "unreliable evidence of actual confusion because the result contained a measure of whether respondents thought Google 'endorsed' a Sponsored Link, a non-issue." *Rosetta Stone*, 730 F. Supp. 2d at 544. Thus, the court did not consider this survey evidence to be viable proof of actual confusion for much the same reason it rejected the deposition testimony of the five individuals who purchased counterfeit software. As we previously stated, however, trademark infringement creates a likelihood of "confusion not only as to source, but also as to affiliation, connection or sponsorship." 4 *McCarthy on Trademarks* § 23:8. Accordingly, this evidence should have been added to the other evidence of actual confusion to be considered in the light most favorable to Rosetta Stone.

(c) Sophistication of the Consuming Public

The district court concluded that the consumer sophistication factor also favored a finding that Google's use of the marks is not likely to create confusion. Noting the substantial cost of Rosetta Stone's products ("approximately \$259 for a single-level package and \$579 for a three-level bundle"), as well as the time commitment required to learn a foreign language, the district court concluded that the relevant market of potential purchasers "is comprised of well-educated consumers" who "are more likely to spend time searching and learn-

ing about Rosetta Stone's products." *Rosetta Stone Ltd.*, 730 F. Supp. 2d at 545. From there, the court inferred consumer sophistication—consumers willing to pay Rosetta Stone's prices and, presumably, make the required time commitment "would tend to demonstrate that they are able to distinguish between the Sponsored Links and organic results displayed on Google's search results page." *Id.*

The district court drew this inference relying on *Star Industries, Inc. v. Bacardi & Co. Ltd.*, 412 F.3d 373 (2d Cir. 2005), in which the Second Circuit noted that a court may "reach a conclusion about consumer sophistication based solely on the nature of the product or its price." *Id.* at 390. This is correct if, as in *Star Industries*, the court is making findings of fact on the likelihood of confusion issue following a bench trial. *See id.* at 379. In the more relevant context of a summary judgment motion, however, that is not the case, as "[c]redibility determinations, the weighing of the evidence, and the drawing of legitimate inferences from the facts are jury functions, not those of a judge . . . ruling on a motion for summary judgment." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986).

We conclude that there is sufficient evidence in the record to create a question of fact as to consumer sophistication that cannot be resolved on summary judgment. The record includes deposition testimony from Rosetta Stone customers who purchased counterfeit ROSETTA STONE software from sponsored links that they believed to be either affiliated with or authorized by Rosetta Stone to sell genuine software. The evidence also includes an internal Google study reflecting that even well-educated, seasoned Internet consumers are confused by the nature of Google's sponsored links and are sometimes even unaware that sponsored links are, in actuality, advertisements. At the summary judgment stage, we cannot say on this record that the consumer sophistication factor favors Google as a matter of law. There is enough evidence,

if viewed in a light most favorable to Rosetta Stone, to find that this factor suggests a likelihood of confusion.

In sum, we conclude that there is sufficient evidence in the record to create a question of fact on each of the "disputed" factors—intent, actual confusion, and consumer sophistication—to preclude summary judgment. Because the district court's likelihood-of-confusion analysis was limited only to these "disputed" factors, the likelihood-of-confusion issue cannot be resolved on summary judgment, and we vacate the district court's order in this regard.⁵

B. Functionality

As an alternate to its conclusion that Rosetta Stone failed to forecast sufficient evidence to establish a likelihood of confusion, the district court held that the use of the ROSETTA STONE marks as keywords was protected by the "functionality doctrine" and, as such, was non-infringing as a matter of law. *See Rosetta Stone*, 730 F. Supp. 2d at 545. Because the

⁵We reject Rosetta Stone's contention that it is entitled to a presumption of confusion on the infringement claim and that the district court erred in failing to afford such a presumption. In this circuit, "a presumption of likelihood of consumer confusion" arises from the "intentional copying" of plaintiff's trade dress or trademark by a defendant. *See, e.g., Osem Food Indus. Ltd. v. Sherwood Foods, Inc.*, 917 F.2d 161, 164 (4th Cir. 1990); *Shakespeare Co. v. Silstar Corp. of Am., Inc.*, 110 F.3d 234, 239 (4th Cir. 1997). The "presumption arises only when the copier *inten[ds] to exploit the good will* created by an already registered trademark." *Shakespeare*, 110 F.3d at 239 (internal quotation marks omitted). Thus, where "one produces counterfeit goods in an apparent attempt to capitalize upon the popularity of, and demand for, another's product, there is a presumption of a likelihood of confusion." *Polo Fashions, Inc. v. Craftex, Inc.*, 816 F.2d 145, 148 (4th Cir. 1987). We apply such a presumption because "one who tries to deceive the public should hardly be allowed to prove that the public has not in fact been deceived." *Shakespeare*, 110 F.3d at 239. Here, however, there is absolutely no evidence that Google intentionally copied or adopted Rosetta Stone's mark in an effort to pass off its own goods or services under the ROSETTA STONE mark.

functionality doctrine does not apply in these circumstances, however, we conclude that the district court erred in awarding summary judgment to Google on this basis.

The functionality doctrine developed as a common law rule prohibiting trade dress or trademark rights in the functional features of a product or its packaging. *See Wilhelm Pudenz, GmbH v. Littlefuse, Inc.*, 177 F.3d 1204, 1207 (11th Cir. 1999); 1 *McCarthy* § 7:63. The purpose of the doctrine is to preserve the distinction between the realms of trademark law and patent law:

The functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature. It is the province of patent law, not trademark law, to encourage invention by granting inventors a monopoly over new product designs or functions for a limited time, after which competitors are free to use the innovation. If a product's functional features could be used as trademarks, however, a monopoly over such features could be obtained without regard to whether they qualify as patents and could be extended forever (because trademarks may be renewed in perpetuity).

Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 164-65 (1995) (internal citation omitted); *see Georgia-Pacific Consumer Prods., LP v. Kimberly-Clark Corp.*, 647 F.3d 723, 727 (7th Cir. 2011) (explaining that "patent law alone protects useful designs from mimicry; the functionality doctrine polices the division of responsibilities between patent and trademark law by invalidating marks on useful designs" (internal quotation marks omitted)).

In 1998, Congress adopted the functionality doctrine by explicitly prohibiting trademark registration or protection

under the Lanham Act for a functional product feature, *see* 15 U.S.C. § 1052(e)(5) (prohibiting registration of a mark which "comprises any matter that, as a whole, is functional"), and by making functionality a statutory defense to an incontestably registered mark, *see* 15 U.S.C. § 1115(b)(8); *see generally* 1 *McCarthy* § 7:63. Although the Lanham Act does not define the term "functional," *see* 15 U.S.C. § 1127, the Supreme Court has explained that "a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850 n.10 (1982); *see TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 32-33 (2001). Under *Inwood's* traditional rule, a product feature is functional if it is "the reason the device works," *Board of Supervisors v. Smack Apparel Co.*, 550 F.3d 465, 486 (5th Cir. 2008) (internal quotation marks omitted), or it "constitute[s] the actual benefit that the customer wishes to purchase, as distinguished from an assurance that a particular entity made, sponsored, or endorsed a product," *Clamp Mfg. Co. v. Enco Mfg. Co.*, 870 F.2d 512, 516 (9th Cir. 1989) (internal quotation marks omitted); *see I.P. Lund Trading v. Kohler Co.*, 163 F.3d 27, 37 n.5 (1st Cir. 1998). ("[F]unctional features or designs should be defined as those that are driven by practical, engineering-type considerations such as making the product work more efficiently, with fewer parts and longer life, or with less danger to operators, or be shaped so as to reduce expenses of delivery or damage in shipping." (internal quotation marks omitted)).⁶

⁶Elaborating on the idea that the functionality doctrine keeps trademark law from "inhibiting legitimate competition by allowing a producer to control a useful product feature," *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995), the Supreme Court noted that if a feature is functional, "exclusive use . . . would put competitors at a significant non-reputation-related disadvantage," *id.* at 165. However, "[w]here the design is functional under the *Inwood* formulation there is no need to proceed further to consider if there is a competitive necessity for the feature." *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23, 33 (2001).

The district court did not conclude, nor could it, that Rosetta Stone's marks were functional product features or that Rosetta Stone's *own use* of this phrase was somehow functional. Instead, the district court concluded that trademarked keywords—be it ROSETTA STONE or any other mark—are "functional" when entered into Google's AdWords program:

The keywords . . . have an essential indexing function because they enable Google to readily identify in its databases relevant information in response to a web user's query . . . [T]he keywords also serve an advertising function that benefits consumers who expend the time and energy to locate particular information, goods, or services, and to compare prices.

Rosetta Stone, 730 F. Supp. 2d at 546.

The functionality doctrine simply does not apply in these circumstances. The functionality analysis below was focused on whether Rosetta Stone's mark made *Google's* product more useful, neglecting to consider whether the mark was *functional as Rosetta Stone used it*. Rosetta Stone uses its registered mark as a classic source identifier in connection with its language learning products. Clearly, there is nothing functional about Rosetta Stone's use of its own mark; use of the words "Rosetta Stone" is not essential for the functioning of its language-learning products, which would operate no differently if Rosetta Stone had branded its product "SPHINX" instead of ROSETTA STONE. *See Playboy Enters., Inc. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1030-31 (9th Cir. 2004) ("Nothing about the marks used to identify PEI's products is a functional part of the design of those products" since "PEI could easily have called its magazine and its models entirely different things without losing any of their intended function."). Once it is determined that the product feature—the word mark ROSETTA STONE in this case—is not functional, then the functionality doctrine has no application, and it is irrelevant whether Google's computer program func-

tions better by use of Rosetta Stone's nonfunctional mark. *See id.* at 1031 (concluding that "[t]he fact that the [word] marks make *defendants'* computer program more functional is irrelevant" where plaintiff used its word marks merely to identify its products).

As the case progresses on remand, Google may well be able to establish that its use of Rosetta Stone's marks in its AdWords program is not an infringing use of such marks; however, Google will not be able to do so based on the functionality doctrine. The doctrine does not apply here, and we reject it as a possible affirmative defense for Google.

III. Contributory Infringement

Rosetta Stone next challenges the district court's grant of summary judgment in favor of Google on the contributory trademark infringement claim. Contributory infringement is a "judicially created doctrine" that "derive[s] from the common law of torts," *Von Drehle*, 618 F.3d at 449, under which liability may be imposed upon those who facilitate or encourage infringement, *see 4 McCarthy on Trademarks* § 25:17. The Supreme Court explained in *Inwood Laboratories* that

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

456 U.S. at 854. It is not enough to have general knowledge that some percentage of the purchasers of a product or service is using it to engage in infringing activities; rather, the defendant must supply its product or service to "identified individuals" that it knows or has reason to know are engaging in trademark infringement. *See Sony Corp. of America v. Uni-*

versal City Studios, Inc., 464 U.S. 417, 439 n.19 (1984) (contributory trademark infringement requires a showing that the defendant "intentionally induc[ed] its customers to make infringing uses" of the marks or "suppl[ied] its products to identified individuals known by it to be engaging in continuing infringement" (internal quotation marks omitted)). Finally, for there to be liability for contributory trademark infringement, the plaintiff must establish underlying direct infringement. See *Von Drehle*, 618 F.3d at 451. In other words, there must necessarily have been an infringing use of the plaintiff's mark that was encouraged or facilitated by the defendant.

The district court recognized that Rosetta Stone had come forward with evidence relevant to its contributory infringement claim. The most significant evidence in this regard reflected Google's purported allowance of known infringers and counterfeiters to bid on the Rosetta Stone marks as keywords:

[The evidence included] a spreadsheet that Google received which reflects the dates when Rosetta Stone advised Google that a Sponsored Link was fraudulent, the domain names associated with each such Sponsored Link, the text of each Sponsored Link, and the date and substance of Google's response. As documented, from September 3, 2009 through March 1, 2010, Rosetta Stone notified Google of approximately 200 instances of Sponsored Links advertising counterfeit Rosetta Stone products. Rosetta Stone contends that even after being notified of these websites, Google continued to allow Sponsored Links for other websites by these same advertisers to use the Rosetta Stone Marks as keyword triggers and in the text of their Sponsored Link advertisements. For example, between October 2009 to December 2009, 110 different Sponsored Links purportedly selling Rosetta Stone products used "Rosetta Stone" as a

keyword trigger, and most of the Links included "Rosetta Stone" or "Rosettastone" in their display. Registered to the same individual, these 110 Links were displayed on 356,675 different search-results pages.

Rosetta Stone, 730 F. Supp. 2d at 547 (internal citations omitted).

Nevertheless, the district court indicated it was "unpersuaded" by this evidence. *Id.* at 547. The district court's conclusion was based largely on *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), in which the Second Circuit rejected a contributory trademark infringement claim against an Internet auction site, eBay, by a trademark owner, Tiffany, whose mark was being used by jewelry counterfeiters on eBay's site. The *record at trial* in that case contained evidence "demonstrat[ing] that eBay had *generalized* notice that some portion of the Tiffany goods sold on its website might be counterfeit," *id.* at 106, having received "thousands of [Notice of Claimed Infringement Forms] [Tiffany] filed with eBay alleging . . . that certain listings were counterfeit," *id.* The Second Circuit concluded that such evidence was insufficient to satisfy *Inwood's* "knows or has reason to know" requirement and that Tiffany "would have to show that eBay knew or had reason to know of *specific* instances of actual infringement beyond those that it addressed upon learning of them." *Id.* at 107 (emphasis added; internal quotation marks omitted). The Second Circuit noted, however, that had there been evidence of willful blindness, that would have satisfied the *Inwood* standard. *See id.* at 109. "[C]ontributory liability may arise where a defendant is (as was eBay here) made aware that there was infringement on its site but (unlike eBay here) ignored that fact." *Id.* at 110 n.15.⁷

⁷eBay maintained a "Verified Rights Owner ('VeRO') Program," which allowed trademark owners to report potentially infringing items so that eBay could remove the associated listings. *See Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 99 (2d Cir. 2010). The district court found that the trial evidence showed eBay promptly removed challenged listings from its website. *See id.* at 106.

Applying *Tiffany*, the district court concluded that Rosetta Stone failed to establish with the requisite specificity that Google knew or should have known of the infringing activity:

Comparing the evidence of knowledge attributed to eBay to the roughly 200 notices Google received of Sponsored Links advertising counterfeit Rosetta Stone products on its search results pages, the Court necessarily holds that Rosetta Stone has not met the burden of showing that summary judgment is proper as to its contributory trademark infringement claim.

See Rosetta Stone, 730 F. Supp. 2d at 549 (emphasis added). The court also noted that Google did not turn a blind eye to Rosetta Stone's complaints about counterfeiters, explaining that "[t]here is little Google can do beyond expressly prohibiting advertisements for counterfeit goods, taking down those advertisements when it learns of their existence, and creating a team dedicated to fighting advertisements for counterfeit goods." *Id.* at 548.

On appeal, Rosetta Stone argues that the district court misapplied the standard of review and incorrectly awarded summary judgment to Google where the evidence was sufficient to permit a trier of fact to find contributory infringement. We agree. In granting summary judgment to Google because "Rosetta Stone has not met the burden of showing that summary judgment is proper as to its contributory trademark infringement claim," the district court turned the summary judgment standard on its head. While it may very well be that Rosetta Stone was not entitled to summary judgment, that issue is not before us. The only question in this appeal is whether, viewing the evidence and drawing all reasonable inferences from that evidence in a light most favorable to Rosetta Stone, a reasonable trier of fact could find in favor of Rosetta Stone, the nonmoving party. *See Von Drehle*, 618 F.3d at 445. Of course, the *Tiffany* court did not view the evidence through the lense of summary judgment; rather, *Tiffany* involved an

appeal of judgment rendered after a lengthy bench trial. Because of its procedural posture, the district court in *Tiffany* appropriately weighed the evidence sitting as a trier of fact. Accordingly, *Tiffany* is of limited application in these circumstances, and the district court's heavy reliance on *Tiffany* was misplaced. We conclude that the evidence recited by the district court is sufficient to establish a question of fact as to whether Google continued to supply its services to known infringers. Accordingly, we vacate the district court's order to the extent it grants summary judgment in favor of Google on Rosetta Stone's contributory infringement claim.

IV. Vicarious Infringement

Rosetta Stone next challenges the district court's rejection of its vicarious liability theory. "Vicarious liability" in the trademark context is essentially the same as in the tort context: the plaintiff seeks to impose liability based on the defendant's relationship with a third party tortfeasor. Thus, liability for vicarious trademark infringement requires "a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product." *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992).

Rosetta Stone argues that the evidence proffered was sufficient to create a question of fact regarding whether Google jointly controls the appearance of the ads or sponsored links on Google's search-engine results page. This is not evidence, however, that Google acts jointly with any of the advertisers to control the counterfeit ROSETTA STONE products. Accordingly, we affirm the district court's grant of summary judgment in favor of Google on Rosetta Stone's vicarious liability claim.

V. Unjust Enrichment

Rosetta Stone contends that the district court improperly dismissed its claim for unjust enrichment under Virginia law.

The district court dismissed this claim on two grounds, concluding that Rosetta Stone failed to allege facts sufficient to state a claim of unjust enrichment, *see Rosetta Stone*, 732 F. Supp. 2d at 631-32, and that the Communications Decency Act (CDA), *see* 47 U.S.C. § 230(c)(1), bars the unjust enrichment claim, *see Rosetta Stone*, 732 F. Supp. 2d at 633. We conclude that Rosetta Stone failed to sufficiently plead the elements of its unjust enrichment claim and therefore affirm, albeit on reasoning different than that of the district court.

A cause of action for unjust enrichment in Virginia "rests upon the doctrine that a man shall not be allowed to enrich himself unjustly at the expense of another." *Kern v. Freed Co.*, 299 S.E.2d 363, 365 (Va. 1983) (internal quotation marks omitted); *see Nossen v. Hoy*, 750 F. Supp. 740, 744 (E.D. Va. 1990). "To avoid unjust enrichment, equity will effect a 'contract implied in law,' *i.e.*, a quasi contract, "requiring one who accepts and receives the services of another to make reasonable compensation for those services." *Po River Water and Sewer Co. v. Indian Acres Club of Thornburg, Inc.*, 495 S.E.2d 478, 114 (Va. 1998). A plaintiff asserting unjust enrichment must demonstrate the following three elements: "(1) he conferred a benefit on [the defendant]; (2) [the defendant] knew of the benefit and should reasonably have expected to repay [the plaintiff]; and (3) [the defendant] accepted or retained the benefit without paying for its value." *Schmidt v. Household Finance Corp.*, 661 S.E.2d 834, 838 (Va. 2008).

The district court concluded that Rosetta Stone failed to state a claim because it did not allege "facts which imply that [Google] promised to pay the plaintiff for the benefit received" or that there was "an understanding by Google that it owed Rosetta Stone revenue earned for paid advertisements containing the Rosetta Stone Marks." *Rosetta Stone*, 732 F. Supp. 2d at 631, 632. Failure to allege an implicit promise to pay, however, is not necessarily fatal to an implied contract theory. Virginia distinguishes between two types of implied

contracts: contracts that are implied-in-fact and contracts that are implied-in-law. An implied-in-fact contract is an actual contract that was not reduced to writing, but the court infers the existence of the contract from the conduct of the parties. *See Nossen*, 750 F. Supp. at 744. To recover under a contract "implied-in-fact," a plaintiff must allege "facts to raise an implication that the *defendant promised to pay* the plaintiff for such benefit." *Nedrich v. Jones*, 429 S.E.2d 201, 207 (Va. 1993) (internal quotation marks omitted & emphasis added).

By contrast, the concept of an implied-in-law contract, or quasi contract, applies only when there is not an actual contract or meeting of the minds. *See id.* We understand Rosetta Stone's unjust enrichment claim to be an implied-in-law contract claim; thus, the failure to allege that Google implicitly *promised* to pay is not fatal.

Nonetheless, this court can affirm the dismissal of the complaint "on any basis fairly supported by the record." *Eisenberg v. Wachovia Bank, N.A.*, 301 F.3d 220, 222 (4th Cir. 2002). We conclude that Rosetta Stone failed to allege facts showing that it "conferred a benefit" on Google for which Google "should reasonably have expected" to repay. According to Rosetta Stone, the keyword trigger auctions constitute the unauthorized sale of the ROSETTA STONE marks. Rosetta Stone alleges that through the auctions it conferred a benefit "involuntarily" on Google, and that Google "is knowingly using the goodwill established in [the] trademarks to derive . . . revenues." J.A. 197. Rosetta Stone, however, has not alleged *facts* supporting its general assertion that Google "should reasonably have expected" to pay for the use of marks in its keyword query process. Indeed, Rosetta Stone does not contend, and did not allege, that Google pays any other mark holder for the right to use a mark in its AdWords program. In our view, these allegations are insufficient to surmount even the minimal barrier presented by a motion to dismiss.⁸

⁸On appeal, Rosetta Stone clarified that its unjust enrichment claim arises from Google's business practice of selling trademarks as keywords

VI. Trademark Dilution

Rosetta Stone next challenges the district court's summary judgment order as to its trademark dilution claim. "Unlike traditional infringement law, the prohibitions against trademark dilution . . . are not motivated by an interest in protecting consumers." *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 429 (2003). Dilution is not concerned with confusion in the marketplace. Rather, dilution theory provides that "if customers or prospective customers see the plaintiff's famous mark used by other persons in a non-confusing way to identify other sources for many different goods and services, then the ability of the famous mark to clearly identify and distinguish only one source might be 'diluted' or weakened." 4 *McCarthy* § 24:67. Thus, trademark dilution is "the whittling away of the established trademark's selling power and value through its unauthorized use by others." *Tiffany*, 600 F.3d at 111 (internal quotation marks and alteration omitted).

Until 1996, trademark dilution was based entirely upon state law because federal law did not recognize the dilution doctrine. The Federal Trademark Dilution Act (FTDA) was passed in 1996, *see* Pub. L. No. 104-98, 109 Stat. 985 (1996), and was amended substantially in 2006 with the passage of the Trademark Dilution Revision Act of 2006, *see* Pub.L. No.

that trigger the display of sponsored links rather than the content of the sponsored links. In light of our conclusion that Rosetta Stone failed to state an unjust enrichment claim as to the use of its marks as keywords, we need not address the district court's alternative holding that, to the extent advertisers used Rosetta Stone's marks in the *text* of their ads, Google was entitled to "immunity" under the Communications Decency Act "because Google is no more than an interactive computer service provider and cannot be liable for the actions of third party advertisers." *Rosetta Stone Ltd. v. Google Inc.*, 732 F. Supp. 2d 628, 632 (E.D. Va. 2010) (footnote omitted); *see* 47 U.S.C. § 230(c)(1) ("No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.").

109-312, § 2, 120 Stat. 1730 (2006). The FTDA currently provides:

[T]he owner of a *famous* mark . . . shall be entitled to an injunction against another person who . . . commences use of a mark or trade name in commerce that is likely to cause *dilution by blurring* or *dilution by tarnishment* of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

15 U.S.C. § 1125(c)(1) (emphasis added). The statute defines "dilution by blurring" as the "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." 15 U.S.C. § 1125(c)(2)(B). "[D]ilution by tarnishment" is defined as the "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark." 15 U.S.C. § 1125(c)(2)(C). Thus, blurring under the federal statute involves the classic "whittling away" of the selling power and strength of the famous mark. Tarnishment, by contrast, creates consumer aversion to the famous brand—*e.g.*, when the plaintiff's famous trademark is "linked to products of shoddy quality, or is portrayed in an unwholesome or unsavory context" such that "the public will associate the lack of quality or lack of prestige in the defendant's goods with the plaintiff's unrelated goods." *Scott Fetzer Co. v. House of Vacuums Inc.*, 381 F.3d 477, 489 (5th Cir. 2004) (internal quotation marks omitted).

Finally, the FTDA expressly excludes from its reach "[a]ny fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services." 15 U.S.C. § 1125(c)(3)(A). The statute specifically provides comparative advertising and parody as examples of non-dilutive fair uses. *See* 15 U.S.C. § 1125(c)(3)(A)(i)&(ii). Accordingly, "fair use," though not

so labeled in the statute, essentially amounts to an affirmative defense against a claim of trademark dilution. *Cf. KP Permanent Make-Up v. Lasting Impression I, Inc.*, 543 U.S. 111, 117-18 (2004).

To state a prima facie dilution claim under the FTDA, the plaintiff must show the following:

- (1) that the plaintiff owns a famous mark that is distinctive;
- (2) that the defendant has commenced using a mark in commerce that allegedly is diluting the famous mark;
- (3) that a similarity between the defendant's mark and the famous mark gives rise to an association between the marks; and
- (4) that the association is likely to impair the distinctiveness of the famous mark or likely to harm the reputation of the famous mark.

Louis Vuitton, 507 F.3d at 264-65.

The district court granted summary judgment for Google on the dilution claim on two bases. First, the district court held that Rosetta Stone was required but failed to present evidence that Google was "us[ing] the Rosetta Stone Marks to identify its *own* goods and services." *Rosetta Stone*, 730 F. Supp. 2d at 551. To support its conclusion, the district court relied on the text of the statutory "fair use" defense that shields a person's "fair use" of plaintiff's mark so long as such use is not as "a designation of source for the person's own goods or services." 15 U.S.C. § 1125(c)(3)(A).

Second, the district court concluded that Rosetta Stone failed to show that Google's use of the mark was likely to

impair the distinctiveness of or harm the reputation of the ROSETTA STONE marks. Specifically, the district court indicated that there was "no evidence of dilution by blurring when Rosetta Stone's brand awareness has only increased since Google revised its trademark policy in 2004," and the court noted evidence that Rosetta Stone's "brand awareness equity also increased from 19% in 2005 to 95% in 2009." *Rosetta Stone*, 730 F. Supp. 2d at 551. In support of this conclusion, the district court read our decision in *Louis Vuitton* to establish the proposition that "no claim for dilution by blurring exists where a defendant's product only increases public identification of the plaintiff's marks." *Id.*

A. Google's Non-Trademark Use of Rosetta Stone's Marks

We first consider the district court's grant of summary judgment based on the lack of evidence that Google used the ROSETTA STONE marks "to identify its *own* goods and services." *Id.* The district court held that Rosetta Stone could not establish its dilution claim, specifically, the third element, without showing that Google used the mark as a source identifier for its products and services. *See id.* at 550-51. In support of this conclusion, however, the district court relied upon the "fair use" defense available under the FTDA. *See* 15 U.S.C. § 1125(c)(3)(A) ("Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services" is not "actionable as dilution by blurring or dilution by tarnishment.") Thus, the district court apparently concluded that Rosetta Stone was required, as part of its *prima facie* showing of dilution under the FTDA, to demonstrate that Google was using the mark as a source identifier for Google's own goods.

We view § 1125(c)(3)(A) as affording a fair use *defense* to defendants in dilution actions. *See Louis Vuitton*, 507 F.3d at 265-66. In our view, once the owner of a famous mark estab-

lishes a prima facie case of dilution by blurring or tarnishment, it falls to the defendant to demonstrate that its use constituted a "fair use . . . other than as a designation of source for the [defendant's] own goods or services," 15 U.S.C. § 1125(c)(3)(A). Whether Google used the mark other than as a source identifier and in good faith is an issue that Google, not Rosetta Stone, is obligated to establish. Thus, the district court erroneously required Rosetta Stone to demonstrate that Google was using the ROSETTA STONE mark as a source identifier for Google's own products.

More importantly, the district court erred when it ruled that Google was not liable for dilution simply because there was no evidence that Google uses the Rosetta Stone marks to identify Google's own goods and services. In essence, the district court made nontrademark use coextensive with the "fair use" defense under the FTDA. The statute, however, requires more than showing that defendant's use was "other than as a designation of source"—the defendant's use must also qualify as a "fair use." 15 U.S.C. § 1125(c)(3)(A). Indeed, if the district court's analysis is correct—that is, if a federal trademark dilution claim is doomed solely by the lack of proof showing that the defendant used the famous mark as a trademark—then the term "fair use" as set forth in § 1125(c)(3)(A) would be superfluous.

The district court failed to determine whether this was "fair use". Although the FTDA does not expressly define "fair use," the classic concept of "fair use" is well-established and incorporated as an affirmative defense to a claim of trademark infringement. *See* 15 U.S.C. § 1115(b)(4). The contours of the fair-use defense in the infringement context are therefore instructive on the classic or descriptive fair-use defense to a dilution claim. *See Sullivan v. Stroop*, 496 U.S. 478, 484 (1990) ("[I]dentical words used in different parts of the same act are intended to have the same meaning." (internal quotation marks omitted)).

Descriptive, or classic, fair use applies when the defendant is using a trademark "in its primary, descriptive sense" to describe the defendant's goods or services. *Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Mgmt., Inc.*, 618 F.3d 1025, 1031 (9th Cir. 2010) (internal quotation marks omitted); see 15 U.S.C. § 1115(b)(4). The FTDA also expressly includes "nominative" fair use as a defense. See 15 U.S.C. § 1125(c)(3)(A). Typically, nominative fair use comes into play when the defendant uses the famous mark to identify or compare the trademark owner's product. See *New Kids on the Block*, 971 F.2d at 308; 4 McCarthy § 23.11. Regardless of the type of fair use claimed by a defendant, a common component of fair use is good faith. See, e.g., *JA Apparel Corp. v. Abboud*, 568 F.3d 390, 401 (2d Cir. 2009) ("Assessment of this defense thus requires analysis of whether a given use was (1) other than as a mark, (2) in a descriptive sense, and (3) in good faith." (internal quotation marks omitted); *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 951 (7th Cir. 1992) ("To prevail on the fair use defense, the defendant must establish that it has used the plaintiff's mark, in good faith, to describe its (defendant's) product and otherwise than as a trademark." (internal quotation marks omitted)). In this context, "the inquiry into the defendant's good faith" concerns the question whether the user of a mark intended to create consumer confusion as to source or sponsorship." *JA Apparel Corp.*, 568 F.3d at 400; see also *Bd. of Supervisors v. Smack Apparel Co.*, 550 F.3d 465, 489 (5th Cir. 2008) (explaining that "in order to avail [itself] of the nominative fair use defense[,] the defendant (1) may only use so much of the mark as necessary to identify the product or service and (2) may not do anything that suggests affiliation, sponsorship, or endorsement by the markholder." (internal quotation marks omitted)).

In short, the court's summary judgment order omitted this analysis, impermissibly omitting the question of good faith and collapsing the fair-use defense into one question—whether or not Google uses the ROSETTA STONE

mark as a source identifier for its own products. Accordingly, we vacate the district court's summary judgment order and remand for reconsideration of Rosetta Stone's dilution claim. If the district court determines that Rosetta Stone has made a prima facie showing under the elements set forth in *Louis Vuitton*, 507 F.3d at 264-65, it should reexamine the nominative fair-use defense in light of this opinion.

B. Likelihood of Dilution

Alternatively, the district court held that Rosetta Stone failed to satisfy the fourth and final element of its trademark dilution claim requiring that the plaintiff show defendant's use is "likely to impair the distinctiveness of the famous mark or likely to harm the reputation of the famous mark." *Id.* at 265. The court based its conclusion solely on the fact that "Rosetta Stone's brand awareness ha[d] only increased since Google revised its trademark policy in 2004." *Rosetta Stone*, 730 F. Supp. 2d at 551. On the strength of this evidence, the district court concluded that "the distinctiveness of the Rosetta Stone Marks has not been impaired" and therefore that "Rosetta Stone cannot show that Google's trademark policy likely caused dilution by blurring." *Id.*

To determine whether the defendant's use is likely to impair the distinctiveness of the plaintiff's famous mark, the FTDA enumerates a non-exhaustive list of six factors that are to be considered by the courts:

In determining whether a mark or trade name is likely to cause dilution by blurring, the court may consider all relevant factors, including the following:

- (i) The degree of similarity between the mark or trade name and the famous mark.
- (ii) The degree of inherent or acquired distinctiveness of the famous mark.

(iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.

(iv) The degree of recognition of the famous mark.

(v) Whether the user of the mark or trade name intended to create an association with the famous mark.

(vi) Any actual association between the mark or trade name and the famous mark.

15 U.S.C. §1125(c)(2)(B). Although "[n]ot every factor will be relevant in every case, and not every blurring claim will require extensive discussion of the factors[,] . . . a trial court must offer a sufficient indication of which factors it has found persuasive and explain why they are persuasive." *Louis Vuitton*, 507 F.3d at 266.

The district court addressed only one factor—the degree of recognition of Rosetta Stone’s mark—and did not mention any other remaining statutory factor. The court’s reliance on *Louis Vuitton* for the proposition that no claim for dilution by blurring exists when there is evidence that public recognition of the defendants’ product increased was error. *Louis Vuitton* addressed a far different fact pattern, where the defendant’s fair use claim was based on parody, which Congress expressly included as a protected fair use under the FTDA so long as the mark being parodied is not being "used as a designation of source for the person’s own goods or services." See 15 U.S.C.A. § 1125(c)(3)(A)(ii). We concluded that a successful parody "might actually enhance the famous mark’s distinctiveness by making it an icon. The brunt of the joke becomes *yet more famous*." *Louis Vuitton*, 507 F.3d at 267 (4th Cir. 2007) (emphasis added). We disagree, therefore, the district court’s reading of *Louis Vuitton*. Under the FTDA, Rosetta Stone must show only a *likelihood* of dilution and need not

prove actual economic loss or reputational injury. *See id.* at 264 n.2. The decision below employed a truncated analysis that placed a very heavy emphasis upon whether there had been any actual injury suffered by Rosetta Stone's brand. On remand, the court should address whichever additional factors might apply to inform its determination of whether Google's use is likely to impair the distinctiveness of Rosetta Stone's mark. *See* 15 U.S.C. §1125(c)(2)(B).

C. When did Rosetta Stone's marks become famous?

Under the FTDA, the owner of a famous mark may obtain injunctive relief against any "person who, *at any time after* the owner's mark has become famous, *commences use* of a mark . . . in commerce that is likely to cause dilution." 15 U.S.C. § 1125(c)(1) (emphasis added). A threshold issue, therefore, is whether the plaintiff's mark became famous, if at all, before the defendant began using the mark in commerce. Although the district court held that Rosetta Stone's mark had become famous before Google began using it, "we are not limited to evaluation of the grounds offered by the district court to support its decision . . . [and] may affirm on any grounds apparent from the record." *Pitt Cnty. v. Hotels.com, L.P.*, 553 F.3d 308, 311 (4th Cir. 2009) (internal quotation marks omitted). Accordingly, we consider Google's argument that Rosetta Stone's marks were not famous in 2004 when Google allegedly began using the mark in commerce.

Under the statute, "a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner." 15 U.S.C. § 1125(c)(2)(A). This is not an easy standard to achieve. "[C]ourts agree that a mark must be truly prominent and renowned to be granted the extraordinary scope of exclusive rights created by the Federal Antidilution Act." 4 McCarthy § 24:104. "Because protection from dilution comes close to being a 'right in gross,' . . . the FTDA extends dilution protection only to those whose mark is a

'household name.'" *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1011 (9th Cir. 2004).

Additionally, for § 1125(c)(1) to apply, the defendant must have "commence[d]" a diluting use of the plaintiff's mark *after* the point at which the mark became famous. The policy basis for this rule "reflects the fair and equitable principle that one should not be liable for dilution by the use of a mark which was legal when first used." 4 McCarthy § 24:103. Professor McCarthy explains as follows:

[I]f at the time of first use, Zeta's mark did not dilute Alpha's mark because Alpha's mark was not then famous, Zeta's use will not at some future time become diluting and illegal solely because Alpha's mark later became "famous." That is, Alpha will not at some future time have a federal dilution claim against Zeta's mark. Thus, the junior user must be proven to have first used its mark after the time that plaintiff's mark achieved fame. . . .

This rule is modeled after that applied in traditional confusion cases where the plaintiff must prove secondary meaning. In those cases, the senior user must prove that secondary meaning in its mark was established prior to the junior user's first use. . . .

4 McCarthy § 24:103 (footnote omitted). Stated differently, the defendant's first diluting use of a famous mark "fixes the time by which famousness is to be measured" for purposes of the FTDA. *Nissan Motor Co.*, 378 F.3d at 1013.

The district court concluded that "Rosetta Stone Marks are famous and have been since at least 2009, when Rosetta Stone's brand awareness reached 75%." *Rosetta Stone*, 730 F. Supp. 2d at 550. The court explained that "[t]he Marks need not have been famous when Google revised its trademark policy in 2004. Instead, Rosetta Stone must only show that at any

time after its Marks became famous, Google began using a mark or trade name in commerce that was likely to cause dilution of the Rosetta Stone Marks." *Id.*

According to Google, however, even if ROSETTA STONE had become a famous brand by 2009, it was not famous when Google began its alleged facilitation of the use of ROSETTA STONE in 2004. Indeed, Rosetta Stone alleges in its Complaint that the use of ROSETTA STONE and other trademarks as keywords in Google's AdWords program "lessen[ed] the capacity of Rosetta Stone's famous and distinctive . . . Marks to distinguish Rosetta Stone's products and services from those of others, and has diluted the distinctive quality" of the marks. J.A. 56. The use of Rosetta Stone's mark as a keyword trigger began at least as early as 2004. Google points to survey evidence reflecting that, in 2005, two percent of the general population of Internet users recognized ROSETTA STONE without being prompted while 13 percent recognized ROSETTA STONE with prompting.

In response, Rosetta Stone argues that Google first began permitting the use of Rosetta Stone's mark in sponsored ad text in 2009, by which time it had become famous. Thus, Rosetta Stone's position is that the phrase "commences use" in § 1125(c)(1) refers to any diluting use in commerce, not merely the first. This argument, of course, undercuts Rosetta Stone's own Complaint, which clearly asserts that Google diluted Rosetta Stone's mark beginning in 2004 by permitting the use of trademarks such as ROSETTA STONE as keyword triggers. Rosetta Stone asks us to ignore this alleged diluting use for purposes of § 1125(c)(1). The statute does not permit the owner of a famous mark to pick and choose which diluting use counts for purposes of § 1125(c)(1). *See Nissan Motor Co.*, 378 F.3d at 1013 ("If . . . first use for purposes of § 1125(c) turned on whatever use the mark's owner finds particularly objectionable, owners of famous marks would have the authority to decide when an allegedly diluting use was objectionable, regardless of when the party accused of dilut-

ing first began to use the mark."). The fame of Rosetta Stone's mark, therefore, should be measured from 2004, when Rosetta Stone alleges Google's diluting use of its mark began.

Alternatively, Rosetta Stone suggests that it produced evidence showing that its mark was famous in 2004. It is, however, unclear from the voluminous record precisely which evidence reflects ROSETTA STONE's fame in 2004, and we think the better course is for the district court to handle this fact-intensive question of when Rosetta Stone's mark became famous in the first instance, particularly since other facets of the dilution claim will be reconsidered on remand. Thus, on remand, the district court should reconsider whether ROSETTA STONE was a famous mark for purposes of its dilution claim against Google. That will require the court first to determine when Google made its first ostensibly diluting use of the mark. Second, the court must decide whether Rosetta Stone's mark was famous at that point. In making the latter determination, the district court should assess fame in light of the relevant statutory factors, *see* 15 U.S.C. § 1125(c)(2)(A), as well as the strong showing required to establish fame under this statute, *see, e.g., I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 46 (1st Cir. 1998) (explaining that to satisfy the famousness requirement, "a mark had to be truly prominent and renowned" (internal quotation marks omitted)).

VII. Conclusion

For the foregoing reasons, we affirm the district court's order with respect to the vicarious infringement and unjust enrichment claims. We vacate, however, the district court's order with respect to Rosetta Stone's direct infringement, contributory infringement and dilution claims, and we remand the case for further proceedings on those three claims.

*AFFIRMED IN PART,
VACATED IN PART,
AND REMANDED*

ACPA
15 U.S.C. S.1125(d)

(d) Cyberpiracy prevention

(1)

(A) A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person—

(i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and

(ii) registers, traffics in, or uses a domain name that—

(I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;

(II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; or

(III) is a trademark, word, or name protected by reason of section 706 of title 18 or section 220506 of title 36.

(B)

(i) In determining whether a person has a bad faith intent described under subparagraph (A), a court may consider factors such as, but not limited to—

(I) the trademark or other intellectual property rights of the person, if any, in the domain name;

(II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;

(III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;

(IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;

(V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;

(VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;

(VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;

(VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and

(IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c).

(ii) Bad faith intent described under subparagraph (A) shall not be found in any case in which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.

(C) In any civil action involving the registration, trafficking, or use of a domain name under this paragraph, a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark.

(D) A person shall be liable for using a domain name under subparagraph (A) only if that person is the domain name registrant or that registrant's authorized licensee.

(E) As used in this paragraph, the term "traffics in" refers to transactions that include, but are not limited to, sales, purchases, loans, pledges, licenses, exchanges of currency, and any other transfer for consideration or receipt in exchange for consideration.

(2)

(A) The owner of a mark may file an in rem civil action against a domain name in the judicial district in which the domain name registrar, domain name registry, or other domain name authority that registered or assigned the domain name is located if—

(i) the domain name violates any right of the owner of a mark registered in the Patent and Trademark Office, or protected under subsection (a) or (c) of this section; and

(ii) the court finds that the owner—

(I) is not able to obtain in personam jurisdiction over a person who would have been a defendant in a civil action under paragraph (1); or

(II) through due diligence was not able to find a person who would have been a defendant in a civil action under paragraph (1) by—

(aa) sending a notice of the alleged violation and intent to proceed under this paragraph to the registrant of the domain name at the postal and e-mail address provided by the registrant to the registrar; and

(bb) publishing notice of the action as the court may direct promptly after filing the action.

(B) The actions under subparagraph (A)(ii) shall constitute service of process.

(C) In an in rem action under this paragraph, a domain name shall be deemed to have its situs in the judicial district in which—

(i) the domain name registrar, registry, or other domain name authority that registered or assigned the domain name is located; or

(ii) documents sufficient to establish control and authority regarding the disposition of the registration and use of the domain name are deposited with the court.

(D)

(i) The remedies in an in rem action under this paragraph shall be limited to a court order for the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark. Upon receipt of written notification of a filed, stamped copy of a complaint filed by the owner of a mark in a United States district court under this paragraph, the domain name registrar, domain name registry, or other domain name authority shall—

(I) expeditiously deposit with the court documents sufficient to establish the court's control and authority regarding the disposition of the registration and use of the domain name to the court; and

(II) not transfer, suspend, or otherwise modify the domain name during the pendency of the action, except upon order of the court.

(ii) The domain name registrar or registry or other domain name authority shall not be liable for injunctive or monetary relief under this paragraph except in the case of bad faith or reckless disregard, which includes a willful failure to comply with any such court order.

(3) The civil action established under paragraph (1) and the in rem action established under paragraph (2), and any remedy available under either such action, shall be in addition to any other civil action or remedy otherwise applicable.

(4) The in rem jurisdiction established under paragraph (2) shall be in addition to any other jurisdiction that otherwise exists, whether in rem or in personam.

VERIZON CALIFORNIA v. NAVIGATION CATALYST SYSTEMS*568 F.Supp.2d 1088 (2008)***VERIZON CALIFORNIA INC., et al., Plaintiffs,**

v.

NAVIGATION CATALYST SYSTEMS, INC., et al., Defendants.**No. CV 08-2463 ABC (Ex).**

United States District Court, C.D. California.

June 30, 2008.

David J. Steele, Christie Parker and Hale LLP, Newport Beach, CA, Howard A. Kroll, Christie Parker & Hale LLP, Pasadena, CA, John Thorne, Sarah B. Deutsch, Verizon Communications Inc., Legal Department, Arlington, VA, for Plaintiffs.

Brett E. Lewis, Lewis and Hand LLP, Janice Maureen Kroll, Michael G. King, Elizabeth Givens, Hennelly and Grosseld, Marina Del Rey, CA, for Defendants.

ORDER RE: PLAINTIFFS' MOTION FOR PRELIMINARY INJUNCTION

AUDREY B. COLLINS, District Judge.

Pending before the Court is Plaintiffs' Motion for Preliminary Injunction ("Motion"), filed June 9, 2008. Defendants filed their opposition to the Motion on June 16, 2008; Plaintiffs filed their reply on June 23, 2008. The hearing on this matter was held on June 30, 2008. Upon consideration of the parties' submissions, arguments of counsel, and the case file, the Court hereby GRANTS the Motion in part, and DENIES it in part, as set forth below.

BACKGROUND

On April 15, 2008, Plaintiffs Verizon California Inc., Verizon Trademark Services LLC, and Verizon Licensing Company ("Plaintiffs") filed this case against Defendants Navigation Catalyst Systems, Inc. and Basic Fusion, Inc. ("Defendants"). The three Plaintiffs are subsidiaries and affiliates of Verizon Communications, Inc., one of the largest telecommunications companies in the world. (Declaration of Janis M. Manning in Supp. of Mot. for Prelim. Inj. ("Manning Decl."), ¶ 3.) Verizon Trademark Services LLC ("VTS") owns the VERIZON and VERIZON WIRELESS trademarks and trade names, as well as logo versions of these marks (collectively, the "VERIZON marks"), for which it has obtained United States trademark registrations. (Manning Decl., ¶ 4.) Plaintiffs have owned and used the VERZON marks since at least 2000. (Manning Decl., ¶¶ 8, 12.) VTS also owns the FIOS and VERIZON FIOS trademarks (collectively, the "VERIZON FIOS marks"), and their United States trademark registrations. (Manning Decl., ¶ 5.) Plaintiffs have owned and used the VERIZON FIOS marks since at least 2004. (Manning Decl., ¶ 9.) Finally, VTS owns the VZ, VZACCESS, VZEMAIL, VZGLOBAL, VZVOICE, and VZW trademarks (collectively, the "VZ Marks"), and their United States trademark registrations.

(Manning Decl., ¶ 6.) Plaintiffs have owned and used the VZ and VZW marks since at least 2000, and the rest of the VZ marks since 2003. (Manning Decl., ¶ 10.) Plaintiffs operate websites using the following domain names: verizon.com, verizon.net, verizonwireless.com, verizonfios.com, vzw.com, and vzw.msn.com. (Manning Decl. ¶¶ 12-14.)

Plaintiffs contend that Defendants have registered internet domain names that are confusingly similar to the trademarks and trade names identified above. Plaintiffs assert six causes of action, for: (1) Cybersquatting on Plaintiffs' VERIZON, VZ, and VERIZON FIOS marks, under 15 U.S.C. § 1125(d); (2) Trademark Infringement of the same marks, under 15 U.S.C. § 1114(1); (3) False Designation of Origin of the same marks, under 15 U.S.C. § 1125(a); (4) Dilution of the VERIZON marks, under 15 U.S.C. § 1125(c); (5) Trademark Infringement of the VERIZON, VZ, and VERIZON FIOS marks, under California Business and Professions Code § 14320 and California common law;

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and (6) Unfair Competition, under California Business and Professions Code § 17200 and California common law. In moving for a preliminary injunction, however, Plaintiffs focus on just the first of these claims, arguing that they are likely to succeed on the merits of their claim against Defendants for "cybersquatting."

Defendants, of course, argue that they are not cybersquatters. Defendant Basic Fusion, Inc. ("Basic Fusion") is an internet registrar accredited by the Internet Corporation for Assigned Names and Numbers ("ICANN"). (Affidavit of Seth Jacoby in Supp. of Def.'s Opp. to Pl.'s Mot. for Prelim. Inj. ("Jacoby Aff."), ¶ 2.) Thus, Basic Fusion can register domain names on behalf of its customers, enabling a customer to reserve a chosen word (or combination of letters) for use in identifying that customer's website. Basic Fusion specializes in "bulk registration," providing services to those customers seeking to register large numbers of domain names. (Jacoby Aff., ¶ 2.)

Defendant Navigation Catalyst Systems, Inc. ("Navigation") is an affiliate of Basic Fusion, as well as a customer. (Jacoby Aff., ¶¶ 1-2.) Navigation uses Basic Fusion's services to register hundreds of thousands of domain names.¹ (Jacoby Aff., ¶ 3.) To register such large numbers of names, Navigation uses a "proprietary automated tool" to look for domain names not already registered to some other party. (Jacoby Aff., ¶ 4.) Once an un-owned domain name is identified, it is registered (or at least "reserved") with ICANN. (Jacoby Aff., ¶ 4.) The first five days after this registration is known as the "Add Grace Period," during which the new owner of the domain name can test the amount of traffic received by the new site (known as "domain tasting"). (Jacoby Aff., ¶¶ 4, 6.) During this period, the new owner can make full use of the chosen domain name, and no one else can use that domain name as the address for a website. However, during the Add Grace Period, the new owner can drop the domain name for any reason, without charge. (Jacoby Aff., ¶ 4.) If the new owner does not drop the name by the end of the Add Grace Period, it must pay the registration fee for that domain name. (Jacoby Aff., ¶ 4.)

According to Plaintiffs, Defendants "registered" with ICANN at least 1,392 domain names that are confusingly similar to Plaintiffs' marks.² (Declaration of Anne F. Bradley in Supp. of Mot. for Prelim. Inj. ("Bradley Decl."), ¶ 2.) For example, Defendants registered ve3rizon.com, veri8zon.net, veri9zonwireless.com, verisonbilling.com, vzwstore.com, vzwphones.com, etc. (Bradley Decl., ¶ 2; *id.* at Exh. A.) Defendants do not actually dispute that these names were at one point "reserved" with ICANN, but assert that the majority of names of which Plaintiffs complain were dropped during the Add Grace Period, after Defendants performed their

"trademark scrubbing" procedures. Defendants argue that names which are merely "reserved" for a few days and then dropped during the Add Grace Period should not be considered "registered" under the Anticyberquatting Consumer Protection Act, the

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statute at issue here. However, Defendants do not contest that they made use of the names during the short time they had them "reserved," using them to host at least bare bones websites that provided advertising links to other sites, whose owners paid Defendants for the opportunity. (See Bradley Decl., ¶ 4; *id.* at Exh. D.) In fact, Defendants' own evidence demonstrates that they do make money from domain names held for only a few days during the Add Grace Period, even if those names are deleted before the end of that period. (Jacoby Aff., ¶ 13.)

The "trademark scrubbing" procedures Defendants describe consist of both automatic and manual components. (Jacoby Aff., ¶¶ 7-8.) Defendants maintain a "blacklist" of terms, and a database of trademarks, and will not register domain names containing these prohibited terms. (Jacoby Aff., ¶ 7.) They have recently added a number of terms to the blacklist, and the list is regularly updated. (Jacoby Aff., ¶ 7.) Several human screeners also review all domain names for trademark compliance purposes before the end of the Add Grace Period. (Jacoby Aff., ¶¶ 7-8.) However, despite these methods (or before they were fully implemented), and according to Defendants themselves, 126 names challenged by Plaintiffs slipped through the screening process, were not cancelled during the Add Grace Period, and were registered to Defendants at the time the Complaint was served. (Jacoby Aff., ¶ 16.) Further, while these procedures may enable Defendants to delete potentially infringing names before the end of the Add Grace Period, they have not yet been completely successful in preventing such names from being added in the first place. Even after service of the complaint, Defendants continued to add and use new names that Plaintiffs argue are confusingly similar to the VERIZON, VZ, and VERIZON FIOS marks, such as varizonnet.com, veriso.net, versionfiosbundlrs.com, viraizon-wireless.com, vzwzone.com, wwwverizon.com, etc. (Bradley Decl., ¶ 8.) In fact, Defendants added vorizonwiorless.com two days after the Motion for Preliminary Injunction was filed. (Declaration of David J. Steele Filed in Supp. of Reply ("Steele Decl."), ¶ 3.)

Defendants claim that they have a policy of transferring disputed names to trademark owners upon request. (Jacoby Aff., ¶ 17.) They also claim that, upon service of the complaint, they disabled all advertising links displayed in connection with any of the 126 challenged domain names they still owned at that time, and then transferred those domain names to Plaintiffs. (Jacoby Aff., ¶ 16.) Finally, they note that they would have done the same had Plaintiffs requested it, without the necessity of a lawsuit being filed. (Jacoby Aff., ¶ 17.)

LEGAL STANDARD

The Ninth Circuit has articulated two tests for analyzing requests for preliminary injunctions. *Freecycle Network, Inc. v. Oey*, [505 F.3d 898](#), 902 (9th Cir. 2007). "Under the 'traditional' criteria, a plaintiff must show (1) a strong likelihood of success on the merits, (2) the possibility of irreparable injury to plaintiff if preliminary relief is not granted, (3) a balance of hardships favoring the plaintiff, and (4) advancement of the public interest (in certain cases)." *Id.* (internal quotations omitted). Under the "alternative" test, the plaintiff must show "*either* a combination of probable success on the merits and the possibility of irreparable injury or that serious questions are raised and the balance of hardships tips sharply in his favor." *Id.* (internal quotations omitted). At a minimum, though, the plaintiff must raise at least "serious questions" about the likelihood of success on the merits, or no injunction will issue. *Id.* Further, when implicated, the public interest

must also be

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considered. *Department of Parks & Rec. v. Bazaar Del Mundo Inc.*, [448 F.3d 1118](#), 1124 (9th Cir.2006).

The "alternative" test is a sliding scale, or continuum. *Bazaar Del Mundo*, 448 F.3d at 1123; *Southwest Voter Registration Ed. Proj. v. Shelley*, [344 F.3d 914](#), 918 (9th Cir.2003). Thus the greater the probability of success, the less sharply the balance of hardships must tip toward the plaintiff. *Bazaar Del Mundo*, 448 F.3d at 1123. Conversely, "the less certain the district court is of the likelihood of success on the merits, the more plaintiffs must convince the district court that the public interest and balance of hardships tips in their favor." *Southwest Voter Registration*, 344 F.3d at 918.

The normal calculus is altered somewhat in a trademark infringement case, in that "[i]rreparable injury is ordinarily presumed upon a showing of a likelihood of success." *Abercrombie & Fitch Co. v. Moose Creek, Inc.*, [486 F.3d 629](#), 633 (9th Cir.2007); *Vision Sports, Inc. v. Melville Corp.*, [888 F.2d 609](#), 612 n. 3 (9th Cir.1989) ("In trademark infringement or unfair competition actions, once the plaintiff establishes a likelihood of confusion, it is ordinarily presumed that the plaintiff will suffer irreparable harm if injunctive relief is not granted.").

DISCUSSION

I. Likelihood of Success on the Merits

Plaintiffs argue that they are likely to succeed on the merits of their cybersquatting claim against Defendants. Under the Anticybersquatting Consumer Protection Act ("ACPA"), 15 U.S.C. § 1125(d), cybersquatting "occurs when a person other than the trademark holder registers the domain name of a well known trademark and then attempts to profit from this by either ransoming the domain name back to the trademark holder or by using the domain name to divert business from the trademark holder to the domain name holder." *Bosley Med. Inst., Inc. v. Kremer*, [403 F.3d 672](#), 680 (9th Cir.2005) (quoting *DaimlerChrysler v. The Net Inc.*, [388 F.3d 201](#), 204 (6th Cir.2004)). The ACPA has also been interpreted as prohibiting "typosquatting"—that is, registering intentional misspellings of famous trademarks or names. *Shields v. Zuccarini*, [254 F.3d 476](#), 484 (3d Cir.2001) ("A reasonable interpretation of conduct covered by the phrase 'confusingly similar' is the intentional registration of domain names that are misspellings of distinctive or famous names, causing an Internet user who makes a slight spelling or typing error to reach an unintended site.").

The ACPA authorizes a trademark owner to bring a civil suit against any person who: "(i) has a bad faith intent to profit from that mark ...; and (ii) registers, traffics in, or uses a domain name that . . . is identical or confusingly similar to or [in certain cases] dilutive of that mark. . . ." 15 U.S.C. § 1125(d)(1)(A). Thus, there are three possible questions at issue here: whether Defendants "registered, trafficked in, or used" the domain names identified by Plaintiffs; whether those domain names were "confusingly similar" to Plaintiffs' trademarks; and whether Defendants had a "bad faith intent to profit" from those domain names.

Defendants do not really argue that the challenged domain names here are not "confusingly similar" to Plaintiffs' trademarks. In passing, they make reference to the fact that some few of the names at issue "contain so many spelling errors— and are so unlikely to be typed in by users—that it is difficult to conceive of exactly what harm Verizon would suffer from their addition

and deletion during the Add Grace Period." (Defs.' Mem. of Ps. & As. in Opp'n to Mot. for Prelim. Inj. ("Defs.' Mem."), at 17.) They also argue

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that their registration of a few "scarcely recognizable" domain names should not support a finding of bad faith. (Defs.' Mem. at 22.) However, they never make the argument that the names they registered are not sufficiently close to Plaintiffs' marks to satisfy ACPA's requirement. Nor could they, especially in light of the fact that similarity here is judged not just by appearances, but by the likelihood that a particular domain name might be typed in accidentally by someone trying to type in one of Plaintiffs' marks or domain names. *Shields*, 254 F.3d at 484. For instance, at issue are ve3rizon.com and veri8zon.net, both of which consist of Plaintiffs' actual domain names, including Plaintiffs' trademarks, plus one extra character—in both cases a character located on the computer keyboard next to a letter found in the correct domain name, making any websites using those domain names one easily-made typo away from Plaintiffs' primary domains.

Nor do Defendants ever argue that the domain names at issue are dissimilar enough from Plaintiffs' marks that Defendants should be entitled to continue using them. Rather, Defendants have expressed no desire to keep any of the names identified by Plaintiffs, asserting instead that they had already abandoned most of the names before the complaint was filed, and that they are attempting to divest themselves of any remaining names as quickly as possible.

While Defendants do not challenge the "confusingly similar" nature of the domain names at issue here, they do argue that they did not "register" most of those marks, since for most names all they did was "reserve" them for the Add Grace Period. Defendants attempt to distinguish "reserving" from "registering" by pointing out that no payment is necessary for names abandoned during the Add Grace Period, but this argument has no merit. There is nothing in the statute that defines "registration" as complete only upon payment, and Defendants have pointed to nothing to show that Congress intended "registration" to hinge on payment. Further, "reserving" versus "registering" is a distinction without a difference—either here entitles Defendants to the exclusive control and use of the names at issue, at least for some period of time.

However, even if there were some significant difference between "reserving" and "registering," such that Defendants should not be considered as having "registered" names they dropped during the Add Grace Period, this would gain Defendants nothing. All indications show that Defendants "used" the domain names they had "reserved" during the Add Grace Period. That is, they hosted websites using the challenged domain names, on which were posted paid advertising links to other websites, in some instances selling products in direct competition with Plaintiffs. Thus even if Defendants never "registered" any of the challenged names, the statutory requirement would be satisfied nonetheless. 15 U.S.C. § 1125(d)(1)(A)(ii) ("registers ... *or* uses a domain name" (emphasis added)). Finally, even if "registration" were required, Defendants clearly *did* register—even using their own definition of the term—at least 126 confusingly similar marks, including, for example, verizno.net, verisonnetwork.com, verisonwirelessplans.com, and vzstore.com. (Jacoby Aff., ¶ 16; *id.* at Exh. G.)

Defendants also argue that they lacked the "bad faith intent to profit" required by ACPA. However, they completely fail even to acknowledge, let alone discuss, that there are nine factors provided by the statute that should be considered in determining whether a defendant has the requisite bad faith for liability. In determining whether a defendant has acted in

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"bad faith," ACPA provides that "a court may consider factors such as, but not limited to":

- (I) the trademark or other intellectual property rights of the person, if any, in the domain name;
- (II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;
- (III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;
- (IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;
- (V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;
- (VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;
- (VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;
- (VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and
- (IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c) of this section.

15 U.S.C. § 1125(d)(1)(B)(i).

A review of these factors makes clear that Defendants had the requisite "bad faith." They do not claim to have any intellectual property rights in any of the domain names at issue; nor do they claim that any of these names consists of any Defendant's legal name, or the name of any individual associated with any of Defendants. Nor is there any history of a prior use by Defendants of any challenged name in connection with either the bona fide offering of any commercial goods or services, or any noncommercial or fair use. The first four factors thus support a finding of bad faith.

The fifth factor also cuts strongly against Defendants. It is clear that their intent was to profit from the poor typing abilities of consumers trying to reach Plaintiffs' sites: what other value could there be in a name like ve3rizon.com? Further, the sites associated with these names often contained links to products directly competitive with Plaintiffs' cellphone and internet businesses, potentially diverting consumers who would otherwise have purchased goods or services from Plaintiffs away from Plaintiffs. Defendants clearly intended "to register a domain name in anticipation that consumers would make a mistake, thereby increasing the number of hits [their] site would receive, and, consequently, the number of

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advertising dollars [they] would gain." *Shields*, 254 F.3d at 484.

In addition, it is clear that Defendants acquired thousands of domain names that were confusingly similar to any number of famous marks. And some of the marks to which their domain names are confusingly similar are unquestionably "distinctive and famous," including

some of Plaintiffs'. Thus, the eighth and ninth factors also strongly support a finding of bad faith.

The seventh factor is somewhat inconclusive. Plaintiffs have offered evidence that, since the complaint was filed, Defendants have not maintained proper "WHOIS" data for all of their sites, but Defendants contest this point. Given the weight of other evidence against Defendants, though, it is not necessary to make any finding regarding Defendants' WHOIS data at this time. Even if this factor were assumed to tip in Defendants' favor, it would not be enough to change the overall balance.

On the other hand, Defendants have not offered to sell the challenged domain names, but have apparently transferred them to Plaintiffs without compensation. Thus, the sixth factor does favor Defendants. However, as nothing else appears to favor Defendants, this factor alone cannot outweigh the rest of the evidence presented that Defendants acted with the "bad faith" required by the statute.

Plaintiffs have therefore made a strong showing that they are likely to prevail on the merits of their cybersquatting claim. Defendants, acting with a "bad faith intent to profit," registered and/or used numerous domain names that are confusingly similar to Plaintiffs' trademarks.

II. Irreparable Injury

Irreparable injury is generally presumed in a trademark action, once the plaintiffs make a showing that they are likely to succeed on the merits. *Abercrombie & Fitch*, 486 F.3d at 633; *Vision Sports*, 888 F.2d at 612 n. 3. Such a showing has clearly been made here. Defendants contend they can rebut such a presumption, and argue that Plaintiffs cannot show they would suffer irreparable injury in the absence of an injunction because they delayed in seeking such relief. However, Defendants present no evidence that there was any delay, just speculation. On the other hand, Plaintiffs present affirmative evidence that there was no significant delay. Plaintiffs also present evidence that Defendants are continuing to register *new* domain names that likely violate ACPA—after the complaint was filed, and even after the motion for a preliminary injunction was filed. Thus, this is not a case where Defendants have been using the challenged names for years while Plaintiffs sat on their rights. The problem at this point lies not with domain names that Defendants have been using for some time, but with the fact that they continue to acquire new ones that affect Plaintiffs.

Defendants also argue that, presumption aside, there is no evidence of actual harm here. This is incorrect. Even if Plaintiffs were not entitled to any presumption of harm, they have sufficiently demonstrated that there is a risk such harm will occur. Since the filing of the complaint, Defendants have continued to acquire new domain names that are confusingly similar to Plaintiffs' marks. Even if they are able to identify and cancel all of those names within the Add Grace Period, there is nonetheless a period of several days for each domain name when Defendants use that name to generate revenue by linking to other websites, some of which offer products and services that compete with Plaintiffs'. (Bradley Decl., ¶ 4; *id.* at Exh. D; Steele Decl., ¶¶ 3, 10; *id.* at Exh. L.) Determining later just how much internet traffic was diverted from Plaintiffs' sites to competing sites through Defendants' briefly

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held, and constantly changing, similar domain names, is likely to prove impossible. Thus, especially given the strength of Plaintiffs' showing that they will succeed on the merits of their cybersquatting claim, they have sufficiently shown that they will suffer irreparable harm if some injunctive relief is not granted.

III. Balance of Hardships

Having held that Plaintiffs are quite likely to succeed on the merits of their cybersquatting claim, and that they have both a presumption and actual evidence of irreparable harm on their side, it is clear that any weighing of hardships here is poised to tip heavily in Plaintiffs' favor. That is, at least as far as any injunctive relief against Defendants' use of domain names that are confusingly similar to Plaintiffs' marks is concerned. Defendants express no interest in keeping any of the challenged names, and profess to have instituted significant new procedures to prevent similar names from being registered in the future. Nonetheless, the Court is not convinced that Defendants will discontinue their behavior completely in the absence of an injunction. Defendants' "trademark scrubbing" efforts appear directed at deleting potentially infringing domain names before the end of the Add Grace Period, rather than preventing the addition of such names in the first place. As Defendants continue to use domain names during the Add Grace Period, the distinction is important. The use of "confusingly similar" domain names during the Add Grace Period is within the scope of the harms the ACPA was enacted to prevent.

That part of the requested relief that would prohibit Defendants from using any automatic registration process, however, is a different story. Plaintiffs have not shown that they will not be sufficiently protected by an injunction preventing Defendants from using domain names that are confusingly similar to their marks. If Defendants register such a mark, whether manually or automatically, that would violate the injunction. If no such marks are registered, Plaintiffs will have achieved the relief they want, regardless of whether Defendants continue to register non-infringing marks using an automatic process. Forbidding automatic registration would essentially shut down Defendants' business completely, which is not justified on the record currently before the Court. Further, Plaintiffs have not shown that automatic registration cannot ever be conducted in a permissible fashion.

IV. Equitable Considerations

Defendants also claim that Plaintiffs have "unclean hands" on the issue of "monetizing typo traffic," and so should not be granted the equitable remedy of an injunction. Nothing presented by Defendants suggests that Plaintiffs have engaged in any illicit or prohibited behavior, however. Thus, there is no basis on which to consider Plaintiffs's actions as giving rise to an "unclean hands" defense.

CONCLUSION

This Order shall constitute the Court's findings of fact and conclusions of law on this issue. Based on the findings and conclusions set forth above, the Court hereby GRANTS in part, and DENIES in part, Plaintiffs' Motion for a Preliminary Injunction. Plaintiffs' request for an order enjoining Defendants from registering any domain name using an automated process is DENIED. However, the Court will issue a Preliminary Injunction enjoining Defendants from registering or using any domain name that is identical or confusingly similar to the following marks: VERIZON, VERIZON WIRELESS, FIOS, VERIZON FIOS, VZ, VZACCESS, VZMAIL, VZGLOBAL, VZVOICE, and

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VZW. Defendants will be further enjoined from assisting, aiding, or abetting any other person or business entity in registering or using any domain name that is identical or confusingly similar to these same ten marks. As the injunctive relief ordered is relatively modest, the Court orders

Plaintiffs to post a \$10,000.00 bond within ten days of the date of entry of the Preliminary Injunction. If Plaintiffs fail to post the bond in a timely manner, the Preliminary Injunction will be vacated.

IT IS SO ORDERED.

Footnotes

1. Defendants point out that Basic Fusion and Navigation are separate legal entities, and that Basic Fusion "does not in any way select or control the selection of domain names registered by Navigation." (Jacoby Aff., ¶ 2.) Basic Fusion just "processes the registration requests made by Navigation." (Jacoby Aff., ¶ 2.) However, Defendants do not appear to argue that there is any basis to distinguish between the two entities for purposes of ruling on Plaintiffs' Motion for a Preliminary Injunction.

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2. Plaintiffs also assert that Defendants have registered thousands of domain names that are confusingly similar to other famous marks, not owned by, or associated in any way with, the instant plaintiffs.

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Supreme Court

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Reno v. American Civil Liberties Union (96-511) 521 U.S. 844 (1997)

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STEVENS, J., Opinion of the Court

SUPREME COURT OF THE UNITED STATES

521 U.S. 844

Reno v. American Civil Liberties Union

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

96-511 Argued: March 19, 1997 --- Decided: June 26, 1997

Justice Stevens delivered the opinion of the Court.

At issue is the constitutionality of two statutory provisions enacted to protect minors from "indecent" and "patently offensive" communications on the Internet. Notwithstanding the legitimacy and importance of the congressional goal of protecting children from harmful materials, we agree with the three judge District Court that the statute abridges "the freedom of speech" protected by the [First Amendment](#).^[n1]

The District Court made extensive findings of fact, most of which were based on a detailed stipulation prepared by the parties. See 929 F. Supp. 824, 830-849 (ED Pa. 1996).^[n2] The findings describe the character and the dimensions of the Internet, the availability of sexually explicit material in that medium, and the problems confronting age verification for recipients of Internet communications. Because those findings provide the underpinnings for the legal issues, we begin with a summary of the undisputed facts.

The Internet

The Internet is an international network of interconnected computers. It is the outgrowth of what began in 1969 as a military program called "ARPANET,"^[n3] which was designed to enable computers operated by the military, defense contractors, and universities conducting defense related research to communicate with one another by redundant channels even if some portions of the network were damaged in a war. While the ARPANET no longer exists, it provided an example for the development of a number of civilian networks that, eventually linking with each other, now enable tens of millions of people to communicate with one another and to access vast amounts of information from around the world. The Internet is "a unique and wholly new medium of

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worldwide human communication." ^[n4]

The Internet has experienced "extraordinary growth." ^[n5] The number of "host" computers--those that store information and relay communications--increased from about 300 in 1981 to approximately 9,400,000 by the time of the trial in 1996. Roughly 60% of these hosts are located in the United States. About 40 million people used the Internet at the time of trial, a number that is expected to mushroom to 200 million by 1999.

Individuals can obtain access to the Internet from many different sources, generally hosts themselves or entities with a host affiliation. Most colleges and universities provide access for their students and faculty; many corporations provide their employees with access through an office network; many communities and local libraries provide free access; and an increasing number of storefront "computer coffee shops" provide access for a small hourly fee. Several major national "online services" such as America Online, CompuServe, the Microsoft Network, and Prodigy offer access to their own extensive proprietary networks as well as a link to the much larger resources of the Internet. These commercial online services had almost 12 million individual subscribers at the time of trial.

Anyone with access to the Internet may take advantage of a wide variety of communication and information retrieval methods. These methods are constantly evolving and difficult to categorize precisely. But, as presently constituted, those most relevant to this case are electronic mail ("e mail"), automatic mailing list services ("mail exploders," sometimes referred to as "listservs"), "newsgroups," "chat rooms," and the "World Wide Web." All of these methods can be used to transmit text; most can transmit sound, pictures, and moving video images. Taken together, these tools constitute a unique medium--known to its users as "cyberspace"--located in no particular geographical location but available to anyone, anywhere in the world, with access to the Internet.

E mail enables an individual to send an electronic message--generally akin to a note or letter--to another individual or to a group of addressees. The message is generally stored electronically, sometimes waiting for the recipient to check her "mailbox" and sometimes making its receipt known through some type of prompt. A mail exploder is a sort of e mail group. Subscribers can send messages to a common e mail address, which then forwards the message to the group's other subscribers. Newsgroups also serve groups of regular participants, but these postings may be read by others as well. There are thousands of such groups, each serving to foster an exchange of information or opinion on a particular topic running the gamut from, say, the music of Wagner to Balkan politics to AIDS prevention to the Chicago Bulls. About 100,000 new messages are posted every day. In most newsgroups, postings are automatically purged at regular intervals. In addition to posting a message that can be read later, two or more individuals wishing to communicate more immediately can enter a chat room to engage in real time dialogue--in other words, by typing messages to one another that appear almost immediately on the others' computer screens. The District Court found that at any given time "tens of thousands of users are engaging in conversations on a huge range of subjects." ^[n6] It is "no exaggeration to conclude that the content on the Internet is as diverse as human thought." ^[n7]

The best known category of communication over the Internet is the World Wide Web, which allows users to search for and retrieve information stored in remote computers, as well as, in some cases, to communicate back to designated sites. In concrete terms, the Web consists of a vast number of documents stored in different computers all over the world. Some of these documents are simply files containing information. However, more elaborate documents, commonly known as Web "pages," are also prevalent. Each has its own address--"rather like a telephone number." ^[n8] Web pages frequently contain information and



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sometimes allow the viewer to communicate with the page's (or "site's") author. They generally also contain "links" to other documents created by that site's author or to other (generally) related sites. Typically, the links are either blue or underlined text--sometimes images.

Navigating the Web is relatively straightforward. A user may either type the address of a known page or enter one or more keywords into a commercial "search engine" in an effort to locate sites on a subject of interest. A particular Web page may contain the information sought by the "surfer," or, through its links, it may be an avenue to other documents located anywhere on the Internet. Users generally explore a given Web page, or move to another, by clicking a computer "mouse" on one of the page's icons or links. Access to most Web pages is freely available, but some allow access only to those who have purchased the right from a commercial provider. The Web is thus comparable, from the readers' viewpoint, to both a vast library including millions of readily available and indexed publications and a sprawling mall offering goods and services.

From the publishers' point of view, it constitutes a vast platform from which to address and hear from a world wide audience of millions of readers, viewers, researchers, and buyers. Any person or organization with a computer connected to the Internet can "publish" information. Publishers include government agencies, educational institutions, commercial entities, advocacy groups, and individuals. ^[n9] Publishers may either make their material available to the entire pool of Internet users, or confine access to a selected group, such as those willing to pay for the privilege. "No single organization controls any membership in the Web, nor is there any centralized point from which individual Web sites or services can be blocked from the Web." ^[n10]

Sexually Explicit Material

Sexually explicit material on the Internet includes text, pictures, and chat and "extends from the modestly titillating to the hardest core." ^[n11] These files are created, named, and posted in the same manner as material that is not sexually explicit, and may be accessed either deliberately or unintentionally during the course of an imprecise search. "Once a provider posts its content on the Internet, it cannot prevent that content from entering any community." ^[n12] Thus, for example,

"when the UCR/California Museum of Photography posts to its Web site nudes by Edward Weston and Robert Mapplethorpe to announce that its new exhibit will travel to Baltimore and New York City, those images are available not only in Los Angeles, Baltimore, and New York City, but also in Cincinnati, Mobile, or Beijing--wherever Internet users live. Similarly, the safer sex instructions that Critical Path posts to its Web site, written in street language so that the teenage receiver can understand them, are available not just in Philadelphia, but also in Provo and Prague." ^[n13]

Some of the communications over the Internet that originate in foreign countries are also sexually explicit. ^[n14]

Though such material is widely available, users seldom encounter such content accidentally. "A document's title or a description of the document will usually appear before the document itself . . . and in many cases the user will receive detailed information about a site's content before he or she need take the step to access the document. Almost all sexually explicit images are preceded by warnings as to the content." ^[n15] For that reason, the "odds are slim" that a user would enter a sexually explicit site by accident. ^[n16] Unlike communications received by radio or television, "the receipt of information on the Internet requires a series of affirmative steps more deliberate and directed than merely turning a dial. A child requires some sophistication and some ability to read to retrieve material and thereby to use the Internet unattended." ^[n17]

Systems have been developed to help parents control the material that may be available on a home computer with Internet access. A system may either limit a computer's access to an approved list of sources that have been identified as containing no adult material, it may block designated inappropriate sites, or it may attempt to block messages containing identifiable objectionable features. "Although parental control software currently can screen for certain suggestive words or for known sexually explicit sites, it cannot now screen for sexually explicit images." ^[n18] Nevertheless, the evidence indicates that "a reasonably effective method by which parents can prevent their children from accessing sexually explicit and other material which parents may believe is inappropriate for their children will soon be available." ^[n19]

Age Verification

The problem of age verification differs for different uses of the Internet. The District Court categorically determined that there "is no effective way to determine the identity or the age of a user who is accessing material through e mail, mail exploders, newsgroups or chat rooms." ^[n20] The Government offered no evidence that there was a reliable way to screen recipients and participants in such fora for age. Moreover, even if it were technologically feasible to block minors' access to newsgroups and chat rooms containing discussions of art, politics or other subjects that potentially elicit "indecent" or "patently offensive" contributions, it would not be possible to block their access to that material and "still allow them access to the remaining content, even if the overwhelming majority of that content was not indecent." ^[n21]

Technology exists by which an operator of a Web site may condition access on the verification of requested information such as a credit card number or an adult password. Credit card verification is only feasible, however, either in connection with a commercial transaction in which the card is used, or by payment to a verification agency. Using credit card possession as a surrogate for proof of age would impose costs on non commercial Web sites that would require many of them to shut down. For that reason, at the time of the trial, credit card verification was "effectively unavailable to a substantial number of Internet content providers." *Id.*, at 846 (finding 102). Moreover, the imposition of such a requirement "would completely bar adults who do not have a credit card and lack the resources to obtain one from accessing any blocked material." ^[n22]

Commercial pornographic sites that charge their users for access have assigned them passwords as a method of age verification. The record does not contain any evidence concerning the reliability of these technologies. Even if passwords are effective for commercial purveyors of indecent material, the District Court found that an adult password requirement would impose significant burdens on noncommercial sites, both because they would discourage users from accessing their sites and because the cost of creating and maintaining such screening systems would be "beyond their reach." ^[n23]

In sum, the District Court found:

"Even if credit card verification or adult password verification were implemented, the Government presented no testimony as to how such systems could ensure that the user of the password or credit card is in fact over 18. The burdens imposed by credit card verification and adult password verification systems make them effectively unavailable to a substantial number of Internet content providers." *Ibid.* (finding 107).

The Telecommunications Act of 1996, Pub. L. 104-104, 110 Stat. 56, was an unusually important legislative enactment. As stated on the first of its 103 pages, its primary purpose was to reduce regulation and encourage "the rapid deployment of new telecommunications technologies." The major components of the statute have nothing to do with the Internet; they were designed to promote competition in the local telephone service market, the multichannel video

market, and the market for over the air broadcasting. The Act includes seven Titles, six of which are the product of extensive committee hearings and the subject of discussion in Reports prepared by Committees of the Senate and the House of Representatives. By contrast, Title V--known as the "Communications Decency Act of 1996" (CDA)--contains provisions that were either added in executive committee after the hearings were concluded or as amendments offered during floor debate on the legislation. An amendment offered in the Senate was the source of the two statutory provisions challenged in this case. ^[n24] They are informally described as the "indecent transmission" provision and the "patently offensive display" provision. ^[n25]

The first, 47 U. S. C. A. § 223(a) (Supp. 1997), prohibits the knowing transmission of obscene or indecent messages to any recipient under 18 years of age. It provides in pertinent part:

"(a) Whoever--

"(1) in interstate or foreign communications--

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"(B) by means of a telecommunications device knowingly--

"(i) makes, creates, or solicits, and

"(ii) initiates the transmission of,

"any comment, request, suggestion, proposal, image, or other communication which is obscene or indecent, knowing that the recipient of the communication is under 18 years of age, regardless of whether the maker of such communication placed the call or initiated the communication;

.

"(2) knowingly permits any telecommunications facility under his control to be used for any activity prohibited by paragraph (1) with the intent that it be used for such activity,

"shall be fined under Title 18, or imprisoned not more than two years, or both."

The second provision, § 223(d), prohibits the knowing sending or displaying of patently offensive messages in a manner that is available to a person under 18 years of age. It provides:

"(d) Whoever--

"(1) in interstate or foreign communications knowingly--

"(A) uses an interactive computer service to send to a specific person or persons under 18 years of age, or

"(B) uses any interactive computer service to display in a manner available to a person under 18 years of age,

"any comment, request, suggestion, proposal, image, or other communication that, in context, depicts or describes, in terms patently offensive as measured by contemporary community standards, sexual or excretory activities or organs, regardless of whether the user of such service placed the call or initiated the communication; or

"(2) knowingly permits any telecommunications facility under such person's control to be used for an activity prohibited by paragraph (1) with the intent that it be used for such activity,

"shall be fined under Title 18, or imprisoned not more than two years, or both."

The breadth of these prohibitions is qualified by two affirmative defenses. See § 223(e)(5).^[n26] One covers those who take "good faith, reasonable, effective, and appropriate actions" to restrict access by minors to the prohibited communications. § 223(e)(5)(A). The other covers those who restrict access to covered material by requiring certain designated forms of age proof, such as a verified credit card or an adult identification number or code. § 223(e)(5)(B).

On February 8, 1996, immediately after the President signed the statute, 20 plaintiffs^[n27] filed suit against the Attorney General of the United States and the Department of Justice challenging the constitutionality of §§ 223(a)(1) and 223(d). A week later, based on his conclusion that the term "indecent" was too vague to provide the basis for a criminal prosecution, District Judge Buckwalter entered a temporary restraining order against enforcement of § 223(a)(1)(B)(ii) insofar as it applies to indecent communications. A second suit was then filed by 27 additional plaintiffs,^[n28] the two cases were consolidated, and a three judge District Court was convened pursuant to § 561 of the Act.^[n29] After an evidentiary hearing, that Court entered a preliminary injunction against enforcement of both of the challenged provisions. Each of the three judges wrote a separate opinion, but their judgment was unanimous.

Chief Judge Sloviter doubted the strength of the Government's interest in regulating "the vast range of online material covered or potentially covered by the CDA," but acknowledged that the interest was "compelling" with respect to some of that material. 929 F. Supp., at 853. She concluded, nonetheless, that the statute "sweeps more broadly than necessary and thereby chills the expression of adults" and that the terms "patently offensive" and "indecent" were "inherently vague." *Id.*, at 854. She also determined that the affirmative defenses were not "technologically or economically feasible for most providers," specifically considering and rejecting an argument that providers could avoid liability by "tagging" their material in a manner that would allow potential readers to screen out unwanted transmissions. *Id.*, at 856. Chief Judge Sloviter also rejected the Government's suggestion that the scope of the statute could be narrowed by construing it to apply only to commercial pornographers. *Id.*, at 854-855.

Judge Buckwalter concluded that the word "indecent" in § 223(a)(1)(B) and the terms "patently offensive" and "in context" in § 223(d)(1) were so vague that criminal enforcement of either section would violate the "fundamental constitutional principle" of "simple fairness," *id.*, at 861, and the specific protections of the First and [Fifth Amendments](#), *id.*, at 858. He found no statutory basis for the Government's argument that the challenged provisions would be applied only to "pornographic" materials, noting that, unlike obscenity, "indecency has *not* been defined to exclude works of serious literary, artistic, political or scientific value." *Id.*, at 863. Moreover, the Government's claim that the work must be considered patently offensive "in context" was itself vague because the relevant context might "refer to, among other things, the nature of the communication as a whole, the time of day it was conveyed, the medium used, the identity of the speaker, or whether or not it is accompanied by appropriate warnings." *Id.*, at 864. He believed that the unique nature of the Internet aggravated the vagueness of the statute. *Id.*, at 865, n. 9.

Judge Dalzell's review of "the special attributes of Internet communication" disclosed by the evidence convinced him that the [First Amendment](#) denies Congress the power to regulate the content of protected speech on the Internet. *Id.*, at 867. His opinion explained at length why he believed the Act would abridge significant protected speech, particularly by noncommercial speakers, while "[p]erversely, commercial pornographers would remain relatively unaffected." *Id.*, at 879. He construed our cases as requiring a "medium specific" approach to the analysis of the regulation of mass communication, *id.*, at 873, and concluded that the Internet--as "the most participatory form of mass speech yet developed," *id.*, at 883--is entitled to "the highest protection from

governmental intrusion," *ibid.* ^[n30]

The judgment of the District Court enjoins the Government from enforcing the prohibitions in § 223(a)(1)(B) insofar as they relate to "indecent" communications, but expressly preserves the Government's right to investigate and prosecute the obscenity or child pornography activities prohibited therein. The injunction against enforcement of §§ 223(d)(1) and (2) is unqualified because those provisions contain no separate reference to obscenity or child pornography.

The Government appealed under the Act's special review provisions, § 561, 110 Stat. 142-143, and we noted probable jurisdiction, see 519 U. S. ____ (1996). In its appeal, the Government argues that the District Court erred in holding that the CDA violated both the [First Amendment](#) because it is overbroad and the [Fifth Amendment](#) because it is vague. While we discuss the vagueness of the CDA because of its relevance to the [First Amendment](#) overbreadth inquiry, we conclude that the judgment should be affirmed without reaching the [Fifth Amendment](#) issue. We begin our analysis by reviewing the principal authorities on which the Government relies. Then, after describing the overbreadth of the CDA, we consider the Government's specific contentions, including its submission that we save portions of the statute either by severance or by fashioning judicial limitations on the scope of its coverage.

In arguing for reversal, the Government contends that the CDA is plainly constitutional under three of our prior decisions: (1) *Ginsberg v. New York*, [390 U.S. 629](#) (1968); (2) *FCC v. Pacifica Foundation*, [438 U.S. 726](#) (1978); and (3) *Renton v. Playtime Theatres, Inc.*, [475 U.S. 41](#) (1986). A close look at these cases, however, raises--rather than relieves--doubts concerning the constitutionality of the CDA.

In *Ginsberg*, we upheld the constitutionality of a New York statute that prohibited selling to minors under 17 years of age material that was considered obscene as to them even if not obscene as to adults. We rejected the defendant's broad submission that "the scope of the constitutional freedom of expression secured to a citizen to read or see material concerned with sex cannot be made to depend on whether the citizen is an adult or a minor." 390 U. S., at 636. In rejecting that contention, we relied not only on the State's independent interest in the well being of its youth, but also on our consistent recognition of the principle that "the parents' claim to authority in their own household to direct the rearing of their children is basic in the structure of our society." ^[n31] In four important respects, the statute upheld in *Ginsberg* was narrower than the CDA. First, we noted in *Ginsberg* that "the prohibition against sales to minors does not bar parents who so desire from purchasing the magazines for their children." *Id.*, at 639. Under the CDA, by contrast, neither the parents' consent--nor even their participation--in the communication would avoid the application of the statute. ^[n32] Second, the New York statute applied only to commercial transactions, *id.*, at 647, whereas the CDA contains no such limitation. Third, the New York statute cabined its definition of material that is harmful to minors with the requirement that it be "utterly without redeeming social importance for minors." *Id.*, at 646. The CDA fails to provide us with any definition of the term "indecent" as used in § 223(a)(1) and, importantly, omits any requirement that the "patently offensive" material covered by § 223(d) lack serious literary, artistic, political, or scientific value. Fourth, the New York statute defined a minor as a person under the age of 17, whereas the CDA, in applying to all those under 18 years, includes an additional year of those nearest majority.

In *Pacifica*, we upheld a declaratory order of the Federal Communications Commission, holding that the broadcast of a recording of a 12-minute monologue entitled "Filthy Words" that had previously been delivered to a live audience "could have been the subject of administrative sanctions." 438 U. S., at 730

(internal quotations omitted). The Commission had found that the repetitive use of certain words referring to excretory or sexual activities or organs "in an afternoon broadcast when children are in the audience was patently offensive" and concluded that the monologue was indecent "as broadcast." *Id.*, at 735. The respondent did not quarrel with the finding that the afternoon broadcast was patently offensive, but contended that it was not "indecent" within the meaning of the relevant statutes because it contained no prurient appeal. After rejecting respondent's statutory arguments, we confronted its two constitutional arguments: (1) that the Commission's construction of its authority to ban indecent speech was so broad that its order had to be set aside even if the broadcast at issue was unprotected; and (2) that since the recording was not obscene, the [First Amendment](#) forbade any abridgement of the right to broadcast it on the radio.

In the portion of the lead opinion not joined by Justices Powell and Blackmun, the plurality stated that the [First Amendment](#) does not prohibit all governmental regulation that depends on the content of speech. *Id.*, at 742-743. Accordingly, the availability of constitutional protection for a vulgar and offensive monologue that was not obscene depended on the context of the broadcast. *Id.*, at 744-748. Relying on the premise that "of all forms of communication" broadcasting had received the most limited [First Amendment](#) protection, *id.*, at 748-749, the Court concluded that the ease with which children may obtain access to broadcasts, "coupled with the concerns recognized in *Ginsberg*," justified special treatment of indecent broadcasting. *Id.*, at 749-750.

As with the New York statute at issue in *Ginsberg*, there are significant differences between the order upheld in *Pacifica* and the CDA. First, the order in *Pacifica*, issued by an agency that had been regulating radio stations for decades, targeted a specific broadcast that represented a rather dramatic departure from traditional program content in order to designate when--rather than whether--it would be permissible to air such a program in that particular medium. The CDA's broad categorical prohibitions are not limited to particular times and are not dependent on any evaluation by an agency familiar with the unique characteristics of the Internet. Second, unlike the CDA, the Commission's declaratory order was not punitive; we expressly refused to decide whether the indecent broadcast "would justify a criminal prosecution." *Id.*, at 750. Finally, the Commission's order applied to a medium which as a matter of history had "received the most limited [First Amendment](#) protection," *id.*, at 748, in large part because warnings could not adequately protect the listener from unexpected program content. The Internet, however, has no comparable history. Moreover, the District Court found that the risk of encountering indecent material by accident is remote because a series of affirmative steps is required to access specific material.

In *Renton*, we upheld a zoning ordinance that kept adult movie theatres out of residential neighborhoods. The ordinance was aimed, not at the content of the films shown in the theaters, but rather at the "secondary effects"--such as crime and deteriorating property values--that these theaters fostered: " 'It is th[e] secondary effect which these zoning ordinances attempt to avoid, not the dissemination of "offensive" speech.' " 475 U. S., at 49 (quoting *Young v. American Mini Theatres, Inc.*, [427 U.S. 50](#), 71, n. 34 (1976)). According to the Government, the CDA is constitutional because it constitutes a sort of "cyberzoning" on the Internet. But the CDA applies broadly to the entire universe of cyberspace. And the purpose of the CDA is to protect children from the primary effects of "indecent" and "patently offensive" speech, rather than any "secondary" effect of such speech. Thus, the CDA is a content based blanket restriction on speech, and, as such, cannot be "properly analyzed as a form of time, place, and manner regulation." 475 U. S., at 46. See also *Boos v. Barry*, [485 U.S. 312](#), 321 (1988) ("Regulations that focus on the direct impact of speech on its audience" are not properly analyzed under *Renton*); *Forsyth County v. Nationalist Movement*, [505 U.S. 123](#), 134 (1992) ("Listeners' reaction to speech is

not a content neutral basis for regulation").

These precedents, then, surely do not require us to uphold the CDA and are fully consistent with the application of the most stringent review of its provisions.

In *Southeastern Promotions, Ltd. v. Conrad*, [420 U.S. 546](#), 557 (1975), we observed that "[e]ach medium of expression . . . may present its own problems." Thus, some of our cases have recognized special justifications for regulation of the broadcast media that are not applicable to other speakers, see *Red Lion Broadcasting Co. v. FCC*, [395 U.S. 367](#) (1969); *FCC v. Pacifica Foundation*, [438 U.S. 726](#) (1978). In these cases, the Court relied on the history of extensive government regulation of the broadcast medium, see, e.g., *Red Lion*, 395 U. S., at 399-400; the scarcity of available frequencies at its inception, see, e.g., *Turner Broadcasting System, Inc. v. FCC*, [512 U.S. 622](#), 637-638 (1994); and its "invasive" nature, see *Sable Communications of Cal., Inc. v. FCC*, [492 U.S. 115](#), 128 (1989).

Those factors are not present in cyberspace. Neither before nor after the enactment of the CDA have the vast democratic fora of the Internet been subject to the type of government supervision and regulation that has attended the broadcast industry.^[n33] Moreover, the Internet is not as "invasive" as radio or television. The District Court specifically found that "[c]ommunications over the Internet do not 'invade' an individual's home or appear on one's computer screen unbidden. Users seldom encounter content 'by accident.'" 929 F. Supp., at 844 (finding 88). It also found that "[a]lmost all sexually explicit images are preceded by warnings as to the content," and cited testimony that "'odds are slim' that a user would come across a sexually explicit sight by accident." *Ibid*.

We distinguished *Pacifica* in *Sable*, 492 U. S., at 128, on just this basis. In *Sable*, a company engaged in the business of offering sexually oriented prerecorded telephone messages (popularly known as "dial a porn") challenged the constitutionality of an amendment to the Communications Act that imposed a blanket prohibition on indecent as well as obscene interstate commercial telephone messages. We held that the statute was constitutional insofar as it applied to obscene messages but invalid as applied to indecent messages. In attempting to justify the complete ban and criminalization of indecent commercial telephone messages, the Government relied on *Pacifica*, arguing that the ban was necessary to prevent children from gaining access to such messages. We agreed that "there is a compelling interest in protecting the physical and psychological well being of minors" which extended to shielding them from indecent messages that are not obscene by adult standards, 492 U. S., at 126, but distinguished our "emphatically narrow holding" in *Pacifica* because it did not involve a complete ban and because it involved a different medium of communication, *id.*, at 127. We explained that "the dial it medium requires the listener to take affirmative steps to receive the communication." *Id.*, at 127-128. "Placing a telephone call," we continued, "is not the same as turning on a radio and being taken by surprise by an indecent message." *Id.*, at 128.

Finally, unlike the conditions that prevailed when Congress first authorized regulation of the broadcast spectrum, the Internet can hardly be considered a "scarce" expressive commodity. It provides relatively unlimited, low cost capacity for communication of all kinds. The Government estimates that "[a]s many as 40 million people use the Internet today, and that figure is expected to grow to 200 million by 1999."^[n34] This dynamic, multifaceted category of communication includes not only traditional print and news services, but also audio, video, and still images, as well as interactive, real time dialogue. Through the use of chat rooms, any person with a phone line can become a town crier with a voice that resonates farther than it could from any soapbox. Through the use of Web pages, mail exploders, and newsgroups, the same individual can become a pamphleteer. As the District Court found, "the content on the Internet

is as diverse as human thought." 929 F. Supp., at 842 (finding 74). We agree with its conclusion that our cases provide no basis for qualifying the level of [First Amendment](#) scrutiny that should be applied to this medium.

Regardless of whether the CDA is so vague that it violates the [Fifth Amendment](#), the many ambiguities concerning the scope of its coverage render it problematic for purposes of the [First Amendment](#). For instance, each of the two parts of the CDA uses a different linguistic form. The first uses the word "indecent," 47 U. S. C. A. § 223(a) (Supp. 1997), while the second speaks of material that "in context, depicts or describes, in terms patently offensive as measured by contemporary community standards, sexual or excretory activities or organs," § 223(d). Given the absence of a definition of either term, ^[n35] this difference in language will provoke uncertainty among speakers about how the two standards relate to each other ^[n36] and just what they mean. ^[n37] Could a speaker confidently assume that a serious discussion about birth control practices, homosexuality, the [First Amendment](#) issues raised by the Appendix to our *Pacifica* opinion, or the consequences of prison rape would not violate the CDA? This uncertainty undermines the likelihood that the CDA has been carefully tailored to the congressional goal of protecting minors from potentially harmful materials.

The vagueness of the CDA is a matter of special concern for two reasons. First, the CDA is a content based regulation of speech. The vagueness of such a regulation raises special [First Amendment](#) concerns because of its obvious chilling effect on free speech. See, e.g., *Gentile v. State Bar of Nev.*, [501 U.S. 1030](#), 1048-1051 (1991). Second, the CDA is a criminal statute. In addition to the opprobrium and stigma of a criminal conviction, the CDA threatens violators with penalties including up to two years in prison for each act of violation. The severity of criminal sanctions may well cause speakers to remain silent rather than communicate even arguably unlawful words, ideas, and images. See, e.g., *Dombrowski v. Pfister*, [380 U.S. 479](#), 494 (1965). As a practical matter, this increased deterrent effect, coupled with the "risk of discriminatory enforcement" of vague regulations, poses greater [First Amendment](#) concerns than those implicated by the civil regulation reviewed in *Denver Area Ed. Telecommunications Consortium, Inc. v. FCC*, 518 U. S. ____ (1996).

The Government argues that the statute is no more vague than the obscenity standard this Court established in *Miller v. California*, [413 U.S. 15](#) (1973). But that is not so. In *Miller*, this Court reviewed a criminal conviction against a commercial vendor who mailed brochures containing pictures of sexually explicit activities to individuals who had not requested such materials. *Id.*, at 18. Having struggled for some time to establish a definition of obscenity, we set forth in *Miller* the test for obscenity that controls to this day:

"(a) whether the average person, applying contemporary community standards would find that the work, taken as a whole, appeals to the prurient interest; (b) whether the work depicts or describes, in a patently offensive way, sexual conduct specifically defined by the applicable state law; and (c) whether the work, taken as a whole, lacks serious literary, artistic, political, or scientific value." *Id.*, at 24 (internal quotation marks and citations omitted).

Because the CDA's "patently offensive" standard (and, we assume *arguendo*, its synonymous "indecent" standard) is one part of the three prong *Miller* test, the Government reasons, it cannot be unconstitutionally vague.

The Government's assertion is incorrect as a matter of fact. The second prong of the *Miller* test--the purportedly analogous standard--contains a critical requirement that is omitted from the CDA: that the proscribed material be "specifically defined by the applicable state law." This requirement reduces the vagueness inherent in the open ended term "patently offensive" as used in the CDA. Moreover, the *Miller* definition is limited to "sexual conduct," whereas the CDA extends also to include (1) "excretory activities" as well as (2) "organs" of both a sexual and excretory nature.

The Government's reasoning is also flawed. Just because a definition including three limitations is not vague, it does not follow that one of those limitations, standing by itself, is not vague. ^[n38] Each of *Miller's* additional two prongs--(1) that, taken as a whole, the material appeal to the "prurient" interest, and (2) that it "lac[k] serious literary, artistic, political, or scientific value"--critically limits the uncertain sweep of the obscenity definition. The second requirement is particularly important because, unlike the "patently offensive" and "prurient interest" criteria, it is not judged by contemporary community standards. See *Pope v. Illinois*, [481 U.S. 497](#), [500 \(1987\)](#). This "societal value" requirement, absent in the CDA, allows appellate courts to impose some limitations and regularity on the definition by setting, as a matter of law, a national floor for socially redeeming value. The Government's contention that courts will be able to give such legal limitations to the CDA's standards is belied by *Miller's* own rationale for having juries determine whether material is "patently offensive" according to community standards: that such questions are essentially ones of fact. ^[n39]

In contrast to *Miller* and our other previous cases, the CDA thus presents a greater threat of censoring speech that, in fact, falls outside the statute's scope. Given the vague contours of the coverage of the statute, it unquestionably silences some speakers whose messages would be entitled to constitutional protection. That danger provides further reason for insisting that the statute not be overly broad. The CDA's burden on protected speech cannot be justified if it could be avoided by a more carefully drafted statute.

We are persuaded that the CDA lacks the precision that the [First Amendment](#) requires when a statute regulates the content of speech. In order to deny minors access to potentially harmful speech, the CDA effectively suppresses a large amount of speech that adults have a constitutional right to receive and to address to one another. That burden on adult speech is unacceptable if less restrictive alternatives would be at least as effective in achieving the legitimate purpose that the statute was enacted to serve.

In evaluating the free speech rights of adults, we have made it perfectly clear that "[s]exual expression which is indecent but not obscene is protected by the [First Amendment](#)." *Sable*, 492 U. S., at 126. See also *Carey v. Population Services Int'l*, [431 U.S. 678](#), 701 (1977) ("[W]here obscenity is not involved, we have consistently held that the fact that protected speech may be offensive to some does not justify its suppression"). Indeed, *Pacifica* itself admonished that "the fact that society may find speech offensive is not a sufficient reason for suppressing it." 438 U. S., at 745.

It is true that we have repeatedly recognized the governmental interest in protecting children from harmful materials. See *Ginsberg*, 390 U. S., at 639; *Pacifica*, 438 U. S., at 749. But that interest does not justify an unnecessarily broad suppression of speech addressed to adults. As we have explained, the Government may not "reduc[e] the adult population . . . to . . . only what is fit for children." *Denver*, 518 U. S., at ___ (slip op., at 29) (internal quotation marks omitted) (quoting *Sable*, 492 U. S., at 128). ^[n40] "[R]egardless of the strength of the government's interest" in protecting children, "[t]he level of discourse reaching a mailbox simply cannot be limited to that which would be suitable for a sandbox." *Bolger v. Youngs Drug Products Corp.*, [463 U.S. 60](#), 74-75 (1983).

The District Court was correct to conclude that the CDA effectively resembles the ban on "dial a porn" invalidated in *Sable*. 929 F. Supp., at 854. In *Sable*, 492 U. S., at 129, this Court rejected the argument that we should defer to the congressional judgment that nothing less than a total ban would be effective in preventing enterprising youngsters from gaining access to indecent communications. *Sable* thus made clear that the mere fact that a statutory regulation of speech was enacted for the important purpose of protecting children from exposure to sexually explicit material does not foreclose inquiry

into its validity.^[n41] As we pointed out last Term, that inquiry embodies an "over arching commitment" to make sure that Congress has designed its statute to accomplish its purpose "without imposing an unnecessarily great restriction on speech." *Denver*, 518 U. S., at ___ (slip op., at 11).

In arguing that the CDA does not so diminish adult communication, the Government relies on the incorrect factual premise that prohibiting a transmission whenever it is known that one of its recipients is a minor would not interfere with adult to adult communication. The findings of the District Court make clear that this premise is untenable. Given the size of the potential audience for most messages, in the absence of a viable age verification process, the sender must be charged with knowing that one or more minors will likely view it. Knowledge that, for instance, one or more members of a 100 person chat group will be minor--and therefore that it would be a crime to send the group an indecent message--would surely burden communication among adults.^[n42]

The District Court found that at the time of trial existing technology did not include any effective method for a sender to prevent minors from obtaining access to its communications on the Internet without also denying access to adults. The Court found no effective way to determine the age of a user who is accessing material through e mail, mail exploders, newsgroups, or chat rooms. 929 F. Supp., at 845 (findings 90-94). As a practical matter, the Court also found that it would be prohibitively expensive for noncommercial--as well as some commercial--speakers who have Web sites to verify that their users are adults. *Id.*, at 845-848 (findings 95-116).^[n43] These limitations must inevitably curtail a significant amount of adult communication on the Internet. By contrast, the District Court found that "[d]espite its limitations, currently available *user based* software suggests that a reasonably effective method by which *parents* can prevent their children from accessing sexually explicit and other material which *parents* may believe is inappropriate for their children will soon be widely available." *Id.*, at 842 (finding 73) (emphases added).

The breadth of the CDA's coverage is wholly unprecedented. Unlike the regulations upheld in *Ginsberg* and *Pacifica*, the scope of the CDA is not limited to commercial speech or commercial entities. Its open ended prohibitions embrace all nonprofit entities and individuals posting indecent messages or displaying them on their own computers in the presence of minors. The general, undefined terms "indecent" and "patently offensive" cover large amounts of nonpornographic material with serious educational or other value.^[n44] Moreover, the "community standards" criterion as applied to the Internet means that any communication available to a nation wide audience will be judged by the standards of the community most likely to be offended by the message.^[n45] The regulated subject matter includes any of the seven "dirty words" used in the *Pacifica* monologue, the use of which the Government's expert acknowledged could constitute a felony. See Olsen Test., Tr. Vol. V, 53:16-54:10. It may also extend to discussions about prison rape or safe sexual practices, artistic images that include nude subjects, and arguably the card catalogue of the Carnegie Library.

For the purposes of our decision, we need neither accept nor reject the Government's submission that the [First Amendment](#) does not forbid a blanket prohibition on all "indecent" and "patently offensive" messages communicated to a 17 year old--no matter how much value the message may contain and regardless of parental approval. It is at least clear that the strength of the Government's interest in protecting minors is not equally strong throughout the coverage of this broad statute. Under the CDA, a parent allowing her 17 year old to use the family computer to obtain information on the Internet that she, in her parental judgment, deems appropriate could face a lengthy prison term. See 47 U. S. C. A. § 223(a)(2) (Supp. 1997). Similarly, a parent who sent his 17 year old college freshman information on birth control via e mail could be incarcerated

even though neither he, his child, nor anyone in their home community, found the material "indecent" or "patently offensive," if the college town's community thought otherwise.

The breadth of this content based restriction of speech imposes an especially heavy burden on the Government to explain why a less restrictive provision would not be as effective as the CDA. It has not done so. The arguments in this Court have referred to possible alternatives such as requiring that indecent material be "tagged" in a way that facilitates parental control of material coming into their homes, making exceptions for messages with artistic or educational value, providing some tolerance for parental choice, and regulating some portions of the Internet--such as commercial web sites--differently than others, such as chat rooms. Particularly in the light of the absence of any detailed findings by the Congress, or even hearings addressing the special problems of the CDA, we are persuaded that the CDA is not narrowly tailored if that requirement has any meaning at all.

In an attempt to curtail the CDA's facial overbreadth, the Government advances three additional arguments for sustaining the Act's affirmative prohibitions: (1) that the CDA is constitutional because it leaves open ample "alternative channels" of communication; (2) that the plain meaning of the Act's "knowledge" and "specific person" requirement significantly restricts its permissible applications; and (3) that the Act's prohibitions are "almost always" limited to material lacking redeeming social value.

The Government first contends that, even though the CDA effectively censors discourse on many of the Internet's modalities--such as chat groups, newsgroups, and mail exploders--it is nonetheless constitutional because it provides a "reasonable opportunity" for speakers to engage in the restricted speech on the World Wide Web. Brief for Appellants 39. This argument is unpersuasive because the CDA regulates speech on the basis of its content. A "time, place, and manner" analysis is therefore inapplicable. See *Consolidated Edison Co. of N. Y. v. Public Serv. Comm'n of N. Y.*, [447 U.S. 530](#), 536 (1980). It is thus immaterial whether such speech would be feasible on the Web (which, as the Government's own expert acknowledged, would cost up to \$10,000 if the speaker's interests were not accommodated by an existing Web site, not including costs for database management and age verification). The Government's position is equivalent to arguing that a statute could ban leaflets on certain subjects as long as individuals are free to publish books. In invalidating a number of laws that banned leafletting on the streets *regardless of* their content--we explained that "one is not to have the exercise of his liberty of expression in appropriate places abridged on the plea that it may be exercised in some other place." *Schneider v. State (Town of Irvington)*, [308 U.S. 147](#), 163 (1939).

The Government also asserts that the "knowledge" requirement of both §§ 223(a) and (d), especially when coupled with the "specific child" element found in § 223(d), saves the CDA from overbreadth. Because both sections prohibit the dissemination of indecent messages only to persons known to be under 18, the Government argues, it does not require transmitters to "refrain from communicating indecent material to adults; they need only refrain from disseminating such materials to persons they know to be under 18." Brief for Appellants 24. This argument ignores the fact that most Internet fora--including chat rooms, newsgroups, mail exploders, and the Web--are open to all comers. The Government's assertion that the knowledge requirement somehow protects the communications of adults is therefore untenable. Even the strongest reading of the "specific person" requirement of § 223(d) cannot save the statute. It would confer broad powers of censorship, in the form of a "heckler's veto," upon any opponent of indecent speech who might simply log on and inform the would be discourses that his 17 year old child--a "specific person . . . under 18 years of age," 47 U. S. C. A. § 223(d)(1)(A) (Supp. 1997)--would be present.

Finally, we find no textual support for the Government's submission that material

having scientific, educational, or other redeeming social value will necessarily fall outside the CDA's "patently offensive" and "indecent" prohibitions. See also n. 37, *supra*.

The Government's three remaining arguments focus on the defenses provided in § 223(e)(5).^[n46] First, relying on the "good faith, reasonable, effective, and appropriate actions" provision, the Government suggests that "tagging" provides a defense that saves the constitutionality of the Act. The suggestion assumes that transmitters may encode their indecent communications in a way that would indicate their contents, thus permitting recipients to block their reception with appropriate software. It is the requirement that the good faith action must be "effective" that makes this defense illusory. The Government recognizes that its proposed screening software does not currently exist. Even if it did, there is no way to know whether a potential recipient will actually block the encoded material. Without the impossible knowledge that every guardian in America is screening for the "tag," the transmitter could not reasonably rely on its action to be "effective."

For its second and third arguments concerning defenses--which we can consider together--the Government relies on the latter half of § 223(e)(5), which applies when the transmitter has restricted access by requiring use of a verified credit card or adult identification. Such verification is not only technologically available but actually is used by commercial providers of sexually explicit material. These providers, therefore, would be protected by the defense. Under the findings of the District Court, however, it is not economically feasible for most noncommercial speakers to employ such verification. Accordingly, this defense would not significantly narrow the statute's burden on noncommercial speech. Even with respect to the commercial pornographers that would be protected by the defense, the Government failed to adduce any evidence that these verification techniques actually preclude minors from posing as adults.^[n47] Given that the risk of criminal sanctions "hovers over each content provider, like the proverbial sword of Damocles,"^[n48] the District Court correctly refused to rely on unproven future technology to save the statute. The Government thus failed to prove that the proffered defense would significantly reduce the heavy burden on adult speech produced by the prohibition on offensive displays.

We agree with the District Court's conclusion that the CDA places an unacceptably heavy burden on protected speech, and that the defenses do not constitute the sort of "narrow tailoring" that will save an otherwise patently invalid unconstitutional provision. In *Sable*, 492 U. S., at 127, we remarked that the speech restriction at issue there amounted to " 'burn[ing] the house to roast the pig.' " The CDA, casting a far darker shadow over free speech, threatens to torch a large segment of the Internet community.

At oral argument, the Government relied heavily on its ultimate fall back position: If this Court should conclude that the CDA is insufficiently tailored, it urged, we should save the statute's constitutionality by honoring the severability clause, see 47 U.S.C. § 608 and construing nonseverable terms narrowly. In only one respect is this argument acceptable.

A severability clause requires textual provisions that can be severed. We will follow § 608's guidance by leaving constitutional textual elements of the statute intact in the one place where they are, in fact, severable. The "indecent" provision, 47 U. S. C. A. § 223(a) (Supp. 1997), applies to "any comment, request, suggestion, proposal, image, or other communication which is *obscene or indecent*." (Emphasis added.) Appellees do not challenge the application of the statute to obscene speech, which, they acknowledge, can be banned totally because it enjoys no [First Amendment](#) protection. See *Miller*, 413 U. S., at 18. As set forth by the statute, the restriction of "obscene" material enjoys a textual manifestation separate from that for "indecent" material, which we have held unconstitutional. Therefore, we will sever the term "or indecent" from the

statute, leaving the rest of § 223(a) standing. In no other respect, however, can § 223(a) or § 223(d) be saved by such a textual surgery.

The Government also draws on an additional, less traditional aspect of the CDA's severability clause, 47 U. S. C., § 608, which asks any reviewing court that holds the statute facially unconstitutional not to invalidate the CDA in application to "other persons or circumstances" that might be constitutionally permissible. It further invokes this Court's admonition that, absent "countervailing considerations," a statute should "be declared invalid to the extent it reaches too far, but otherwise left intact." *Brockett v. Spokane Arcades, Inc.*, [472 U.S. 491](#), 503-504 (1985). There are two flaws in this argument.

First, the statute that grants our jurisdiction for this expedited review, 47 U. S. C. A. § 561 (Supp. 1997), limits that jurisdictional grant to actions challenging the CDA "on its face." Consistent with § 561, the plaintiffs who brought this suit and the three judge panel that decided it treated it as a facial challenge. We have no authority, in this particular posture, to convert this litigation into an "as applied" challenge. Nor, given the vast array of plaintiffs, the range of their expressive activities, and the vagueness of the statute, would it be practicable to limit our holding to a judicially defined set of specific applications.

Second, one of the "countervailing considerations" mentioned in *Brockett* is present here. In considering a facial challenge, this Court may impose a limiting construction on a statute only if it is "readily susceptible" to such a construction. *Virginia v. American Bookseller's Assn., Inc.*, [484 U.S. 383](#), 397 (1988). See also *Erznoznik, v. Jacksonville*, [422 U.S. 205](#), 216 (1975) ("readily subject" to narrowing construction). The open ended character of the CDA provides no guidance whatever for limiting its coverage.

This case is therefore unlike those in which we have construed a statute narrowly because the text or other source of congressional intent identified a clear line that this Court could draw. Cf., e.g., *Brockett*, 472 U. S., at 504-505 (invalidating obscenity statute only to the extent that word "lust" was actually or effectively excised from statute); *United States v. Grace*, [461 U.S. 171](#), 180-183 (1983) (invalidating federal statute banning expressive displays only insofar as it extended to public sidewalks when clear line could be drawn between sidewalks and other grounds that comported with congressional purpose of protecting the building, grounds, and people therein). Rather, our decision in *United States v. Treasury Employees*, [513 U.S. 454](#), 479, n. 26 (1995), is applicable. In that case, we declined to "dra[w] one or more lines between categories of speech covered by an overly broad statute, when Congress has sent inconsistent signals as to where the new line or lines should be drawn" because doing so "involves a far more serious invasion of the legislative domain."^[n49] This Court "will not rewrite a . . . law to conform it to constitutional requirements." *American Booksellers*, 484 U. S., at 397.^[n50]

In this Court, though not in the District Court, the Government asserts that--in addition to its interest in protecting children--its "[e]qually significant" interest in fostering the growth of the Internet provides an independent basis for upholding the constitutionality of the CDA. Brief for Appellants 19. The Government apparently assumes that the unregulated availability of "indecent" and "patently offensive" material on the Internet is driving countless citizens away from the medium because of the risk of exposing themselves or their children to harmful material.

We find this argument singularly unpersuasive. The dramatic expansion of this new marketplace of ideas contradicts the factual basis of this contention. The record demonstrates that the growth of the Internet has been and continues to be phenomenal. As a matter of constitutional tradition, in the absence of evidence to the contrary, we presume that governmental regulation of the content of speech is more likely to interfere with the free exchange of ideas than to encourage it. The interest in encouraging freedom of expression in a

democratic society outweighs any theoretical but unproven benefit of censorship.

For the foregoing reasons, the judgment of the district court is affirmed.

It is so ordered.

¹ "Congress shall make no law . . . abridging the freedom of speech." U. S. Const., Amdt. 1.

² The Court made 410 findings, including 356 paragraphs of the parties' stipulation and 54 findings based on evidence received in open court. See 929 F. Supp. at 830, n. 9, 842, n. 15.

³ An acronym for the network developed by the Advanced Research Project Agency.

⁴ Id., at 844 (finding 81).

⁵ Id., at 831 (finding 3).

⁶ Id., at 835 (finding 27).

⁷ Id., at 842 (finding 74).

⁸ Id., at 836 (finding 36).

⁹ "Web publishing is simple enough that thousands of individual users and small community organizations are using the Web to publish their own personal 'home pages,' the equivalent of individualized newsletters about the person or organization, which are available to everyone on the Web." Id., at 837 (finding 42).

¹⁰ Id., at 838 (finding 46).

¹¹ Id., at 844 (finding 82).

¹² Ibid. (finding 86).

¹³ Ibid. (finding 85).

¹⁴ Id., at 848 (finding 117).

¹⁵ Id., at 844-845 (finding 88).

¹⁶ Ibid.

¹⁷ Id., at 845 (finding 89).

¹⁸ Id., at 842 (finding 72).

¹⁹ Ibid. (finding 73).

²⁰ Id., at 845 (finding 90): "An e mail address provides no authoritative information about the addressee, who may use an e mail 'alias' or an anonymous remailer. There is also no universal or reliable listing of e mail addresses and corresponding names or telephone numbers, and any such listing would be or rapidly become incomplete. For these reasons, there is no reliable way in many instances for a sender to know if the e mail recipient is an adult or a minor. The difficulty of e mail age verification is compounded for mail exploders such as listservs, which automatically send information to all e mail addresses on a sender's list. Government expert Dr. Olsen agreed that no current technology could give a speaker assurance that only adults were listed in a particular mail exploder's mailing list."

21 Ibid. (finding 93).

22 Id., at 846 (finding 102).

23 Id., at 847 (findings 104-106):

"At least some, if not almost all, non commercial organizations, such as the ACLU, Stop Prisoner Rape or Critical Path AIDS Project, regard charging listeners to access their speech as contrary to their goals of making their materials available to a wide audience free of charge.

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"There is evidence suggesting that adult users, particularly casual Web browsers, would be discouraged from retrieving information that required use of a credit card or password. Andrew Anker testified that HotWired has received many complaints from its members about HotWired's registration system, which requires only that a member supply a name, e mail address and self created password. There is concern by commercial content providers that age verification requirements would decrease advertising and revenue because advertisers depend on a demonstration that the sites are widely available and frequently visited."

24 See Exon Amendment No. 1268, 141 Cong. Rec. S8120 (June 9, 1995). See also id., at S8087. This amendment, as revised, became § 502 of the Communications Act of 1996, 110 Stat. 133, 47 U. S. C. A. §§ 223(a)-(e) (Supp. 1997). Some Members of the House of Representatives opposed the Exon Amendment because they thought it "possible for our parents now to child proof the family computer with these products available in the private sector." They also thought the Senate's approach would "involve the Federal Government spending vast sums of money trying to define elusive terms that are going to lead to a flood of legal challenges while our kids are unprotected." These Members offered an amendment intended as a substitute for the Exon Amendment, but instead enacted as an additional section of the Act entitled "Online Family Empowerment." See 110 Stat. 137, 47 U. S. C. A. § 230 (Supp. 1997); 141 Cong. Rec. H8468-H8472. No hearings were held on the provisions that became law. See S. Rep. No. 104-23 (1995), p. 9. After the Senate adopted the Exon amendment, however, its Judiciary Committee did conduct a one day hearing on "Cyberporn and Children." In his opening statement at that hearing, Senator Leahy observed:

"It really struck me in your opening statement when you mentioned, Mr. Chairman, that it is the first ever hearing, and you are absolutely right. And yet we had a major debate on the floor, passed legislation overwhelmingly on a subject involving the Internet, legislation that could dramatically change--some would say even wreak havoc--on the Internet. The Senate went in willy nilly, passed legislation, and never once had a hearing, never once had a discussion other than an hour or so on the floor." Cyberporn and Children: The Scope of the Problem, The State of the Technology, and the Need for Congressional Action, Hearing on S. 892 before the Senate Committee on the Judiciary, 104th Cong., 1st Sess., 7-8 (1995).

25 Although the Government and the dissent break § 223(d)(1) into two separate "patently offensive" and "display" provisions, we follow the convention of both parties below, as well the District Court's order and opinion, in describing § 223(d)(1) as one provision.

26 In full, § 223(e)(5) provides:

"(5) It is a defense to a prosecution under subsection (a)(1)(B) or (d) of

this section, or under subsection (a)(2) of this section with respect to the use of a facility for an activity under subsection (a)(1)(B) of this section that a person--

"(A) has taken, in good faith, reasonable, effective, and appropriate actions under the circumstances to restrict or prevent access by minors to a communication specified in such subsections, which may involve any appropriate measures to restrict minors from such communications, including any method which is feasible under available technology; or

"(B) has restricted access to such communication by requiring use of a verified credit card, debit account, adult access code, or adult personal identification number."

[27.](#) American Civil Liberties Union; Human Rights Watch; Electronic Privacy Information Center; Electronic Frontier Foundation; Journalism Education Association; Computer Professionals for Social Responsibility; National Writers Union; Clarinet Communications Corp.; Institute for Global Communications; Stop Prisoner Rape; AIDS Education Global Information System; Bibliobytes; Queer Resources Directory; Critical Path AIDS Project, Inc.; Wildcat Press, Inc.; Declan McCullagh dba Justice on Campus; Brock Meeks dba Cyberwire Dispatch; John Troyer dba The Safer Sex Page; Jonathan Wallace dba The Ethical Spectacle; and Planned Parenthood Federation of America, Inc.

[28.](#) American Library Association; America Online, Inc.; American Booksellers Association, Inc.; American Booksellers Foundation for Free Expression; American Society of Newspaper Editors; Apple Computer, Inc.; Association of American Publishers, Inc.; Association of Publishers, Editors and Writers; Citizens Internet Empowerment Coalition; Commercial Internet Exchange Association; CompuServe Incorporated; Families Against Internet Censorship; Freedom to Read Foundation, Inc.; Health Sciences Libraries Consortium; Hotwired Ventures LLC; Interactive Digital Software Association; Interactive Services Association; Magazine Publishers of America; Microsoft Corporation; The Microsoft Network, L. L. C.; National Press Photographers Association; Netcom On Line Communication Services, Inc.; Newspaper Association of America; Opnet, Inc.; Prodigy Services Company; Society of Professional Journalists; Wired Ventures, Ltd.

[29.](#) 110 Stat. 142-143, note following 47 U. S. C. A. § 223 (Supp. 1997).

[30.](#) See also 929 F. Supp., at 877: "Four related characteristics of Internet communication have a transcendent importance to our shared holding that the CDA is unconstitutional on its face. We explain these characteristics in our Findings of fact above, and I only rehearse them briefly here. First, the Internet presents very low barriers to entry. Second, these barriers to entry are identical for both speakers and listeners. Third, as a result of these low barriers, astoundingly diverse content is available on the Internet. Fourth, the Internet provides significant access to all who wish to speak in the medium, and even creates a relative parity among speakers." According to Judge Dalzell, these characteristics and the rest of the District Court's findings "lead to the conclusion that Congress may not regulate indecency on the Internet at all." *Ibid.* Because appellees do not press this argument before this Court, we do not consider it. Appellees also do not dispute that the Government generally has a compelling interest in protecting minors from "indecent" and "patently offensive" speech.

[31.](#) 390 U. S., at 639. We quoted from *Prince v. Massachusetts*, 321 U.S. 158, 166 (1944): "It is cardinal with us that the custody, care and nurture of the child reside first in the parents, whose primary function and freedom include preparation for obligations the state can neither supply nor hinder."

[32.](#) Given the likelihood that many E mail transmissions from an adult to a minor

are conversations between family members, it is therefore incorrect for the dissent to suggest that the provisions of the CDA, even in this narrow area, "are no different from the law we sustained in Ginsberg." Post, at 8.

³³ Cf. *Pacifica Foundation v. FCC*, 556 F. 2d 9, 36 (CA-DC 1977) (Levanthal, J., dissenting), rev'd, *FCC v. Pacifica Foundation*, 438 U.S. 726 (1978). When *Pacifica* was decided, given that radio stations were allowed to operate only pursuant to federal license, and that Congress had enacted legislation prohibiting licensees from broadcasting indecent speech, there was a risk that members of the radio audience might infer some sort of official or societal approval of whatever was heard over the radio, see 556 F. 2d, at 37, n. 18. No such risk attends messages received through the Internet, which is not supervised by any federal agency.

³⁴ Juris. Statement 3 (citing 929 F. Supp., at 831 (finding 3)).

³⁵ "Indecent" does not benefit from any textual embellishment at all. "Patently offensive" is qualified only to the extent that it involves "sexual or excretory activities or organs" taken "in context" and "measured by contemporary community standards."

³⁶ See *Gozlon Peretz v. United States*, 498 U.S. 395, 404 (1991) ("Where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion and exclusion") (internal quotation marks omitted).

³⁷ The statute does not indicate whether the "patently offensive" and "indecent" determinations should be made with respect to minors or the population as a whole. The Government asserts that the appropriate standard is "what is suitable material for minors." Reply Brief for Appellants 18, n. 13 (citing *Ginsberg v. New York*, 390 U.S. 629, 633 (1968)). But the Conferees expressly rejected amendments that would have imposed such a "harmful to minors" standard. See S. Conf. Rep. No. 104-230, p. 189 (1996) (S. Conf. Rep.), 142 Cong. Rec. H1145, H1165-1166 (Feb. 1, 1996). The Conferees also rejected amendments that would have limited the proscribed materials to those lacking redeeming value. See S. Conf. Rep., at 189, 142 Cong. Rec. H1165-1166 (Feb. 1, 1996).

³⁸ Even though the word "trunk," standing alone, might refer to luggage, a swimming suit, the base of a tree, or the long nose of an animal, its meaning is clear when it is one prong of a three part description of a species of gray animals.

³⁹ 413 U. S., at 30 (Determinations of "what appeals to the 'prurient interest' or is 'patently offensive' . . . are essentially questions of fact, and our Nation is simply too big and too diverse for this Court to reasonably expect that such standards could be articulated for all 50 States in a single formulation, even assuming the prerequisite consensus exists"). The CDA, which implements the "contemporary community standards" language of Miller, thus conflicts with the Conferees' own assertion that the CDA was intended "to establish a uniform national standard of content regulation." S. Conf. Rep., at 191.

⁴⁰ Accord, *Butler v. Michigan*, 352 U.S. 380, 383 (1957) (ban on sale to adults of books deemed harmful to children unconstitutional); *Sable Communications of Cal., Inc. v. FCC*, 492 U.S. 115, 128 (1989) (ban on "dial a porn" messages unconstitutional); *Bolger v. Youngs Drug Products Corp.*, 463 U.S. 60, 73 (1983) (ban on mailing of unsolicited advertisement for contraceptives unconstitutional).

⁴¹ The lack of legislative attention to the statute at issue in *Sable* suggests another parallel with this case. Compare 492 U. S., at 129-130 ("[A]side from conclusory statements during the debates by proponents of the bill, as well as

similar assertions in hearings on a substantially identical bill the year before, . . . the congressional record presented to us contains no evidence as to how effective or ineffective the FCC's most recent regulations were or might prove to be. . . . No Congressman or Senator purported to present a considered judgment with respect to how often or to what extent minors could or would circumvent the rules and have access to dial a porn messages") with n. 24, supra.

[42](#) The Government agrees that these provisions are applicable whenever "a sender transmits a message to more than one recipient, knowing that at least one of the specific persons receiving the message is a minor." Opposition to Motion to Affirm and Reply to Juris. Statement 4-5, n. 1.

[43](#) The Government asserts that "[t]here is nothing constitutionally suspect about requiring commercial Web site operators . . . to shoulder the modest burdens associated with their use." Brief for Appellants 35. As a matter of fact, however, there is no evidence that a "modest burden" would be effective.

[44](#) Transmitting obscenity and child pornography, whether via the Internet or other means, is already illegal under federal law for both adults and juveniles. See 18 U.S.C. §§ 1464-1465 (criminalizing obscenity); § 2251 (criminalizing child pornography). In fact, when Congress was considering the CDA, the Government expressed its view that the law was unnecessary because existing laws already authorized its ongoing efforts to prosecute obscenity, child pornography, and child solicitation. See 141 Cong. Rec. 58342 (June 14, 1995) (letter from Kent Markus, Acting Assistant Attorney General, U. S. Department of Justice, to Sen. Leahy).

[45](#) Citing *Church of Lukumi Babalu Aye, Inc. v. Hialeah*, 508 U.S. 520 (1993), among other cases, appellees offer an additional reason why, in their view, the CDA fails strict scrutiny. Because so much sexually explicit content originates overseas, they argue, the CDA cannot be "effective." Brief for Appellees American Library Association et al. 33-34. This argument raises difficult issues regarding the intended, as well as the permissible scope of, extraterritorial application of the CDA. We find it unnecessary to address those issues to dispose of this case.

[46](#) For the full text of § 223(e)(5), see n. 26, supra.

[47](#) Thus, ironically, this defense may significantly protect commercial purveyors of obscene postings while providing little (or no) benefit for transmitters of indecent messages that have significant social or artistic value.

[48](#) 929 F. Supp., at 855-856.

[49](#) As this Court long ago explained, "It would certainly be dangerous if the Legislature could set a net large enough to catch all possible offenders and leave it to the courts to step inside and say who could be rightfully be detained and who should be set at large. This would, to some extent, substitute the judicial for the legislative department of the government." *United States v. Reese*, 92 U.S. 214, [221 \(1876\)](#). In part because of these separation of powers concerns, we have held that a severability clause is "an aid merely; not an inexorable command." *Dorchy v. Kansas*, 264 U.S. 286, [290 \(1924\)](#).

[50](#) See also *Osborne v. Ohio*, 495 U.S. 103, 121 (1990) (judicial rewriting of statutes would derogate Congress's "incentive to draft a narrowly tailored law in the first place").

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Syllabus

UNITED STATES ET AL. *v.* AMERICAN LIBRARY
ASSOCIATION, INC., ET AL.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF PENNSYLVANIA

No. 02–361. Argued March 5, 2003—Decided June 23, 2003

Two forms of federal assistance help public libraries provide patrons with Internet access: discounted rates under the E-rate program and grants under the Library Services and Technology Act (LSTA). Upon discovering that library patrons, including minors, regularly search the Internet for pornography and expose others to pornographic images by leaving them displayed on Internet terminals or printed at library printers, Congress enacted the Children’s Internet Protection Act (CIPA), which forbids public libraries to receive federal assistance for Internet access unless they install software to block obscene or pornographic images and to prevent minors from accessing material harmful to them. Appellees, a group of libraries, patrons, Web site publishers, and related parties, sued the Government, challenging the constitutionality of CIPA’s filtering provisions. Ruling that CIPA is facially unconstitutional and enjoining the Government from withholding federal assistance for failure to comply with CIPA, the District Court held, *inter alia*, that Congress had exceeded its authority under the Spending Clause because any public library that complies with CIPA’s conditions will necessarily violate the First Amendment; that the CIPA filtering software constitutes a content-based restriction on access to a public forum that is subject to strict scrutiny; and that, although the Government has a compelling interest in preventing the dissemination of obscenity, child pornography, or material harmful to minors, the use of software filters is not narrowly tailored to further that interest.

Held: The judgment is reversed.

201 F. Supp. 2d 401, reversed.

CHIEF JUSTICE REHNQUIST, joined by JUSTICE O’CONNOR, JUSTICE SCALIA, and JUSTICE THOMAS, concluded:

1. Because public libraries’ use of Internet filtering software does not violate their patrons’ First Amendment rights, CIPA does not induce libraries to violate the Constitution, and is a valid exercise of Congress’ spending power. Congress has wide latitude to attach conditions to the receipt of federal assistance to further its policy objectives, *South Dakota v. Dole*, 483 U. S. 203, 206, but may not “induce” the recipient “to engage in activities that would themselves be unconstitutional,” *id.*, at

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210. To determine whether libraries would violate the First Amendment by employing the CIPA filtering software, the Court must first examine their societal role. To fulfill their traditional missions of facilitating learning and cultural enrichment, public libraries must have broad discretion to decide what material to provide to their patrons. This Court has held in two analogous contexts that the Government has broad discretion to make content-based judgments in deciding what private speech to make available to the public. *Arkansas Ed. Television Comm'n v. Forbes*, 523 U. S. 666, 672–674; *National Endowment for Arts v. Finley*, 524 U. S. 569, 585–586. Just as forum analysis and heightened judicial scrutiny were incompatible with the role of public television stations in the former case and the role of the National Endowment for the Arts in the latter, so are they incompatible with the broad discretion that public libraries must have to consider content in making collection decisions. Thus, the public forum principles on which the District Court relied are out of place in the context of this case. Internet access in public libraries is neither a “traditional” nor a “designated” public forum. See, e. g., *Cornelius v. NAACP Legal Defense & Ed. Fund, Inc.*, 473 U. S. 788, 802–803. Unlike the “Student Activity Fund” at issue in *Rosenberger v. Rector and Visitors of Univ. of Va.*, 515 U. S. 819, 834, Internet terminals are not acquired by a library in order to create a public forum for Web publishers to express themselves. Rather, a library provides such access for the same reasons it offers other library resources: to facilitate research, learning, and recreational pursuits by furnishing materials of requisite and appropriate quality. The fact that a library reviews and affirmatively chooses to acquire every book in its collection, but does not review every Web site that it makes available, is not a constitutionally relevant distinction. The decisions by most libraries to exclude pornography from their print collections are not subjected to heightened scrutiny; it would make little sense to treat libraries’ judgments to block online pornography any differently. Moreover, because of the vast quantity of material on the Internet and the rapid pace at which it changes, libraries cannot possibly segregate, item by item, all the Internet material that is appropriate for inclusion from all that is not. While a library could limit its Internet collection to just those sites it found worthwhile, it could do so only at the cost of excluding an enormous amount of valuable information that it lacks the capacity to review. Given that tradeoff, it is entirely reasonable for public libraries to reject that approach and instead exclude certain categories of content, without making individualized judgments that everything made available has requisite and appropriate quality. Concerns over filtering software’s tendency to erroneously “overblock” access to constitutionally protected speech that falls outside the catego-

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ries software users intend to block are dispelled by the ease with which patrons may have the filtering software disabled. Pp. 203–209.

2. CIPA does not impose an unconstitutional condition on libraries that receive E-rate and LSTA subsidies by requiring them, as a condition on that receipt, to surrender their First Amendment right to provide the public with access to constitutionally protected speech. Assuming that appellees may assert an “unconstitutional conditions” claim, that claim would fail on the merits. When the Government appropriates public funds to establish a program, it is entitled to broadly define that program’s limits. *Rust v. Sullivan*, 500 U. S. 173, 194. As in *Rust*, the Government here is not denying a benefit to anyone, but is instead simply insisting that public funds be spent for the purpose for which they are authorized: helping public libraries fulfill their traditional role of obtaining material of requisite and appropriate quality for educational and informational purposes. Especially because public libraries have traditionally excluded pornographic material from their other collections, Congress could reasonably impose a parallel limitation on its Internet assistance programs. As the use of filtering software helps to carry out these programs, it is a permissible condition under *Rust*. Appellees mistakenly contend, in reliance on *Legal Services Corporation v. Velazquez*, 531 U. S. 533, 542–543, that CIPA’s filtering conditions distort the usual functioning of public libraries. In contrast to the lawyers who furnished legal aid to the indigent under the program at issue in *Velazquez*, public libraries have no role that pits them against the Government, and there is no assumption, as there was in that case, that they must be free of any conditions that their benefactors might attach to the use of donated funds. Pp. 210–214.

JUSTICE KENNEDY concluded that if, as the Government represents, a librarian will unblock filtered material or disable the Internet software filter without significant delay on an adult user’s request, there is little to this case. There are substantial Government interests at stake here: The interest in protecting young library users from material inappropriate for minors is legitimate, and even compelling, as all Members of the Court appear to agree. Given this interest, and the failure to show that adult library users’ access to the material is burdened in any significant degree, the statute is not unconstitutional on its face. If some libraries do not have the capacity to unblock specific Web sites or to disable the filter or if it is shown that an adult user’s election to view constitutionally protected Internet material is burdened in some other substantial way, that would be the subject for an as-applied challenge, not this facial challenge. Pp. 214–215.

JUSTICE BREYER agreed that the “public forum” doctrine is inapplicable here and that the statute’s filtering software provisions do not vio-

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late the First Amendment, but would reach that ultimate conclusion through a different approach. Because the statute raises special First Amendment concerns, he would not require only a “rational basis” for the statute’s restrictions. At the same time, “strict scrutiny” is not warranted, for such a limiting and rigid test would unreasonably interfere with the discretion inherent in the “selection” of a library’s collection. Rather, he would examine the constitutionality of the statute’s restrictions as the Court has examined speech-related restrictions in other contexts where circumstances call for heightened, but not “strict,” scrutiny—where, for example, complex, competing constitutional interests are potentially at issue or speech-related harm is potentially justified by unusually strong governmental interests. The key question in such instances is one of proper fit. The Court has asked whether the harm to speech-related interests is disproportionate in light of both the justifications and the potential alternatives. It has considered the legitimacy of the statute’s objective, the extent to which the statute will tend to achieve that objective, whether there are other, less restrictive ways of achieving that objective, and ultimately whether the statute works speech-related harm that is out of proportion to that objective. The statute’s restrictions satisfy these constitutional demands. Its objectives—of restricting access to obscenity, child pornography, and material that is comparably harmful to minors—are “legitimate,” and indeed often “compelling.” No clearly superior or better fitting alternative to Internet software filters has been presented. Moreover, the statute contains an important exception that limits the speech-related harm: It allows libraries to permit any adult patron access to an “overblocked” Web site or to disable the software filter entirely upon request. Given the comparatively small burden imposed upon library patrons seeking legitimate Internet materials, it cannot be said that any speech-related harm that the statute may cause is disproportionate when considered in relation to the statute’s legitimate objectives. Pp. 215–220.

REHNQUIST, C. J., announced the judgment of the Court and delivered an opinion, in which O’CONNOR, SCALIA, and THOMAS, JJ., joined. KENNEDY, J., *post*, p. 214, and BREYER, J., *post*, p. 215, filed opinions concurring in the judgment. STEVENS, J., filed a dissenting opinion, *post*, p. 220. SOUTER, J., filed a dissenting opinion, in which GINSBURG, J., joined, *post*, p. 231.

Solicitor General Olson argued the cause for appellants. With him on the briefs were *Assistant Attorney General*

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McCallum, Deputy Solicitor General Kneedler, Irving L. Gornstein, Barbara L. Herwig, and Jacob M. Lewis.

Paul M. Smith argued the cause for appellees. With him on the brief for appellees American Library Association, Inc., et al. were *Theresa A. Chmara, Daniel Mach, Elliot M. Mincberg, and Lawrence S. Ottinger. Christopher A. Hansen, Ann Beeson, Steven R. Shapiro, Charles S. Sims, Stefan Presser, and David L. Sobel* filed a brief for appellees Multnomah County Public Library et al.*

CHIEF JUSTICE REHNQUIST announced the judgment of the Court and delivered an opinion, in which JUSTICE O'CONNOR, JUSTICE SCALIA, and JUSTICE THOMAS joined.

To address the problems associated with the availability of Internet pornography in public libraries, Congress enacted

*Briefs of *amici curiae* urging reversal were filed for the State of Texas by *Greg Abbott*, Attorney General, *Barry R. McBee*, First Assistant Attorney General, *Jeffrey S. Boyd*, Deputy Attorney General, *Philip A. Lionberger*, Solicitor General, and *Amy Warr* and *Ryan D. Clinton*, Assistant Solicitors General; for the American Center for Law and Justice et al. by *Jay Alan Sekulow, Colby M. May, Ben Bull, James M. Henderson, Joel H. Thornton, John P. Tuskey, and Laura B. Hernandez*; for the American Civil Rights Union by *Peter Ferrara*; for Cities, Mayors, and County Commissioners by *Kelly Shackelford*; for the Greenville, South Carolina, Public Library et al. by *Kenneth C. Bass III*; for the National Law Center for Children and Families et al. by *Kristina A. Bullock, Bruce A. Taylor, and Janet M. LaRue*; and for Sen. Trent Lott et al. by *Brian Fahling, Stephen M. Crampton, and Michael J. DePrimo*.

Briefs of *amici curiae* urging affirmance were filed for the Association of American Publishers, Inc., et al. by *R. Bruce Rich, Jonathan Bloom, and John B. Morris, Jr.*; for the Brennan Center for Justice by *Burt Neuborne, Laura K. Abel, and David S. Udell*; for the Cleveland Public Library et al. by *David W. Ogden*; and for Partnership for Progress on the Digital Divide et al. by *Marjorie Heins*.

Briefs of *amici curiae* were filed for the National School Boards Association et al. by *Julie Underwood, Naomi Gittins, and Stuart L. Knade*; for the Online Policy Group, Inc., et al. by *Daniel H. Bromberg* and *Charles R. A. Morse*; and for Jonathan Wallace d/b/a The Ethical Spectacle by *Michael B. Green* and *Jonathan D. Wallace*.

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the Children’s Internet Protection Act (CIPA), 114 Stat. 2763A–335. Under CIPA, a public library may not receive federal assistance to provide Internet access unless it installs software to block images that constitute obscenity or child pornography, and to prevent minors from obtaining access to material that is harmful to them. The District Court held these provisions facially invalid on the ground that they induce public libraries to violate patrons’ First Amendment rights. We now reverse.

To help public libraries provide their patrons with Internet access, Congress offers two forms of federal assistance. First, the E-rate program established by the Telecommunications Act of 1996 entitles qualifying libraries to buy Internet access at a discount. 110 Stat. 71, 47 U. S. C. §254(h)(1)(B). In the year ending June 30, 2002, libraries received \$58.5 million in such discounts. Redacted Joint Trial Stipulations of All Parties in Nos. 01–CV–1303, etc. (ED Pa.), ¶ 128, p. 16 (hereinafter *Jt. Tr. Stip.*). Second, pursuant to the Library Services and Technology Act (LSTA), 110 Stat. 3009–295, as amended, 20 U. S. C. §9101 *et seq.*, the Institute of Museum and Library Services makes grants to state library administrative agencies to “electronically lin[k] libraries with educational, social, or information services,” “assis[t] libraries in accessing information through electronic networks,” and “pa[y] costs for libraries to acquire or share computer systems and telecommunications technologies.” §§9141(a)(1)(B), (C), (E). In fiscal year 2002, Congress appropriated more than \$149 million in LSTA grants. *Jt. Tr. Stip.* ¶ 185, p. 26. These programs have succeeded greatly in bringing Internet access to public libraries: By 2000, 95% of the Nation’s libraries provided public Internet access. J. Bertot & C. McClure, *Public Libraries and the Internet 2000: Summary Findings and Data Tables*, p. 3 (Sept. 7, 2000), <http://www.nclis.gov/statsurv/2000plo.pdf> (all Internet materials as visited Mar. 25, 2003, and available in Clerk of Court’s case file).

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By connecting to the Internet, public libraries provide patrons with a vast amount of valuable information. But there is also an enormous amount of pornography on the Internet, much of which is easily obtained. 201 F. Supp. 2d 401, 419 (ED Pa. 2002). The accessibility of this material has created serious problems for libraries, which have found that patrons of all ages, including minors, regularly search for online pornography. *Id.*, at 406. Some patrons also expose others to pornographic images by leaving them displayed on Internet terminals or printed at library printers. *Id.*, at 423.

Upon discovering these problems, Congress became concerned that the E-rate and LSTA programs were facilitating access to illegal and harmful pornography. S. Rep. No. 105-226, p. 5 (1998). Congress learned that adults “us[e] library computers to access pornography that is then exposed to staff, passersby, and children,” and that “minors acces[s] child and adult pornography in libraries.”¹

But Congress also learned that filtering software that blocks access to pornographic Web sites could provide a reasonably effective way to prevent such uses of library resources. *Id.*, at 20–26. By 2000, before Congress enacted CIPA, almost 17% of public libraries used such software on at least some of their Internet terminals, and 7% had filters on all of them. Library Research Center of U. Ill., Survey of Internet Access Management in Public Libraries 8, <http://alexia.lis.uiuc.edu/gslis/research/internet.pdf>. A library can

¹The Children’s Internet Protection Act: Hearing on S. 97 before the Senate Committee on Commerce, Science, and Transportation, 106th Cong., 1st Sess., 49 (1999) (prepared statement of Bruce Taylor, President and Chief Counsel, National Law Center for Children and Families). See also Obscene Material Available Via The Internet: Hearing before the Subcommittee on Telecommunications, Trade, and Consumer Protection of the House Committee on Commerce, 106th Cong., 2d Sess., 1, 27 (2000) (citing D. Burt, *Dangerous Access, 2000 Edition: Uncovering Internet Pornography in America’s Libraries* (2000)) (noting more than 2,000 incidents of patrons, both adults and minors, using library computers to view online pornography, including obscenity and child pornography).

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set such software to block categories of material, such as “Pornography” or “Violence.” 201 F. Supp. 2d, at 428. When a patron tries to view a site that falls within such a category, a screen appears indicating that the site is blocked. *Id.*, at 429. But a filter set to block pornography may sometimes block other sites that present neither obscene nor pornographic material, but that nevertheless trigger the filter. To minimize this problem, a library can set its software to prevent the blocking of material that falls into categories like “Education,” “History,” and “Medical.” *Id.*, at 428–429. A library may also add or delete specific sites from a blocking category, *id.*, at 429, and anyone can ask companies that furnish filtering software to unblock particular sites, *id.*, at 430.

Responding to this information, Congress enacted CIPA. It provides that a library may not receive E-rate or LSTA assistance unless it has “a policy of Internet safety for minors that includes the operation of a technology protection measure . . . that protects against access” by all persons to “visual depictions” that constitute “obscen[ity]” or “child pornography,” and that protects against access by minors to “visual depictions” that are “harmful to minors.” 20 U. S. C. §§ 9134(f)(1)(A)(i) and (B)(i); 47 U. S. C. §§ 254(h)(6)(B)(i) and (C)(i). The statute defines a “[t]echnology protection measure” as “a specific technology that blocks or filters Internet access to material covered by” CIPA. § 254(h)(7)(I). CIPA also permits the library to “disable” the filter “to enable access for bona fide research or other lawful purposes.” 20 U. S. C. § 9134(f)(3); 47 U. S. C. § 254(h)(6)(D). Under the E-rate program, disabling is permitted “during use by an adult.” § 254(h)(6)(D). Under the LSTA program, disabling is permitted during use by any person. 20 U. S. C. § 9134(f)(3).

Appellees are a group of libraries, library associations, library patrons, and Web site publishers, including the American Library Association (ALA) and the Multnomah County Public Library in Portland, Oregon (Multnomah). They

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sued the United States and the Government agencies and officials responsible for administering the E-rate and LSTA programs in District Court, challenging the constitutionality of CIPA's filtering provisions. A three-judge District Court convened pursuant to § 1741(a) of CIPA, 114 Stat. 2763A–351, note following 20 U. S. C. § 7001.

After a trial, the District Court ruled that CIPA was facially unconstitutional and enjoined the relevant agencies and officials from withholding federal assistance for failure to comply with CIPA. The District Court held that Congress had exceeded its authority under the Spending Clause, U. S. Const., Art. I, §8, cl. 1, because, in the court's view, "any public library that complies with CIPA's conditions will necessarily violate the First Amendment." 201 F. Supp. 2d, at 453. The court acknowledged that "generally the First Amendment subjects libraries' content-based decisions about which print materials to acquire for their collections to only rational [basis] review." *Id.*, at 462. But it distinguished libraries' decisions to make certain Internet material inaccessible. "The central difference," the court stated, "is that by providing patrons with even filtered Internet access, the library permits patrons to receive speech on a virtually unlimited number of topics, from a virtually unlimited number of speakers, without attempting to restrict patrons' access to speech that the library, in the exercise of its professional judgment, determines to be particularly valuable." *Ibid.* Reasoning that "the provision of Internet access within a public library . . . is for use by the public . . . for expressive activity," the court analyzed such access as a "designated public forum." *Id.*, at 457 (citation and internal quotation marks omitted). The District Court also likened Internet access in libraries to "traditional public fora . . . such as sidewalks and parks" because it "promotes First Amendment values in an analogous manner." *Id.*, at 466.

Based on both of these grounds, the court held that the filtering software contemplated by CIPA was a content-

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based restriction on access to a public forum, and was therefore subject to strict scrutiny. *Ibid.* Applying this standard, the District Court held that, although the Government has a compelling interest “in preventing the dissemination of obscenity, child pornography, or, in the case of minors, material harmful to minors,” *id.*, at 471, the use of software filters is not narrowly tailored to further those interests, *id.*, at 479. We noted probable jurisdiction, 537 U. S. 1017 (2002), and now reverse.

Congress has wide latitude to attach conditions to the receipt of federal assistance in order to further its policy objectives. *South Dakota v. Dole*, 483 U. S. 203, 206 (1987). But Congress may not “induce” the recipient “to engage in activities that would themselves be unconstitutional.” *Id.*, at 210. To determine whether libraries would violate the First Amendment by employing the filtering software that CIPA requires,² we must first examine the role of libraries in our society.

Public libraries pursue the worthy missions of facilitating learning and cultural enrichment. Appellee ALA’s Library Bill of Rights states that libraries should provide “[b]ooks and other . . . resources . . . for the interest, information, and enlightenment of all people of the community the library

²JUSTICE STEVENS misapprehends the analysis we must perform to determine whether CIPA exceeds Congress’ authority under the Spending Clause. He asks and answers whether it is constitutional for Congress to “impose [CIPA’s filtering] requirement” on public libraries, instead of “allowing local decisionmakers to tailor their responses to local problems.” *Post*, at 220 (dissenting opinion). But under our well-established Spending Clause precedent, that is not the proper inquiry. Rather, as the District Court correctly recognized, 201 F. Supp. 2d 401, 453 (ED Pa. 2002), we must ask whether the condition that Congress requires “would . . . be unconstitutional” if performed by the library itself. *Dole*, 483 U. S., at 210.

CIPA does not directly regulate private conduct; rather, Congress has exercised its Spending Power by specifying conditions on the receipt of federal funds. Therefore, *Dole* provides the appropriate framework for assessing CIPA’s constitutionality.

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serves.” 201 F. Supp. 2d, at 420 (internal quotation marks omitted). To fulfill their traditional missions, public libraries must have broad discretion to decide what material to provide to their patrons. Although they seek to provide a wide array of information, their goal has never been to provide “universal coverage.” *Id.*, at 421. Instead, public libraries seek to provide materials “that would be of the greatest direct benefit or interest to the community.” *Ibid.* To this end, libraries collect only those materials deemed to have “requisite and appropriate quality.” *Ibid.* See W. Katz, *Collection Development: The Selection of Materials for Libraries* 6 (1980) (“The librarian’s responsibility . . . is to separate out the gold from the garbage, not to preserve everything”); F. Drury, *Book Selection* xi (1930) (“[I]t is the aim of the selector to give the public, not everything it wants, but the best that it will read or use to advantage”); App. 636 (Rebuttal Expert Report of Donald G. Davis, Jr.) (“A hypothetical collection of everything that has been produced is not only of dubious value, but actually detrimental to users trying to find what they want to find and really need”).

We have held in two analogous contexts that the government has broad discretion to make content-based judgments in deciding what private speech to make available to the public. In *Arkansas Ed. Television Comm’n v. Forbes*, 523 U. S. 666, 672–673 (1998), we held that public forum principles do not generally apply to a public television station’s editorial judgments regarding the private speech it presents to its viewers. “[B]road rights of access for outside speakers would be antithetical, as a general rule, to the discretion that stations and their editorial staff must exercise to fulfill their journalistic purpose and statutory obligations.” *Id.*, at 673. Recognizing a broad right of public access “would [also] risk implicating the courts in judgments that should be left to the exercise of journalistic discretion.” *Id.*, at 674.

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Similarly, in *National Endowment for Arts v. Finley*, 524 U. S. 569 (1998), we upheld an art funding program that required the National Endowment for the Arts (NEA) to use content-based criteria in making funding decisions. We explained that “[a]ny content-based considerations that may be taken into account in the grant-making process are a consequence of the nature of arts funding.” *Id.*, at 585. In particular, “[t]he very assumption of the NEA is that grants will be awarded according to the ‘artistic worth of competing applicants,’ and absolute neutrality is simply inconceivable.” *Ibid.* (some internal quotation marks omitted). We expressly declined to apply forum analysis, reasoning that it would conflict with “NEA’s mandate . . . to make esthetic judgments, and the inherently content-based ‘excellence’ threshold for NEA support.” *Id.*, at 586.

The principles underlying *Forbes* and *Finley* also apply to a public library’s exercise of judgment in selecting the material it provides to its patrons. Just as forum analysis and heightened judicial scrutiny are incompatible with the role of public television stations and the role of the NEA, they are also incompatible with the discretion that public libraries must have to fulfill their traditional missions. Public library staffs necessarily consider content in making collection decisions and enjoy broad discretion in making them.

The public forum principles on which the District Court relied, 201 F. Supp. 2d, at 457–470, are out of place in the context of this case. Internet access in public libraries is neither a “traditional” nor a “designated” public forum. See *Cornelius v. NAACP Legal Defense & Ed. Fund, Inc.*, 473 U. S. 788, 802 (1985) (describing types of forums). First, this resource—which did not exist until quite recently—has not “immemorially been held in trust for the use of the public and, time out of mind, . . . been used for purposes of assembly, communication of thoughts between citizens, and discussing public questions.” *International Soc. for Krishna Consciousness, Inc. v. Lee*, 505 U. S. 672, 679 (1992) (internal quo-

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tation marks omitted). We have “rejected the view that traditional public forum status extends beyond its historic confines.” *Forbes, supra*, at 678. The doctrines surrounding traditional public forums may not be extended to situations where such history is lacking.

Nor does Internet access in a public library satisfy our definition of a “designated public forum.” To create such a forum, the government must make an affirmative choice to open up its property for use as a public forum. *Cornelius, supra*, at 802–803; *Perry Ed. Assn. v. Perry Local Educators’ Assn.*, 460 U. S. 37, 45 (1983). “The government does not create a public forum by inaction or by permitting limited discourse, but only by intentionally opening a non-traditional forum for public discourse.” *Cornelius, supra*, at 802. The District Court likened public libraries’ Internet terminals to the forum at issue in *Rosenberger v. Rector and Visitors of Univ. of Va.*, 515 U. S. 819 (1995). 201 F. Supp. 2d, at 465. In *Rosenberger*, we considered the “Student Activity Fund” established by the University of Virginia that subsidized all manner of student publications except those based on religion. We held that the fund had created a limited public forum by giving public money to student groups who wished to publish, and therefore could not discriminate on the basis of viewpoint.

The situation here is very different. A public library does not acquire Internet terminals in order to create a public forum for Web publishers to express themselves, any more than it collects books in order to provide a public forum for the authors of books to speak. It provides Internet access, not to “encourage a diversity of views from private speakers,” *Rosenberger, supra*, at 834, but for the same reasons it offers other library resources: to facilitate research, learning, and recreational pursuits by furnishing materials of requisite and appropriate quality. See *Cornelius, supra*, at 805 (noting, in upholding limits on participation in the Combined Federal Campaign (CFC), that “[t]he Government did not

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create the CFC for purposes of providing a forum for expressive activity”). As Congress recognized, “[t]he Internet is simply another method for making information available in a school or library.” S. Rep. No. 106–141, p. 7 (1999). It is “no more than a technological extension of the book stack.” *Ibid.*³

The District Court disagreed because, whereas a library reviews and affirmatively chooses to acquire every book in its collection, it does not review every Web site that it makes available. 201 F. Supp. 2d, at 462–463. Based on this distinction, the court reasoned that a public library enjoys less discretion in deciding which Internet materials to make

³ Even if appellees had proffered more persuasive evidence that public libraries intended to create a forum for speech by connecting to the Internet, we would hesitate to import “the public forum doctrine . . . wholesale into” the context of the Internet. *Denver Area Ed. Telecommunications Consortium, Inc. v. FCC*, 518 U. S. 727, 749 (1996) (opinion of BREYER, J.). “[W]e are wary of the notion that a partial analogy in one context, for which we have developed doctrines, can compel a full range of decisions in such a new and changing area.” *Ibid.*

The dissents agree with the District Court that less restrictive alternatives to filtering software would suffice to meet Congress’ goals. *Post*, at 223 (opinion of STEVENS, J.) (quoting 201 F. Supp. 2d, at 410); *post*, at 234 (opinion of SOUTER, J.) (quoting 201 F. Supp. 2d, at 422–427). But we require the Government to employ the least restrictive means only when the forum is a public one and strict scrutiny applies. For the reasons stated above, see *supra*, at 205–208, such is not the case here. In deciding not to collect pornographic material from the Internet, a public library need not satisfy a court that it has pursued the least restrictive means of implementing that decision.

In any case, the suggested alternatives have their own drawbacks. Close monitoring of computer users would be far more intrusive than the use of filtering software, and would risk transforming the role of a librarian from a professional to whom patrons turn for assistance into a compliance officer whom many patrons might wish to avoid. Moving terminals to places where their displays cannot easily be seen by other patrons, or installing privacy screens or recessed monitors, would not address a library’s interest in preventing patrons from deliberately using its computers to view online pornography. To the contrary, these alternatives would make it *easier* for patrons to do so.

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available than in making book selections. *Ibid.* We do not find this distinction constitutionally relevant. A library's failure to make quality-based judgments about all the material it furnishes from the Web does not somehow taint the judgments it does make. A library's need to exercise judgment in making collection decisions depends on its traditional role in identifying suitable and worthwhile material; it is no less entitled to play that role when it collects material from the Internet than when it collects material from any other source. Most libraries already exclude pornography from their print collections because they deem it inappropriate for inclusion. We do not subject these decisions to heightened scrutiny; it would make little sense to treat libraries' judgments to block online pornography any differently, when these judgments are made for just the same reason.

Moreover, because of the vast quantity of material on the Internet and the rapid pace at which it changes, libraries cannot possibly segregate, item by item, all the Internet material that is appropriate for inclusion from all that is not. While a library could limit its Internet collection to just those sites it found worthwhile, it could do so only at the cost of excluding an enormous amount of valuable information that it lacks the capacity to review. Given that tradeoff, it is entirely reasonable for public libraries to reject that approach and instead exclude certain categories of content, without making individualized judgments that everything they do make available has requisite and appropriate quality.

Like the District Court, the dissents fault the tendency of filtering software to "overblock"—that is, to erroneously block access to constitutionally protected speech that falls outside the categories that software users intend to block. See *post*, at 221–222 (opinion of STEVENS, J.); *post*, at 233–234 (opinion of SOUTER, J.). Due to the software's limitations, "[m]any erroneously blocked [Web] pages contain content

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that is completely innocuous for both adults and minors, and that no rational person could conclude matches the filtering companies' category definitions, such as 'pornography' or 'sex.'" 201 F. Supp. 2d, at 449. Assuming that such erroneous blocking presents constitutional difficulties, any such concerns are dispelled by the ease with which patrons may have the filtering software disabled. When a patron encounters a blocked site, he need only ask a librarian to unblock it or (at least in the case of adults) disable the filter. As the District Court found, libraries have the capacity to permanently unblock any erroneously blocked site, *id.*, at 429, and the Solicitor General stated at oral argument that a "library may . . . eliminate the filtering with respect to specific sites . . . at the request of a patron," Tr. of Oral Arg. 4. With respect to adults, CIPA also expressly authorizes library officials to "disable" a filter altogether "to enable access for bona fide research or other lawful purposes." 20 U. S. C. § 9134(f)(3) (disabling permitted for both adults and minors); 47 U. S. C. § 254(h)(6)(D) (disabling permitted for adults). The Solicitor General confirmed that a "librarian can, in response to a request from a patron, unblock the filtering mechanism altogether," Tr. of Oral Arg. 11, and further explained that a patron would not "have to explain . . . why he was asking a site to be unblocked or the filtering to be disabled," *id.*, at 4. The District Court viewed unblocking and disabling as inadequate because some patrons may be too embarrassed to request them. 201 F. Supp. 2d, at 411. But the Constitution does not guarantee the right to acquire information at a public library without any risk of embarrassment.⁴

⁴The dissents argue that overblocking will "reduce the adult population . . . to reading only what is fit for children." *Post*, at 222, n. 2 (opinion of STEVENS, J.) (quoting *Butler v. Michigan*, 352 U.S. 380, 383 (1957)). See also *post*, at 222, and n. 2 (citing *Ashcroft v. Free Speech Coalition*, 535 U.S. 234, 252 (2002); *United States v. Playboy Entertainment Group*,

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Appellees urge us to affirm the District Court’s judgment on the alternative ground that CIPA imposes an unconstitutional condition on the receipt of federal assistance. Under this doctrine, “the government ‘may not deny a benefit to a person on a basis that infringes his constitutionally protected . . . freedom of speech’ even if he has no entitlement to that benefit.” *Board of Comm’rs, Wabaunsee Cty. v. Umbehr*, 518 U. S. 668, 674 (1996) (quoting *Perry v. Sindermann*, 408 U. S. 593, 597 (1972)). Appellees argue that CIPA imposes an unconstitutional condition on libraries that receive E-rate and LSTA subsidies by requiring them, as a condition on their receipt of federal funds, to surrender their First Amendment right to provide the public with access to constitutionally protected speech. The Government counters that this claim fails because Government entities do not have First Amendment rights. See *Columbia Broadcasting System, Inc. v. Democratic National Committee*, 412 U. S. 94,

Inc., 529 U. S. 803, 814 (2000); and *Reno v. American Civil Liberties Union*, 521 U. S. 844, 875 (1997); see *post*, at 237–238 (opinion of SOUTER, J.). But these cases are inapposite because they addressed Congress’ direct regulation of private conduct, not exercises of its Spending Power.

The dissents also argue that because some library patrons would not make specific unblocking requests, the interest of authors of blocked Internet material “in reaching the widest possible audience would be abridged.” *Post*, at 225 (opinion of STEVENS, J.); see *post*, at 242–243, n. 8 (opinion of SOUTER, J.). But this mistakes a public library’s purpose for acquiring Internet terminals: A library does so to provide its patrons with materials of requisite and appropriate quality, not to create a public forum for Web publishers to express themselves. See *supra*, at 206–208.

JUSTICE STEVENS further argues that, because some libraries’ procedures will make it difficult for patrons to have blocked material unblocked, CIPA “will create a significant prior restraint on adult access to protected speech.” *Post*, at 225. But this argument, which the District Court did not address, mistakenly extends prior restraint doctrine to the context of public libraries’ collection decisions. A library’s decision to use filtering software is a collection decision, not a restraint on private speech. Contrary to JUSTICE STEVENS’ belief, a public library does not have an obligation to add material to its collection simply because the material is constitutionally protected.

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139 (1973) (Stewart, J., concurring) (“The First Amendment protects the press *from* governmental interference; it confers no analogous protection *on* the government”); *id.*, at 139, n. 7 (“The purpose of the First Amendment is to protect private expression” (quoting T. Emerson, *The System of Freedom of Expression* 700 (1970))). See also *Warner Cable Communications, Inc., v. Niceville*, 911 F. 2d 634, 638 (CA11 1990); *Student Govt. Assn. v. Board of Trustees of the Univ. of Mass.*, 868 F. 2d 473, 481 (CA1 1989); *Estiverne v. Louisiana State Bar Assn.*, 863 F. 2d 371, 379 (CA5 1989).

We need not decide this question because, even assuming that appellees may assert an “unconstitutional conditions” claim, this claim would fail on the merits. Within broad limits, “when the Government appropriates public funds to establish a program it is entitled to define the limits of that program.” *Rust v. Sullivan*, 500 U. S. 173, 194 (1991). In *Rust*, Congress had appropriated federal funding for family planning services and forbidden the use of such funds in programs that provided abortion counseling. *Id.*, at 178. Recipients of these funds challenged this restriction, arguing that it impermissibly conditioned the receipt of a benefit on the relinquishment of their constitutional right to engage in abortion counseling. *Id.*, at 196. We rejected that claim, recognizing that “the Government [was] not denying a benefit to anyone, but [was] instead simply insisting that public funds be spent for the purposes for which they were authorized.” *Ibid.*

The same is true here. The E-rate and LSTA programs were intended to help public libraries fulfill their traditional role of obtaining material of requisite and appropriate quality for educational and informational purposes.⁵ Congress

⁵See 20 U. S. C. §9121 (“It is the purpose of [LSTA] (2) to stimulate excellence and promote access to learning and information resources in all types of libraries for individuals of all ages”); S. Conf. Rep. No. 104-230, p. 132 (1996) (The E-rate program “will help open new worlds of knowledge, learning and education to all Americans [It is] intended, for

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may certainly insist that these “public funds be spent for the purposes for which they were authorized.” *Ibid.* Especially because public libraries have traditionally excluded pornographic material from their other collections, Congress could reasonably impose a parallel limitation on its Internet assistance programs. As the use of filtering software helps to carry out these programs, it is a permissible condition under *Rust*.

JUSTICE STEVENS asserts the premise that “[a] federal statute penalizing a library for failing to install filtering software on every one of its Internet-accessible computers would unquestionably violate [the First] Amendment.” *Post*, at 226. See also *post*, at 230–231. But—assuming again that public libraries have First Amendment rights—CIPA does not “penalize” libraries that choose not to install such software, or deny them the right to provide their patrons with unfiltered Internet access. Rather, CIPA simply reflects Congress’ decision not to subsidize their doing so. To the extent that libraries wish to offer unfiltered access, they are free to do so without federal assistance. “‘A refusal to fund protected activity, without more, cannot be equated with the imposition of a “penalty” on that activity.’” *Rust, supra*, at 193 (quoting *Harris v. McRae*, 448 U. S. 297, 317, n. 19 (1980)). “‘[A] legislature’s decision not to subsidize the exercise of a fundamental right does not infringe the right.’” *Rust, supra*, at 193 (quoting *Regan v. Taxation With Representation of Wash.*, 461 U. S. 540, 549 (1983)).⁶

example, to provide the ability to browse library collections, review the collections of museums, or find new information on the treatment of an illness, to Americans everywhere via . . . libraries”).

⁶These holdings, which JUSTICE STEVENS ignores, also make clear that his reliance on *Rutan v. Republican Party of Ill.*, 497 U. S. 62 (1990), *Elrod v. Burns*, 427 U. S. 347 (1976), and *Wieman v. Updegraff*, 344 U. S. 183 (1952), is misplaced. See *post*, at 227. The invalidated state action in those cases involved true penalties, such as denial of a promotion or outright discharge from employment, not nonsubsidies.

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Appellees mistakenly contend, in reliance on *Legal Services Corporation v. Velazquez*, 531 U. S. 533 (2001), that CIPA’s filtering conditions “[d]istor[t] the [u]sual [f]unctioning of [p]ublic [l]ibraries.” Brief for Appellees ALA et al. 40 (citing *Velazquez*, *supra*, at 543); Brief for Appellees Multnomah et al. 47–48 (same). In *Velazquez*, the Court concluded that a Government program of furnishing legal aid to the indigent differed from the program in *Rust* “[i]n th[e] vital respect” that the role of lawyers who represent clients in welfare disputes is to advocate *against* the Government, and there was thus an assumption that counsel would be free of state control. 531 U. S., at 542–543. The Court concluded that the restriction on advocacy in such welfare disputes would distort the usual functioning of the legal profession and the federal and state courts before which the lawyers appeared. Public libraries, by contrast, have no comparable role that pits them against the Government, and there is no comparable assumption that they must be free of any conditions that their benefactors might attach to the use of donated funds or other assistance.⁷

⁷ Relying on *Velazquez*, JUSTICE STEVENS argues mistakenly that *Rust* is inapposite because that case “only involved, and only applies to, . . . situations in which the government seeks to communicate a specific message,” *post*, at 228, and unlike the Title X program in *Rust*, the E-rate and LSTA programs “are not designed to foster or transmit any particular governmental message.” *Post*, at 229. But he misreads our cases discussing *Rust*, and again misapprehends the purpose of providing Internet terminals in public libraries. *Velazquez* held only that viewpoint-based restrictions are improper “when the [government] does not itself speak or subsidize transmittal of a message it favors *but instead expends funds to encourage a diversity of views from private speakers.*” 531 U. S., at 542 (quoting *Rosenberger v. Rector and Visitors of Univ. of Va.*, 515 U. S. 819, 834 (1995) (emphasis added)). See also 531 U. S., at 542 (“[T]he salient point is that, like the program in *Rosenberger*, the LSC [Legal Services Corporation] program was designed *to facilitate private speech . . .*” (emphasis added)); *Board of Regents of Univ. of Wis. System v. Southworth*, 529 U. S. 217, 229 (2000) (“The University of Wisconsin

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Because public libraries' use of Internet filtering software does not violate their patrons' First Amendment rights, CIPA does not induce libraries to violate the Constitution, and is a valid exercise of Congress' spending power. Nor does CIPA impose an unconstitutional condition on public libraries. Therefore, the judgment of the District Court for the Eastern District of Pennsylvania is

Reversed.

JUSTICE KENNEDY, concurring in the judgment.

If, on the request of an adult user, a librarian will unblock filtered material or disable the Internet software filter without significant delay, there is little to this case. The Government represents this is indeed the fact. Tr. of Oral Arg. 11; *ante*, at 209 (plurality opinion).

The District Court, in its "Preliminary Statement," did say that "the unblocking may take days, and may be unavailable, especially in branch libraries, which are often less well staffed than main libraries." 201 F. Supp. 2d 401, 411 (ED Pa. 2002). See also *post*, at 232–233 (SOUTER, J., dissenting). That statement, however, does not appear to be a specific finding. It was not the basis for the District Court's decision in any event, as the court assumed that "the disabling provisions permit public libraries to allow a patron access to any speech that is constitutionally protected with respect to that patron." 201 F. Supp. 2d, at 485–486.

exacts the fee at issue for the sole purpose of facilitating the free and open exchange of ideas"); *Rosenberger, supra*, at 830, 834 ("The [Student Activities Fund] is a forum"; "[T]he University . . . expends funds to encourage a diversity of views from private speakers"). Indeed, this very distinction led us to state in *Southworth* that that case did not implicate our unconstitutional conditions jurisprudence. 529 U. S., at 229 ("The case we decide here . . . does not raise the issue of the government's right . . . to use its own funds to advance a particular message"). As we have stated above, *supra*, at 206–208, public libraries do not install Internet terminals to provide a forum for Web publishers to express themselves, but rather to provide patrons with online material of requisite and appropriate quality.

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If some libraries do not have the capacity to unblock specific Web sites or to disable the filter or if it is shown that an adult user's election to view constitutionally protected Internet material is burdened in some other substantial way, that would be the subject for an as-applied challenge, not the facial challenge made in this case. See *post*, at 219–220 (BREYER, J., concurring in judgment).

There are, of course, substantial Government interests at stake here. The interest in protecting young library users from material inappropriate for minors is legitimate, and even compelling, as all Members of the Court appear to agree. Given this interest, and the failure to show that the ability of adult library users to have access to the material is burdened in any significant degree, the statute is not unconstitutional on its face. For these reasons, I concur in the judgment of the Court.

JUSTICE BREYER, concurring in the judgment.

The Children's Internet Protection Act (Act) sets conditions for the receipt of certain Government subsidies by public libraries. Those conditions require the libraries to install on their Internet-accessible computers technology, say, filtering software, that will help prevent computer users from gaining Internet access to child pornography, obscenity, or material comparably harmful to minors. 20 U. S. C. §§ 9134(f)(1)(A)(i) and (B)(i); 47 U. S. C. §§ 254(h)(6)(B)(i) and (C)(i). The technology, in its current form, does not function perfectly, for to some extent it also screens out constitutionally protected materials that fall outside the scope of the statute (*i. e.*, “overblocks”) and fails to prevent access to some materials that the statute deems harmful (*i. e.*, “underblocks”). See 201 F. Supp. 2d 401, 448–449 (ED Pa. 2002); *ante*, at 208–209 (plurality opinion). In determining whether the statute's conditions consequently violate the First Amendment, the plurality first finds the “public forum” doctrine inapplicable, *ante*, at 205–208, and then holds that the statutory provisions are constitutional. I agree with

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both determinations. But I reach the plurality's ultimate conclusion in a different way.

In ascertaining whether the statutory provisions are constitutional, I would apply a form of heightened scrutiny, examining the statutory requirements in question with special care. The Act directly restricts the public's receipt of information. See *Stanley v. Georgia*, 394 U. S. 557, 564 (1969) (“[T]he Constitution protects the right to receive information and ideas”); *Reno v. American Civil Liberties Union*, 521 U. S. 844, 874 (1997). And it does so through limitations imposed by outside bodies (here Congress) upon two critically important sources of information—the Internet as accessed via public libraries. See *ante*, at 200, 203–204 (plurality opinion); *post*, at 225–226 (STEVENS, J., dissenting); *Board of Ed., Island Trees Union Free School Dist. No. 26 v. Pico*, 457 U. S. 853, 915 (1982) (REHNQUIST, J., dissenting) (describing public libraries as places “designed for freewheeling inquiry”). See also *Reno, supra*, at 853, 868 (describing the Internet as a “vast democratic” medium and the World Wide Web, in part, as “comparable, from the readers’ viewpoint, to . . . a vast library”); *Ashcroft v. American Civil Liberties Union*, 535 U. S. 564, 566 (2002). For that reason, we should not examine the statute’s constitutionality as if it raised no special First Amendment concern—as if, like tax or economic regulation, the First Amendment demanded only a “rational basis” for imposing a restriction. Nor should we accept the Government’s suggestion that a presumption in favor of the statute’s constitutionality applies. See, *e. g.*, 201 F. Supp. 2d, at 409; Brief for United States 21–24.

At the same time, in my view, the First Amendment does not here demand application of the most limiting constitutional approach—that of “strict scrutiny.” The statutory restriction in question is, in essence, a kind of “selection” restriction (a kind of editing). It affects the kinds and amount of materials that the library can present to its pa-

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trons. See *ante*, at 204, 207–208 (plurality opinion). And libraries often properly engage in the selection of materials, either as a matter of necessity (*i. e.*, due to the scarcity of resources) or by design (*i. e.*, in accordance with collection development policies). See, *e. g.*, 201 F. Supp. 2d, at 408–409, 421, 462; *ante*, at 204, 208 (plurality opinion). To apply “strict scrutiny” to the “selection” of a library’s collection (whether carried out by public libraries themselves or by other community bodies with a traditional legal right to engage in that function) would unreasonably interfere with the discretion necessary to create, maintain, or select a library’s “collection” (broadly defined to include all the information the library makes available). Cf. *Miami Herald Publishing Co. v. Tornillo*, 418 U. S. 241, 256–258 (1974) (protecting newspaper’s exercise of editorial control and judgment). That is to say, “strict scrutiny” implies too limiting and rigid a test for me to believe that the First Amendment requires it in this context.

Instead, I would examine the constitutionality of the Act’s restrictions here as the Court has examined speech-related restrictions in other contexts where circumstances call for heightened, but not “strict,” scrutiny—where, for example, complex, competing constitutional interests are potentially at issue or speech-related harm is potentially justified by unusually strong governmental interests. Typically the key question in such instances is one of proper fit. See, *e. g.*, *Board of Trustees of State Univ. of N. Y. v. Fox*, 492 U. S. 469 (1989); *Denver Area Ed. Telecommunications Consortium, Inc. v. FCC*, 518 U. S. 727, 740–747 (1996) (plurality opinion); *Turner Broadcasting System, Inc. v. FCC*, 520 U. S. 180, 227 (1997) (BREYER, J., concurring in part); *Red Lion Broadcasting Co. v. FCC*, 395 U. S. 367, 389–390 (1969).

In such cases the Court has asked whether the harm to speech-related interests is disproportionate in light of both the justifications and the potential alternatives. It has considered the legitimacy of the statute’s objective, the extent

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to which the statute will tend to achieve that objective, whether there are other, less restrictive ways of achieving that objective, and ultimately whether the statute works speech-related harm that, in relation to that objective, is out of proportion. In *Fox, supra*, at 480, for example, the Court stated:

“What our decisions require is a ‘fit’ between the legislature’s ends and the means chosen to accomplish those ends—a fit that is not necessarily perfect, but reasonable; that represents not necessarily the single best disposition but one whose scope is in proportion to the interest served; that employs not necessarily the least restrictive means but, as we have put it in the other contexts . . . , a means narrowly tailored to achieve the desired objective.” (Internal quotation marks and citations omitted.)

Cf., *e. g.*, *Central Hudson Gas & Elec. Corp. v. Public Serv. Comm’n of N. Y.*, 447 U. S. 557, 564 (1980); *United States v. O’Brien*, 391 U. S. 367, 377 (1968); *Clark v. Community for Creative Non-Violence*, 468 U. S. 288, 293 (1984). This approach does not substitute a form of “balancing” for less flexible, though more speech-protective, forms of “strict scrutiny.” Rather, it *supplements* the latter with an approach that is more flexible but nonetheless provides the legislature with less than ordinary leeway in light of the fact that constitutionally protected expression is at issue. Cf. *Fox, supra*, at 480–481; *Virginia Bd. of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U. S. 748, 769–773 (1976).

The Act’s restrictions satisfy these constitutional demands. The Act seeks to restrict access to obscenity, child pornography, and, in respect to access by minors, material that is comparably harmful. These objectives are “legitimate,” and indeed often “compelling.” See, *e. g.*, *Miller v. California*, 413 U. S. 15, 18 (1973) (interest in prohibiting access to

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obscene material is “legitimate”); *Reno*, 521 U. S., at 869–870 (interest in “shielding” minors from exposure to indecent material is “compelling”); *New York v. Ferber*, 458 U. S. 747, 756–757 (1982) (same). As the District Court found, software filters “provide a relatively cheap and effective” means of furthering these goals. 201 F. Supp. 2d, at 448. Due to present technological limitations, however, the software filters both “overblock,” screening out some perfectly legitimate material, and “underblock,” allowing some obscene material to escape detection by the filter. *Id.*, at 448–449. See *ante*, at 208–209 (plurality opinion). But no one has presented any clearly superior or better fitting alternatives. See *ante*, at 207, n. 3 (plurality opinion).

At the same time, the Act contains an important exception that limits the speech-related harm that “overblocking” might cause. As the plurality points out, the Act allows libraries to permit any adult patron access to an “overblocked” Web site; the adult patron need only ask a librarian to unblock the specific Web site or, alternatively, ask the librarian, “Please disable the entire filter.” See *ante*, at 209; 20 U. S. C. § 9134(f)(3) (permitting library officials to “disable a technology protection measure . . . to enable access for bona fide research or other lawful purposes”); 47 U. S. C. § 254(h)(6)(D) (same).

The Act does impose upon the patron the burden of making this request. But it is difficult to see how that burden (or any delay associated with compliance) could prove more onerous than traditional library practices associated with segregating library materials in, say, closed stacks, or with interlibrary lending practices that require patrons to make requests that are not anonymous and to wait while the librarian obtains the desired materials from elsewhere. Perhaps local library rules or practices could further restrict the ability of patrons to obtain “overblocked” Internet material. See, e. g., *In re Federal-State Joint Board on Universal Service: Children’s Internet Protection Act*, 16 FCC Rcd.

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8182, 8183, ¶ 2, 8204, ¶ 53 (2001) (leaving determinations regarding the appropriateness of compliant Internet safety policies and their disabling to local communities). But we are not now considering any such local practices. We here consider only a facial challenge to the Act itself.

Given the comparatively small burden that the Act imposes upon the library patron seeking legitimate Internet materials, I cannot say that any speech-related harm that the Act may cause is disproportionate when considered in relation to the Act's legitimate objectives. I therefore agree with the plurality that the statute does not violate the First Amendment, and I concur in the judgment.

JUSTICE STEVENS, dissenting.

“To fulfill their traditional missions, public libraries must have broad discretion to decide what material to provide their patrons.” *Ante*, at 204. Accordingly, I agree with the plurality that it is neither inappropriate nor unconstitutional for a local library to experiment with filtering software as a means of curtailing children's access to Internet Web sites displaying sexually explicit images. I also agree with the plurality that the 7% of public libraries that decided to use such software on *all* of their Internet terminals in 2000 did not act unlawfully. *Ante*, at 200. Whether it is constitutional for the Congress of the United States to impose that requirement on the other 93%, however, raises a vastly different question. Rather than allowing local decisionmakers to tailor their responses to local problems, the Children's Internet Protection Act (CIPA) operates as a blunt nationwide restraint on adult access to “an enormous amount of valuable information” that individual librarians cannot possibly review. *Ante*, at 208. Most of that information is constitutionally protected speech. In my view, this restraint is unconstitutional.

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I

The unchallenged findings of fact made by the District Court reveal fundamental defects in the filtering software that is now available or that will be available in the foreseeable future. Because the software relies on key words or phrases to block undesirable sites, it does not have the capacity to exclude a precisely defined category of images. As the District Court explained:

“[T]he search engines that software companies use for harvesting are able to search text only, not images. This is of critical importance, because CIPA, by its own terms, covers only ‘visual depictions.’ 20 U. S. C. § 9134(f)(1)(A)(i); 47 U. S. C. § 254(h)(5)(B)(i). Image recognition technology is immature, ineffective, and unlikely to improve substantially in the near future. None of the filtering software companies deposed in this case employs image recognition technology when harvesting or categorizing URLs. Due to the reliance on automated text analysis and the absence of image recognition technology, a Web page with sexually explicit images and no text cannot be harvested using a search engine. This problem is complicated by the fact that Web site publishers may use image files rather than text to represent words, i. e., they may use a file that computers understand to be a picture, like a photograph of a printed word, rather than regular text, making automated review of their textual content impossible. For example, if the Playboy Web site displays its name using a logo rather than regular text, a search engine would not see or recognize the Playboy name in that logo.” 201 F. Supp. 2d 401, 431–432 (ED Pa. 2002).

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Given the quantity and ever-changing character of Web sites offering free sexually explicit material,¹ it is inevitable that a substantial amount of such material will never be blocked. Because of this “underblocking,” the statute will provide parents with a false sense of security without really solving the problem that motivated its enactment. Conversely, the software’s reliance on words to identify undesirable sites necessarily results in the blocking of thousands of pages that “contain content that is completely innocuous for both adults and minors, and that no rational person could conclude matches the filtering companies’ category definitions, such as ‘pornography’ or ‘sex.’” *Id.*, at 449. In my judgment, a statutory blunderbuss that mandates this vast amount of “overblocking” abridges the freedom of speech protected by the First Amendment.

The effect of the overblocking is the functional equivalent of a host of individual decisions excluding hundreds of thousands of individual constitutionally protected messages from Internet terminals located in public libraries throughout the Nation. Neither the interest in suppressing unlawful speech nor the interest in protecting children from access to harmful materials justifies this overly broad restriction on adult access to protected speech. “The Government may not suppress lawful speech as the means to suppress unlawful speech.” *Ashcroft v. Free Speech Coalition*, 535 U. S. 234, 255 (2002).²

¹“The percentage of Web pages on the indexed Web containing sexually explicit content is relatively small. Recent estimates indicate that no more than 1-2% of the content on the Web is pornographic or sexually explicit. However, the absolute number of Web sites offering free sexually explicit material is extremely large, approximately 100,000 sites.” 201 F. Supp. 2d 401, 419 (ED Pa. 2002).

²We have repeatedly reaffirmed the holding in *Butler v. Michigan*, 352 U. S. 380, 383 (1957), that the State may not “reduce the adult population . . . to reading only what is fit for children.” See *Ashcroft v. Free Speech Coalition*, 535 U. S., at 252; *United States v. Playboy Entertainment Group, Inc.*, 529 U. S. 803, 814 (2000) (“[T]he objective of shielding chil-

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Although CIPA does not permit any experimentation, the District Court expressly found that a variety of alternatives less restrictive are available at the local level:

“[L]ess restrictive alternatives exist that further the government’s legitimate interest in preventing the dissemination of obscenity, child pornography, and material harmful to minors, and in preventing patrons from being unwillingly exposed to patently offensive, sexually explicit content. To prevent patrons from accessing visual depictions that are obscene and child pornography, public libraries may enforce Internet use policies that make clear to patrons that the library’s Internet terminals may not be used to access illegal speech. Libraries may then impose penalties on patrons who violate these policies, ranging from a warning to notification of law enforcement, in the appropriate case. Less restrictive alternatives to filtering that further libraries’ interest in preventing minors from exposure to visual depictions that are harmful to minors include requiring parental consent to or presence during unfiltered access, or restricting minors’ unfiltered access to terminals within view of library staff. Finally, optional filtering, privacy screens, recessed monitors, and placement of unfiltered Internet terminals outside of sight-lines provide less restrictive alternatives for libraries to prevent patrons from being unwillingly exposed to sexually explicit content on the Internet.” 201 F. Supp. 2d, at 410.

Those findings are consistent with scholarly comment on the issue arguing that local decisions tailored to local circumstances are more appropriate than a mandate from Con-

dren does not suffice to support a blanket ban if the protection can be accomplished by a less restrictive alternative”); *Reno v. American Civil Liberties Union*, 521 U.S. 844, 875 (1997) (“[T]he governmental interest in protecting children from harmful materials . . . does not justify an unnecessarily broad suppression of speech addressed to adults”).

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gress.³ The plurality does not reject any of those findings. Instead, “[a]ssuming that such erroneous blocking presents constitutional difficulties,” it relies on the Solicitor General’s assurance that the statute permits individual librarians to disable filtering mechanisms whenever a patron so requests. *Ante*, at 209. In my judgment, that assurance does not cure the constitutional infirmity in the statute.

Until a blocked site or group of sites is unblocked, a patron is unlikely to know what is being hidden and therefore whether there is any point in asking for the filter to be removed. It is as though the statute required a significant part of every library’s reading materials to be kept in unmarked, locked rooms or cabinets, which could be opened only in response to specific requests. Some curious readers would in time obtain access to the hidden materials, but

³“Indeed, federal or state mandates in this area are unnecessary and unwise. Locally designed solutions are likely to best meet local circumstances. Local decision makers and library boards, responding to local concerns and the prevalence of the problem in their own libraries, should decide if minors’ Internet access requires filters. They are the persons in the best position to judge local community standards for what is and is not obscene, as required by the *Miller* [*v. California*, 413 U. S. 15 (1973)] test. Indeed, one nationwide solution is not needed, as the problems are local and, to some extent, uniquely so. Libraries in rural communities, for instance, have reported much less of a problem than libraries in urban areas. A library in a rural community with only one or two computers with Internet access may find that even the limited filtering advocated here provides little or no additional benefit. Further, by allowing the nation’s public libraries to develop their own approaches, they may be able to develop a better understanding of what methods work well and what methods add little or nothing, or are even counter-productive. Imposing a mandatory nationwide solution may well impede developing truly effective approaches that do not violate the First Amendment. The federal and state governments can best assist this effort by providing libraries with sufficient funding to experiment with a variety of constitutionally permissible approaches.” Laughlin, Sex, Lies, and Library Cards: The First Amendment Implications of the Use of Software Filters to Control Access to Internet Pornography in Public Libraries, 51 Drake L. Rev. 213, 279 (2003).

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many would not. Inevitably, the interest of the authors of those works in reaching the widest possible audience would be abridged. Moreover, because the procedures that different libraries are likely to adopt to respond to unblocking requests will no doubt vary, it is impossible to measure the aggregate effect of the statute on patrons' access to blocked sites. Unless we assume that the statute is a mere symbolic gesture, we must conclude that it will create a significant prior restraint on adult access to protected speech. A law that prohibits reading without official consent, like a law that prohibits speaking without consent, "constitutes a dramatic departure from our national heritage and constitutional tradition." *Watchtower Bible & Tract Soc. of N. Y., Inc. v. Village of Stratton*, 536 U. S. 150, 166 (2002).

II

The plurality incorrectly argues that the statute does not impose "an unconstitutional condition on public libraries." *Ante*, at 214. On the contrary, it impermissibly conditions the receipt of Government funding on the restriction of significant First Amendment rights.

The plurality explains the "worthy missions" of the public library in facilitating "learning and cultural enrichment." *Ante*, at 203. It then asserts that in order to fulfill these missions, "libraries must have broad discretion to decide what material to provide to their patrons." *Ante*, at 204. Thus the selection decision is the province of the librarians, a province into which we have hesitated to enter:

"A library's need to exercise judgment in making collection decisions depends on its traditional role in identifying suitable and worthwhile material; it is no less entitled to play that role when it collects material from the Internet than when it collects material from any other source. Most libraries already exclude pornography from their print collections because they deem it inappropriate for inclusion. We do not subject these deci-

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sions to heightened scrutiny; it would make little sense to treat libraries' judgments to block online pornography any differently, when these judgments are made for just the same reason." *Ante*, at 208.

As the plurality recognizes, we have always assumed that libraries have discretion when making decisions regarding what to include in, and exclude from, their collections. That discretion is comparable to the "business of a university . . . to determine for itself on academic grounds who may teach, what may be taught, how it shall be taught, and who may be admitted to study." *Sweezy v. New Hampshire*, 354 U. S. 234, 263 (1957) (Frankfurter, J., concurring in result) (citation omitted).⁴ As the District Court found, one of the central purposes of a library is to provide information for educational purposes: "Books and other library resources should be provided for the interest, information, and enlightenment of all people of the community the library serves." 201 F. Supp. 2d, at 420 (quoting the American Library Association's Library Bill of Rights). Given our Nation's deep commitment "to safeguarding academic freedom" and to the "robust exchange of ideas," *Keyishian v. Board of Regents of Univ. of State of N. Y.*, 385 U. S. 589, 603 (1967), a library's exercise of judgment with respect to its collection is entitled to First Amendment protection.

A federal statute penalizing a library for failing to install filtering software on every one of its Internet-accessible computers would unquestionably violate that Amendment. Cf. *Reno v. American Civil Liberties Union*, 521 U. S. 844 (1997). I think it equally clear that the First Amendment protects libraries from being denied funds for refusing to

⁴See also J. Boyer, *Academic Freedom and the Modern University: The Experience of the University of Chicago* 95 (2002) ("The right to speak, to write, and to teach freely is a precious right, one that the American research universities over the course of the twentieth century have slowly but surely made central to the very identity of the university in the modern world").

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comply with an identical rule. An abridgment of speech by means of a threatened denial of benefits can be just as pernicious as an abridgment by means of a threatened penalty.

Our cases holding that government employment may not be conditioned on the surrender of rights protected by the First Amendment illustrate the point. It has long been settled that “Congress could not ‘enact a regulation providing that no Republican, Jew or Negro shall be appointed to federal office, or that no federal employee shall attend Mass or take any active part in missionary work.’” *Wieman v. Updegraff*, 344 U. S. 183, 191–192 (1952). Neither discharges, as in *Elrod v. Burns*, 427 U. S. 347, 350–351 (1976), nor refusals to hire or promote, as in *Rutan v. Republican Party of Ill.*, 497 U. S. 62, 66–67 (1990), are immune from First Amendment scrutiny. Our precedents firmly rejecting “Justice Holmes’ famous dictum, that a policeman ‘may have a constitutional right to talk politics, but he has no constitutional right to be a policeman,’” *Board of Comm’rs, Wabunsee Cty. v. Umbehr*, 518 U. S. 668, 674 (1996), draw no distinction between the penalty of discharge from one’s job and the withholding of the benefit of a new job. The abridgment of First Amendment rights is equally unconstitutional in either context. See *Sherbert v. Verner*, 374 U. S. 398, 404 (1963) (“Governmental imposition of such a choice puts the same kind of burden upon the free exercise of religion as would a fine It is too late in the day to doubt that the liberties of religion and expression may be infringed by the denial of or placing of conditions upon a benefit or privilege”).

The issue in this case does not involve governmental attempts to control the speech or views of its employees. It involves the use of its treasury to impose controls on an important medium of expression. In an analogous situation, we specifically held that when “the Government seeks to use an existing medium of expression and to control it, in a class of cases, in ways which distort its usual functioning,” the distorting restriction must be struck down under the First

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Amendment. *Legal Services Corporation v. Velazquez*, 531 U. S. 533, 543 (2001).⁵ The question, then, is whether requiring the filtering software on all Internet-accessible computers distorts that medium. As I have discussed above, the over- and underblocking of the software does just that.

The plurality argues that the controversial decision in *Rust v. Sullivan*, 500 U. S. 173 (1991), requires rejection of appellees' unconstitutional conditions claim. See *ante*, at 211–212. But, as subsequent cases have explained, *Rust* only involved, and only applies to, instances of governmental speech—that is, situations in which the government seeks to communicate a specific message.⁶ The discounts under the E-rate program and funding under the Library Services and Technology Act (LSTA) program involved in this case do not subsidize any message favored by the Government. As Congress made clear, these programs were designed “[t]o help public libraries provide their patrons with Internet access,” which in turn “provide[s] patrons with a vast amount of valuable information.” *Ante*, at 199, 200. These programs thus are designed to provide access, particularly for individuals in low-income communities, see 47 U. S. C. § 254(h)(1), to a vast amount and wide variety of private

⁵ Contrary to the plurality's narrow reading, *Velazquez* is not limited to instances in which the recipient of Government funds might be “pit[ted]” against the Government. See *ante*, at 213. To the contrary, we assessed the issue in *Velazquez* by turning to, and harmonizing it with, our prior unconstitutional condition cases in the First Amendment context. See 531 U. S., at 543–544.

⁶ See *id.*, at 541 (distinguishing *Rust* on the ground that “the counseling activities of the doctors . . . amounted to governmental speech”); *Board of Regents of Univ. of Wis. System v. Southworth*, 529 U. S. 217, 229 (2000) (unlike *Rust*, “the issue of the government's right . . . to use its own funds to advance a particular message” was not presented); *Rosenberger v. Rector and Visitors of Univ. of Va.*, 515 U. S. 819, 834 (1995) (*Rust* is inapplicable where the government “does not itself speak or subsidize transmittal of a message it favors but instead expends funds to encourage a diversity of views from private speakers”).

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speech. They are not designed to foster or transmit any particular governmental message.

Even if we were to construe the passage of CIPA as modifying the E-rate and LSTA programs such that they now convey a governmental message that no “‘visual depictions’ that are ‘obscene,’ ‘child pornography,’ or in the case of minors, ‘harmful to minors,’” 201 F. Supp. 2d, at 407, should be expressed or viewed, the use of filtering software does not promote that message. As described above, all filtering software erroneously blocks access to a substantial number of Web sites that contain constitutionally protected speech on a wide variety of topics. See *id.*, at 446–447 (describing erroneous blocking of speech on churches and religious groups, on politics and government, on health issues, on education and careers, on sports, and on travel). Moreover, there are “frequent instances of underblocking,” *id.*, at 448, that is, instances in which filtering software did not prevent access to Web sites with depictions that fall within what CIPA seeks to block access to. In short, the message conveyed by the use of filtering software is not that all speech except that which is prohibited by CIPA is supported by the Government, but rather that all speech that gets through the software is supported by the Government. And the items that get through the software include some visual depictions that are obscene, some that are child pornography, and some that are harmful to minors, while at the same time the software blocks an enormous amount of speech that is not sexually explicit and certainly does not meet CIPA’s definitions of prohibited content. As such, since the message conveyed is far from the message the Government purports to promote—indeed, the material permitted past the filtering software does not seem to have any coherent message—*Rust* is inapposite.

The plurality’s reliance on *National Endowment for Arts v. Finley*, 524 U. S. 569 (1998), is also misplaced. That case involved a challenge to a statute setting forth the criteria

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used by a federal panel of experts administering a federal grant program. Unlike this case, the Federal Government was not seeking to impose restrictions on the administration of a nonfederal program. As explained *supra*, at 228, *Rust* would appear to permit restrictions on a federal program such as the National Endowment for the Arts (NEA) arts grant program at issue in *Finley*.

Further, like a library, the NEA experts in *Finley* had a great deal of discretion to make judgments as to what projects to fund. But unlike this case, *Finley* did not involve a challenge by the NEA to a governmental restriction on its ability to award grants. Instead, the respondents were performance artists who had applied for NEA grants but were denied funding. See 524 U. S., at 577. If this were a case in which library patrons had challenged a library's decision to install and use filtering software, it would be in the same posture as *Finley*. Because it is not, *Finley* does not control this case.

Also unlike *Finley*, the Government does not merely seek to control a library's discretion with respect to computers purchased with Government funds or those computers with Government-discounted Internet access. CIPA requires libraries to install filtering software on *every* computer with Internet access if the library receives *any* discount from the E-rate program or *any* funds from the LSTA program.⁷ See 20 U. S. C. § 9134(f)(1); 47 U. S. C. §§ 254(h)(6)(B) and (C). If a library has 10 computers paid for by nonfederal funds and has Internet service for those computers also paid for by nonfederal funds, the library may choose not to put filtering software on any of those 10 computers. Or a library may decide to put filtering software on the 5 computers in its

⁷ Thus, appellees are not merely challenging a "refusal to fund protected activity, without more," as in *Harris v. McRae*, 448 U. S. 297, 317, n. 19 (1980), or a "decision not to subsidize the exercise of a fundamental right," as in *Regan v. Taxation With Representation of Wash.*, 461 U. S. 540, 549 (1983). They are challenging a restriction that applies to property that they acquired without federal assistance.

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children's section. Or a library in an elementary school might choose to put filters on every single one of its 10 computers. But under this statute, if a library attempts to provide Internet service for even *one* computer through an E-rate discount, that library must put filtering software on *all* of its computers with Internet access, not just the one computer with E-rate discount.

This Court should not permit federal funds to be used to enforce this kind of broad restriction of First Amendment rights, particularly when such a restriction is unnecessary to accomplish Congress' stated goal. See *supra*, at 223 (discussing less restrictive alternatives). The abridgment of speech is equally obnoxious whether a rule like this one is enforced by a threat of penalties or by a threat to withhold a benefit.

I would affirm the judgment of the District Court.

JUSTICE SOUTER, with whom JUSTICE GINSBURG joins, dissenting.

I agree in the main with JUSTICE STEVENS, *ante*, at 225–230 and this page (dissenting opinion), that the blocking requirements of the Children's Internet Protection Act, 20 U. S. C. §§ 9134(f)(1)(A)(i) and (B)(i); 47 U. S. C. §§ 254(h)(6)(B)(i) and (C)(i), impose an unconstitutional condition on the Government's subsidies to local libraries for providing access to the Internet. I also agree with the library appellees on a further reason to hold the blocking rule invalid in the exercise of the spending power under Article I, § 8: the rule mandates action by recipient libraries that would violate the First Amendment's guarantee of free speech if the libraries took that action entirely on their own. I respectfully dissent on this further ground.

I

Like the other Members of the Court, I have no doubt about the legitimacy of governmental efforts to put a barrier between child patrons of public libraries and the raw offer-

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ings on the Internet otherwise available to them there, and if the only First Amendment interests raised here were those of children, I would uphold application of the Act. We have said that the governmental interest in “shielding” children from exposure to indecent material is “compelling,” *Reno v. American Civil Liberties Union*, 521 U. S. 844, 869–870 (1997), and I do not think that the awkwardness a child might feel on asking for an unblocked terminal is any such burden as to affect constitutionality.

Nor would I dissent if I agreed with the majority of my colleagues, see *ante*, at 208–209 (plurality opinion); *ante*, at 219 (BREYER, J., concurring in judgment); *ante*, at 214 (KENNEDY, J., concurring in judgment), that an adult library patron could, consistently with the Act, obtain an unblocked terminal simply for the asking. I realize the Solicitor General represented this to be the Government’s policy, see Tr. of Oral Arg. 4–5, 11, and if that policy were communicated to every affected library as unequivocally as it was stated to us at argument, local librarians might be able to indulge the unblocking requests of adult patrons to the point of taking the curse off the statute for all practical purposes. But the Federal Communications Commission, in its order implementing the Act, pointedly declined to set a federal policy on when unblocking by local libraries would be appropriate under the statute. See *In re Federal-State Joint Board on Universal Service: Children’s Internet Protection Act*, 16 FCC Rcd. 8182, 8204, ¶ 53 (2001) (“Federally-imposed rules directing school and library staff when to disable technology protection measures would likely be overbroad and imprecise, potentially chilling speech, or otherwise confusing schools and libraries about the requirements of the statute. We leave such determinations to the local communities, whom we believe to be most knowledgeable about the varying circumstances of schools or libraries within those communities”). Moreover, the District Court expressly found that “unblocking may take days, and may be unavailable, espe-

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cially in branch libraries, which are often less well staffed than main libraries.” 201 F. Supp. 2d 401, 411 (E.D. Pa. 2002); see *id.*, at 487–488 (same).

In any event, we are here to review a statute, and the unblocking provisions simply cannot be construed, even for constitutional avoidance purposes, to say that a library must unblock upon adult request, no conditions imposed and no questions asked. First, the statute says only that a library “may” unblock, not that it must. 20 U.S.C. § 9134(f)(3); see 47 U.S.C. § 254(h)(6)(D). In addition, it allows unblocking only for “bona fide research or other lawful purposes,” 20 U.S.C. § 9134(f)(3); see 47 U.S.C. § 254(h)(6)(D), and if the “lawful purposes” criterion means anything that would not subsume and render the “bona fide research” criterion superfluous, it must impose some limit on eligibility for unblocking, see, *e.g.*, *Connecticut Nat. Bank v. Germain*, 503 U.S. 249, 253 (1992) (“[C]ourts should disfavor interpretations of statutes that render language superfluous”). There is therefore necessarily some restriction, which is surely made more onerous by the uncertainty of its terms and the generosity of its discretion to library staffs in deciding who gets complete Internet access and who does not. Cf. *Forsyth County v. Nationalist Movement*, 505 U.S. 123, 130 (1992) (noting that the First Amendment bars licensing schemes that grant unduly broad discretion to licensing officials, given the potential for such discretion to “becom[e] a means of suppressing a particular point of view” (internal quotation marks omitted)).¹

We therefore have to take the statute on the understanding that adults will be denied access to a substantial amount of nonobscene material harmful to children but lawful for

¹ If the Solicitor General’s representation turns out to be honored in the breach by local libraries, it goes without saying that our decision today would not foreclose an as-applied challenge. See also *ante*, at 219–220 (BREYER, J., concurring in judgment); *ante*, at 215 (KENNEDY, J., concurring in judgment).

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adult examination, and a substantial quantity of text and pictures harmful to no one. As the plurality concedes, see *ante*, at 208–209, this is the inevitable consequence of the indiscriminate behavior of current filtering mechanisms, which screen out material to an extent known only by the manufacturers of the blocking software, see 201 F. Supp. 2d, at 408 (“The category lists maintained by the blocking programs are considered to be proprietary information, and hence are unavailable to customers or the general public for review, so that public libraries that select categories when implementing filtering software do not really know what they are blocking”).

We likewise have to examine the statute on the understanding that the restrictions on adult Internet access have no justification in the object of protecting children. Children could be restricted to blocked terminals, leaving other unblocked terminals in areas restricted to adults and screened from casual glances. And, of course, the statute could simply have provided for unblocking at adult request, with no questions asked. The statute could, in other words, have protected children without blocking access for adults or subjecting adults to anything more than minimal inconvenience, just the way (the record shows) many librarians had been dealing with obscenity and indecency before imposition of the federal conditions. See *id.*, at 422–427. Instead, the Government’s funding conditions engage in overkill to a degree illustrated by their refusal to trust even a library’s staff with an unblocked terminal, one to which the adult public itself has no access. See *id.*, at 413 (quoting 16 FCC Rcd., at 8196, ¶ 30).

The question for me, then, is whether a local library could itself constitutionally impose these restrictions on the content otherwise available to an adult patron through an Internet connection, at a library terminal provided for public use. The answer is no. A library that chose to block an adult’s Internet access to material harmful to children (and

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whatever else the indiscriminating filter might interrupt) would be imposing a content-based restriction on communication of material in the library's control that an adult could otherwise lawfully see. This would simply be censorship. True, the censorship would not necessarily extend to every adult, for an intending Internet user might convince a librarian that he was a true researcher or had a "lawful purpose" to obtain everything the library's terminal could provide. But as to those who did not qualify for discretionary unblocking, the censorship would be complete and, like all censorship by an agency of the Government, presumptively invalid owing to strict scrutiny in implementing the Free Speech Clause of the First Amendment. "The policy of the First Amendment favors dissemination of information and opinion, and the guarantees of freedom of speech and press were not designed to prevent the censorship of the press merely, but any action of the government by means of which it might prevent such free and general discussion of public matters as seems absolutely essential." *Bigelow v. Virginia*, 421 U. S. 809, 829 (1975) (internal quotation marks and brackets omitted).

II

The Court's plurality does not treat blocking affecting adults as censorship, but chooses to describe a library's act in filtering content as simply an instance of the kind of selection from available material that every library (save, perhaps, the Library of Congress) must perform. *Ante*, at 208 ("A library's need to exercise judgment in making collection decisions depends on its traditional role in identifying suitable and worthwhile material; it is no less entitled to play that role when it collects material from the Internet than when it collects material from any other source"). But this position does not hold up.²

² Among other things, the plurality's reasoning ignores the widespread utilization of interlibrary loan systems. See 201 F. Supp. 2d 401, 421 (ED Pa. 2002). With interlibrary loan, virtually any book, say, is effectively

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A

Public libraries are indeed selective in what they acquire to place in their stacks, as they must be. There is only so much money and so much shelf space, and the necessity to choose some material and reject the rest justifies the effort to be selective with an eye to demand, quality, and the object of maintaining the library as a place of civilized enquiry by widely different sorts of people. Selectivity is thus necessary and complex, and these two characteristics explain why review of a library's selection decisions must be limited: the decisions are made all the time, and only in extreme cases could one expect particular choices to reveal impermissible reasons (reasons even the plurality would consider to be illegitimate), like excluding books because their authors are Democrats or their critiques of organized Christianity are unsympathetic. See *Board of Ed., Island Trees Union Free School Dist. No. 26 v. Pico*, 457 U.S. 853, 870–871 (1982) (plurality opinion). Review for rational basis is probably the most that any court could conduct, owing to the myriad particular selections that might be attacked by someone, and the difficulty of untangling the play of factors behind a particular decision.

At every significant point, however, the Internet blocking here defies comparison to the process of acquisition. Whereas traditional scarcity of money and space require a library to make choices about what to acquire, and the choice to be made is whether or not to spend the money to acquire something, blocking is the subject of a choice made after the money for Internet access has been spent or committed.

made available to a library's patrons. If, therefore, a librarian refused to get a book from interlibrary loan for an adult patron on the ground that the patron's "purpose" in seeking the book was not acceptable, the librarian could find no justification in the fact that libraries have traditionally "collect[ed] only those materials deemed to have 'requisite and appropriate quality.'" *Ante*, at 204. In any event, in the ensuing analysis, I assume for the sake of argument that we are in a world without interlibrary loan.

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Since it makes no difference to the cost of Internet access whether an adult calls up material harmful for children or the Articles of Confederation, blocking (on facts like these) is not necessitated by scarcity of either money or space.³ In the instance of the Internet, what the library acquires is electronic access, and the choice to block is a choice to limit access that has already been acquired. Thus, deciding against buying a book means there is no book (unless a loan can be obtained), but blocking the Internet is merely blocking access purchased in its entirety and subject to unblocking if the librarian agrees. The proper analogy therefore is not to passing up a book that might have been bought; it is either to buying a book and then keeping it from adults lacking an acceptable “purpose,” or to buying an encyclopedia and then cutting out pages with anything thought to be unsuitable for all adults.

B

The plurality claims to find support for its conclusions in the “traditional missio[n]” of the public library. *Ante*, at 205; see also *ante*, at 219 (BREYER, J., concurring in judgment) (considering “traditional library practices”). The plurality thus argues, in effect, that the traditional responsibility of public libraries has called for denying adult access to certain books, or bowdlerizing the content of what the libraries let adults see. But, in fact, the plurality’s conception of a public library’s mission has been rejected by the libraries themselves. And no library that chose to block adult access in the way mandated by the Act could claim that the history of public library practice in this country furnished an implicit

³Of course, a library that allowed its patrons to use computers for any purposes might feel the need to purchase more computers to satisfy what would presumably be greater demand, see Brief for Appellants 23, but the answer to that problem would be to limit the number of unblocked terminals or the hours in which they could be used. In any event, the rationale for blocking has no reference whatever to scarcity.

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gloss on First Amendment standards, allowing for blocking out anything unsuitable for adults.

Institutional history of public libraries in America discloses an evolution toward a general rule, now firmly rooted, that any adult entitled to use the library has access to any of its holdings.⁴ To be sure, this freedom of choice was apparently not within the inspiration for the mid-19th-century development of public libraries, see J. Shera, *Foundations of the Public Library: The Origins of the Public Library Movement in New England, 1629–1855*, p. 107 (1949), and in the infancy of their development a “[m]oral censorship” of reading material was assumed, E. Geller, *Forbidden Books in American Public Libraries, 1876–1939*, p. 12 (1984). But even in the early 20th century, the legitimacy of the librarian’s authority as moral arbiter was coming into question. See, *e. g.*, Belden, *President’s Address: Looking Forward*, 20 *Bull. Am. Libr. Assn.* 273, 274 (1926) (“The true public library must stand for the intellectual freedom of access to the printed word”). And the practices of European fascism fueled the reaction against library censorship. See M. Harris, *History of Libraries in the Western World* 248 (4th ed. 1995). The upshot was a growing understanding that a librarian’s job was to guarantee that “all people had access to all ideas,” Geller, *supra*, at 156, and by the end of the 1930s, librarians’ “basic position in opposition to censorship [had] emerged,” Krug & Harvey, *ALA and Intellectual Freedom: A Historical Overview*, in *Intellectual Freedom Manual*, pp. xi, xv (American Library Association 1974) (hereinafter *Intellectual Freedom Manual*); see also Darling, *Access, Intellectual Freedom and Libraries*, 27 *Library Trends* 315–316 (1979).

⁴That is, libraries do not refuse materials to adult patrons on account of their content. Of course, libraries commonly limit access on content-neutral grounds to, say, rare or especially valuable materials. Such practices raise no First Amendment concerns, because they have nothing to do with suppressing ideas.

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By the time McCarthyism began its assaults, appellee American Library Association (ALA) had developed a Library Bill of Rights against censorship, Library Bill of Rights, in *Intellectual Freedom Manual*, pt. 1, p. 7, and an Intellectual Freedom Committee to maintain the position that beyond enforcing existing laws against obscenity, “there is no place in our society for extra-legal efforts to coerce the taste of others, to confine adults to the reading matter deemed suitable for adolescents, or to inhibit the efforts of writers to achieve artistic expression.” *Freedom to Read*, in *id.*, pt. 2, at 8; see also Krug & Harvey, in *id.*, at xv. So far as I have been able to tell, this statement expressed the prevailing ideal in public library administration after World War II, and it seems fair to say as a general rule that libraries by then had ceased to deny requesting adults access to any materials in their collections. The adult might, indeed, have had to make a specific request, for the literature and published surveys from the period show a variety of restrictions on the circulation of library holdings, including placement of materials apart from open stacks, and availability only upon specific request.⁵ But aside from the isolated suggestion, see, *e. g.*, Born, *Public Libraries and Intellectual Freedom*, in *id.*, pt. 3, at 4, 9, I have not been able to find from this period any record of a library barring access to materials in its collection on a basis other than a reader’s age. It seems to have been out of the question for a library to refuse a book in its collection to a requesting adult patron, or to presume to evaluate the basis for a particular request.

This take on the postwar years is confirmed by evidence of the dog that did not bark. During the second half of the

⁵See, *e. g.*, M. Fiske, *Book Selection and Censorship: A Study of School and Public Libraries in California* 69–73 (1959); Moon, “Problem” Fiction, in *Book Selection and Censorship in the Sixties* 56–58 (E. Moon ed. 1969); F. Jones, *Defusing Censorship: The Librarian’s Guide to Handling Censorship Conflicts* 92–99 (1983); see also *The Censorship of Books* 173–182 (W. Daniels ed. 1954).

SOUTER, J., dissenting

20th century, the ALA issued a series of policy statements, since dubbed Interpretations of the Library Bill of Rights, see *id.*, pt. 1, at 13, commenting on library administration and pointing to particular practices the ALA opposed. Thus, for example, in response to pressure by the Sons of the American Revolution on New Jersey libraries to place labels on materials “advocat[ing] or favor[ing] communism,” the ALA in 1957 adopted a “Statement on Labeling,” opposing it as “a censor’s tool.” *Id.*, pt. 1, at 18–19. Again, 10 years later, the ALA even adopted a statement against any restriction on access to library materials by minors. It acknowledged that age restrictions were common across the Nation in “a variety of forms, including, among others, restricted reading rooms for adult use only, library cards limiting circulation of some materials to adults only, closed collections for adult use only, and interlibrary loan for adult use only.” *Id.*, pt. 1, at 16. Nevertheless, the ALA opposed all such limitations, saying that “only the parent . . . may restrict his children—and only *his* children—from access to library materials and services.” *Id.*, pt. 1, at 17.

And in 1973, the ALA adopted a policy opposing the practice already mentioned, of keeping certain books off the open shelves, available only on specific request. See *id.*, pt. 1, at 42. The statement conceded that “‘closed shelf,’ ‘locked case,’ ‘adults only,’ or ‘restricted shelf’ collections” were “common to many libraries in the United States.” *Id.*, pt. 1, at 43. The ALA nonetheless came out against it, in these terms: “While the limitation differs from direct censorship activities, such as removal of library materials or refusal to purchase certain publications, it nonetheless constitutes censorship, albeit a subtle form.” *Ibid.*⁶

Amidst these and other ALA statements from the latter half of the 20th century, however, one subject is missing.

⁶For a complete listing of the ALA’s Interpretations, see R. Peck, *Libraries, the First Amendment and Cyberspace: What You Need to Know* 148–175 (2000).

SOUTER, J., dissenting

There is not a word about barring requesting adults from any materials in a library's collection, or about limiting an adult's access based on evaluation of his purposes in seeking materials. If such a practice had survived into the latter half of the 20th century, one would surely find a statement about it from the ALA, which had become the nemesis of anything sounding like censorship of library holdings, as shown by the history just sampled.⁷ The silence bespeaks an American public library that gives any adult patron any material at hand, and a history without support for the plurality's reading of the First Amendment as tolerating a public library's censorship of its collection against adult enquiry.

C

Thus, there is no preacquisition scarcity rationale to save library Internet blocking from treatment as censorship, and no support for it in the historical development of library practice. To these two reasons to treat blocking differently from a decision declining to buy a book, a third must be added. Quite simply, we can smell a rat when a library blocks material already in its control, just as we do when a library removes books from its shelves for reasons having nothing to do with wear and tear, obsolescence, or lack of demand. Content-based blocking and removal tell us something that mere absence from the shelves does not.

I have already spoken about two features of acquisition decisions that make them poor candidates for effective judicial review. The first is their complexity, the number of legitimate considerations that may go into them, not all pointing one way, providing cover for any illegitimate reason that managed to sneak in. A librarian should consider likely demand, scholarly or esthetic quality, alternative purchases,

⁷ Thus, it is not surprising that, with the emergence of the circumstances giving rise to this case, the ALA has adopted statements opposing restrictions on access to adult patrons, specific to electronic media like the Internet. See *id.*, at 150–153, 176–179, 180–187.

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relative cost, and so on. The second reason the judiciary must be shy about reviewing acquisition decisions is the sheer volume of them, and thus the number that might draw fire. Courts cannot review the administration of every library with a constituent disgruntled that the library fails to buy exactly what he wants to read.

After a library has acquired material in the first place, however, the variety of possible reasons that might legitimately support an initial rejection are no longer in play. Removal of books or selective blocking by controversial subject matter is not a function of limited resources and less likely than a selection decision to reflect an assessment of esthetic or scholarly merit. Removal (and blocking) decisions being so often obviously correlated with content, they tend to show up for just what they are, and because such decisions tend to be few, courts can examine them without facing a deluge. The difference between choices to keep out and choices to throw out is thus enormous, a perception that underlay the good sense of the plurality's conclusion in *Board of Ed., Island Trees Union Free School Dist. No. 26 v. Pico*, 457 U.S. 853 (1982), that removing classics from a school library in response to pressure from parents and school board members violates the Speech Clause.

III

There is no good reason, then, to treat blocking of adult enquiry as anything different from the censorship it presumptively is. For this reason, I would hold in accordance with conventional strict scrutiny that a library's practice of blocking would violate an adult patron's First and Fourteenth Amendment right to be free of Internet censorship, when unjustified (as here) by any legitimate interest in screening children from harmful material.⁸ On that ground,

⁸ I assume, although there is no occasion here to decide, that the originators of the material blocked by the Internet filters could object to the wall between them and any adult audience they might attract, although they

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the Act's blocking requirement in its current breadth calls for unconstitutional action by a library recipient, and is itself unconstitutional.

would be unlikely plaintiffs, given that their private audience would be unaffected by the library's action, and many of them might have no more idea that a library is blocking their work than the library does. It is for this reason that I rely on the First and Fourteenth Amendment rights of adult library patrons, who would experience the more acute injury by being denied a look at anything the software identified as apt to harm a child (and whatever else got blocked along with it). In practical terms, if libraries and the National Government are going to be kept from engaging in unjustifiable adult censorship, there is no alternative to recognizing a viewer's or reader's right to be free of paternalistic censorship as at least an adjunct of the core right of the speaker. The plurality in *Board of Ed., Island Trees Union Free School Dist. No. 26 v. Pico*, 457 U. S. 853 (1982), saw this and recognized the right of students using a school library to object to the removal of disfavored books from the shelves, *id.*, at 865–868 (opinion of Brennan, J.). By the same token, we should recognize an analogous right on the part of a library's adult Internet users, who may be among the 10% of American Internet users whose access comes solely through library terminals, see 201 F. Supp. 2d, at 422. There should therefore be no question that censorship by blocking produces real injury sufficient to support a suit for redress by patrons whose access is denied.

Supreme Court

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**ASHCROFT V. AMERICAN CIVIL LIBERTIES UNION
(03-218) 542 U.S. 656 (2004)
322 F.3d 240, affirmed and remanded.**

Syllabus	Opinion [Kennedy]	Concurrence [Stevens]	Dissent [Scalia]	Dissent [Breyer]
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Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See United States v. Detroit Timber & Lumber Co., 200 U.S. 321, 337.

SUPREME COURT OF THE UNITED STATES

ASHCROFT, ATTORNEY GENERAL v. AMERICAN CIVIL LIBERTIES UNION et al.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

No. 03—218. Argued March 2, 2004—Decided June 29, 2004

To protect minors from exposure to sexually explicit materials on the Internet, Congress enacted the Child Online Protection Act (COPA), 47 U.S. C. §231, which, among other things, imposes a \$50,000 fine and 6 months in prison for the knowing posting, for “commercial purposes,” of World Wide Web content that is “harmful to minors,” but provides an affirmative defense to commercial Web speakers who restrict access to prohibited materials by “requiring use of a credit card” or “any other reasonable measures that are feasible under available technology,” §231(c)(1). COPA was enacted in response to *Reno v. American Civil Liberties Union*, 521 U.S. 844, in which this Court held that the Communications Decency Act of 1996, Congress’ first attempt to make the Internet safe for minors by criminalizing certain Internet speech, was unconstitutional because it was not narrowly tailored to serve a compelling governmental interest and because less restrictive alternatives were available. Respondents, Web speakers and others concerned with protecting the freedom of speech, filed suit for a preliminary injunction against COPA’s enforcement. After considering testimony presented by both respondents and the Government, the District Court granted the preliminary injunction, concluding that respondents were likely to prevail on their argument that there were less restrictive alternatives to COPA, particularly blocking or filtering technology. The Third Circuit affirmed on different grounds, but this Court reversed, *Ashcroft v. American Civil Liberties Union*, 535 U.S. 564. On remand, the Third Circuit again affirmed, concluding, *inter alia*, that COPA was not the least restrictive means available for the Government to serve the

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interest of preventing minors from using the Internet to gain access to harmful materials.

Held: The Third Circuit was correct to affirm the District Court's ruling that enforcement of COPA should be enjoined because the statute likely violates the [First Amendment](#). Pp. 6–15.

(a) The District Court did not abuse its discretion when it entered the preliminary injunction. The abuse-of-discretion standard applies on review of such an injunction. Because 28 U.S. C. §1254(1)'s grant of appellate jurisdiction does not give this Court license to depart from an established review standard, *Walters v. National Assn. of Radiation Survivors*, [473 U.S. 305](#), 336, the injunction must be upheld and the case remanded for trial on the merits if the underlying constitutional question is close. There is therefore no need to consider the broader constructions of the statute adopted by the Court of Appeals. The District Court concentrated primarily on the argument that there are plausible, less restrictive alternatives to COPA. See *Reno*, 521 U.S., at 874. When plaintiffs challenge a content-based speech restriction, the Government has the burden to prove that the proposed alternatives will not be as effective as the challenged statute. *Ibid*. The purpose of the test is to ensure that speech is restricted no further than is necessary to accomplish Congress' goal. The District Court's conclusion that respondents were likely to prevail was not an abuse of discretion, because, on the record, the Government has not met its burden. Most importantly, respondents propose that blocking and filtering software is a less restrictive alternative, and the Government had not shown it would be likely to disprove that contention at trial. Filters impose selective restrictions on speech at the receiving end, not universal restrictions at the source. Under a filtering regime, childless adults may gain access to speech they have a right to see without having to identify themselves or provide their credit card information. Even adults with children may obtain access to the same speech on the same terms simply by turning off the filter on their home computers. Promoting filter use does not condemn as criminal any category of speech, and so the potential chilling effect is eliminated, or at least much diminished. Filters, moreover, may well be more effective than COPA. First, the record demonstrates that a filter can prevent minors from seeing all pornography, not just pornography posted to the Web from America. That COPA does not prevent minors from accessing foreign harmful materials alone makes it possible that filtering software might be more effective in serving Congress' goals. COPA's effectiveness is likely to diminish even further if it is upheld, because providers of the materials covered by the statute simply can move their operations overseas. In addition, the District Court found that verification systems may be subject to evasion and circumvention, e.g., by minors who have their own credit cards. Finally, filters also may be more effective because they can be applied to all forms of Internet communication, including e-mail, not just the World Wide Web. Filtering's superiority to COPA is confirmed by the explicit findings of the Commission on Child Online Protection, which Congress created to evaluate the relative merits of different means of restricting minors' ability to gain access to harmful materials on the Internet. §231, note. Although filtering software is not a perfect solution because it may block some materials not harmful to minors and fail to catch some that are, the Government has not satisfied its burden to introduce specific evidence proving that filters are less effective. The argument that filtering software is not an available alternative because Congress may not require its use carries little weight, since Congress may act to encourage such use by giving strong incentives to schools and libraries, *United States v. American Library Assn., Inc.*, 539 U. S 194, and by promoting the development of filters by industry and their use by parents. The closest precedent is *United States v. Playboy Entertainment Group, Inc.*, [529 U.S. 803](#), which, like this case, involved a content-based restriction designed to protect minors from viewing harmful materials. The Court there concluded that, absent a showing that a less restrictive technological alternative already available to parents would not be as effective as a blanket speech restriction,



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the more restrictive option preferred by Congress could not survive strict scrutiny. *Id.*, at 826. The reasoning of *Playboy Entertainment Group*, and the holdings and force of this Court's precedents, compel the Court to affirm the preliminary injunction here. To do otherwise would be to do less than the [First Amendment](#) commands. *Id.*, at 830. Pp. 6–12.

(b) Important practical reasons also support letting the injunction stand pending a full trial on the merits. First, the potential harms from reversal outweigh those of leaving the injunction in place by mistake. Extraordinary harm and a serious chill upon protected speech may result where, as here, a prosecution is a likely possibility but only an affirmative defense is available, so that speakers may self-censor rather than risk the perils of trial. Cf. *Playboy Entertainment Group*, *supra*, at 817. The harm done from letting the injunction stand pending a trial on the merits, in contrast, will not be extensive. Second, there are substantial factual disputes remaining in the case, including a serious gap in the evidence as to the filtering software's effectiveness. By allowing the preliminary injunction to stand and remanding for trial, the Court requires the Government to shoulder its full constitutional burden of proof respecting the less restrictive alternative argument, rather than excuse it from doing so. Third, the factual record does not reflect current technological reality—a serious flaw in any case involving the Internet, which evolves at a rapid pace. It is reasonable to assume that technological developments important to the [First Amendment](#) analysis have occurred in the five years since the District Court made its factfindings. By affirming the preliminary injunction and remanding for trial, the Court allows the parties to update and supplement the factual record to reflect current technology. Remand will also permit the District Court to take account of a changed legal landscape: Since that court made its factfindings, Congress has passed at least two further statutes that might qualify as less restrictive alternatives to COPA—a prohibition on misleading domain names, and a statute creating a minors-safe “dot-Kids” domain. Pp. 12–15.

322 F.3d 240, affirmed and remanded.

Kennedy, J., delivered the opinion of the Court, in which Stevens, Souter, Thomas, and Ginsburg, JJ., joined. Stevens, J., filed a concurring opinion, in which Ginsburg, J., joined. Scalia, J., filed a dissenting opinion. Breyer, J., filed a dissenting opinion, in which Rehnquist, C. J., and O'Connor, J., joined.

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**Cubby, Inc. v. CompuServe Inc., 776 F. Supp. 135 -
Dist. Court, SD New York 1991**

776 F.Supp. 135 (1991)

**CUBBY, INC., a Corporation d/b/a Skuttlebut, and Robert G. Blanchard,
Plaintiffs,****v.****COMPUSERVE INC., d/b/a Rumorville, and Don Fitzpatrick, individually,
Defendants.**[No. 90 Civ. 6571 \(PKL\).](#)**United States District Court, S.D. New York.**

October 29, 1991.

137 *136 *137 Kayser & Jaffe, New York City (Leo Kayser, of counsel), for plaintiffs.

Jones, Day, Reavis & Pogue, New York City (Leslie Mullady, of counsel), for defendants.

ORDER AND OPINION

LEISURE, District Judge:

This is a diversity action for libel, business disparagement, and unfair competition, based on allegedly defamatory statements made in a publication carried on a computerized database. Defendant CompuServe Inc. ("CompuServe") has moved for summary judgment pursuant to Rule 56 of the Federal Rules of Civil Procedure. For the reasons stated below, CompuServe's motion is granted in its entirety.

Background

CompuServe develops and provides computer-related products and services, including CompuServe Information Service ("CIS"), an on-line general information service or "electronic library" that subscribers may access from a personal computer or terminal. Subscribers to CIS pay a membership fee and online time usage fees, in return for which they have access to the thousands of information sources available on CIS. Subscribers may also obtain access to over 150 special interest "forums," which are comprised of electronic bulletin boards, interactive online conferences, and topical databases.

One forum available is the Journalism Forum, which focuses on the journalism industry. Cameron Communications, Inc. ("CCI"), which is independent of CompuServe, has contracted to "manage, review, create, delete, edit and otherwise control the contents" of the Journalism Forum "in accordance with editorial and technical standards and conventions of style as established by CompuServe." Affidavit of Jim Cameron, sworn to on April 4, 1991 ("Cameron Aff."), Exhibit A.

One publication available as part of the Journalism Forum is Rumorville USA ("Rumorville"), a

daily newsletter that provides reports about broadcast journalism and journalists. Rumorville is published by Don Fitzpatrick Associates of San Francisco ("DFA"), which is headed by defendant Don Fitzpatrick. CompuServe has no employment, contractual, or other direct relationship with either DFA or Fitzpatrick; DFA provides Rumorville to the Journalism Forum under a contract with CCI. The contract between CCI and DFA provides that DFA "accepts total responsibility for the contents" of Rumorville. Cameron Aff., Exhibit B. The contract also requires CCI to limit access to Rumorville to those CIS subscribers who have previously made membership arrangements directly with DFA.

CompuServe has no opportunity to review Rumorville's contents before DFA uploads it into CompuServe's computer banks, from which it is immediately available to approved CIS subscribers. CompuServe receives no part of any fees that DFA charges for access to Rumorville, nor does CompuServe compensate DFA for providing Rumorville to the Journalism Forum; the compensation CompuServe receives for making Rumorville available to its subscribers is the standard online time usage and membership fees charged to all CIS subscribers, regardless of the information services they use. CompuServe maintains that, before this action was filed, it had no notice of any complaints about the contents of the Rumorville publication or about DFA.

138 *138 In 1990, plaintiffs Cubby, Inc. ("Cubby") and Robert Blanchard ("Blanchard") (collectively, "plaintiffs") developed Skuttlebut, a computer database designed to publish and distribute electronically news and gossip in the television news and radio industries. Plaintiffs intended to compete with Rumorville; subscribers gained access to Skuttlebut through their personal computers after completing subscription agreements with plaintiffs.

Plaintiffs claim that, on separate occasions in April 1990, Rumorville published false and defamatory statements relating to Skuttlebut and Blanchard, and that CompuServe carried these statements as part of the Journalism Forum. The allegedly defamatory remarks included a suggestion that individuals at Skuttlebut gained access to information first published by Rumorville "through some back door"; a statement that Blanchard was "bounced" from his previous employer, WABC; and a description of Skuttlebut as a "new start-up scam." Affidavit of Robert G. Blanchard, sworn to on July 11, 1991 ("Blanchard Aff."), ¶¶ 5-9.

Plaintiffs have asserted claims against CompuServe and Fitzpatrick under New York law for libel of Blanchard, business disparagement of Skuttlebut, and unfair competition as to Skuttlebut, based largely upon the allegedly defamatory statements contained in Rumorville. CompuServe has moved, pursuant to Fed.R.Civ.P. 56, for summary judgment on all claims against it. CompuServe does not dispute, solely for the purposes of this motion, that the statements relating to Skuttlebut and Blanchard were defamatory; rather, it argues that it acted as a distributor, and not a publisher, of the statements, and cannot be held liable for the statements because it did not know and had no reason to know of the statements. Plaintiffs oppose CompuServe's motion for summary judgment, claiming that genuine issues of material fact exist and that little in the way of discovery has been undertaken thus far.

Discussion

I. Standard for Summary Judgment

Federal Rule of Civil Procedure 56(c) provides that summary judgment "shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed.R.Civ.P. 56(c); see also [Celotex Corp. v. Catrett](#), 477 U.S. 317, 322, 106 S.Ct. 2548, 2552, 91 L.Ed.2d 265 (1986); [Anderson v. Liberty Lobby, Inc.](#), 477 U.S. 242, 247, 106 S.Ct. 2505, 2509, 91 L.Ed.2d 202 (1986). "Summary judgment is appropriate if, 'after drawing all reasonable inferences in favor

of the party against whom summary judgment is sought, no reasonable trier of fact could find in favor of the non-moving party." [United States v. All Right, Title & Interest in Real Property](#), 901 F.2d 288, 290 (2d Cir.1990) (quoting [Murray v. National Broadcasting Co.](#), 844 F.2d 988, 992 (2d Cir.), cert. denied, 488 U.S. 955, 109 S.Ct. 391, 102 L.Ed.2d 380 (1988)).

The substantive law governing the case will identify those facts that are material, and "[o]nly disputes over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment." [Anderson v. Liberty Lobby, Inc.](#), 477 U.S. 242, 248, 106 S.Ct. 2505, 2510, 91 L.Ed.2d 202 (1986); [Herbert Construction Co. v. Continental Insurance Co.](#), 931 F.2d 989, 993 (2d Cir. 1991). "[T]he judge's function is not himself to weigh the evidence and determine the truth of the matter but to determine whether there does indeed exist a genuine issue for trial." [Anderson](#), 477 U.S. at 249, 106 S.Ct. at 2511; see also [R.C. Bigelow, Inc. v. Unilever N.V.](#), 867 F.2d 102, 107 (2d Cir.), cert. denied, 493 U.S. 815, 110 S.Ct. 64, 107 L.Ed.2d 31 (1989). The party seeking summary judgment "bears the initial responsibility of informing the district court of the basis for its motion," and identifying which materials "it believes demonstrate the absence of a genuine issue of material fact." [Celotex, supra](#), 477 U.S. at 323, 106 S.Ct. at 2553; see [Binder v. Long Island Lighting Co.](#), 933 F.2d 187, 191 (2d Cir.1991).

139 *139 Once a motion for summary judgment is properly made, however, the burden then shifts to the non-moving party, which "must set forth specific facts showing that there is a genuine issue for trial." [Anderson](#), 477 U.S. at 250, 106 S.Ct. at 2511 (quoting Fed.R.Civ.P. 56(e)). "[T]he mere existence of some alleged factual dispute between the parties will not defeat an otherwise properly supported motion for summary judgment; the requirement is that there be no genuine issue of material fact." [Anderson](#), 477 U.S. at 247-48, 106 S.Ct. at 2509-10 (emphasis in original). "Conclusory allegations will not suffice to create a genuine issue. There must be more than a 'scintilla of evidence,' and more than 'some metaphysical doubt as to the material facts.'" [Delaware & Hudson Railway Co. v. Consolidated Rail Corp.](#), 902 F.2d 174, 178 (2d Cir.1990) (quoting [Anderson](#), 477 U.S. at 252, 106 S.Ct. at 2512 and [Matsushita Electric Industrial Co. v. Zenith Radio Corp.](#), 475 U.S. 574, 586, 106 S.Ct. 1348, 1355, 89 L.Ed.2d 538 (1986)); see also [Carey v. Crescenzi](#), 923 F.2d 18, 21 (2d Cir.1991). "The non-movant cannot 'escape summary judgment merely by vaguely asserting the existence of some unspecified disputed material facts,' or defeat the motion through 'mere speculation or conjecture.'" [Western World Insurance Co. v. Stack Oil, Inc.](#), 922 F.2d 118, 121 (2d Cir.1990) (quoting [Borthwick v. First Georgetown Securities, Inc.](#), 892 F.2d 178, 181 (2d Cir.1989) and [Knight v. U.S. Fire Insurance Co.](#), 804 F.2d 9, 12 (2d Cir.1986), cert. denied, 480 U.S. 932, 107 S.Ct. 1570, 94 L.Ed.2d 762 (1987)).

II. Libel Claim

A. The Applicable Standard of Liability

Plaintiffs base their libel claim on the allegedly defamatory statements contained in the Rumorville publication that CompuServe carried as part of the Journalism Forum. CompuServe argues that, based on the undisputed facts, it was a distributor of Rumorville, as opposed to a publisher of the Rumorville statements. CompuServe further contends that, as a distributor of Rumorville, it cannot be held liable on the libel claim because it neither knew nor had reason to know of the allegedly defamatory statements. Plaintiffs, on the other hand, argue that the Court should conclude that CompuServe is a publisher of the statements and hold it to a higher standard of liability.

Ordinarily, "one who repeats or otherwise republishes defamatory matter is subject to liability as if he had originally published it." [Cianci v. New Times Publishing Co.](#), 639 F.2d 54, 61 (2d Cir.1980) ([Friendly, J.](#)) (quoting Restatement (Second) of Torts § 578 (1977)). With respect to

entities such as news vendors, book stores, and libraries, however, "New York courts have long held that vendors and distributors of defamatory publications are not liable if they neither know nor have reason to know of the defamation." [Lerman v. Chuckleberry Publishing, Inc., 521 F.Supp. 228, 235 \(S.D.N.Y.1981\)](#); accord [Macaluso v. Mondadori Publishing Co., 527 F.Supp. 1017, 1019 \(E.D.N.Y.1981\)](#).

The requirement that a distributor must have knowledge of the contents of a publication before liability can be imposed for distributing that publication is deeply rooted in the First Amendment, made applicable to the states through the Fourteenth Amendment. "[T]he constitutional guarantees of the freedom of speech and of the press stand in the way of imposing" strict liability on distributors for the contents of the reading materials they carry. [Smith v. California, 361 U.S. 147, 152-53, 80 S.Ct. 215, 218-19, 4 L.Ed.2d 205 \(1959\)](#). In *Smith*, the Court struck down an ordinance that imposed liability on a bookseller for possession of an obscene book, regardless of whether the bookseller had knowledge of the book's contents. The Court reasoned that

140 "Every bookseller would be placed under an obligation to make himself aware of the contents of every book in his shop. It would be altogether unreasonable to demand so near an approach to omniscience." And the bookseller's burden would become the public's burden, for by restricting him the public's access to *140 reading matter would be restricted. If the contents of bookshops and periodical stands were restricted to material of which their proprietors had made an inspection, they might be depleted indeed.

Id. at 153, 80 S.Ct. at 219 (citation and footnote omitted). Although *Smith* involved criminal liability, the First Amendment's guarantees are no less relevant to the instant action: "What a State may not constitutionally bring about by means of a criminal statute is likewise beyond the reach of its civil law of libel. The fear of damage awards ... may be markedly more inhibiting than the fear of prosecution under a criminal statute." [New York Times Co. v. Sullivan, 376 U.S. 254, 277, 84 S.Ct. 710, 724, 11 L.Ed.2d 686 \(1964\)](#) (citation omitted).

CompuServe's CIS product is in essence an electronic, for-profit library that carries a vast number of publications and collects usage and membership fees from its subscribers in return for access to the publications. CompuServe and companies like it are at the forefront of the information industry revolution. High technology has markedly increased the speed with which information is gathered and processed; it is now possible for an individual with a personal computer, modem, and telephone line to have instantaneous access to thousands of news publications from across the United States and around the world. While CompuServe may decline to carry a given publication altogether, in reality, once it does decide to carry a publication, it will have little or no editorial control over that publication's contents. This is especially so when CompuServe carries the publication as part of a forum that is managed by a company unrelated to CompuServe.

With respect to the Rumorville publication, the undisputed facts are that DFA uploads the text of Rumorville into CompuServe's data banks and makes it available to approved CIS subscribers instantaneously.^[1] CompuServe has no more editorial control over such a publication than does a public library, book store, or newsstand, and it would be no more feasible for CompuServe to examine every publication it carries for potentially defamatory statements than it would be for any other distributor to do so. "First Amendment guarantees have long been recognized as protecting distributors of publications.... Obviously, the national distributor of hundreds of periodicals has no duty to monitor each issue of every periodical it distributes. Such a rule would be an impermissible burden on the First Amendment." [Lerman v. Flynt Distributing Co., 745 F.2d 123, 139 \(2d Cir.1984\), cert. denied, 471 U.S. 1054, 105 S.Ct. 2114, 85 L.Ed.2d 479 \(1985\)](#); see also [Daniel v. Dow Jones & Co., 137 Misc.2d 94, 102, 520 N.Y.S.2d 334, 340 \(N.Y.Civ.Ct.1987\)](#) (computerized database service "is one of the modern, technologically interesting, alternative ways the public may obtain up-to-the-minute news" and "is entitled to the

same protection as more established means of news distribution").

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Technology is rapidly transforming the information industry. A computerized database is the functional equivalent of a more traditional news vendor, and the inconsistent application of a lower standard of liability to an electronic news distributor such as CompuServe than that which is applied to a public library, book store, or newsstand would impose an undue burden on the free flow of information. Given the relevant First Amendment considerations, the appropriate standard of liability to be applied to CompuServe is whether it knew or had reason to know of the allegedly defamatory Rumorville statements.

B. CompuServe's Liability as a Distributor

CompuServe contends that it is undisputed that it had neither knowledge nor reason to know of the allegedly defamatory Rumorville statements, especially given the large number of publications it carries and the speed with which DFA uploads Rumorville into its computer banks and makes the publication available to CIS subscribers. Affidavit of Eben L. Kent, sworn to on April 4, 1991 ("Kent Aff."), ¶¶ 7-9; Cameron Aff., ¶¶ 6-7. The burden is thus shifted to plaintiffs, who "must set forth specific facts showing that there is a genuine issue for trial." [Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 250, 106 S.Ct. 2505, 2511, 91 L.Ed.2d 202 \(1986\)](#) (quoting Fed. R.Civ.P. 56(e)). Plaintiffs have not set forth anything other than conclusory allegations as to whether CompuServe knew or had reason to know of the Rumorville statements, and have failed to meet their burden on this issue. Plaintiffs do contend that CompuServe was informed that persons affiliated with Skuttlebut might be "hacking" in order to obtain unauthorized access to Rumorville, but that claim is wholly irrelevant to the issue of whether CompuServe was put on notice that the Rumorville publication contained statements accusing the Skuttlebut principals of engaging in "hacking."

Plaintiffs have not set forth any specific facts showing that there is a genuine issue as to whether CompuServe knew or had reason to know of Rumorville's contents. Because CompuServe, as a news distributor, may not be held liable if it neither knew nor had reason to know of the allegedly defamatory Rumorville statements, summary judgment in favor of CompuServe on the libel claim is granted.

III. Business Disparagement Claim

Plaintiffs base the claim for business disparagement of Skuttlebut on statements published in Rumorville in April 1990. Plaintiffs' contention is that "defendants made statements intentionally designed to discourage its [sic] own subscribers and others in the news business from associating with Skuttlebut, thus disparaging Skuttlebut's business." Complaint, ¶ 20. These statements include, *inter alia*, the allegedly defamatory remarks suggesting that plaintiffs inappropriately accessed information from Rumorville "through some back door" and describing Skuttlebut as a "new start-up scam." Blanchard Aff., ¶¶ 5, 8.

New York courts rarely use the term "business disparagement" and have not articulated the elements of such a claim. New York's highest court, although not using the "business disparagement" label, has recognized a cause of action for tortious conduct similar to that alleged by plaintiffs. See [Ruder & Finn Inc. v. Seaboard Surety Co., 52 N.Y.2d 663, 670-71, 422 N.E.2d 518, 522, 439 N.Y.S.2d 858, 862 \(1981\)](#) ("[w]here a statement impugns the basic integrity or creditworthiness of a business, an action for defamation lies").² New York courts have applied other labels to similar conduct: "The tort of trade libel or injurious falsehood consists of the knowing publication of false matter derogatory to the plaintiff's business of a kind calculated to prevent others from dealing with the business or otherwise interfering with its relations with others, to its detriment." [Waste Distillation Technology, Inc. v. Blasland & Bouck Engineers, P.C., 136 A.D.2d 633, 633, 523 N.Y.S.2d 875, 876 \(2d Dep't 1988\)](#).

142 Regardless of the label used, the substance of plaintiffs' "business disparagement" claim is similar to the action for defamation recognized in *Ruder & Finn*, as well as the action for trade libel or *142 injurious falsehood recognized in *Waste Distillation Technology*. Under either formulation, plaintiffs would have to prove that CompuServe had knowledge or reason to know of Rumorville's publication of the allegedly disparaging statements in order to hold CompuServe liable for business disparagement. As discussed with respect to the libel claim, *supra*, plaintiffs have failed to meet their burden of setting forth specific facts showing that there is a genuine issue as to whether CompuServe had knowledge or reason to know of the April 1990 Rumorville statements. Summary judgment in favor of CompuServe on the business disparagement claim is therefore granted.^[3]

IV. Unfair Competition Claim

Plaintiffs base the unfair competition claim on the statements concerning Skuttlebut that appeared in Rumorville in April 1990. Plaintiffs' theory is that Rumorville launched a "campaign of disparagement of Skuttlebut" in order to compete with Skuttlebut and retain its subscribers without reducing its fee structure. Complaint, ¶¶ 25-26. "In order to state a claim for unfair competition based on disparagement, [the plaintiff] must allege some injurious falsehood intentionally uttered that caused the plaintiff to suffer actual damage." *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F.Supp. 1201, 1208 (S.D.N.Y.1986) (citing *Diehl & Sons, Inc. v. International Harvester Co.*, 445 F.Supp. 282, 291-92 (E.D.N.Y.1978) (citing *Penn-Ohio Steel Corp. v. Allis-Chalmers Manufacturing Co.*, 7 A.D.2d 441, 184 N.Y.S.2d 58 (1st Dep't 1959))). "Generally a statement is actionable only where it is made intentionally to a third person and results in direct financial loss to the party whose interest is disparaged." *Id.* (citing *Payrolls & Tabulating, Inc. v. Sperry Rand Corp.*, 22 A.D.2d 595, 597, 257 N.Y.S.2d 884, 886 (1st Dep't 1965) (citing Restatement of Torts §§ 630 *et seq.*)).

Because the utterance of a disparaging statement must be intentional in order to give rise to an unfair competition claim based on disparagement, CompuServe may not be held liable on plaintiffs' unfair competition claim if it did not know or have reason to know of the Rumorville statements. As discussed with respect to the libel claim, *supra*, plaintiffs have failed to meet their burden of setting forth specific facts showing that there is a genuine issue as to whether CompuServe had knowledge or reason to know of the April 1990 Rumorville statements. Summary judgment in favor of CompuServe on the unfair competition claim is therefore granted.

V. Vicarious Liability

Plaintiffs also argue that CompuServe may be held vicariously liable for the allegedly defamatory Rumorville statements, based on an agency relationship between CompuServe, CCI, and DFA. CompuServe contends that the undisputed facts demonstrate that, at most, DFA is an independent contractor of CCI and CCI is an independent contractor of CompuServe, so that it may not be held vicariously liable for the statements that appeared in Rumorville.

143 "An essential characteristic of an agency relationship is that the agent acts subject to the principal's direction and control." *In re Shulman Transport Enterprises, Inc.*, 744 F.2d 293, 295 (2d Cir.1984). In contrast, an independent contractor is "one who, in exercising an independent employment, contracts to do certain work according to his own methods, and without being subject to the control of his employer, except as to the product or result of his *143 work." *Murray Hill Films, Inc. v. Martinair Holland, N.V.*, 1987 WL 14918, * 3, 1987 U.S. Dist. LEXIS 6500, * 7-* 8 (S.D.N.Y. July 17, 1987) (quoting *Dorkin v. American Express Co.*, 74 Misc.2d 673, 675, 345 N.Y.S.2d 891, 894 (Sup.Ct.1973), *aff'd*, 43 A.D.2d 877, 351 N.Y.S.2d 190 (3d Dep't 1974)); *accord Spiro v. Pence*, 566 N.Y.S.2d 1010, 1012 (City Ct. Albany County 1991). In order for an employer to be held vicariously liable for the tort of an independent contractor, the

employer must have directed the act from which the injury resulted or have taken an affirmative, active part in its commission. See [Ramos v. State, 34 A.D.2d 1056, 1056, 312 N.Y.S.2d 185, 186 \(3d Dep't 1970\)](#).

Based on the undisputed facts, the Court concludes that neither CCI nor DFA should be considered an agent of CompuServe. CompuServe, CCI, and DFA are independent of one another. CompuServe has simply contracted with CCI for CCI to manage the Journalism Forum; under the contract, CCI "agrees to manage, review, create, delete, edit and otherwise control the contents of the [Journalism Forum], in accordance with editorial and technical standards and conventions of style as established by CompuServe." Cameron Aff., Exhibit A. CompuServe has thereby delegated control over the assembly of the contents of the Journalism Forum to CCI. CompuServe's ultimate right under the contract to remove text from its system for noncompliance with its standards merely constitutes control over the result of CCI's independent work. This level of control over the Journalism Forum is insufficient to rise to the level of an agency relationship. Similarly, the contractual provisions calling for CompuServe to provide CCI with training necessary to manage the Journalism Forum and to indemnify CCI from claims resulting from information appearing in the Journalism Forum do not give CompuServe sufficient control over CCI and its management of the Journalism Forum to render CCI an agent of CompuServe.

As for DFA, the original publisher of Rumorville, CompuServe has no direct contractual relationship with DFA; DFA provides Rumorville to the Journalism Forum under a contract with CCI. The contract between CCI and DFA provides that "DFA accepts total responsibility for the contents of" Rumorville; that DFA "agrees to maintain the [Rumorville] files in a timely fashion including uploading and merging into availability to the members of [Rumorville]"; and that "DFA maintains total responsibility for communicating with its members, billing them for any membership fees and collecting same." Cameron Aff., Exhibit B. DFA is therefore largely independent of CompuServe in its publication of Rumorville, and the tenuous relationship between DFA and CompuServe is, at most, that of an independent contractor of an independent contractor. The parties cannot be seen as standing in any sort of agency relationship with one another, and CompuServe may not be held liable for any of plaintiffs' claims on a theory of vicarious liability. Cf. [McNally v. Yarnall, 764 F.Supp. 838, 852-53 \(S.D.N.Y.1991\)](#).

VI. Need for Additional Discovery

144 Plaintiffs also suggest, in their memorandum of law in opposition to CompuServe's summary judgment motion, that additional discovery is needed and should preclude the grant of summary judgment. Fed.R.Civ.P. 56(f) provides that when the party opposing a motion for summary judgment cannot "present by affidavit facts essential to justify the party's opposition, the court may refuse the application for judgment or may order a continuance to permit ... discovery to be had." In order to persuade the Court to grant a request for additional discovery, plaintiffs would have to "file an affidavit explaining (1) what facts are sought and how they are to be obtained, (2) how those facts are reasonably expected to create a genuine issue of material fact, (3) what effort the affiant has made to obtain them, and (4) why the affiant was unsuccessful in those efforts." [Hudson River Sloop Clearwater, Inc. v. Department of the Navy, 891 F.2d 414, 422 \(2d Cir.1989\)](#) (citing [Burlington Coat Factory Warehouse Corp. v. Esprit De Corp., 769 F.2d 919, 926 \(2d Cir.1985\)](#)). The Court *144 may reject a request for further discovery pursuant to Rule 56(f) if no affidavit is filed or if the request is based on pure speculation as to what would be discovered. [Burlington Coat Factory, 769 F.2d at 926-927](#).

In the instant action, plaintiffs have failed to fulfill the requirements enumerated by the Second Circuit in *Hudson River Sloop Clearwater* and *Burlington Coat Factory*. Plaintiffs have simply asserted, not in an affidavit but in their memorandum of law, that "[i]ittle in the way of discovery has been undertaken" and that "CompuServe has produced documents in response to the

plaintiff's First Document Request, but no depositions of the parties have taken place." Memorandum of Law in Opposition to Defendant CompuServe's Motion for Summary Judgment at 2. Plaintiffs have not specified what facts they wish to discover through depositions or other means and how these are to be obtained, how these are reasonably expected to create a genuine issue of material fact, what efforts they have made to obtain these facts, or why they have been unsuccessful in their efforts. Plaintiffs have therefore not made a showing sufficient to persuade the Court to deny CompuServe's motion for summary judgment or to order a continuance to allow further discovery to take place.

Conclusion

For the reasons stated above, CompuServe's motion for summary judgment pursuant to Fed.R.Civ.P. 56 is granted on all claims asserted against it.

SO ORDERED

[1] Civil Rule 3(g) of the Local Rules of this District requires that a party moving for summary judgment provide a statement of the material facts as to which it contends there is no genuine issue to be tried. Rule 3(g) further requires that the non-movant file a statement of the material facts as to which it contends there is a genuine issue to be tried, and provides that facts set forth in the movant's 3(g) statement that are uncontroverted by the non-movant's statement are deemed to be admitted. CompuServe's 3(g) statement contends that there is no genuine issue to be tried as to the fact that "CompuServe has no opportunity to review Rumorville's contents before DFA `uploads' it into CompuServe's computer banks, from which it is instantaneously available to approved CIS subscribers." Plaintiffs do not, in their 3(g) statement or elsewhere, controvert this material fact; therefore, it is deemed admitted pursuant to Rule 3(g). See [General Electric Co. v. New York State Department of Labor](#), 936 F.2d 1448, 1452 (2d Cir.1991); [Dusanenko v. Maloney](#), 726 F.2d 82, 84 (2d Cir.1984).

[2] The New York Court of Appeals distinguished this type of defamation in the commercial context from "product disparagement," which involves a false statement that "is confined to denigrating the quality of the business' goods or services" and requires that malice and special damages be proven. [Ruder & Finn](#), 52 N.Y.2d at 670-71, 422 N.E.2d at 521-22, 439 N.Y.S.2d at 861-62.

[3] Plaintiffs also contend, as part of the business disparagement claim, that (unspecified) "defendants ... took affirmative action to initiate telephone calls to other data base systems and inform these systems that plaintiffs were `computer hackers' and ran a scam operation." Complaint, ¶ 19. These alleged telephone calls do not, however, have any bearing on CompuServe's liability for statements contained in the Rumorville publication. Moreover, plaintiffs have not contested CompuServe's denial of any involvement on the part of its agents or employees in the alleged phone calls. See Kent Aff., sworn to on April 4, 1991, ¶ 9. Therefore, even if some person or persons did make the alleged phone calls, that fact does not prevent CompuServe from prevailing on its summary judgment motion.

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Stratton Oakmont, Inc. v. Prodigy Services Co., 23 Media L. Rep. (BNA) ¶ 1794, 1995 N.Y. Misc. LEXIS 229, 1995 WL 323710 (N.Y. Sup. Ct. May 24, 1995), *motion for renewal denied*, 24 Media L. Rep. (BNA) ¶ 1126, 1995 WL 805178 (Dec. 11, 1995).

SUPREME COURT - STATE OF NEW YORK

STRATTON OAKMONT, INC. and DANIEL PORUSH, Plaintiff(s),

-against-

PRODIGY SERVICES COMPANY, a Partnership of Joint Venture with IBM CORPORATION and SEARS-ROEBUCK & COMPANY, "JOHN DOE" AND "MARY DOE", Defendant(S).

HON. STUART L. AIN, Justice TRIAL/IAS, PART 34 NASSAU COUNTY

INDEX No. 31063/94 MOTION DATE: 3/10/95

The following papers read on this motion:

Plaintiffs' Notice of Motion & Exhibits	1
Plaintiff's Supporting Exhibits P & O (filed separately under seal pursuant to a confidentiality agreement)	1A
Plaintiffs' Memo of Law in Support	2
Appendix to Plaintiffs' Memo of Law	3
Defendant's Opposing Affidavit and Exhibits	4
Defendant's Memo of Law in Opposition	5
Reply Affidavit	6
Reply Memo of Law	7

Upon the foregoing papers, it is ordered that this motion by Plaintiffs for partial summary judgment against Defendant PRODIGY SERVICE COMPANY ("PRODIGY") is granted and this Court determines, as a matter of law, the following two disputed issues as follows:

(i) that PRODIGY was a "publisher" of statements concerning Plaintiffs on its "Money Talk" computer bulletin board for the purposes of Plaintiffs' libel claims; and,

(ii) that Charles Epstein, the Board Leader of PRODIGY's "Money Talk" computer bulletin board, acted as PRODIGY's agent for the purposes of the acts and omissions alleged in the complaint.

At issue in this case are statements about Plaintiffs made by an unidentified bulletin board user or "poster" on PRODIGY's "Money Talk" computer bulletin board on October 23rd and 25th of 1994. These statements included the following:

(a) STRATTON OAKMONTH, INC. ("STRATTON"), a securities investment banking firm, and DANIEL PORUSH, STRATTON's president, committed criminal and fraudulent acts in connection with the initial public offering of stock of Solomon-Page Ltd.,

(b) the Solomon-Page offering was a "major criminal fraud" and "100% criminal fraud";

(c) PORUSH was "seen to be proven criminal"; and,

(d) STRATTON was a "cult of brokers who either lie for a living or get fired."

Plaintiffs commenced this action against PRODIGY, the owner and operator of the computer network on which the statements appeared, and the unidentified party who posted the aforementioned statement. The second amended complaint alleges ten (10) causes of action, including claims for per se libel. On this motion, "in order to materially advance the outcome of this litigation" (Zamansky affidavit, par.4), Plaintiffs seek partial summary judgment on two issues, namely: (1) whether PRODIGY may be considered "publisher" of the aforementioned statements; and, (2) whether Epstein, the Board Leader for the computer bulletin board on which the statements were posted, acted with actual and apparent authority as PRODIGY's "agent" for the purpose of the claims in this action.

By way of background, it is undisputed that PRODIGY's computer network has at least two million subscribers who communicate with each other and with the general subscriber population on PRODIGY's bulletin boards. "Money Talk" the board on which the aforementioned statements appeared, is allegedly the leading and most widely read financial computer bulletin board in the United States, where members can post statements regarding stocks, investments and other financial matters. PRODIGY contracts with bulletin Board Leaders, who, among other things, participate in board discussions and undertake promotional efforts to encourage usage and increase users. The Board Leader for "Money Talk" at the time the alleged libelous statements were posted was Charles Epstein.

PRODIGY commenced operations in 1990. Plaintiffs base their claims that PRODIGY is a publisher in large measure on PRODIGY's stated policy, starting in 1990, that it was a family oriented computer network. In various national newspaper articles written by Geoffrey Moore, PRODIGY's Director of Market Programs and Communications, PRODIGY held itself out as an online service that exercised editorial control over the content of messages posted on its computer bulletin boards, thereby expressly differentiating itself from its competition and expressly likening itself to a newspaper. (see, Exhibits I and J to Plaintiffs' moving papers.) In one article PRODIGY stated:

"We make no apology for pursuing a value system that reflects the culture of the millions of American families we aspire to serve. Certainly no responsible newspaper does less when it carries the type of advertising it published, the letters it prints, the degree of nudity and unsupported gossip its editors tolerate." (Exhibit J.)

Plaintiffs characterize the aforementioned articles by PRODIGY as admissions (see, *Dettner v Pokoik*, 81 AD2d 572, app. demd. 54 NY2d 750) and argue that, together with certain documentation and deposition testimony, these articles establish Plaintiffs' prima facie case. In opposition, PRODIGY insists that its policies have changed and evolved since 1990 and that the latest article on the subject, dated February, 1993, did not reflect PRODIGY's policies in October, 1994, when the allegedly

libelous statements were posted. Although the eighteen month lapse of time between the last article and the aforementioned statements is not insignificant, and the Court is wary of interpreting statements and admissions out of context, these considerations go solely to the weight of this evidence.

Plaintiffs further rely upon the following additional evidence in support of their claim that PRODIGY is a publisher:

(A) promulgation of "content guidelines" (the "Guidelines" found at Plaintiff's Exhibit F) in which, inter alia, users are requested to refrain from posting notes that are "insulting" and are advised that "notes that harass other members or are deemed to be in bad taste or grossly repugnant to community standards, or are deemed harmful to maintaining a harmonious online community, will be removed when brought to PRODIGY's attention"; the Guidelines all expressly state that although "Prodigy is committed to open debate and discussion on the bulletin boards, ... this doesn't mean that 'anything goes'";

(B) use of a software screening program which automatically prescreens all bulletin board postings for offensive language;

(C) the use of Board Leaders such as Epstein whose duties include enforcement of the Guidelines, according to Jennifer Ambrozek, the Manager of PRODIGY's bulletin boards and the person at Prodigy responsible for supervising the Board Leaders (see Plaintiffs' Exhibit R, Ambrozek deposition transcript. at p. 191) and

(D) testimony by Epstein as to a tool for Board Leaders known as an "emergency delete function" pursuant to which a Board Leader could remove a note and send a previously prepared message of explanation "ranging from solicitation, bad advice, insulting, wrong topic, off topic, bad taste, etcetera." (Epstein deposition Transcript, p. 52).

A finding that PRODIGY is a publisher is the first hurdle for Plaintiffs to overcome in pursuit of their defamation claims because one who repeats or otherwise republishes a libel is subject to liability as if he had originally published it. In contrast, distributors such as book stores and libraries may be liable for defamatory statements of others only if they knew or had reason to know of the defamatory statement at issue. A distributor or deliverer of defamatory material is considered a passive conduit and will not be found liable in the absence of fault. However, a newspaper, for example, is more than a passive receptacle or conduit for news, comment and advertising. [as to the content of the paper constitute *Miami Herald Publishing Co. v Tornillo*, 418 US 241, 258.] The choice of material to go into a newspaper and the decisions made as to the content of the paper constitute the exercise of editorial control and judgment.(Id.), and with this editorial control comes increased liability. (See *Cubby*, supra.) In short, the critical issue to be determined by this Court is whether the foregoing evidence established a prime facie case that PRODIGY exercised sufficient editorial control over its computer bulletin boards to render it a publisher with the same responsibilities as a newspaper.

Again, PRODIGY insists that its former policy of manually reviewing all messages prior to posting was changed "long before the messages complained of by Plaintiffs were posted". (Schneck affidavit, par. 4.) However, no documentation or detailed explanation of such a change, and the dissemination of news of such a change, has been submitted. In addition, PRODIGY argues that in

terms of sheer volume--currently 60,000 messages a day are posted on PRODIGY bulletin boards-- manual review of messages is not feasible. While PRODIGY admits that Board Leaders may remove messages that violate its Guidelines, it claims in conclusory manner that Board Leaders do not function as "editors". Furthermore, PRODIGY argues generally that this Court should not decide issues that can directly impact this developing communications medium without the benefit of a full record, although it fails to describe what further facts remain to be developed on this issue of whether it is a publisher.

As for legal authority, PRODIGY relies on the *Cubby* case, *supra*. There the defendant CompuServe was a computer network providing subscribers with computer related services or forums including an online general information service or "electronic library". One of the publications available on the Journalism Forum carried defamatory statements about the Plaintiff, an electronic newsletter. Interestingly, an independent entity named Cameron Communications, Inc. ("CCI") had "contracted to manage, review, create, delete, edit and otherwise control the contents of the Journalism Forum in accordance with editorial and technical standards and conventions of style as established by CompuServe". The Court noted that CompuServe had no opportunity to review the contents of the publication at issue before it was uploaded into CompuServe's computer banks. Consequently, the Court found that CompuServe's product was, "in essence, an electronic for-profit library" that carried a vast number of publications, and that CompuServe had "little or no editorial control" over the contents of those publications. In granting CompuServe's motion for summary judgment, the *Cubby* court held:

A computerized database is the functional equivalent of a more traditional news vendor, and the inconsistent application of a lower standard of liability to an electronic news distributor such as CompuServe than that which is applied to a public library, book store, or newsstand would impose an undue burden on the free flow of information. (776 F. Supp. 135, 140.)

The key distinction between CompuServe and PRODIGY is two fold. First, PRODIGY held itself out to the public and its members as controlling the content of its computer bulletin boards. Second, PRODIGY implemented this control through its automatic software screening program, and the Guidelines which Board Leaders are required to enforce. By actively utilizing technology and manpower to delete notes from its computer bulletin boards on the basis of offensiveness and "bad taste", for example, PRODIGY is clearly making decisions as to content (see, *Miami Herald Publishing Co. v Tornillo*, *supra*), and such decisions constitute editorial control. (*Id.*) That such control is not complete and is enforced both as early as the notes arrive and as late as a complaint is made, does not minimize or eviscerate the simple fact that PRODIGY has uniquely arrogated to itself the role of determining what is proper for its members to post and read on its bulletin boards. Based on the foregoing, this Court is compelled to conclude that for the purposes of Plaintiffs' claims in the action, PRODIGY is a publisher rather than a distributor.

An interesting comparison may be found in *Auvil v. CBS 60 Minutes* (*supra*), where apple growers sued a television network and local affiliates because of an allegedly defamatory investigative report generated by the network and broadcast by the affiliates. The record established that the affiliates exercised no editorial control over the broadcast although they had the power to do so by virtue of their contract with CBS, they had the opportunity to do so by virtue of a three hour hiatus for

the west coast differential, they had the technical capability to do so, and they in fact had occasionally censored network programming in the past, albeit never in connection with "60 Minutes". The Auvil court found:

It is argued that these features, coupled with the power to censor, triggered the duty to censor. That is a leap which the Court is not prepared to join in. ...

... plaintiffs' construction would force the creation of full time editorial boards at local stations throughout the country which possess sufficient knowledge, legal acumen and access to experts to continually monitor incoming transmissions and exercise on-the-spot discretionary calls or face \$75 million dollar lawsuits at every turn. That is not realistic.

... More than merely unrealistic in economic terms, it is difficult to imagine a scenario more chilling on the media's right of expression and the public's right to know. (800 F. Supp. at 931-932.)

Consequently, the court dismissed all claims against the affiliates on the basis of "conduit liability", which could not be established therein absent fault, which was not shown.

In contrast, here PRODIGY has virtually created an editorial staff of Board Leaders who have the ability to continually monitor incoming transmissions and in fact do spend time censoring notes. Indeed, it could be said that PRODIGY's current system of automatic scanning, Guidelines and Board Leaders may have a chilling effect on freedom of communication in Cyberspace, and it appears that this chilling effect is exactly what PRODIGY wants, but for the legal liability that attaches to such censorship.

Let it be clear that this Court is in full agreement with Cubby and Auvil, Computer bulletin boards should generally be regarded in the same context as bookstores, libraries and network affiliates. [See Edward V. DiLello, *Functional Equivalency and the application to Freedom of Speech on Computer Bulletin Boards*, 26 Colum. J. Law & Soc. Probs. 199, 210-213 (1993).] It is PRODIGY's own policies, technology and staffing decisions which have altered the scenario and mandated the finding that it is a publisher.

PRODIGY's conscious choice, to gain the benefits of editorial control, has opened it up to a greater liability than CompuServe and other computer networks that make no such choice. For the record, the fear that this Court's finding of publisher status for PRODIGY will compel all computer networks to abdicate control of their bulletin boards, incorrectly presumes that the market will refuse to compensate a network for its increased control and the resulting increased exposure. [See, Eric Schlachter, *Cyberspace, The Free Market and The Free Marketplace of Ideas: Recognizing Legal Differences in Computer Bulletin Board Functions*, 16 *Hastings Communication and Entertainment L.J.*, 87, 138-139.)

Presumably PRODIGY's decision to regulate the content of its bulletin boards was in part influenced by its desire to attract a market it perceived to exist consisting of users seeking a "family-oriented" computer service. This decision simply required that to the extent computer networks provide such services, they must also accept the concomitant legal consequences. In addition, the Court also notes that the issues addressed herein may ultimately be preempted by federal law if the

Communications Decency Act of 1995, several versions of which are pending in Congress, is enacted. [See, Congressional Quarterly US S 652, Congressional Quarterly US HR 1004, and Congressional Quarterly US S314.]

The Court now turns to the second issue presented here, of whether Epstein was PRODIGY's agent for the purposes of the acts and omissions alleged in the complaint. Agency is a legal relationship which results from the manifestation of consent of one person to allow another to act on his or her behalf and subject to his or her control, and consent by the other to so act. [Maurille v. Park Slope U-Maul, 194 AD2d 142; Restatement (Second) of agency § 1.] The starting point for an agency analysis in this case is the "Bulletin Board Leader Agreement" ("the Agreement" found at Exhibit A to Opposition Affidavit of William C. Schneck) between PRODIGY and Epstein. This Agreement sets forth eleven specific responsibilities expected of a Board Leader including (I) the posting of a minimum of 120 notes on the bulletin board each month; (II) working with member Representatives; (III) providing monthly reports and (IV) following any additional procedures provided by PRODIGY. The Agreement also requires prior PRODIGY approval of all promotional efforts. In addition, the Agreement contains the following language.

Although you will not be a PRODIGY representative, your actions as Board Leader will still reflect on PRODIGY. You will be solely responsible for all of your actions as a Board Leader. While PRODIGY will certainly support your actions as a Board Leader as a general matter (so long as they are not in breach of this Agreement), we will not assume any liability for anything you do (or fail to do) as a Board Leader. You hereby indemnify and agree to hold PRODIGY harmless from and against all claims cost, liabilities judgments ... arising out of or in connection with anything you do Being a Board Leader does not make you a PRODIGY Services Company employee, representative or agent, and you agree not to claim or suggest that you are one.

PRODIGY relies on this language to extricate itself from any alleged agency relationship with Epstein. However, talismanic language does not determine an agency relationship. [Matter of Shulman Transport Enterprises, Inc., 33 B.R. 383, 365, aff'd 744 F2d 293.] The Court must look to the substance of the relationship. (Id.) Where one party retains a sufficient degree of direction and control over another, a principal-agent relationship exists. [Garcia v Herald Tribune Fresh Air Fund, Inc., 51 Ad2d 897.] In addition, whether one is an independent contractor is not determinative of whether one is an agent. [Columbia Broadcasting System, Inc. v Stokely-Van Camp, Inc., 522 F2d 369, Ackert v Ausman, 29 Misc2d 962, aff'd 20 AD2d 850.]

As to the substance of the relationship between PRODIGY and its Board Leaders, PRODIGY Security Officer McDowell testified that Board Leaders are required to follow the Guidelines and the PRODIGY performs a "management function" with respect to the activities of the Board Leaders. (McDowell deposition transcript p. 78 found at Exhibit S to the moving papers.) Furthermore, Epstein's Supervisor, Jennifer Ambrozek, testified that PRODIGY reviews the Guidelines with Board Leaders, who are then required to enforce the Guidelines. (Ambrozek deposition transcript pp. 23 and 191, found at Exhibit R to the moving papers.) Board Leaders are also given a 28 page "Bulletin Board Leader Survival Guide" (Exhibit Q to the moving papers), dated October 1994, wherein many technical terms and procedures are explained, and the following caveat is given:

IF YOU DON'T KNOW WHAT SOMETHING IS OR WHAT IT'S SUPPOSED TO DO,
LEAVE IT ALONE UNTIL YOU CAN ASK.

Where the facts are not disputed the question of agency should be resolved by the court. [Plymouth Rock Fuel Corp. v Leucedia Inc., 100 AD2d 842.] This is such a case. The aforementioned testimony by PRODIGY employees and documentation generated by PRODIGY, together with the Guidelines themselves, cannot be disputed by PRODIGY and leave no doubt that at least for the limited purpose of monitoring and editing the "Money Talk" computer bulletin board, PRODIGY directed and controlled Epstein's actions. In reaching this conclusion the Court has taken care not to rely on any testimony by Epstein, inasmuch as it is the conduct of the principal which must create the impression of authority, not the conduct of the agent. [See, Ford v Unity Hosp., 32 NY2d 464, 273.] Based on the foregoing, the Court holds that Epstein acted as PRODIGY's agent for the purposes of the acts and omissions alleged in the complaint.

Dated: May 24, 1995
Mineola, New York

47 USC 230

(a) Findings

The Congress finds the following:

- (1) The rapidly developing array of Internet and other interactive computer services available to individual Americans represent an extraordinary advance in the availability of educational and informational resources to our citizens.
- (2) These services offer users a great degree of control over the information that they receive, as well as the potential for even greater control in the future as technology develops.
- (3) The Internet and other interactive computer services offer a forum for a true diversity of political discourse, unique opportunities for cultural development, and myriad avenues for intellectual activity.
- (4) The Internet and other interactive computer services have flourished, to the benefit of all Americans, with a minimum of government regulation.
- (5) Increasingly Americans are relying on interactive media for a variety of political, educational, cultural, and entertainment services.

(b) Policy

It is the policy of the United States—

- (1) to promote the continued development of the Internet and other interactive computer services and other interactive media;
- (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation;
- (3) to encourage the development of technologies which maximize user control over what information is received by individuals, families, and schools who use the Internet and other interactive computer services;
- (4) to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material; and
- (5) to ensure vigorous enforcement of Federal criminal laws to deter and punish trafficking in obscenity, stalking, and harassment by means of computer.

(c) Protection for “Good Samaritan” blocking and screening of offensive material

(1) Treatment of publisher or speaker

No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.

(2) Civil liability

No provider or user of an interactive computer service shall be held liable on account of—

- (A) any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected; or

(B) any action taken to enable or make available to information content providers or others the technical means to restrict access to material described in paragraph (1).^[1]

(d) Obligations of interactive computer service

A provider of interactive computer service shall, at the time of entering an agreement with a customer for the provision of interactive computer service and in a manner deemed appropriate by the provider, notify such customer that parental control protections (such as computer hardware, software, or filtering services) are commercially available that may assist the customer in limiting access to material that is harmful to minors. Such notice shall identify, or provide the customer with access to information identifying, current providers of such protections.

(e) Effect on other laws

(1) No effect on criminal law

Nothing in this section shall be construed to impair the enforcement of section [223](#) or [231](#) of this title, chapter 71 (relating to obscenity) or 110 (relating to sexual exploitation of children) of title 18, or any other Federal criminal statute.

(2) No effect on intellectual property law

Nothing in this section shall be construed to limit or expand any law pertaining to intellectual property.

(3) State law

Nothing in this section shall be construed to prevent any State from enforcing any State law that is consistent with this section. No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section.

(4) No effect on communications privacy law

Nothing in this section shall be construed to limit the application of the Electronic Communications Privacy Act of 1986 or any of the amendments made by such Act, or any similar State law.

(f) Definitions

As used in this section:

(1) Internet

The term “Internet” means the international computer network of both Federal and non-Federal interoperable packet switched data networks.

(2) Interactive computer service

The term “interactive computer service” means any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides access to the Internet and such systems operated or services offered by libraries or educational institutions.

(3) Information content provider

The term “information content provider” means any person or entity that is responsible, in whole or in part, for the creation or development of information provided through the Internet or any other interactive computer service.

(4) Access software provider

The term “access software provider” means a provider of software (including client or server software), or enabling tools that do any one or more of the following:

(A) filter, screen, allow, or disallow content;

(B) pick, choose, analyze, or digest content; or

(C) transmit, receive, display, forward, cache, search, subset, organize, reorganize, or translate content.

[Read this case](#)[How cited](#)**Zeran v. America Online, Inc., 129 F. 3d 327 - Court of Appeals, 4th Circuit 1997**

129 F.3d 327 (1997)

Kenneth M. ZERAN, Plaintiff-Appellant,
v.
AMERICA ONLINE, INCORPORATED, Defendant-Appellee.

[No. 97-1523.](#)**United States Court of Appeals, Fourth Circuit.**

Argued October 2, 1997.

Decided November 12, 1997.

328 *328 ARGUED: John Saul Edwards, Law Offices of John S. Edwards, Roanoke, VA; Leo Kayser, III, Kayser & Redfern, New York City, for Appellant. Patrick Joseph Carome, Wilmer, Cutler & Pickering, Washington, DC, for Appellee. ON BRIEF: John Payton, Samir Jain, Wilmer, Cutler & Pickering, Washington, DC; Randall J. Boe, America Online, Inc., Dulles, VA, for Appellee.

Before WILKINSON, Chief Judge, RUSSELL, Circuit Judge, and BOYLE, Chief United States District Judge for the Eastern District of North Carolina, sitting by designation.

Affirmed by published opinion. Chief Judge WILKINSON wrote the opinion, in which Judge RUSSELL and Chief Judge BOYLE joined.

OPINION

WILKINSON, Chief Judge:

Kenneth Zeran brought this action against America Online, Inc. ("AOL"), arguing that AOL unreasonably delayed in removing defamatory messages posted by an unidentified third party, refused to post retractions of those messages, and failed to screen for similar postings thereafter. The district court granted judgment for AOL on the grounds that the Communications Decency Act of 1996 ("CDA") — 47 U.S.C. § 230 — bars Zeran's claims. Zeran appeals, arguing that § 230 leaves intact liability for interactive computer service providers who possess notice of defamatory material posted through their services. He also contends that § 230 does not apply here because his claims arise from AOL's alleged negligence prior to the CDA's enactment. Section 230, however, plainly immunizes computer service providers like AOL from liability for information that originates with third parties. Furthermore, Congress clearly expressed its intent that § 230 apply to lawsuits, like Zeran's, instituted after the CDA's enactment. Accordingly, we affirm the judgment of the district court.

I.

329 "The Internet is an international network of interconnected computers," currently used by approximately 40 million people worldwide. [Reno v. ACLU](#), U.S. , , , 117 S.Ct. 2329,

[2334, 138 L.Ed.2d 874 \(1997\)](#). One of the many means by which individuals access the Internet is through an interactive computer service. These services offer not only a connection to the Internet as a whole, *329 but also allow their subscribers to access information communicated and stored only on each computer service's individual proprietary network. *Id.* AOL is just such an interactive computer service. Much of the information transmitted over its network originates with the company's millions of subscribers. They may transmit information privately via electronic mail, or they may communicate publicly by posting messages on AOL bulletin boards, where the messages may be read by any AOL subscriber.

The instant case comes before us on a motion for judgment on the pleadings, see Fed.R.Civ.P. 12(c), so we accept the facts alleged in the complaint as true. [Bruce v. Riddle, 631 F.2d 272, 273 \(4th Cir.1980\)](#). On April 25, 1995, an unidentified person posted a message on an AOL bulletin board advertising "Naughty Oklahoma T-Shirts." The posting described the sale of shirts featuring offensive and tasteless slogans related to the April 19, 1995, bombing of the Alfred P. Murrah Federal Building in Oklahoma City. Those interested in purchasing the shirts were instructed to call "Ken" at Zeran's home phone number in Seattle, Washington. As a result of this anonymously perpetrated prank, Zeran received a high volume of calls, comprised primarily of angry and derogatory messages, but also including death threats. Zeran could not change his phone number because he relied on its availability to the public in running his business out of his home. Later that day, Zeran called AOL and informed a company representative of his predicament. The employee assured Zeran that the posting would be removed from AOL's bulletin board but explained that as a matter of policy AOL would not post a retraction. The parties dispute the date that AOL removed this original posting from its bulletin board.

On April 26, the next day, an unknown person posted another message advertising additional shirts with new tasteless slogans related to the Oklahoma City bombing. Again, interested buyers were told to call Zeran's phone number, to ask for "Ken," and to "please call back if busy" due to high demand. The angry, threatening phone calls intensified. Over the next four days, an unidentified party continued to post messages on AOL's bulletin board, advertising additional items including bumper stickers and key chains with still more offensive slogans. During this time period, Zeran called AOL repeatedly and was told by company representatives that the individual account from which the messages were posted would soon be closed. Zeran also reported his case to Seattle FBI agents. By April 30, Zeran was receiving an abusive phone call approximately every two minutes.

Meanwhile, an announcer for Oklahoma City radio station KRXO received a copy of the first AOL posting. On May 1, the announcer related the message's contents on the air, attributed them to "Ken" at Zeran's phone number, and urged the listening audience to call the number. After this radio broadcast, Zeran was inundated with death threats and other violent calls from Oklahoma City residents. Over the next few days, Zeran talked to both KRXO and AOL representatives. He also spoke to his local police, who subsequently surveilled his home to protect his safety. By May 14, after an Oklahoma City newspaper published a story exposing the shirt advertisements as a hoax and after KRXO made an on-air apology, the number of calls to Zeran's residence finally subsided to fifteen per day.

Zeran first filed suit on January 4, 1996, against radio station KRXO in the United States District Court for the Western District of Oklahoma. On April 23, 1996, he filed this separate suit against AOL in the same court. Zeran did not bring any action against the party who posted the offensive messages.^[1] After Zeran's suit against AOL was transferred to the Eastern District of Virginia pursuant to 28 U.S.C. § 1404(a), AOL answered Zeran's complaint and interposed 47 U.S.C. § 230 as an affirmative defense. AOL then moved for judgment on the pleadings pursuant to Fed.R.Civ.P. 12(c). *330 The district court granted AOL's motion, and Zeran filed this appeal.

II.

A.

Because § 230 was successfully advanced by AOL in the district court as a defense to Zeran's claims, we shall briefly examine its operation here. Zeran seeks to hold AOL liable for defamatory speech initiated by a third party. He argued to the district court that once he notified AOL of the unidentified third party's hoax, AOL had a duty to remove the defamatory posting promptly, to notify its subscribers of the message's false nature, and to effectively screen future defamatory material. Section 230 entered this litigation as an affirmative defense pled by AOL. The company claimed that Congress immunized interactive computer service providers from claims based on information posted by a third party.

The relevant portion of § 230 states: "No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider." 47 U.S.C. § 230(c)(1).²¹ By its plain language, § 230 creates a federal immunity to any cause of action that would make service providers liable for information originating with a third-party user of the service. Specifically, § 230 precludes courts from entertaining claims that would place a computer service provider in a publisher's role. Thus, lawsuits seeking to hold a service provider liable for its exercise of a publisher's traditional editorial functions — such as deciding whether to publish, withdraw, postpone or alter content — are barred.

The purpose of this statutory immunity is not difficult to discern. Congress recognized the threat that tort-based lawsuits pose to freedom of speech in the new and burgeoning Internet medium. The imposition of tort liability on service providers for the communications of others represented, for Congress, simply another form of intrusive government regulation of speech. Section 230 was enacted, in part, to maintain the robust nature of Internet communication and, accordingly, to keep government interference in the medium to a minimum. In specific statutory findings, Congress recognized the Internet and interactive computer services as offering "a forum for a true diversity of political discourse, unique opportunities for cultural development, and myriad avenues for intellectual activity." *Id.* § 230(a)(3). It also found that the Internet and interactive computer services "have flourished, to the benefit of all Americans, *with a minimum of government regulation.*" *Id.* § 230(a)(4) (emphasis added). Congress further stated that it is "the policy of the United States ... to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, *unfettered by Federal or State regulation.*" *Id.* § 230(b)(2) (emphasis added).

331 None of this means, of course, that the original culpable party who posts defamatory messages would escape accountability. While Congress acted to keep government regulation of the Internet to a minimum, it also found it to be the policy of the United States "to ensure vigorous enforcement of Federal criminal laws to deter and punish trafficking in obscenity, stalking, and harassment by means of computer." *Id.* § 230(b)(5). Congress made a policy choice, however, not to deter harmful online speech through the separate route of imposing tort liability on companies that serve as intermediaries *331 for other parties' potentially injurious messages.

Congress' purpose in providing the § 230 immunity was thus evident. Interactive computer services have millions of users. See [Reno v. ACLU](#), [U.S. at _____](#), [117 S.Ct. at 2334](#) (noting that at time of district court trial, "commercial online services had almost 12 million individual subscribers"). The amount of information communicated via interactive computer services is therefore staggering. The specter of tort liability in an area of such prolific speech would have an obvious chilling effect. It would be impossible for service providers to screen each of their millions of postings for possible problems. Faced with potential liability for each message republished by their services, interactive computer service providers might choose to severely

restrict the number and type of messages posted. Congress considered the weight of the speech interests implicated and chose to immunize service providers to avoid any such restrictive effect.

Another important purpose of § 230 was to encourage service providers to self-regulate the dissemination of offensive material over their services. In this respect, § 230 responded to a New York state court decision, [*Stratton Oakmont, Inc. v. Prodigy Servs. Co.*, 1995 WL 323710 \(N.Y. Sup. Ct. May 24, 1995\)](#). There, the plaintiffs sued Prodigy — an interactive computer service like AOL — for defamatory comments made by an unidentified party on one of Prodigy's bulletin boards. The court held Prodigy to the strict liability standard normally applied to original publishers of defamatory statements, rejecting Prodigy's claims that it should be held only to the lower "knowledge" standard usually reserved for distributors. The court reasoned that Prodigy acted more like an original publisher than a distributor both because it advertised its practice of controlling content on its service and because it actively screened and edited messages posted on its bulletin boards.

Congress enacted § 230 to remove the disincentives to selfregulation created by the *Stratton Oakmont* decision. Under that court's holding, computer service providers who regulated the dissemination of offensive material on their services risked subjecting themselves to liability, because such regulation cast the service provider in the role of a publisher. Fearing that the specter of liability would therefore deter service providers from blocking and screening offensive material, Congress enacted § 230's broad immunity "to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material." 47 U.S.C. § 230(b)(4). In line with this purpose, § 230 forbids the imposition of publisher liability on a service provider for the exercise of its editorial and self-regulatory functions.

B.

Zeran argues, however, that the § 230 immunity eliminates only publisher liability, leaving distributor liability intact. Publishers can be held liable for defamatory statements contained in their works even absent proof that they had specific knowledge of the statement's inclusion. W. Page Keeton et al., *Prosser and Keeton on the Law of Torts* § 113, at 810 (5th ed. 1984). According to Zeran, interactive computer service providers like AOL are normally considered instead to be distributors, like traditional news vendors or book sellers. Distributors cannot be held liable for defamatory statements contained in the materials they distribute unless it is proven at a minimum that they have actual knowledge of the defamatory statements upon which liability is predicated. *Id.* at 811 (explaining that distributors are not liable "in the absence of proof that they knew or had reason to know of the existence of defamatory matter contained in matter published"). Zeran contends that he provided AOL with sufficient notice of the defamatory statements appearing on the company's bulletin board. This notice is significant, says Zeran, because AOL could be held liable as a distributor only if it acquired knowledge of the defamatory statements' existence.

332 Because of the difference between these two forms of liability, Zeran contends that the term "distributor" carries a legally distinct meaning from the term "publisher." *332 Accordingly, he asserts that Congress' use of only the term "publisher" in § 230 indicates a purpose to immunize service providers only from publisher liability. He argues that distributors are left unprotected by § 230 and, therefore, his suit should be permitted to proceed against AOL. We disagree. Assuming *arguendo* that Zeran has satisfied the requirements for imposition of distributor liability, this theory of liability is merely a subset, or a species, of publisher liability, and is therefore also foreclosed by § 230.

The terms "publisher" and "distributor" derive their legal significance from the context of defamation law. Although Zeran attempts to artfully plead his claims as ones of negligence,

they are indistinguishable from a garden variety defamation action. Because the publication of a statement is a necessary element in a defamation action, only one who publishes can be subject to this form of tort liability. Restatement (Second) of Torts § 558(b) (1977); Keeton et al., *supra*, § 113, at 802. Publication does not only describe the choice by an author to include certain information. In addition, both the negligent communication of a defamatory statement and the failure to remove such a statement when first communicated by another party— each alleged by Zeran here under a negligence label—constitute publication. Restatement (Second) of Torts § 577; see also [Tacket v. General Motors Corp.](#), 836 F.2d 1042, 1046-47 (7th Cir.1987). In fact, every repetition of a defamatory statement is considered a publication. Keeton et al., *supra*, § 113, at 799.

In this case, AOL is legally considered to be a publisher. "[E]very one who takes part in the publication ... is charged with publication." *Id.* Even distributors are considered to be publishers for purposes of defamation law:

Those who are in the business of making their facilities available to disseminate the writings composed, the speeches made, and the information gathered by others may also be regarded as participating to such an extent in making the books, newspapers, magazines, and information available to others as to be regarded as publishers. They are intentionally making the contents available to others, sometimes without knowing all of the contents—including the defamatory content — and sometimes without any opportunity to ascertain, in advance, that any defamatory matter was to be included in the matter published.

Id. at 803. AOL falls squarely within this traditional definition of a publisher and, therefore, is clearly protected by § 230's immunity.

Zeran contends that decisions like [Stratton Oakmont and Cubby, Inc. v. CompuServe Inc.](#), 776 F.Supp. 135 (S.D.N.Y.1991), recognize a legal distinction between publishers and distributors. He misapprehends, however, the significance of that distinction for the legal issue we consider here. It is undoubtedly true that mere conduits, or distributors, are subject to a different standard of liability. As explained above, distributors must at a minimum have knowledge of the existence of a defamatory statement as a prerequisite to liability. But this distinction signifies only that different standards of liability may be applied *within* the larger publisher category, depending on the specific type of publisher concerned. See Keeton et al., *supra*, § 113, at 799-800 (explaining that every party involved is charged with publication, although degrees of legal responsibility differ). To the extent that decisions like *Stratton* and *Cubby* utilize the terms "publisher" and "distributor" separately, the decisions correctly describe two different standards of liability. *Stratton* and *Cubby* do not, however, suggest that distributors are not also a type of publisher for purposes of defamation law.

333 Zeran simply attaches too much importance to the presence of the distinct notice element in distributor liability. The simple fact of notice surely cannot transform one from an original publisher to a distributor in the eyes of the law. To the contrary, once a computer service provider receives notice of a potentially defamatory posting, it is thrust into the role of a traditional publisher. The computer service provider must decide whether to publish, edit, or withdraw the posting. In this respect, Zeran seeks to impose liability on AOL for assuming the *333 role for which § 230 specifically proscribes liability — the publisher role.

Our view that Zeran's complaint treats AOL as a publisher is reinforced because AOL is cast in the same position as the party who originally posted the offensive messages. According to Zeran's logic, AOL is legally at fault because it communicated to third parties an allegedly defamatory statement. This is precisely the theory under which the original poster of the offensive messages would be found liable. If the original party is considered a publisher of the offensive messages, Zeran certainly cannot attach liability to AOL under the same theory without conceding that AOL too must be treated as a publisher of the statements.

Zeran next contends that interpreting § 230 to impose liability on service providers with knowledge of defamatory content on their services is consistent with the statutory purposes outlined in Part IIA. Zeran fails, however, to understand the practical implications of notice liability in the interactive computer service context. Liability upon notice would defeat the dual purposes advanced by § 230 of the CDA. Like the strict liability imposed by the *Stratton Oakmont* court, liability upon notice reinforces service providers' incentives to restrict speech and abstain from self-regulation.

If computer service providers were subject to distributor liability, they would face potential liability each time they receive notice of a potentially defamatory statement — from any party, concerning any message. Each notification would require a careful yet rapid investigation of the circumstances surrounding the posted information, a legal judgment concerning the information's defamatory character, and an on-the-spot editorial decision whether to risk liability by allowing the continued publication of that information. Although this might be feasible for the traditional print publisher, the sheer number of postings on interactive computer services would create an impossible burden in the Internet context. Cf. [Auvil v. CBS 60 Minutes, 800 F.Supp. 928, 931 \(E.D.Wash.1992\)](#) (recognizing that it is unrealistic for network affiliates to "monitor incoming transmissions and exercise on-the-spot discretionary calls"). Because service providers would be subject to liability only for the publication of information, and not for its removal, they would have a natural incentive simply to remove messages upon notification, whether the contents were defamatory or not. See [Philadelphia Newspapers, Inc. v. Hepps, 475 U.S. 767, 777, 106 S.Ct. 1558, 1564, 89 L.Ed.2d 783 \(1986\)](#) (recognizing that fears of unjustified liability produce a chilling effect antithetical to First Amendment's protection of speech). Thus, like strict liability, liability upon notice has a chilling effect on the freedom of Internet speech.

Similarly, notice-based liability would deter service providers from regulating the dissemination of offensive material over their own services. Any efforts by a service provider to investigate and screen material posted on its service would only lead to notice of potentially defamatory material more frequently and thereby create a stronger basis for liability. Instead of subjecting themselves to further possible lawsuits, service providers would likely eschew any attempts at selfregulation.

More generally, notice-based liability for interactive computer service providers would provide third parties with a no-cost means to create the basis for future lawsuits. Whenever one was displeased with the speech of another party conducted over an interactive computer service, the offended party could simply "notify" the relevant service provider, claiming the information to be legally defamatory. In light of the vast amount of speech communicated through interactive computer services, these notices could produce an impossible burden for service providers, who would be faced with ceaseless choices of suppressing controversial speech or sustaining prohibitive liability. Because the probable effects of distributor liability on the vigor of Internet speech and on service provider selfregulation are directly contrary to § 230's statutory purposes, we will not assume that Congress intended to leave liability upon notice intact.

334 Zeran finally contends that the interpretive canon favoring retention of common law principles unless Congress speaks directly to the issue counsels a restrictive reading of the *334 § 230 immunity here. See [United States v. Texas, 507 U.S. 529, 534, 113 S.Ct. 1631, 1634-35, 123 L.Ed.2d 245 \(1993\)](#). This interpretive canon does not persuade us to reach a different result. Here, Congress has indeed spoken directly to the issue by employing the legally significant term "publisher," which has traditionally encompassed distributors and original publishers alike.

The decision cited by Zeran, [United States v. Texas](#), also recognized that abrogation of common law principles is appropriate when a contrary statutory purpose is evident. *Id.* This is consistent with the Court's earlier cautions against courts' application of the canon with excessive zeal: "The rule that statutes in derogation of the common law are to be strictly construed does not require such an adherence to the letter as would defeat an obvious

legislative purpose or lessen the scope plainly intended to be given to the measure." [Isbrandtsen Co. v. Johnson](#), 343 U.S. 779, 783, 72 S.Ct. 1011, 1014, 96 L.Ed. 1294 (1952) (quoting [Jamison v. Encarnacion](#), 281 U.S. 635, 640, 50 S.Ct. 440, 442, 74 L.Ed. 1082 (1930)); cf. [Astoria Fed. Sav. & Loan Ass'n v. Solimino](#), 501 U.S. 104, 110-11, 111 S.Ct. 2166, 2170-71, 115 L.Ed.2d 96 (1991) (statute need not expressly delimit manner in which common law principle is abrogated). Zeran's argument flies in the face of this warning. As explained above, interpreting § 230 to leave distributor liability in effect would defeat the two primary purposes of the statute and would certainly "lessen the scope plainly intended" by Congress' use of the term "publisher."

Section 230 represents the approach of Congress to a problem of national and international dimension. The Supreme Court underscored this point in [Reno v. ACLU](#), finding that the Internet allows "tens of millions of people to communicate with one another and to access vast amounts of information from around the world.[It] is `a unique and wholly new medium of worldwide human communication.'" ___ U.S. at ___, [117 S.Ct. at 2334](#) (citation omitted). Application of the canon invoked by Zeran here would significantly lessen Congress' power, derived from the Commerce Clause, to act in a field whose international character is apparent. While Congress allowed for the enforcement of "any State law that is consistent with [§ 230]," 47 U.S.C. § 230(d)(3), it is equally plain that Congress' desire to promote unfettered speech on the Internet must supersede conflicting common law causes of action. Section 230(d)(3) continues: "No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section." With respect to federal-state preemption, the Court has advised: "[W]hen Congress has `unmistakably ... ordained,' that its enactments alone are to regulate a part of commerce, state laws regulating that aspect of commerce must fall. The result is compelled whether Congress' command is explicitly stated in the statute's language or implicitly contained in its structure and purpose." [Jones v. Rath Packing Co.](#), [430 U.S. 519, 525, 97 S.Ct. 1305, 1309, 51 L.Ed.2d 604 \(1977\)](#) (citations omitted). Here, Congress' command is explicitly stated. Its exercise of its commerce power is clear and counteracts the caution counseled by the interpretive canon favoring retention of common law principles.

III.

The CDA was signed into law and became effective on February 8, 1996. Zeran did not file his complaint until April 23, 1996. Zeran contends that even if § 230 does bar the type of claim he brings here, it cannot be applied retroactively to bar an action arising from AOL's alleged misconduct prior to the CDA's enactment. We disagree. Section 230 applies by its plain terms to complaints brought after the CDA became effective. As noted in Part IIB, the statute provides, in part: "No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section." 47 U.S.C. § 230(d)(3).

335 Initially, it is doubtful that a retroactivity issue is even presented here. Retroactivity concerns arise when a statute applies to conduct predating its enactment. Section 230 does not directly regulate the activities of interactive computer service providers like AOL. Instead, § 230 is addressed only to the bringing of a cause of action. Here, Zeran *335 did not file his complaint until over two months after § 230's immunity became effective. Thus, the statute's application in this litigation is in fact prospective. See [St. Louis v. Texas Worker's Compensation Comm'n](#), [65 F.3d 43, 46 \(5th Cir.1995\)](#) (holding "issue is not technically one of retroactivity" when statute applies to "filing of the complaint"), *cert. denied*, ___ U.S. ___, [116 S.Ct. 2563, 135 L.Ed.2d 1080 \(1996\)](#); [Vernon v. Cassadaga Valley Central Sch. Dist.](#), [49 F.3d 886, 889 \(2d Cir.1995\)](#) (same).

Even if this were a case implicating the application of a federal statute to pre-enactment events, the Supreme Court's *Landgraf* framework would nevertheless require § 230's application to Zeran's claims. *Landgraf* instructs us first "to determine whether Congress has expressly prescribed the statute's proper reach." [Landgraf v. USI Film Prods.](#), [511 U.S. 244, 280, 114](#)

[S.Ct. 1483, 1505, 128 L.Ed.2d 229 \(1994\)](#). This case can be resolved at this first step. In § 230(d)(3), Congress clearly expressed its intent that the statute apply to any complaint instituted after its effective date, regardless of when the relevant conduct giving rise to the claims occurred. Other circuits have interpreted similar statutory language to clearly express Congress' intent that the relevant statutes apply to bar new actions under statutorily specified conditions. See [Wright v. Morris, 111 F.3d 414, 418 \(6th Cir.1997\)](#) (holding language "No action shall be brought ..., 42 U.S.C. § 1997e(a), to "expressly govern[] the bringing of new actions"), *cert. denied*, ___ U.S. ___, 118 S.Ct. 263, ___ L.Ed.2d ___ (1997); [Abdul-Wadood v. Nathan, 91 F.3d 1023, 1025 \(7th Cir.1996\)](#) (holding language "In no event shall a prisoner bring a civil action or appeal a judgment ..., 28 U.S.C. § 1915(g), to govern the bringing of new actions or filing of new appeals).

If we were to find a directive as plain as § 230(d)(3) to be ambiguous as to Congress' intent, we would be announcing a new superclear-statement condition for the retroactive operation of statutes. Such a jurisprudential shift would be both unwise and contrary to the Court's admonitions in *Landgraf*: "Retroactivity provisions often serve entirely benign and legitimate purposes, whether to respond to emergencies, to correct mistakes, to prevent circumvention of a new statute in the interval immediately preceding its passage, or simply to give comprehensive effect to a new law Congress considers salutary." [511 U.S. at 267-68, 114 S.Ct. at 1498](#). Here, Congress decided that free speech on the Internet and self-regulation of offensive speech were so important that § 230 should be given immediate, comprehensive effect.

There finally is a significant contrast between statutes that impose new liabilities for already-completed conduct and statutes that govern litigants' access to courts. For example, courts often apply intervening statutes that restrict a court's jurisdiction. See [Landgraf, 511 U.S. at 274, 114 S.Ct. at 1501-02](#). Section 230 neither imposes any new liability on Zeran nor takes away any rights acquired under prior law. No person has a vested right in a nonfinal tort judgment, much less an unfiled tort claim. [Hammond v. United States, 786 F.2d 8, 12 \(1st Cir. 1986\)](#). Furthermore, Zeran cannot point to any action he took in reliance on the law prior to § 230's enactment. Because § 230 has no untoward retroactive effect, even the presumption against statutory retroactivity absent an express directive from Congress is of no help to Zeran here.

IV.

For the foregoing reasons, we affirm the judgment of the district court.

AFFIRMED.

^[1] Zeran maintains that AOL made it impossible to identify the original party by failing to maintain adequate records of its users. The issue of AOL's record keeping practices, however, is not presented by this appeal.

^[2] Section 230 defines "interactive computer service" as "any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides access to the Internet and such systems operated or services offered by libraries or educational institutions." 47 U.S.C. § 230(e)(2). The term "information content provider" is defined as "any person or entity that is responsible, in whole or in part, for the creation or development of information provided through the Internet or any other interactive computer service." *Id.* § 230(e)(3). The parties do not dispute that AOL falls within the CDA's "interactive computer service" definition and that the unidentified third party who posted the offensive messages here fits the definition of an "information content provider."

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992 F.Supp. 44 (1998)

Sidney BLUMENTHAL and Jacqueline Jordan Blumenthal, Plaintiffs,
v.
Matt DRUDGE and America Online, Inc., Defendants.

No. CIV.A. 97-1968 PLF.

United States District Court, District of Columbia.

April 22, 1998.

46 *45 *46 William Alden McDaniel, Jr., McDaniel & Marsh, Baltimore, MD, for Plaintiffs.

Jonathan Walker Emord, Emord & Assoc., P.C., Washington, DC, for Matt Drudge.

Patrick Joseph Carome, John Adolphus Payton, Jr., Wilmer, Cutler & Pickering, Washington, DC, for America Online, Inc.

OPINION

PAUL L. FRIEDMAN, District Judge.

This is a defamation case revolving around a statement published on the Internet by defendant Matt Drudge. On August 10, 1997, the following was available to all having access to the Internet:

The DRUDGE REPORT has learned that top GOP operatives who feel there is a double-standard of only reporting republican shame believe they are holding an ace card: New White House recruit Sidney Blumenthal has a spousal abuse past that has been effectively covered up.

The accusations are explosive.

There are court records of Blumenthal's violence against his wife, one influential republican, who demanded anonymity, tells the DRUDGE REPORT.

If they begin to use [Don] Sipple and his problems against us, against the Republican Party ... to show hypocrisy, Blumenthal would become fair game. Wasn't it Clinton who signed the Violence Against Women Act?

[There goes the budget deal honeymoon.] One White House source, also requesting anonymity, says the Blumenthal wife-beating allegation is a pure fiction that has been created by Clinton enemies. [The First Lady] would not have brought him in if he had this in his background, assures the wellplaced staffer. This story about Blumenthal has been in circulation for years.

Last month President Clinton named Sidney Blumenthal an Assistant to the

President as part of the Communications Team. He's brought in to work on communications strategy, special projects themeing — a newly created position.

Every attempt to reach Blumenthal proved unsuccessful.

Complaint, Ex. 4.

Currently before this Court are a motion for summary judgment filed by defendant America Online, Inc. ("AOL") and a motion to dismiss or transfer for lack of personal jurisdiction filed by defendant Matt Drudge. Upon consideration of the papers filed by the parties and the oral arguments of counsel, the Court concludes that AOL's motion should be granted and Drudge's motion should be denied.

I. BACKGROUND

Plaintiffs Sidney Blumenthal and Jacqueline Jordan Blumenthal are citizens of the District of Columbia and have continuously lived in the District since 1985. Complaint ¶¶ 1-2, 12. Sidney Blumenthal works in the White House as an Assistant to the President of the United States. His first day of work as Assistant to the President was Monday, August 11, 1997, the day after the publication of the alleged defamatory statement. Jacqueline Jordan Blumenthal, Sidney Blumenthal's wife, also works in the White House as Director of the President's Commission On White House Fellowships. Complaint ¶¶ 13, 16-17.

47 Defendant Matt Drudge, a Takoma Park, Maryland native, is a resident of the State of California, where he has lived continuously since 1987. Complaint, Ex. 8; Drudge Motion to Dismiss ("Drudge Motion"), Declaration *47 of Matt Drudge ("Drudge Decl. I") ¶ 2.^[1] In early 1995, defendant Drudge created an electronic publication called the Drudge Report, a gossip column focusing on gossip from Hollywood and Washington, D.C. Transcript of March 11, 1998 Motions Hearing ("Hearing Tr.") at 41. Mr. Drudge's base of operations for writing, publishing and disseminating the Drudge Report has been an office in his apartment in Los Angeles, California. Drudge Decl. I ¶¶ 2-4.

Access to defendant Drudge's world wide web site is available at no cost to anyone who has access to the Internet at the Internet address of "www.drudgereport.com." Drudge Decl. I ¶ 9. The front page of the web site contains the logo "Drudge Report." Defendant Drudge has also placed a hyperlink on his web site that, when activated, causes the most recently published edition of the Drudge Report to be displayed. *Id.*^[2] The web site also contains numerous hyperlinks to other on-line news publications and news articles that may be of interest to readers of the Drudge Report. *Id.* In addition, during the time period relevant to this case, Drudge had developed a list of regular readers or subscribers to whom he e-mailed each new edition of the Drudge Report. Drudge Decl. I ¶¶ 6-7. By March 1995, the Drudge Report had 1,000 e-mail subscribers, Drudge Decl. I ¶ 8; and plaintiffs allege that by 1997 Drudge had 85,000 subscribers to his e-mail service. Complaint ¶ 47.

In late 1996, defendant Drudge entered into a six-month licensing agreement with the publisher of "Wired" magazine. Under the agreement, the publisher of "Wired" had the right to receive and display future editions of the Drudge Report in "Hotwired," a new electronic Internet publication. In exchange, defendant Drudge received a bi-weekly royalty payment. In addition to the publication of the Drudge Report in "Hotwired," defendant Drudge continued to distribute each new edition via e-mail to his subscribers and via his world wide web site. Drudge Decl. I ¶¶ 11-12.

In late May or early June of 1997, at approximately the time when the "Wired" licensing agreement expired, defendant Drudge entered into a written license agreement with AOL.^[3] The agreement made the Drudge Report available to all members of AOL's service for a period

of one year. In exchange, defendant Drudge received a flat monthly "royalty payment" of \$3,000 from AOL. During the time relevant to this case, defendant Drudge has had no other source of income. Drudge Decl. I ¶¶ 13-14. Under the licensing agreement, Drudge is to create, edit, update and "otherwise manage" the content of the Drudge Report, and AOL may "remove content that AOL reasonably determine[s] to violate AOL's then standard terms of service." AOL Mem. at 7; see Exhibit C to Licensing Agreement ¶ I, Ex. A to Jennings Decl. Drudge transmits new editions of the Drudge Report by e-mailing them to AOL. AOL then posts the new editions on the AOL service. AOL Mem., Declaration of Matt Drudge ("Drudge Decl. II") ¶ 17; AOL Mem. at 9. Drudge also has continued to distribute each new edition of the Drudge Report via e-mail and his own web site. Drudge Decl. I ¶ 16; Hearing Tr. at 41-42.

48 Late at night on the evening of Sunday, August 10, 1997 (Pacific Daylight Time), defendant Drudge wrote and transmitted the edition of the Drudge Report that contained the alleged defamatory statement about the Blumenthals. Drudge transmitted the report from Los Angeles, California by e-mail to his direct subscribers and by posting both a headline and the full text of the Blumenthal story on his world wide web site. He then *48 transmitted the text but not the headline to AOL, which in turn made it available to AOL subscribers. Drudge Decl. I ¶¶ 15, 16, 19.^[4]

After receiving a letter from plaintiffs' counsel on Monday, August 11, 1997, Complaint, Ex. 6, defendant Drudge retracted the story through a special edition of the Drudge Report posted on his web site and e-mailed to his subscribers. Drudge Decl. I ¶¶ 17-19. At approximately 2:00 a.m. on Tuesday, August 12, 1997, Drudge e-mailed the retraction to AOL which posted it on the AOL service. Drudge Decl. I ¶ 19; AOL Mem. at 12.^[5] Defendant Drudge later publicly apologized to the Blumenthals. Drudge Decl. I ¶ 20; Complaint, Ex. 6 (Howard Kurtz, *Blumenthals Get Apology, Plan Lawsuit: Web Site Retracts Story on Clinton Aide, Washington Post*, August 11, 1997, at A 11).

II. AOL'S MOTION FOR SUMMARY JUDGMENT

A. The Internet

"The Internet is a unique and wholly new medium of worldwide human communication." [*Reno v. American Civil Liberties Union*, U.S. , , 117 S.Ct. 2329, 2334, 138 L.Ed.2d 874 \(1997\)](#).^[6] It enables people to communicate with one another with unprecedented speed and efficiency and is rapidly revolutionizing how people share and receive information. As Congress recognized in the Communications Decency Act of 1996, "the rapidly developing array of Internet and other interactive computer services ... represent an extraordinary advance in the availability of educational and informational resources to our citizens." 47 U.S.C. § 230(a)(1). As one court has noted:

The Internet has no territorial boundaries. To paraphrase Gertrude Stein, as far as the Internet is concerned, not only is there perhaps "no there there," the "there" is *everywhere* where there is Internet access. When business is transacted over a computer network via a Web-site accessed by a computer in Massachusetts, it takes place as much *in* Massachusetts, literally or figuratively, as it does anywhere.

[*Digital Equipment Corp. v. Altavista Technology, Inc.*, 960 F.Supp. 456, 462 \(D.Mass. 1997\)](#).^[7]

49 *49 The near instantaneous possibilities for the dissemination of information by millions of different information providers around the world to those with access to computers and thus to the Internet have created ever-increasing opportunities for the exchange of information and ideas in "cyberspace."^[8] This information revolution has also presented unprecedented

challenges relating to rights of privacy and reputational rights of individuals, to the control of obscene and pornographic materials, and to competition among journalists and news organizations for instant news, rumors and other information that is communicated so quickly that it is too often unchecked and unverified. Needless to say, the legal rules that will govern this new medium are just beginning to take shape.

B. Communications Decency Act of 1996, Section 230

In February of 1996, Congress made an effort to deal with some of these challenges in enacting the Communications Decency Act of 1996. While various policy options were open to the Congress, it chose to "promote the continued development of the Internet and other interactive computer services and other interactive media" and "to preserve the vibrant and competitive free market" for such services, largely "unfettered by Federal or State regulation...." 47 U.S.C. § 230(b)(1) and (2). Whether wisely or not, it made the legislative judgment to effectively immunize providers of interactive computer services from civil liability in tort with respect to material disseminated by them but created by others. In recognition of the speed with which information may be disseminated and the near impossibility of regulating information content, Congress decided not to treat providers of interactive computer services like other information providers such as newspapers, magazines or television and radio stations, all of which may be held liable for publishing or distributing obscene or defamatory material written or prepared by others. While Congress could have made a different policy choice, it opted not to hold interactive computer services liable for their failure to edit, withhold or restrict access to offensive material disseminated through their medium.

Section 230(c) of the Communications Decency Act of 1996 provides:

No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.

47 U.S.C. § 230(c)(1). The statute goes on to define the term "information content provider" as "any person or entity that is responsible, in whole or in part, for the creation or development of information provided through the Internet or any other interactive computer service." 47 U.S.C. § 230(e)(3). In view of this statutory language, plaintiffs' argument that the *Washington Post* would be liable if it had done what AOL did here — "publish Drudge's story without doing anything whatsoever to edit, verify, or even read it (despite knowing what Drudge did for a living and how he did it)," Plaintiff's Memorandum of Points and Authorities in Opposition to Defendant America Online, Inc.'s Motion for Summary Judgment ("Pls.' Mem.") at 1 — has been rendered irrelevant by Congress.

50 Plaintiffs concede that AOL is a "provider ... of an interactive computer service" *50 for purposes of Section 230, see Complaint ¶¶ 94; Pls.' Mem. at 3, and that if AOL acted exclusively as a provider of an interactive computer service it may not be held liable for making the Drudge Report available to AOL subscribers. See 47 U.S.C. § 230(c)(1). They also concede that Drudge is an "information content provider" because he wrote the alleged defamatory material about the Blumenthals contained in the Drudge Report. Pls.' Mem. at 4. While plaintiffs suggest that AOL is responsible along with Drudge because it had some role in writing or editing the material in the Drudge Report, they have provided no factual support for that assertion. Indeed, plaintiffs affirmatively state that "no person, other than Drudge himself, edited, checked, verified, or supervised the information that Drudge published in the Drudge Report." Plaintiffs' Statement of Material Facts ("Pls.' Stmt.") ¶ 1(ii). It also is apparent to the Court that there is no evidence to support the view originally taken by plaintiffs that Drudge is or was an employee or agent of AOL, and plaintiffs seem to have all but abandoned that argument.⁹¹

AOL acknowledges both that Section 230(c)(1) would not immunize AOL with respect to any

information AOL developed or created entirely by itself and that there are situations in which there may be two or more information content providers responsible for material disseminated on the Internet — joint authors, a lyricist and a composer, for example. Defendant America Online, Inc.'s Reply Memorandum In Further Support of Its Motion for Summary Judgment ("AOL Reply Mem.") at 10; Hearing Tr. at 12. While Section 230 does not preclude joint liability for the joint development of content, AOL maintains that there simply is no evidence here that AOL had any role in creating or developing any of the information in the Drudge Report. The Court agrees. It is undisputed that the Blumenthal story was written by Drudge without any substantive or editorial involvement by AOL. Drudge Decl. II ¶¶ 46-47. AOL was nothing more than a provider of an interactive computer service on which the Drudge Report was carried, and Congress has said quite clearly that such a provider shall not be treated as a "publisher or speaker" and therefore may not be held liable in tort. 47 U.S.C. § 230(c)(1).

As Chief Judge Wilkinson recently wrote for the Fourth Circuit:

By its plain language, § 230 creates a federal immunity to any cause of action that would make service providers liable for information originating with a third-party user of the service. Specifically, § 230 precludes courts from entertaining claims that would place a computer service provider in a publisher's role. Thus, lawsuits seeking to hold a service provider liable for its exercise of a publisher's traditional editorial functions — such as deciding whether to publish, withdraw, postpone or alter content — are barred.

The purpose of this statutory immunity is not difficult to discern. Congress recognized the threat that tort-based lawsuits pose to freedom of speech in the new and burgeoning Internet medium. The imposition of tort liability on service providers for the communications of others represented, for Congress, simply another form of intrusive government regulation of speech. Section 230 was enacted, in part, to maintain the robust nature of Internet communication and, accordingly, to keep government interference in the medium to a minimum.

* * * * *

51

*51 None of this means, of course, that the original culpable party who posts defamatory messages would escape accountability. While Congress acted to keep government regulation of the Internet to a minimum, it also found it to be the policy of the United States "to ensure vigorous enforcement of Federal criminal laws to deter and punish trafficking in obscenity, stalking and harassment by means of computer." *Id.* § 230(b)(5). Congress made a policy choice, however, not to deter harmful online speech through the separate route of imposing tort liability on companies that serve as intermediaries for other parties' potentially injurious messages.

[Zeran v. America Online, Inc., 129 F.3d 327, 330-31 \(4th Cir.1997\)](#). The court in *Zeran* has provided a complete answer to plaintiffs' primary argument, an answer grounded in the statutory language and intent of Section 230.^[10]

Plaintiffs make the additional argument, however, that Section 230 of the Communications Decency Act does not provide immunity to AOL in this case because Drudge was not just an anonymous person who sent a message over the Internet through AOL. He is a person with whom AOL contracted, whom AOL paid \$3,000 a month — \$36,000 a year, Drudge's sole, consistent source of income — and whom AOL promoted to its subscribers and potential subscribers as a reason to subscribe to AOL. Pls.' Mem. at 2, 7. Furthermore, the license agreement between AOL and Drudge by its terms contemplates more than a passive role for AOL; in it, AOL reserves the "right to remove, or direct [Drudge] to remove, any content which, as reasonably determined by AOL ... violates AOL's then-standard Terms of Service...."

Jennings Decl. ¶ 16 (quoting Exhibit C to Licensing Agreement ¶ I, Ex. A to Jennings Decl.). By the terms of the agreement, AOL also is "entitled to require reasonable changes to ... content, to the extent such content will, in AOL's good faith judgment, adversely affect operations of the AOL network." *Id.*

In addition, shortly after it entered into the licensing agreement with Drudge, AOL issued a press release making clear the kind of material Drudge would provide to AOL subscribers — gossip and rumor — and urged potential subscribers to sign onto AOL in order to get the benefit of the Drudge Report. The press release was captioned: "AOL Hires Runaway Gossip Success Matt Drudge." Complaint, Ex. I. It noted that "[m]averick gossip columnist Matt Drudge has teamed up with America Online," and stated: "Giving the Drudge Report a home on America Online (keyword: Drudge) opens up the floodgates to an audience ripe for Drudge's brand of reporting.... AOL has made Matt Drudge instantly accessible to members who crave instant gossip and news breaks." *Id.* Why is this different, the Blumenthals suggest, from AOL advertising and promoting a new purveyor of child pornography or other offensive material? Why should AOL be permitted to tout someone as a gossip columnist or rumor monger who will make such rumors and gossip "instantly accessible" to AOL subscribers, and then claim immunity when that person, as might be anticipated, defames another?

52 If it were writing on a clean slate, this Court would agree with plaintiffs. AOL has certain editorial rights with respect to the content provided by Drudge and disseminated by AOL, including the right to require changes in content and to remove it; and it has affirmatively promoted Drudge as a new source of unverified instant gossip on AOL. Yet it takes no responsibility for any damage he may cause. AOL is not a passive conduit like the telephone company, a common carrier with no control and therefore no responsibility for what is said over the telephone wires.^[11] Because it has the right to exercise editorial control over those with whom it contracts and whose words it disseminates, it would seem only fair to hold AOL to the liability standards applied to a publisher or, at least, like a book store owner or library, to the liability standards applied to a distributor.^[12] *52 But Congress has made a different policy choice by providing immunity even where the interactive service provider has an active, even aggressive role in making available content prepared by others. In some sort of tacit *quid pro quo* arrangement with the service provider community, Congress has conferred immunity from tort liability as an incentive to Internet service providers to self-police the Internet for obscenity and other offensive material, even where the self-policing is unsuccessful or not even attempted.

In Section 230(c)(2) of the Communications Decency Act, Congress provided:

No provider or user of an interactive computer service shall be held liable on account of —

(A) Any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected; or

(B) any action taken to enable or make available to information content providers or others the technical means to restrict access to material described in paragraph (1).

47 U.S.C. § 230(c)(2).^[13] As the Fourth Circuit stated in *Zeran*: "Congress enacted § 230 to remove ... disincentives to self-regulation.... Fearing that the specter of liability would ... deter service providers from blocking and screening offensive material § 230 forbids the imposition of publisher liability on a service provider for the exercise of its editorial and selfregulatory functions." *Zeran v. America Online, Inc.*, 129 F.3d at 331.^[14]

53 Any attempt to distinguish between "publisher" liability and notice-based "distributor" liability

and to argue that Section 230 was only intended to immunize the former would be unavailing. Congress made no distinction between publishers and distributors in providing immunity from liability. As the Fourth Circuit has noted: "[I]f computer service providers were subject to distributor liability, they would face potential liability each time they receive notice of a potentially defamatory statement — from any party, concerning any message," and such notice-based liability "would deter service providers from regulating the dissemination of offensive material over their own services" by confronting them with "ceaseless choices of suppressing controversial speech or sustaining prohibitive liability" — exactly what Congress intended to insulate them from in Section 230. [Zeran v. America Online, Inc.](#), 129 F.3d at 333. C.f. [Cubby, Inc. v. CompuServe, Inc.](#), 776 F.Supp. 135, 139-40 (S.D.N.Y.1991) (decided before enactment of Communications Decency Act). While it appears to this Court that AOL in this case has taken advantage of all *53 the benefits conferred by Congress in the Communications Decency Act, and then some, without accepting any of the burdens that Congress intended, the statutory language is clear: AOL is immune from suit, and the Court therefore must grant its motion for summary judgment.^[15]

III. DRUDGE'S MOTION TO DISMISS FOR LACK OF PERSONAL JURISDICTION

Defendant Drudge has moved, pursuant to Rule 12(b)(2) of the Federal Rules of Civil Procedure, for an order dismissing this action for lack of personal jurisdiction or, alternatively, to transfer it to the United States District Court for the Central District of California. In order for this Court to maintain personal jurisdiction over a nonresident defendant, jurisdiction must be proper under the District of Columbia long-arm statute and consistent with the demands of due process. [United States v. Ferrara](#), 54 F.3d 825, 828 (D.C.Cir.1995); [Crane v. Carr](#), 814 F.2d 758, 762 (D.C.Cir.1987). Plaintiffs have the burden of establishing that this Court has personal jurisdiction over defendant Drudge and alleging specific facts upon which personal jurisdiction may be based. See [Cellutech Inc. v. Centennial Cellular Corp.](#), 871 F.Supp. 46, 48 (D.D.C.1994).

A. D.C. Long-Arm Statute

The only provision of the District of Columbia long-arm statute that is relevant to this case is Section 13-423(a)(4), which provides:

A District of Columbia court may exercise personal jurisdiction over a person, who acts directly or by an agent, as to a claim for relief arising from the person's ... causing tortious injury in the District of Columbia by an act or omission outside the District of Columbia if he regularly does or solicits business, engages in any other persistent course of conduct, or derives substantial revenue from goods used or consumed or services rendered, in the District of Columbia.

D.C.Code § 13-423(a)(4). In order to establish personal jurisdiction under this provision a plaintiff must make a *prima facie* showing that (1) plaintiff suffered a tortious injury in the District of Columbia; (2) the injury was caused by the defendant's act or omission outside of the District of Columbia; and (3) defendants had one of three enumerated contacts with the District of Columbia. [Trager v. Berrie](#), 593 F.Supp. 223, 225 (D.D.C.1984); [Akbar v. New York Magazine Co.](#), 490 F.Supp. 60, 63 (D.D.C.1980). Plaintiffs must satisfy all three requirements and also establish minimum contacts within the confines of due process before the Court can exercise personal jurisdiction over defendant Drudge.

54 It is undisputed that the Drudge Report transmission in question was written, published and transmitted by defendant Drudge from his computer located in Los Angeles, California. It is also undisputed that the tortious injury caused by defendant Drudge's act of transmitting the report

was suffered by the Blumenthals in the District of Columbia. The only question before this Court therefore is whether defendant *54 Drudge (1) regularly does or solicits business in the District of Columbia, *or* (2) derives substantial revenue from goods used or consumed or services rendered in the District, *or* (3) engages in any other persistent course of conduct here. See D.C.Code § 13-423(a)(4).

Justice Ginsburg in [Crane v. Carr](#) has described these as the "plus factors," factors that demonstrate some "reasonable connection" between the jurisdiction in which the court sits "separate from and in addition to" the injury caused in the jurisdiction. [Crane v. Carr, 814 F.2d at 762](#). The "plus factor" or factors need not be related to the act that caused the injury; all that is required is "some other reasonable connection between the defendant and the forum." *Id.* at 762-63. The "plus factor" does not itself provide the basis for jurisdiction (the injury does) "but it does serve to filter out cases in which the inforum impact is an isolated event and the defendant otherwise has no, or scant, affiliation with the forum." *Id.* at 763. The question here is whether plaintiffs have shown a "persistent course of conduct" by defendant Drudge in the District of Columbia or other reasonable connections between the District and Drudge besides the alleged defamatory statement and the alleged injury.

Plaintiffs point out that the Drudge Report has been regularly transmitted over the Internet to Drudge's subscribers and repeatedly posted on Drudge's web site, where it has been available 24 hours a day to District residents; that Drudge personally maintains a list of e-mail addresses, which enables him to distribute the Drudge Report to anyone who requests it, including e-mail addresses in the District of Columbia; and that he has solicited contributions and collected money from persons in the District of Columbia who read the Drudge Report. Plaintiff's Opposition to Defendant Drudge's Motion to Dismiss ("Pls.' Opp'n") at 19-21. In addition, they state that Drudge has traveled to the District of Columbia twice, including once for a C-SPAN interview that was for the express purpose of promoting the Drudge Report. Pls.' Opp'n at 20. Plaintiffs also note, and defendant Drudge admits, that Drudge has been in contact (via e-mail, telephone and the U.S. mail) with District residents who supply him with gossip. Hearing Tr. at 51, 61-63; Drudge Decl. I ¶¶ 25, 27, 31.

Defendant Drudge argues that he has not specifically targeted persons in the District of Columbia for readership, largely because of the non-geographic nature of communicating via the Internet. For example, while it is true that subscribers to the Drudge Report include District residents, generally the only information about those subscribers available to Drudge is an e-mail address — an address that, unlike a postal address or even a telephone number, typically provides no geographic information. For instance, if Jane Doe from the District of Columbia subscribes to the Drudge Report, it is most likely sent to an e-mail address such as "jane-doe@aol.com," and Drudge has no idea where Jane Doe lives or receives the Report. The same is true for on-line browsers who read the Drudge Report, since screen names used to browse the web also are not generally identified by geographic location. Defendant Drudge also claims that he has never advertised the Drudge Report column or web site in physical locations or in local newspapers in the District of Columbia. Drudge Decl. I ¶¶ 28-30, 33; Hearing Tr. at 42-43.

Defendant Drudge also argues that his travel to Washington, D.C. is not sufficient to establish a persistent course of conduct in the District of Columbia because his contacts have been so infrequent and sporadic that they are simply not enough to be viewed as "persistent." As for his solicitation of contributions in the District of Columbia, Drudge claims that his solicitation was directed to all readers of the Drudge Report and not specifically aimed at the District. Furthermore, from that appeal Drudge received only approximately \$250 from fewer than fifteen persons in the District of Columbia. Drudge Decl. I ¶ 24; Hearing Tr. at 49-50. The Court concludes that plaintiffs have the better of the argument; defendant Drudge has had sufficient contacts with the District of Columbia to warrant the exercise of personal jurisdiction.

55 The legal questions surrounding the exercise of personal jurisdiction in "cyberspace" are

relatively new, and different courts have *55 reached different conclusions as to how far their jurisdiction extends in cases involving the Internet. Generally, the debate over jurisdiction in cyberspace has revolved around two issues: passive web sites versus interactive web sites, and whether a defendant's Internet-related contacts with the forum combined with other non-Internet related contacts are sufficient to establish a persistent course of conduct. As one court has explained:

At one end of the spectrum are situations where a defendant clearly does business over the Internet. If the defendant enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet, personal jurisdiction is proper. At the opposite end are situations where a defendant has simply posted information on an Internet Web site which is accessible to users in foreign jurisdictions. A passive Web site that does little more than make information available to those who are interested in it is not grounds for the exercise [of] personal jurisdiction. The middle ground is occupied by interactive Web sites where a user can exchange information with the host computer. In these cases, the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the Web site.

[Zippo Mfg. Co. v. Zippo Dot Com, Inc., 952 F.Supp. 1119, 1124 \(W.D.Pa.1997\).](#)

In [Heroes, Inc. v. Heroes Foundation](#), Judge Flannery found that he did not need to decide whether the defendant's home page by itself subjected the defendant to personal jurisdiction in the District of Columbia because the defendant had substantial non-Internet related contacts with the District that were sufficient under the D.C. long-arm statute. The defendant's home page solicited contributions and provided a toll-free number which browsers used to donate money; the solicitation also appeared in advertisements in the Washington Post. Judge Flannery concluded that these non-Internet related contacts with the District of Columbia, together with the maintenance of a web site constantly available to D.C. residents, constituted a persistent course of conduct that reasonably connected the defendant to the forum. [Heroes, Inc. v. Heroes Foundation, 958 F.Supp. 1, 4-5 \(D.D.C.1996\)](#); see also [Telco Communications v. An Apple A Day, 977 F.Supp. 404, 407 \(E.D.Va.1997\)](#) (posting of web site advertisement solicitation over the Internet, which could be accessed by Virginia residents 24 hours a day, is a persistent course of conduct; two or three press releases rise to the level of regularly doing or soliciting business); [Digital Equipment Corp. v. Altavista Technology, Inc., 960 F.Supp. at 467](#) (maintenance of web site that can be accessed by Massachusetts citizens 24 hours a day coupled with other contacts is persistent course of conduct sufficient to confer personal jurisdiction).^[16] The courts in each of these cases required only a relatively tenuous electronic connection between the creator of a web site and the forum to effect personal jurisdiction, so long as there were sufficient other non-Internet connections.

As noted, many courts have focused on the level of interactivity of a web site in determining whether there was personal jurisdiction. In [Cybersell, Inc. v. Cybersell, Inc.](#), the court noted that an interactive web site allows users to "exchange information with the host computer" and concluded that courts must look at the "level of interactivity and [the] commercial nature of the exchange of information that occurs on the Web site to determine if sufficient contacts exist to warrant the exercise of jurisdiction." [Cybersell, Inc. v. Cybersell Inc., 130 F.3d 414, 418 \(9th Cir.1997\)](#) (internal quotation marks omitted). Compare [Maritz, Inc. v. Cybergold, Inc., 947 F.Supp. 1328, 1332-33 \(E.D.Mo.1996\)](#) (exercise of jurisdiction warranted where defendant's interactive web site encouraged browsers to add their address to mailing list that subscribed the user to the service), and [Zippo Mfg. Co. v. Zippo Dot Com, Inc., 952 *56 F.Supp. at 1122-23](#) (interactive web site where defendants contracted with 3,000 individuals and seven internet providers in forum state conferred personal jurisdiction), with [Bensusan Restaurant Corp. v. King, 937 F.Supp. 295, 299-300 \(S.D.N.Y.1996\)](#), *aff'd*, [126 F.3d 25 \(2d Cir.1997\)](#) (passive web

site which only posted information for interested persons who may have accessed the web site not sufficient for exercise of jurisdiction), and *Hearst Corporation v. Goldberger*, No. 96 Civ. 3620(PKL)(AJP), 1997 WL 97097, at * 15 (S.D.N.Y. Feb. 26, 1997) (no persistent course of conduct because defendant's passive web site only provided information regarding future services).

Under the analysis adopted by these courts, the exercise of personal jurisdiction is contingent upon the web site involving more than just the maintenance of a home page; it must also allow browsers to interact directly with the web site on some level. In addition, there must also be some other non-Internet related contacts between the defendant and the forum state in order for the court to exercise personal jurisdiction. Because the Court finds that defendant Drudge has an interactive web site that is accessible to and used by District of Columbia residents and, in addition, that he has had sufficient non-Internet related contacts with the District of Columbia, the Court concludes that Drudge has engaged in a persistent course of conduct in the District. The exercise of personal jurisdiction over defendant Drudge by this Court therefore is warranted.^[17]

Despite the attempts of Drudge and his counsel to label the Drudge Report as a "passive" web site, the Court finds this characterization inapt. The Drudge Report's web site allows browsers, including District of Columbia residents, to directly e-mail defendant Drudge, thus allowing an exchange of information between the browser's computer and Drudge's host computer. Hearing Tr. at 4243, 61; see *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F.Supp. at 1124. In addition, browsers who access the website may request subscriptions to the Drudge Report, again by directly e-mailing their requests to Drudge's host computer. In turn, as each new edition of the Drudge Report is created, it is then sent by Drudge to every e-mail address on his subscription mailing list, which includes the e-mail addresses of all browsers who have requested subscriptions by directly e-mailing Drudge through his web site. The constant exchange of information and direct communication that District of Columbia Internet users are able to have with Drudge's host computer via his web site is the epitome of web site interactivity.

57 Not only is defendant Drudge's web site interactive, the subject matter of the Drudge Report primarily concerns political *57 gossip and rumor in Washington, D.C. Defendant Drudge characterizes himself as the "Thomas Paine of the Internet, ... who is circulating information for the citizenry reporting on [federal] governmental abuses and earthquakes...at the White House." Hearing Tr. at 37, 41; see Pls.' Opp'n, Ex. 1. Even though Drudge may not advertise in physical locations or local newspapers in Washington, D.C., the subject matter of the Drudge Report is directly related to the political world of the Nation's capital and is quintessentially "inside the Beltway" gossip and rumor. Drudge specifically targets readers in the District of Columbia by virtue of the subjects he covers and even solicits gossip from District residents and government officials who work here. Drudge Decl. I ¶¶ 27, 31; Hearing Tr. at 61-63.^[18] By targeting the Blumenthals who work in the White House and live in the District of Columbia, Drudge knew that "the primary and most devastating effects of the [statements he made] would be felt" in the District of Columbia. *Telco Communications v. An Apple A Day*, 977 F.Supp. at 407. He should have had no illusions that he was immune from suit here.

In addition, defendant Drudge also solicited contributions from District residents via the Drudge Report's homepage. While during the time period relevant to this case, defendant Drudge may have received only \$250 from fifteen District of Columbia residents from that advertised solicitation, the Drudge Report was always accessible in the District, via AOL and through Drudge's world wide web site, making the advertised solicitation was repeatedly available to District residents.

Defendant Drudge also has had a number of non-Internet related contacts with the District. He sat for an interview with C-SPAN in Washington, D.C. and visited the District of Columbia on at least one other occasion. He also contacts District of Columbia residents via telephone and the

U.S. mail in order to collect gossip for the Drudge Report. Drudge Decl. I ¶ 31; Hearing Tr. at 61. These non-Internet related contacts with the District of Columbia, coupled with the interactive nature of Drudge's web site, which particularly focuses on Washington gossip, are contacts that together are sufficient to establish that defendant Drudge engaged in a persistent course of conduct in the District of Columbia.

In sum, the Court concludes that the circumstances presented by this case warrant the exercise of personal jurisdiction under subsection (a)(4) of the District of Columbia long-arm statute because of: (1) the interactivity of the web site between the defendant Drudge and District residents; (2) the regular distribution of the Drudge Report via AOL, e-mail and the world wide web to District residents; (3) Drudge's solicitation and receipt of contributions from District residents; (4) the availability of the web site to District residents 24 hours a day; (5) defendant Drudge's interview with C-SPAN; and (6) defendant Drudge's contacts with District residents who provide gossip for the Drudge Report. The requirements of subsection (a)(4) of the District of Columbia long-arm statute have been satisfied.

B. Due Process

58 Traditionally, in order to exercise personal jurisdiction over an out-of-state defendant, a court must determine whether the defendant has sufficient minimum contacts with the jurisdiction in which the court sits such that maintenance of a suit does not offend "traditional notions of fair play and substantial justice." [International Shoe Co. v. Washington](#), 326 U.S. 310, 316, 66 S.Ct. 154, 90 L.Ed. 95 (1945). While in the Internet context there must be "something more" than an Internet advertisement alone "to indicate that the defendant purposefully (albeit electronically) directed his activity in a substantial way to the forum state," [Cybersell, Inc. v. Cybersell, Inc.](#), 130 F.3d at 414, such that he should "reasonably anticipate being haled into court" there, [Burger King Corp. v. Rudzewicz](#), 471 U.S. 462, 474-75, 105 S.Ct. 2174, 85 L.Ed.2d 528 (1985), that test is *58 easily met here. See, e.g., [Digital Equipment Corp. v. Altavista Technology, Inc.](#), 960 F.Supp. at 469-70. Because subsection (a)(4) of the long-arm statute does not reach the outer limits of due process, [Crane v. Carr](#), 814 F.2d at 762, and the Court has concluded that there are sufficient "plus factors" to meet the requisites of subsection (a)(4), it follows that there are also sufficient minimum contacts to satisfy due process. Drudge's motion to dismiss or transfer for want of personal jurisdiction therefore will be denied.

SO ORDERED.

[1] Takoma Park, Maryland is a suburb of the District of Columbia.

[2] Through a "hyperlink," a browser may connect to another web site by clicking on the specially highlighted text or images on the initial web site. After clicking on the highlighted text, the browser is then directly taken to that particular web site. Complaint ¶ 35.

[3] According to AOL, it operates "the world's largest interactive computer service. AOL's more than nine million subscribers use the AOL service as a conduit to receive and disseminate vast quantities of information by means of modern connections to AOL's computer network." Memorandum of Points and Authorities in Support of Defendant America Online, Inc.'s Motion for Summary Judgment ("AOL Mem.") at 3; see Declaration of Robert Jennings ("Jennings Decl.") ¶ 4, Exhibit 1 to AOL Mem.

[4] The headline read: "Charge: New White House Recruit Sidney Blumenthal Has Spousal Abuse Past." Complaint, Ex. 2.

[5] AOL later removed the August 10 edition of the Drudge Report from the electronic archive of previous editions of the Drudge Report available to AOL subscribers. AOL Mem. at 13.

[6] "The term 'Internet' means the international computer network of both Federal and non-Federal interoperable packet switched data networks." 47 U.S.C. § 230(e)(1). The Internet is "not a physical or tangible entity, but rather a giant network which interconnects innumerable smaller groups of linked computer networks." [ACLU v. Reno](#), 929 F.Supp. 824, 830 (E.D.Pa. 1996), *aff'd*, ___ U.S. ___, 117 S.Ct. 2329, 138 L.Ed.2d 874 (1997). The "web" is a "vast decentralized collection of documents containing text, visual images, and even audio clips.... The web is designed to be inherently accessible from every Internet site in the world." Stephen Wilske and Teresa Schiller, *International Jurisdiction In Cyberspace: Which States May Regulate The Internet?*, 50 FED. COM. L.J. 117, 140 (1997).

[7] It is probably safe to say that more ideas and information are shared on the Internet than in any other medium. But when we try to pin down the location of this exchange, we realize how slippery our notion of the Internet really is. Perhaps this is

because "cyberspace" is not a "space" at all. At least not in the way we understand space. It's not located anywhere; it has no boundaries; you can't "go" there. At the bottom, the Internet is really more idea than entity. It is an agreement we have made to hook our computers together and communicate by way of binary impulses and digitized signals sent over telephone wires.

Risking overstatement only slightly, the Internet represents a brave new world of free speech. The number of people regularly using the Internet is expected to grow to 100 million by the year 2000. Arguably, the Internet will become as prevalent in our daily lives as the printing press, telephone, radio, and television....

[T]he Internet is fundamentally different from traditional forms of mass communication in at least three important respects. First, the Internet is capable of maintaining an unlimited number of information sources, ... Second, the Internet has no "gatekeepers" — no publishers or editors controlling the distribution of information.... Finally, the users of Internet information are also its producers. But every person who taps into the Internet is his [or her] own journalist. In other words, the Internet has shifted the focus of mass communication to the individual ... Never before has it been so easy to circulate speech among so many people.

John Doe can now communicate with millions of people from the comfort, safety and privacy of his own home. His communication requires minimal investment and minimal time — once the word is written, it is disseminated to a mass audience literally with the touch of a button. Moreover, Internet speakers are not restricted by the ordinary trappings of polite conversation; they tend to speak more freely online.

Bruce W. Sanford and Michael J. Lorenger, *Teaching An Old Dog New Tricks: The First Amendment In An Online World*, 28 Conn. L.Rev. 1137, 1139-43 (1996).

[8] "Cyberspace" refers to the interaction of people and businesses over computer networks, electronic bulletin boards, and commercial online services. The largest and most visible manifestation of cyberspace is the Internet...." R. Timothy Muth, *Old Doctrines On A New Frontier: Defamation and Jurisdiction In Cyberspace*, Wis. LAW. 10, 11 (Sept.1995), available in Westlaw at 68-SEP WILAW 10; see also [ACLU v. Reno](#), 929 F.Supp. at 830-38.

[9] Plaintiffs' Statement of Genuine Issues of Material Facts does not identify any evidence to support their conclusory assertion that there are genuine issues of fact as to whether Drudge was an employee or agent of AOL. See Pls.' Stmt. ¶¶ 3-4, 12. When a party opposing a motion for summary judgment seeks to rebut facts set forth in the movant's Statement of Material Facts by merely citing to allegations in the complaint rather than citing to evidence in the record or providing evidentiary support through affidavits or other competent evidence, those facts may be deemed admitted. See [Celotex Corp. v. Catrett](#), 477 U.S. 317, 324, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986); [Twist. v. Meese](#), 854 F.2d 1421, 1424 (D.C.Cir.1988), cert. denied, 490 U.S. 1066, 109 S.Ct. 2066, 104 L.Ed.2d 631 (1989); [Glovinsky v. Cohen](#), 983 F.Supp. 1, 2-3 (D.D.C.1997); [United States v. BCCI Holdings \(Luxemborg\)](#), S.A., 977 F.Supp. 1, 6 (D.D.C.1997); see also Rule 56(e), Fed.R.Civ.P. and Local Rule 108(h).

[10] See *infra* n. 13.

[11] See David J. Goldstone, *A Funny Thing Happened On The Way To the Cyber Forum: Public vs. Private in Cyberspace Speech*, 69 U. COLO. L. REV. 1, 40-48 (1998).

[12] See Douglas B. Luffman, *Defamation Liability For On-Line Services: The Sky Is Not Falling*, 65 GEO. WASH. L. REV. 1071, 1083-85 (1997); David R. Sheridan, *Zeran v. AOL And The Effect Of Section 230 Of The Communications Decency Act Upon Liability for Defamation On The Internet*, 61 ALB. L. REV. 147, 167-77 (1997).

[13] While this provision of the statute primarily addresses obscenity and violent material, it also references material that is "otherwise objectionable," a broad enough category to cover defamatory statements as well. Indeed, the legislative history makes clear that one of the primary purposes of Section 230 was to overrule the *Stratton Oakmont* decision of a New York State court that was itself a defamation case in which Prodigy Services, an Internet computer service like AOL, was held liable as a publisher of defamatory material. See [Stratton Oakmont, Inc. v. Prodigy Services Co.](#), 1995 WL 323710 (N.Y.Sup.Ct. May 24, 1995). As the Conference Report stated:

One of the specific purposes of this section is to overrule [Stratton Oakmont v. Prodigy](#) and any other similar decisions which have treated such providers and users as publishers or speakers of content that is not their own because they have restricted access to objectionable material. The conferees believe that such decisions create serious obstacles to the important federal policy of empowering parents to determine the content of communications their children receive through interactive computer services.

H.R. CONF. REP. No. 104-458, at 194 (1996).

[14] 47 U.S.C. § 230(b)(4) provides:

It is the policy of the United States to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material.

[15] With respect to the portions of AOL's motion for summary judgment that do not depend on Section 230, plaintiffs have made no attempt to refute AOL's showing that it cannot be liable for Drudge's alleged oral statements to the press, which are the subject of Counts 9 through 20 of their complaint, because AOL had no role whatsoever in the formulation or dissemination of those statements and Drudge did not act on AOL's behalf in allegedly making them. See AOL Mem. at

41-42. Plaintiffs' only response to AOL on these points was a suggestion that they would like to take discovery. But plaintiffs have failed to make even the rudimentary showing required by Rule 56(f) of the Federal Rules of Civil Procedure that, without discovery, they are unable to "present by affidavit facts essential to justify [their] opposition [to summary judgment]." See Rule 56(f), Fed.R.Civ.P.; see also [First Chicago Int'l v. United Exchange Co., Ltd.](#), 836 F.2d 1375, 1380-81 (D.C.Cir.1988); [Novecon, Ltd. v. Bulgarian-American Enterprise Fund](#), 977 F.Supp. 52, 54 (D.D.C.1997).

Plaintiffs have also effectively conceded that AOL is entitled to summary judgment with respect to the first four counts of the complaint, which relate solely to an allegedly defamatory headline that appeared on Drudge's own web site but did not appear on the AOL service. See AOL Mem. at 17 n. 11; Statement of Material Facts As To Which Defendant America Online, Inc. Contends There Is No Genuine Issue ("AOL Facts") ¶ 72. See *supra* at ___ and n. 4.

[16] The provisions of the long-arm statutes involved in *Telco* and *Digital Equipment* (Massachusetts long-arm statute, M.G.L. ch. 223A § 3(d); Virginia long-arm statute, Section 8.01-328.1(a)(4)) are quite similar to if not exactly the same as subsection (a)(4) of the District of Columbia long-arm statute.

[17] Defendant Drudge's reliance on this Court's decision in [Mallinckrodt v. Sonus Pharmaceuticals, Inc.](#) is misplaced. In *Mallinckrodt*, this Court held that an "AOL transmission from Seattle to Virginia, which was subsequently posted on an AOL electronic bulletin board and may have been accessed by AOL subscribers in the District of Columbia, cannot be construed as 'transacting business' in the District of Columbia" under subsection (a)(1) of the long-arm statute, D.C.Code § 13-423(a)(1). [Mallinckrodt v. Sonus Pharmaceuticals, Inc.](#), 989 F.Supp. 265, 271 (D.D.C.1998). The defendant posted a message that was not sent to or from the District, the content of the message did not concern persons residing in the District or incorporated in the District, neither plaintiffs nor defendants worked or lived in the District, and the defendant's electronic bulletin board was in no way interactive, as is the case with the Drudge Report. This Court, therefore found that the defendant had no reasonable connection to the District, even though a person from the District may have read the message, because it had not engaged in "an act purposefully or foreseeably aimed at the District of Columbia." *Id.* The defendant's electronic bulletin board message therefore did not "constitute transacting business within the District of Columbia for purposes of [subsection (a)(1)] of the long-arm statute." *Id.* (internal quotations omitted).

With respect to subsection (a)(4) of the long-arm statute, the Court in *Mallinckrodt* concluded that plaintiffs fared no better, primarily because plaintiffs did not live or work in the District of Columbia and therefore did not "suffer[] any injury in the District of Columbia that they could not have suffered or did not suffer in any state in the nation where someone may have read the [AOL] message and reacted negatively toward plaintiffs." [Mallinckrodt v. Sonus Pharmaceuticals, Inc.](#), 989 F.Supp. 265, 1998 WL 6546 at *8. The Blumenthals, by contrast, do live and work in the District of Columbia and suffered injury in the District. Furthermore, in contrast to the facts in *Mallinckrodt*, the Court finds that in this case defendant has engaged in a persistent course of conduct in the District of Columbia.

[18] Drudge is not a reporter, a journalist or a newsgatherer. He is, as he himself admits, simply a purveyor of gossip. See Complaint, Exs. 6, 8. His argument that he should benefit from the "news gathering exception" to subsection (a)(4) of the long-arm statute merits no serious consideration. Cf. [Moncrief v. Lexington Herald-Leader Co.](#), 807 F.2d 217, 221-22 (D.C.Cir.1986).

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FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FAIR HOUSING COUNCIL OF SAN
 FERNANDO VALLEY; THE FAIR
 HOUSING COUNCIL OF SAN DIEGO,
 individually and on behalf of the
 GENERAL PUBLIC,
Plaintiffs-Appellants,
 v.
 ROOMMATES.COM, LLC,
Defendant-Appellee.

No. 04-56916
 D.C. No.
 CV-03-09386-PA

FAIR HOUSING COUNCIL OF SAN
 FERNANDO VALLEY; THE FAIR
 HOUSING COUNCIL OF SAN DIEGO,
 individually and on behalf of the
 GENERAL PUBLIC,
Plaintiffs-Appellees,
 v.
 ROOMMATE.COM, LLC,
Defendant-Appellant.

No. 04-57173
 D.C. No.
 CV-03-09386-PA
 OPINION

Appeal from the United States District Court
 for the Central District of California
 Percy Anderson, District Judge, Presiding

Argued and Submitted
 December 12, 2007—Pasadena, California

Filed April 3, 2008

3446 FAIR HOUSING COUNCIL V. ROOMMATES.COM

Before: Alex Kozinski, Chief Judge, Stephen Reinhardt,
Pamela Ann Rymer, Barry G. Silverman,
M. Margaret McKeown, William A. Fletcher,
Raymond C. Fisher, Richard A. Paez, Carlos T. Bea,
Milan D. Smith, Jr. and N. Randy Smith, Circuit Judges.

Opinion by Chief Judge Kozinski;
Partial Concurrence and Partial Dissent by Judge McKeown

COUNSEL

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3450 FAIR HOUSING COUNCIL v. ROOMMATES.COM

for News Organizations as amici curiae in support of the defendant-appellee.

Ann Brick, Margaret C. Crosby and Nicole A. Ozer, American Civil Liberties Union Foundation of Northern California, San Francisco, California, for American Civil Liberties Union of Northern California as amicus curiae in support of neither party.

John P. Relman, Stephen M. Dane and D. Scott Chang, Relman & Dane PLLC, Washington, DC; Joseph D. Rich and Nicole Birch, Lawyers' Committee for Civil Rights Under Law, Washington, DC, for National Fair Housing Alliance and Lawyers' Committee for Civil Rights Under Law as amici curiae in support of the plaintiffs-appellants.

OPINION

KOZINSKI, Chief Judge:

We plumb the depths of the immunity provided by section 230 of the Communications Decency Act of 1996 ("CDA").

Facts¹

Defendant Roommate.com, LLC ("Roommate") operates a website designed to match people renting out spare rooms with people looking for a place to live.² At the time of the district court's disposition, Roommate's website featured approximately 150,000 active listings and received around a

¹This appeal is taken from the district court's order granting defendant's motion for summary judgment, so we view contested facts in the light most favorable to plaintiffs. See *Winterrowd v. Nelson*, 480 F.3d 1181, 1183 n.3 (9th Cir. 2007).

²For unknown reasons, the company goes by the singular name "Roommate.com, LLC" but pluralizes its website's URL, www.roommates.com.

million page views a day. Roommate seeks to profit by collecting revenue from advertisers and subscribers.

Before subscribers can search listings or post³ housing opportunities on Roommate’s website, they must create profiles, a process that requires them to answer a series of questions. In addition to requesting basic information—such as name, location and email address—Roommate requires each subscriber to disclose his sex, sexual orientation and whether he would bring children to a household. Each subscriber must also describe his preferences in roommates with respect to the same three criteria: sex, sexual orientation and whether they will bring children to the household. The site also encourages subscribers to provide “Additional Comments” describing themselves and their desired roommate in an open-ended essay. After a new subscriber completes the application, Roommate assembles his answers into a “profile page.” The profile page displays the subscriber’s pseudonym, his description and his preferences, as divulged through answers to Roommate’s questions.

Subscribers can choose between two levels of service: Those using the site’s free service level can create their own personal profile page, search the profiles of others and send personal email messages. They can also receive periodic emails from Roommate, informing them of available housing opportunities matching their preferences. Subscribers who pay a monthly fee also gain the ability to read emails from other users, and to view other subscribers’ “Additional Comments.”

The Fair Housing Councils of the San Fernando Valley and San Diego (“Councils”) sued Roommate in federal court, alleging that Roommate’s business violates the federal Fair

³In the online context, “posting” refers to providing material that can be viewed by other users, much as one “posts” notices on a physical bulletin board.

Housing Act (“FHA”), 42 U.S.C. § 3601 *et seq.*, and California housing discrimination laws.⁴ Councils claim that Roommate is effectively a housing broker doing online what it may not lawfully do off-line. The district court held that Roommate is immune under section 230 of the CDA, 47 U.S.C. § 230(c), and dismissed the federal claims without considering whether Roommate’s actions violated the FHA. The court then declined to exercise supplemental jurisdiction over the state law claims. Councils appeal the dismissal of the FHA claim and Roommate cross-appeals the denial of attorneys’ fees.

Analysis

[1] Section 230 of the CDA⁵ immunizes providers of interactive computer services⁶ against liability arising from content created by third parties: “No provider . . . of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.” 47 U.S.C. § 230(c).⁷ This grant of immunity

⁴The Fair Housing Act prohibits certain forms of discrimination on the basis of “race, color, religion, sex, familial status, or national origin.” 42 U.S.C. § 3604(c). The California fair housing law prohibits discrimination on the basis of “sexual orientation, marital status, . . . ancestry, . . . source of income, or disability,” in addition to reiterating the federally protected classifications. Cal. Gov. Code § 12955.

⁵The Supreme Court held some portions of the CDA to be unconstitutional. *See Reno v. ACLU*, 521 U.S. 844 (1997). The portions relevant to this case are still in force.

⁶Section 230 defines an “interactive computer service” as “any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server.” 47 U.S.C. § 230(f)(2); *see Carafano v. Metrosplash.com, Inc.*, 207 F. Supp. 2d 1055, 1065-66 (C.D. Cal. 2002) (an online dating website is an “interactive computer service” under the CDA), *aff’d*, 339 F.3d 1119 (9th Cir. 2003). Today, the most common interactive computer services are websites. Councils do not dispute that Roommate’s website is an interactive computer service.

⁷The Act also gives immunity to users of third-party content. This case does not involve any claims against users so we omit all references to user immunity when quoting and analyzing the statutory text.

applies only if the interactive computer service provider is not also an “information content provider,” which is defined as someone who is “responsible, in whole or in part, for the creation or development of” the offending content. *Id.* § 230(f)(3).

[2] A website operator can be both a service provider and a content provider: If it passively displays content that is created entirely by third parties, then it is only a service provider with respect to that content. But as to content that it creates itself, or is “responsible, in whole or in part” for creating or developing, the website is also a content provider. Thus, a website may be immune from liability for some of the content it displays to the public but be subject to liability for other content.⁸

Section 230 was prompted by a state court case holding Prodigy⁹ responsible for a libelous message posted on one of its financial message boards.¹⁰ See *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*, 1995 WL 323710 (N.Y. Sup. Ct. May 24, 1995) (unpublished). The court there found that Prodigy had become a “publisher” under state law because it voluntarily deleted some messages from its message boards “on the basis of offensiveness and ‘bad taste,’ ” and was therefore legally responsible for the content of defamatory messages that it failed to delete. *Id.* at *4. The *Stratton Oakmont* court reasoned that Prodigy’s decision to perform some voluntary self-policing made it akin to a newspaper publisher, and thus

⁸See, e.g., *Anthony v. Yahoo! Inc.*, 421 F. Supp. 2d 1257, 1262-63 (N.D. Cal. 2006) (Yahoo! is not immune under the CDA for allegedly creating fake profiles on its own dating website).

⁹Prodigy was an online service provider with 2 million users, which seemed like a lot at the time.

¹⁰A “message board” is a system of online discussion allowing users to “post” messages. Messages are organized by topic—such as the “finance” message board at issue in *Stratton Oakmont*—and the system generally allows users to read and reply to messages posted by others.

responsible for messages on its bulletin board that defamed third parties. The court distinguished Prodigy from CompuServe,¹¹ which had been released from liability in a similar defamation case because CompuServe “had no opportunity to review the contents of the publication at issue before it was uploaded into CompuServe’s computer banks.” *Id.*; see *Cubby, Inc. v. CompuServe, Inc.*, 776 F. Supp. 135, 140 (S.D.N.Y. 1991). Under the reasoning of *Stratton Oakmont*, online service providers that voluntarily filter some messages become liable for all messages transmitted, whereas providers that bury their heads in the sand and ignore problematic posts altogether escape liability. Prodigy claimed that the “sheer volume” of message board postings it received—at the time, over 60,000 a day—made manual review of every message impossible; thus, if it were forced to choose between taking responsibility for all messages and deleting no messages at all, it would have to choose the latter course. *Stratton Oakmont*, 1995 WL 323710 at *3.

[3] In passing section 230, Congress sought to spare interactive computer services this grim choice by allowing them to perform some editing on user-generated content without thereby becoming liable for all defamatory or otherwise unlawful messages that they didn’t edit or delete. In other words, Congress sought to immunize the *removal* of user-generated content, not the *creation* of content: “[S]ection [230] provides ‘Good Samaritan’ protections from civil liability for providers . . . of an interactive computer service for actions to *restrict* . . . access to objectionable online material. One of the specific purposes of this section is to overrule *Stratton-Oakmont* [sic] v. *Prodigy* and any other similar decisions which have treated such providers . . . as publishers or speakers of content that is not their own *because they have restricted access* to objectionable material.” H.R. Rep. No. 104-458 (1996) (Conf. Rep.), *as reprinted in* 1996

¹¹CompuServe was a competing online service provider of the day.

U.S.C.C.A.N. 10 (emphasis added).¹² Indeed, the section is titled “Protection for ‘good samaritan’ blocking and screening of offensive material” and, as the Seventh Circuit recently held, the substance of section 230(c) can and should be interpreted consistent with its caption. *Chicago Lawyers’ Committee for Civil Rights Under Law, Inc. v. craigslist, Inc.*, No. 07-1101, slip op. at 6 (7th Cir. Mar. 14, 2008) (quoting *Doe v. GTE Corp.*, 347 F.3d 655, 659-60 (7th Cir. 2003)).

With this backdrop in mind, we examine three specific functions performed by Roommate that are alleged to violate the Fair Housing Act and California law.

1. Councils first argue that the questions Roommate poses to prospective subscribers during the registration process violate the Fair Housing Act and the analogous California law. Councils allege that requiring subscribers to disclose their sex, family status and sexual orientation “indicates” an intent to discriminate against them, and thus runs afoul of both the FHA and state law.¹³

[4] Roommate created the questions and choice of answers, and designed its website registration process around them. Therefore, Roommate is undoubtedly the “information content provider” as to the questions and can claim no immunity

¹²While the Conference Report refers to this as “[o]ne of the specific purposes” of section 230, it seems to be the principal or perhaps the only purpose. The report doesn’t describe any other purposes, beyond supporting “the important federal policy of empowering parents to determine the content of communications their children receive through interactive computer services.” H.R. Rep. No. 104-458, at 194 (1996) (Conf. Rep.), as reprinted in 1996 U.S.C.C.A.N. 10, 207-08.

¹³The Fair Housing Act prohibits any “statement . . . with respect to the sale or rental of a dwelling that *indicates* . . . an intention to make [a] preference, limitation, or discrimination” on the basis of a protected category. 42 U.S.C. § 3604(c) (emphasis added). California law prohibits “any written or oral inquiry concerning the” protected status of a housing seeker. Cal. Gov. Code § 12955(b).

for posting them on its website, or for forcing subscribers to answer them as a condition of using its services.

Here, we must determine whether Roommate has immunity under the CDA because Councils have at least a plausible claim that Roommate violated state and federal law by merely posing the questions. We need not decide whether any of Roommate's questions actually violate the Fair Housing Act or California law, or whether they are protected by the First Amendment or other constitutional guarantees, *see craigslist*, slip op. at 2; we leave those issues for the district court on remand. Rather, we examine the scope of plaintiffs' substantive claims only insofar as necessary to determine whether section 230 immunity applies. However, we note that asking questions certainly *can* violate the Fair Housing Act and analogous laws in the physical world.¹⁴ For example, a real estate broker may not inquire as to the race of a prospective buyer, and an employer may not inquire as to the religion of a prospective employee. If such questions are unlawful when posed face-to-face or by telephone, they don't magically become lawful when asked electronically online. The Communications Decency Act was not meant to create a lawless no-man's-land on the Internet.¹⁵

[5] Councils also claim that requiring subscribers to answer

¹⁴The Seventh Circuit has expressly held that inquiring into the race and family status of housing applicants is unlawful. *See, e.g., Jancik v. HUD*, 44 F.3d 553, 557 (7th Cir. 1995).

¹⁵The dissent stresses the importance of the Internet to modern life and commerce, Dissent at 3476, and we, of course, agree: The Internet is no longer a fragile new means of communication that could easily be smothered in the cradle by overzealous enforcement of laws and regulations applicable to brick-and-mortar businesses. Rather, it has become a dominant—perhaps the preeminent—means through which commerce is conducted. And its vast reach into the lives of millions is exactly why we must be careful not to exceed the scope of the immunity provided by Congress and thus give online businesses an unfair advantage over their real-world counterparts, which must comply with laws of general applicability.

the questions as a condition of using Roommate's services unlawfully "cause[s]" subscribers to make a "statement . . . with respect to the sale or rental of a dwelling that indicates [a] preference, limitation, or discrimination," in violation of 42 U.S.C. § 3604(c). The CDA does not grant immunity for inducing third parties to express illegal preferences. Roommate's own acts—posting the questionnaire and requiring answers to it—are entirely its doing and thus section 230 of the CDA does not apply to them. Roommate is entitled to no immunity.¹⁶

[6] 2. Councils also charge that Roommate's development and display of subscribers' discriminatory preferences is unlawful. Roommate publishes a "profile page" for each subscriber on its website. The page describes the client's personal information—such as his sex, sexual orientation and whether he has children—as well as the attributes of the housing situation he seeks. The content of these pages is drawn directly from the registration process: For example, Roommate requires subscribers to specify, using a drop-down menu¹⁷ provided by Roommate, whether they are "Male" or "Female" and then displays that information on the profile page. Roommate also requires subscribers who are listing available housing to disclose whether there are currently "Straight male(s)," "Gay male(s)," "Straight female(s)" or "Lesbian(s)" living in the dwelling. Subscribers who are seeking housing must make a selection from a drop-down menu, again provided by Roommate, to indicate whether they are willing to live with "Straight or gay" males, only with "Straight" males, only with "Gay" males or with "No males." Similarly, Roommate

¹⁶Roommate argues that Councils waived the argument that the questionnaire violated the FHA by failing to properly raise it in the district court. But, under our liberal pleading standard, it was sufficient for Councils in their First Amended Complaint to allege that Roommate "encourages" subscribers to state discriminatory preferences. *See Johnson v. Barker*, 799 F.2d 1396, 1401 (9th Cir. 1986).

¹⁷A drop-down menu allows a subscriber to select answers only from among options provided by the website.

requires subscribers listing housing to disclose whether there are “Children present” or “Children not present” and requires housing seekers to say “I will live with children” or “I will not live with children.” Roommate then displays these answers, along with other information, on the subscriber’s profile page. This information is obviously included to help subscribers decide which housing opportunities to pursue and which to bypass. In addition, Roommate itself uses this information to channel subscribers away from listings where the individual offering housing has expressed preferences that aren’t compatible with the subscriber’s answers.

[7] The dissent tilts at windmills when it shows, quite convincingly, that Roommate’s *subscribers* are information content providers who create the profiles by picking among options and providing their own answers. Dissent at 3485-88. There is no disagreement on this point. But, the fact that users are information content providers does not preclude Roommate from *also* being an information content provider by helping “develop” at least “in part” the information in the profiles. As we explained in *Batzel*, the party responsible for putting information online may be subject to liability, even if the information originated with a user. *See Batzel v. Smith*, 333 F.3d 1018, 1033 (9th Cir. 2003).¹⁸

[8] Here, the part of the profile that is alleged to offend the Fair Housing Act and state housing discrimination laws—the information about sex, family status and sexual orientation—is provided by subscribers in response to Roommate’s questions, which they cannot refuse to answer if they want to use defendant’s services. By requiring subscribers to provide the information as a condition of accessing its service, and by providing a limited set of pre-populated answers, Roommate becomes much more than a passive transmitter of information provided by others; it becomes the developer, at least in part, of that information. And section 230 provides immunity only

¹⁸*See also* discussion of *Batzel* pp. 3466-67 *infra*.

if the interactive computer service does not “creat[e] or develop[]” the information “in whole or in part.” *See* 47 U.S.C. § 230(f)(3).

Our dissenting colleague takes a much narrower view of what it means to “develop” information online, and concludes that Roommate does not develop the information because “[a]ll Roommate does is to provide a form with options for standardized answers.” Dissent at 3487. But Roommate does much more than provide options. To begin with, it asks discriminatory questions that even the dissent grudgingly admits are not entitled to CDA immunity. Dissent at 3480 n.5. The FHA makes it unlawful to ask certain discriminatory questions for a very good reason: Unlawful questions solicit (a.k.a. “develop”) unlawful answers. Not only does Roommate ask these questions, Roommate makes answering the discriminatory questions a condition of doing business. This is no different from a real estate broker in real life saying, “Tell me whether you’re Jewish or you can find yourself another broker.” When a business enterprise extracts such information from potential customers as a condition of accepting them as clients, it is no stretch to say that the enterprise is responsible, at least in part, for developing that information. For the dissent to claim that the information in such circumstances is “created solely by” the customer, and that the business has not helped in the least to develop it, Dissent at 3487-88, strains both credulity and English.¹⁹

¹⁹The dissent may be laboring under a misapprehension as to how the Roommate website is alleged to operate. For example, the dissent spends some time explaining that certain portions of the user profile application are voluntary. Dissent at 3485-87. We do not discuss these because plaintiffs do not base their claims on the voluntary portions of the application, except the “Additional Comments” portion, discussed below, *see* pp. 3471-75 *infra*. The dissent also soft-pedals Roommate’s influence on the mandatory portions of the applications by referring to it with such words as “encourage” or “encouragement” or “solicitation.” Dissent at 3493; *see id.* at 3499. Roommate, of course, does much more than encourage or solicit; it forces users to answer certain questions and thereby provide information that other clients can use to discriminate unlawfully.

Roommate also argues that it is not responsible for the information on the profile page because it is each subscriber's action that leads to publication of his particular profile—in other words, the user pushes the last button or takes the last act before publication. We are not convinced that this is even true,²⁰ but don't see why it matters anyway. The projectionist in the theater may push the last button before a film is displayed on the screen, but surely this doesn't make him the sole producer of the movie. By any reasonable use of the English language, Roommate is "responsible" at least "in part" for each subscriber's profile page, because every such page is a collaborative effort between Roommate and the subscriber.

[9] Similarly, Roommate is not entitled to CDA immunity for the operation of its search system, which filters listings, or of its email notification system, which directs emails to subscribers according to discriminatory criteria.²¹ Roommate designed its search system so it would steer users based on the preferences and personal characteristics that Roommate itself forces subscribers to disclose. If Roommate has no immunity for asking the discriminatory questions, as we concluded above, *see pp. 3455-57 supra*, it can certainly have no immunity for using the answers to the unlawful questions to limit who has access to housing.

For example, a subscriber who self-identifies as a "Gay male" will not receive email notifications of new housing

²⁰When a prospective subscriber submits his application, Roommate's server presumably checks it to ensure that all required fields are complete, and that any credit card information is not fraudulent or erroneous. Moreover, some algorithm developed by Roommate then decodes the input, transforms it into a profile page and notifies other subscribers of a new applicant or individual offering housing matching their preferences.

²¹Other circuits have held that it is unlawful for housing intermediaries to "screen" prospective housing applicants on the basis of race, even if the preferences arise with landlords. *See Jeanty v. McKey & Poague, Inc.*, 496 F.2d 1119, 1120-21 (7th Cir. 1974).

opportunities supplied by owners who limit the universe of acceptable tenants to “Straight male(s),” “Straight female(s)” and “Lesbian(s).” Similarly, subscribers with children will not be notified of new listings where the owner specifies “no children.” Councils charge that limiting the information a subscriber can access based on that subscriber’s protected status violates the Fair Housing Act and state housing discrimination laws. It is, Councils allege, no different from a real estate broker saying to a client: “Sorry, sir, but I can’t show you any listings on this block because you are [gay/female/black/a parent].” If such screening is prohibited when practiced in person or by telephone, we see no reason why Congress would have wanted to make it lawful to profit from it online.

Roommate’s search function is similarly designed to steer users based on discriminatory criteria. Roommate’s search engine thus differs materially from generic search engines such as Google, Yahoo! and MSN Live Search, in that Roommate designed its system to use allegedly unlawful criteria so as to limit the results of each search, and to force users to participate in its discriminatory process. In other words, Councils allege that Roommate’s search is designed to make it more difficult or impossible for individuals with certain protected characteristics to find housing—something the law prohibits. By contrast, ordinary search engines do not use unlawful criteria to limit the scope of searches conducted on them, nor are they designed to achieve illegal ends—as Roommate’s search function is alleged to do here. Therefore, such search engines play no part in the “development” of any unlawful searches. *See* 47 U.S.C. § 230(f)(3).

[10] It’s true that the broadest sense of the term “develop” could include the functions of an ordinary search engine—indeed, just about any function performed by a website. But to read the term so broadly would defeat the purposes of section 230 by swallowing up every bit of the immunity that the section otherwise provides. At the same time, reading the exception for co-developers as applying only to content that

originates entirely with the website—as the dissent would seem to suggest—ignores the words “development . . . in part” in the statutory passage “creation *or development* in whole *or in part*.” 47 U.S.C. § 230(f)(3) (emphasis added). We believe that both the immunity for passive conduits and the exception for co-developers must be given their proper scope and, to that end, we interpret the term “development” as referring not merely to augmenting the content generally, but to materially contributing to its alleged unlawfulness. In other words, a website helps to develop unlawful content, and thus falls within the exception to section 230, if it contributes materially to the alleged illegality of the conduct.

The dissent accuses us of “rac[ing] past the plain language of the statute,” dissent at 3493, but we clearly do pay close attention to the statutory language, particularly the word “develop,” which we spend many pages exploring. The dissent may disagree with our definition of the term, which is entirely fair, but surely our dissenting colleague is mistaken in suggesting we ignore the term. Nor is the statutory language quite as plain as the dissent would have it. Dissent at 3491-93. Quoting selectively from the dictionary, the dissent comes up with an exceedingly narrow definition of this rather complex and multi faceted term.²² Dissent at 3491 (defining development as “gradual advance or growth through progressive changes”) (quoting *Webster’s Third New International Dictionary* 618 (2002)). The dissent does not pause to consider how such a definition could apply to website content at all, as it excludes the kinds of swift and disorderly changes that are the hallmark of growth on the Internet. Had our dissenting colleague looked just a few lines lower on the same page of the

²²Development, it will be recalled, has many meanings, which differ materially depending on context. Thus, “development” when used as part of the phrase “research and development” means something quite different than when referring to “mental development,” and something else again when referring to “real estate development,” “musical development” or “economic development.”

same edition of the same dictionary, she would have found another definition of “development” that is far more suitable to the context in which we operate: “making usable or available.” *Id.* The dissent does not explain why the definition it has chosen reflects the statute’s “plain meaning,” while the ones it bypasses do not.

More fundamentally, the dissent does nothing at all to grapple with the difficult statutory problem posed by the fact that section 230(c) uses both “create” and “develop” as separate bases for loss of immunity. Everything that the dissent includes within its cramped definition of “development” fits just as easily within the definition of “creation”—which renders the term “development” superfluous. The dissent makes no attempt to explain or offer examples as to how its interpretation of the statute leaves room for “development” as a separate basis for a website to lose its immunity, yet we are advised by the Supreme Court that we must give meaning to all statutory terms, avoiding redundancy or duplication wherever possible. *See Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 197 (1985).

While content to pluck the “plain meaning” of the statute from a dictionary definition that predates the Internet by decades, *compare Webster’s Third New International Dictionary* 618 (1963) *with Webster’s Third New International Dictionary* 618 (2002) (both containing “gradual advance or growth through progressive changes”), the dissent overlooks the far more relevant definition of “[web] content development” in Wikipedia: “the process of researching, writing, gathering, organizing and editing information for publication on web sites.” Wikipedia, Content Development (Web), http://en.wikipedia.org/w/index.php?title=Content_development_%28web%29&oldid=188219503 (last visited Mar. 19, 2008). Our interpretation of “development” is entirely in line with the context-appropriate meaning of the term, and easily fits the activities Roommate engages in.

In an abundance of caution, and to avoid the kind of misunderstanding the dissent seems to encourage, we offer a few examples to elucidate what does and does not amount to “development” under section 230 of the Communications Decency Act: If an individual uses an ordinary search engine to query for a “white roommate,” the search engine has not contributed to any alleged unlawfulness in the individual’s conduct; providing *neutral* tools to carry out what may be unlawful or illicit searches does not amount to “development” for purposes of the immunity exception. A dating website that requires users to enter their sex, race, religion and marital status through drop-down menus, and that provides means for users to search along the same lines, retains its CDA immunity insofar as it does not contribute to any alleged illegality;²³ this immunity is retained even if the website is sued for libel based on these characteristics because the website would not have contributed materially to any alleged defamation. Similarly, a housing website that allows users to specify whether they will or will not receive emails by means of *user-defined* criteria might help some users exclude email from other users of a particular race or sex. However, that website would be immune, so long as it does not require the use of discriminatory criteria. A website operator who edits user-created content—such as by correcting spelling, removing obscenity or trimming for length—retains his immunity for any illegality in the user-created content, provided that the edits are unrelated to the illegality. However, a website operator who edits in a manner that contributes to the alleged illegality—such as by removing the word “not” from a user’s message reading “[Name] did *not* steal the artwork” in order to transform an innocent message into a libelous one—is directly involved in the alleged illegality and thus not immune.²⁴

²³It is perfectly legal to discriminate along those lines in dating, and thus there can be no claim based solely on the content of these questions.

²⁴Requiring website owners to refrain from taking affirmative acts that are unlawful does not strike us as an undue burden. These are, after all, businesses that are being held responsible only for their own conduct;

[11] Here, Roommate’s connection to the discriminatory filtering process is direct and palpable: Roommate designed its search and email systems to limit the listings available to subscribers based on sex, sexual orientation and presence of children.²⁵ Roommate selected the criteria used to hide listings, and Councils allege that the act of hiding certain listings is itself unlawful under the Fair Housing Act, which prohibits brokers from steering clients in accordance with discriminatory preferences.²⁶ We need not decide the merits of Councils’ claim to hold that Roommate is sufficiently involved with the design and operation of the search and email systems—which are engineered to limit access to housing on the basis of the protected characteristics elicited by the registration process—so as to forfeit any immunity to which it was otherwise entitled under section 230.

there is no vicarious liability for the misconduct of their customers. Compliance with laws of general applicability seems like an entirely justified burden for all businesses, whether they operate online or through quaint brick-and-mortar facilities. Insofar, however, as a plaintiff would bring a claim under state or federal law based on a website operator’s passive acquiescence in the misconduct of its users, the website operator would likely be entitled to CDA immunity. This is true even if the users committed their misconduct using electronic tools of general applicability provided by the website operator.

²⁵Of course, the logic of Roommate’s argument is not limited to discrimination based on these particular criteria. If Roommate were free to discriminate in providing housing services based on sex, there is no reason another website could not discriminate based on race, religion or national origin. Nor is its logic limited to housing; it would apply equally to websites providing employment or educational opportunities—or anything else, for that matter.

²⁶The dissent argues that Roommate is not liable because the decision to discriminate on these grounds does not originate with Roommate; instead, “users have chosen to select characteristics that they find desirable.” Dissent at 3493. But, it is Roommate that *forces* users to express a preference and Roommate that forces users to disclose the information that can form the basis of discrimination by others. Thus, Roommate makes discrimination both possible and respectable.

Roommate's situation stands in stark contrast to *Stratton Oakmont*, the case Congress sought to reverse through passage of section 230. There, defendant Prodigy was held liable for a user's unsolicited message because it attempted to *remove* some problematic content from its website, but didn't remove enough. Here, Roommate is not being sued for removing some harmful messages while failing to remove others; instead, it is being sued for the predictable consequences of creating a website designed to solicit and enforce housing preferences that are alleged to be illegal.

We take this opportunity to clarify two of our previous rulings regarding the scope of section 230 immunity. Today's holding sheds additional light on *Batzel v. Smith*, 333 F.3d 1018 (9th Cir. 2003). There, the editor of an email newsletter received a tip about some artwork, which the tipster falsely alleged to be stolen. The newsletter editor incorporated the tipster's email into the next issue of his newsletter and added a short headnote, which he then emailed to his subscribers.²⁷ The art owner sued for libel and a split panel held the newsletter editor to be immune under section 230 of the CDA.²⁸

Our opinion is entirely consistent with that part of *Batzel* which holds that an editor's minor changes to the spelling, grammar and length of third-party content do not strip him of section 230 immunity. None of those changes contributed to the libelousness of the message, so they do not add up to "development" as we interpret the term. *See* pp. 3461-64 *supra*. *Batzel* went on to hold that the editor *could* be liable for

²⁷Apparently, it was common practice for this editor to receive and forward tips from his subscribers. In effect, the newsletter served as a heavily moderated discussion list.

²⁸As an initial matter, the *Batzel* panel held that the defendant newsletter editor was a "user" of an interactive computer service within the definition provided by section 230. While we have our doubts, we express no view on this issue because it is not presented to us. *See* p. 3452 n.7 *supra*. Thus, we assume that the editor fell within the scope of section 230's coverage without endorsing *Batzel's* analysis on this point.

selecting the tipster's email for inclusion in the newsletter, depending on whether or not the tipster had tendered the piece to the editor for posting online, and remanded for a determination of that issue. *Batzel*, 333 F.3d at 1035.

[12] The distinction drawn by *Batzel* anticipated the approach we take today. As *Batzel* explained, if the tipster tendered the material for posting online, then the editor's job was, essentially, to determine whether or not to prevent its posting—precisely the kind of activity for which section 230 was meant to provide immunity.²⁹ And any activity that can be boiled down to deciding whether to exclude material that third parties seek to post online is perforce immune under section 230. See p. 3468-69 & n.32 *infra*. But if the editor publishes material that he does not believe was tendered to him for posting online, then he is the one making the affirmative decision to publish, and so he contributes materially to its allegedly unlawful dissemination. He is thus properly deemed a developer and not entitled to CDA immunity. See *Batzel*, 333 F.3d at 1033.³⁰

²⁹As *Batzel* pointed out, there can be no meaningful difference between an editor starting with a default rule of publishing all submissions and then manually selecting material to be removed from publication, and a default rule of publishing no submissions and manually selecting material to be published—they are flip sides of precisely the same coin. *Batzel*, 333 F.3d at 1032 (“The scope of [section 230] immunity cannot turn on whether the publisher approaches the selection process as one of inclusion or removal, as the difference is one of method or degree, not substance.”).

³⁰The dissent scores a debater's point by noting that the same activity might amount to “development” or not, depending on whether it contributes materially to the illegality of the content. Dissent at 3489. But we are not defining “development” for all purposes; we are defining the term only for purposes of determining whether the defendant is entitled to immunity for a particular act. This definition does not depend on finding substantive liability, but merely requires analyzing the context in which a claim is brought. A finding that a defendant is not immune is quite distinct from finding liability: On remand, Roommate may still assert other defenses to liability under the Fair Housing Act, or argue that its actions do not violate the Fair Housing Act at all. Our holding is limited to a determination that the CDA provides no immunity to Roommate's actions in soliciting and developing the content of its website; whether that content is in fact illegal is a question we leave to the district court.

We must also clarify the reasoning undergirding our holding in *Carafano v. Metrosplash.com, Inc.*, 339 F.3d 1119 (9th Cir. 2003), as we used language there that was unduly broad. In *Carafano*, an unknown prankster impersonating actress Christianne Carafano created a profile for her on an online dating site. The profile included Carafano’s home address and suggested that she was looking for an unconventional liaison. When Carafano received threatening phone calls, she sued the dating site for publishing the unauthorized profile. The site asserted immunity under section 230. We correctly held that the website was immune, but incorrectly suggested that it could never be liable because “no [dating] profile has any content until a user actively creates it.” *Id.* at 1124. As we explain above, *see pp.* 3458-64 *supra*, even if the data are supplied by third parties, a website operator may still contribute to the content’s illegality and thus be liable as a developer.³¹ Providing immunity every time a website uses data initially obtained from third parties would eviscerate the exception to section 230 for “develop[ing]” unlawful content “in whole or in part.” 47 U.S.C. § 230(f)(3).

We believe a more plausible rationale for the unquestionably correct result in *Carafano* is this: The allegedly libelous content there—the false implication that Carafano was unchaste—was created and developed entirely by the malevolent user, without prompting or help from the website operator. To be sure, the website provided neutral tools, which the anonymous dastard used to publish the libel, but the website did absolutely nothing to encourage the posting of defamatory content—indeed, the defamatory posting was contrary to the website’s express policies. The claim against the website was, in effect, that it failed to review each user-created profile to ensure that it wasn’t defamatory. That is precisely the kind of activity for which Congress intended to grant absolution with

³¹We disavow any suggestion that *Carafano* holds an information content provider *automatically* immune so long as the content originated with another information content provider. 339 F.3d at 1125.

the passage of section 230. With respect to the defamatory content, the website operator was merely a passive conduit and thus could not be held liable for failing to detect and remove it.³²

By contrast, Roommate both elicits the allegedly illegal content and makes aggressive use of it in conducting its business. Roommate does not merely provide a framework that could be utilized for proper or improper purposes; rather, Roommate's work in developing the discriminatory questions, discriminatory answers and discriminatory search mechanism is directly related to the alleged illegality of the site. Unlike *Carafano*, where the website operator had nothing to do with the user's decision to enter a celebrity's name and personal information in an otherwise licit dating service, here, Roommate is directly involved with developing and enforcing a system that subjects subscribers to allegedly discriminatory housing practices.

Our ruling today also dovetails with another facet of *Carafano*: The mere fact that an interactive computer service "classifies user characteristics . . . does not transform [it] into a 'developer' of the 'underlying misinformation.'" *Carafano*, 339 F.3d at 1124. *Carafano*, like *Batzel*, correctly anticipated our common-sense interpretation of the term "develop[]" in section 230. Of course, any classification of information, like the sorting of dating profiles by the type of relationship sought in *Carafano*, could be construed as "develop[ment]" under an unduly broad reading of the term. But, once again, such a broad reading would sap section 230 of all meaning.

The salient fact in *Carafano* was that the website's classifi-

³²Section 230 requires us to scrutinize particularly closely any claim that can be boiled down to the failure of an interactive computer service to edit or block user-generated content that it believes was tendered for posting online, *see pp. 3466-67 supra*, as that is the very activity Congress sought to immunize by passing the section. *See pp. 3453-55 supra*.

cations of user characteristics did absolutely nothing to enhance the defamatory sting of the message, to encourage defamation or to make defamation easier: The site provided neutral tools specifically designed to match romantic partners depending on their voluntary inputs. By sharp contrast, Roommate’s website is designed to force subscribers to divulge protected characteristics and discriminatory preferences, and to match those who have rooms with those who are looking for rooms based on criteria that appear to be prohibited by the FHA.³³

³³The dissent coyly suggests that our opinion “sets us apart from” other circuits, Dissent at 3479, 3483-84, carefully avoiding the phrase “inter-circuit conflict.” And with good reason: No other circuit has considered a case like ours and none has a case that even arguably conflicts with our holding today. No case cited by the dissent involves active participation by the defendant in the creation or development of the allegedly unlawful content; in each, the interactive computer service provider passively relayed content generated by third parties, just as in *Stratton Oakmont*, and did not design its system around the dissemination of unlawful content.

In *Chicago Lawyers’ Committee for Civil Rights Under Law, Inc. v. Craigslist, Inc.*, No. 07-1101 (7th Cir. Mar. 14, 2008), the Seventh Circuit held the online classified website craigslist immune from liability for discriminatory housing advertisements submitted by users. Craigslist’s service works very much like the “Additional Comments” section of Roommate’s website, in that users are given an open text prompt in which to enter any description of the rental property without any structure imposed on their content or any requirement to enter discriminatory information: Nothing in the service craigslist offers induces anyone to post any particular listing or express a preference for discrimination” Slip op. at 9. We similarly hold the “Additional Comments” section of Roommate’s site immune, *see* pp. 3471-75 *infra*. Consistent with our opinion, the Seventh Circuit explained the limited scope of section 230(c) immunity. *Craigslist*, slip op. at 5-7. More directly, the Seventh Circuit noted in dicta that “causing a *particular* statement to be made, or perhaps [causing] the *discriminatory content of a statement*” might be sufficient to create liability for a website. Slip op. at 9 (emphasis added). Despite the dissent’s attempt to imply the contrary, the Seventh Circuit’s opinion is actually in line with our own.

In *Universal Communications Systems v. Lycos, Inc.*, the First Circuit held a message board owner immune under the CDA for defamatory comments posted on a message board. 478 F.3d 413 (1st Cir. 2007). The alleg-

3. Councils finally argue that Roommate should be held liable for the discriminatory statements displayed in the “Additional Comments” section of profile pages. At the end of the registration process, on a separate page from the other registration steps, Roommate prompts subscribers to “tak[e] a moment to personalize your profile by writing a paragraph or two describing yourself and what you are looking for in a roommate.” The subscriber is presented with a blank text box, in which he can type as much or as little about himself as he wishes. Such essays are visible only to paying subscribers.

Subscribers provide a variety of provocative, and often

edly defamatory comments were made without any prompting or encouragement by defendant: “[T]here is not even a colorable argument that any misinformation was prompted by Lycos’s registration process or its link structure.” *Id.* at 420.

Green v. America Online, 318 F.3d 465 (3d Cir. 2003), falls yet farther from the mark. There, AOL was held immune for derogatory comments and malicious software transmitted by other defendants through AOL’s “Romance over 30” “chat room.” There was no allegation that AOL solicited the content, encouraged users to post harmful content or otherwise had any involvement whatsoever with the harmful content, other than through providing “chat rooms” for general use.

In *Ben Ezra, Weinstein, and Co. v. America Online Inc.*, 206 F.3d 980 (10th Cir. 2000), the Tenth Circuit held AOL immune for relaying inaccurate stock price information it received from other vendors. While AOL undoubtedly participated in the decision to make stock quotations available to members, it did not cause the errors in the stock data, nor did it encourage or solicit others to provide inaccurate data. AOL was immune because “Plaintiff could not identify any evidence indicating Defendant [AOL] developed or created the stock quotation information.” *Id.* at 985 n.5.

And, finally, in *Zeran v. America Online, Inc.*, 129 F.3d 327 (4th Cir. 1997), the Fourth Circuit held AOL immune for yet another set of defamatory and harassing message board postings. Again, AOL did not solicit the harassing content, did not encourage others to post it, and had nothing to do with its creation other than through AOL’s role as the provider of a generic message board for general discussions.

very revealing, answers. The contents range from subscribers who “[p]ref[er] white Male roommates” or require that “[t]he person applying for the room MUST be a BLACK GAY MALE” to those who are “NOT looking for black muslims.” Some common themes are a desire to live without “drugs, kids or animals” or “smokers, kids or druggies,” while a few subscribers express more particular preferences, such as preferring to live in a home free of “psychos or anyone on mental medication.” Some subscribers are just looking for someone who will get along with their significant other³⁴ or with their most significant Other.³⁵

[13] Roommate publishes these comments as written.³⁶ It does not provide any specific guidance as to what the essay should contain, nor does it urge subscribers to input discriminatory preferences. Roommate is not responsible, in whole or in part, for the development of this content, which comes entirely from subscribers and is passively displayed by Roommate. Without reviewing every essay, Roommate would have no way to distinguish unlawful discriminatory preferences from perfectly legitimate statements. Nor can there be any doubt that this information was tendered to Roommate for publication online. *See* pp. 3466-67 *supra*. This is precisely the kind of situation for which section 230 was designed to provide immunity. *See* pp. 3453-3455 *supra*.

[14] The fact that Roommate encourages subscribers to provide *something* in response to the prompt is not enough to make it a “develop[er]” of the information under the common-sense interpretation of the term we adopt today. It is

³⁴“The female we are looking for hopefully wont [sic] mind having a little sexual incounter [sic] with my boyfriend and I [very sic].”

³⁵“We are 3 Christian females who Love our Lord Jesus Christ We have weekly bible studies and bi-weekly times of fellowship.”

³⁶It is unclear whether Roommate performs any filtering for obscenity or “spam,” but even if it were to perform this kind of minor editing and selection, the outcome would not change. *See Batzel*, 333 F.3d at 1031.

entirely consistent with Roommate’s business model to have subscribers disclose as much about themselves and their preferences as they are willing to provide. But Roommate does not tell subscribers what kind of information they should or must include as “Additional Comments,” and certainly does not encourage or enhance any discriminatory content created by users. Its simple, generic prompt does not make it a developer of the information posted.³⁷

Councils argue that—given the context of the discriminatory questions presented earlier in the registration process—the “Additional Comments” prompt impliedly suggests that subscribers should make statements expressing a desire to discriminate on the basis of protected classifications; in other words, Councils allege that, by encouraging *some* discriminatory preferences, Roommate encourages other discriminatory preferences when it gives subscribers a chance to describe themselves. But the encouragement that bleeds over from one part of the registration process to another is extremely weak, if it exists at all. Such weak encouragement cannot strip a website of its section 230 immunity, lest that immunity be rendered meaningless as a practical matter.³⁸

We must keep firmly in mind that this is an immunity statute we are expounding, a provision enacted to protect websites against the evil of liability for failure to remove

³⁷Nor would Roommate be the developer of discriminatory content if it provided a free-text search that enabled users to find keywords in the “Additional Comments” of others, even if users utilized it to search for discriminatory keywords. Providing neutral tools for navigating websites is fully protected by CDA immunity, absent substantial affirmative conduct on the part of the website creator promoting the use of such tools for unlawful purposes.

³⁸It’s true that, under a pedantic interpretation of the term “develop,” any action by the website—including the mere act of making a text box available to write in—could be seen as “develop[ing]” content. However, we have already rejected such a broad reading of the term “develop” because it would defeat the purpose of section 230. *See pp. 3461-64 supra.*

offensive content. *See* pp. 3453-3455 *supra*. Websites are complicated enterprises, and there will always be close cases where a clever lawyer could argue that *something* the website operator did encouraged the illegality. Such close cases, we believe, must be resolved in favor of immunity, lest we cut the heart out of section 230 by forcing websites to face death by ten thousand duck-bites, fighting off claims that they promoted or encouraged—or at least tacitly assented to—the illegality of third parties. Where it is very clear that the website directly participates in developing the alleged illegality—as it is clear here with respect to Roommate’s questions, answers and the resulting profile pages—immunity will be lost. But in cases of enhancement by implication or development by inference—such as with respect to the “Additional Comments” here—section 230 must be interpreted to protect websites not merely from ultimate liability, but from having to fight costly and protracted legal battles.

[15] The dissent prophesies doom and gloom for countless Internet services, Dissent at 3490-91, but fails to recognize that we hold part of Roommate’s service entirely immune from liability. The search engines the dissent worries about, *id.*, closely resemble the “Additional Comments” section of Roommate’s website. Both involve a generic text prompt with no direct encouragement to perform illegal searches or to publish illegal content. We hold Roommate immune and there is no reason to believe that future courts will have any difficulty applying this principle.³⁹ The message to website operators is

³⁹The dissent also accuses us of creating uncertainty that will chill the continued growth of commerce on the Internet. Dissent at 3496. Even looking beyond the fact that the Internet has outgrown its swaddling clothes and no longer needs to be so gently coddled, *see* p. 3456 n.15 *supra*, some degree of uncertainty is inevitable at the edge of any rule of law. Any immunity provision, including section 230, has its limits and there will always be close cases. Our opinion extensively clarifies where that edge lies, and gives far more guidance than our previous cases. While the dissent disagrees about the scope of the immunity, there can be little doubt that website operators today know more about how to conform their conduct to the law than they did yesterday.

clear: If you don't encourage illegal content, or design your website to require users to input illegal content, you will be immune.

We believe that this distinction is consistent with the intent of Congress to preserve the free-flowing nature of Internet speech and commerce without unduly prejudicing the enforcement of other important state and federal laws. When Congress passed section 230 it didn't intend to prevent the enforcement of all laws online; rather, it sought to encourage interactive computer services that provide users *neutral* tools to post content online to police that content without fear that through their "good samaritan . . . screening of offensive material," 47 U.S.C. § 230(c), they would become liable for every single message posted by third parties on their website.

* * *

[16] In light of our determination that the CDA does not provide immunity to Roommate for all of the content of its website and email newsletters, we remand for the district court to determine in the first instance whether the alleged actions for which Roommate is not immune violate the Fair Housing Act, 42 U.S.C. § 3604(c).⁴⁰ We vacate the dismissal

However, a larger point remains about the scope of immunity provisions. It's no surprise that defendants want to extend immunity as broadly as possible. We have long dealt with immunity in different, and arguably far more important, contexts—such as qualified immunity for police officers in the line of duty, *see Clement v. J&E Service Inc.*, No. 05-56692, slip op. at 2347 (9th Cir. Mar. 11, 2008)—and observed many defendants argue that the risk of getting a close case wrong is a justification for broader immunity. Accepting such an argument would inevitably lead to an endless broadening of immunity, as every new holding creates its own borderline cases.

⁴⁰We do not address Roommate's claim that its activities are protected by the First Amendment. The district court based its decision entirely on the CDA and we refrain from deciding an issue that the district court has not had the opportunity to evaluate. *See Mukherjee v. INS*, 793 F.2d 1006, 1010 (9th Cir. 1986).

of the state law claims so that the district court may reconsider whether to exercise its supplemental jurisdiction in light of our ruling on the federal claims. *Fredenburg v. Contra Costa County Dep't of Health Servs.*, 172 F.3d 1176, 1183 (9th Cir. 1999). We deny Roommate's cross-appeal of the denial of attorneys' fees and costs; Councils prevail on some of their arguments before us so their case is performe not frivolous.

REVERSED in part, VACATED in part, AFFIRMED in part and REMANDED. NO COSTS.

McKEOWN, Circuit Judge, with whom RYMER and BEA, Circuit Judges, join, concurring in part and dissenting in part:

The ubiquity of the Internet is undisputed. With more than 1.3 billion Internet users and over 158 million websites in existence,¹ a vast number of them interactive like Google, Yahoo!, Craigslist, MySpace, YouTube, and Facebook, the question of webhost liability is a significant one. On a daily basis, we rely on the tools of cyberspace to help us make, maintain, and rekindle friendships; find places to live, work, eat, and travel; exchange views on topics ranging from terrorism to patriotism; and enlighten ourselves on subjects from "aardvarks to Zoroastrianism."²

The majority's unprecedented expansion of liability for Internet service providers threatens to chill the robust development of the Internet that Congress envisioned. The majority condemns Roommate's "search system," a function that is the

¹Internet World Stats, World Internet Users: December 2007, <http://www.internetworldstats.com/stats.htm> (last visited Mar. 14, 2008); Netcraft, February 2008 Web Server Survey, http://news.netcraft.com/archives/web_server_survey.html (last visited Mar. 14, 2008).

²*Ashcroft v. ACLU*, 535 U.S. 564, 566 (2002).

heart of interactive service providers. My concern is not an empty Chicken Little “sky is falling” alert. By exposing every interactive service provider to liability for sorting, searching, and utilizing the all too familiar drop-down menus, the majority has dramatically altered the landscape of Internet liability. Instead of the “robust”³ immunity envisioned by Congress, interactive service providers are left scratching their heads and wondering where immunity ends and liability begins.

To promote the unfettered development of the Internet, Congress adopted the Communications Decency Act of 1996 (“CDA”), which provides that interactive computer service providers will not be held legally responsible for publishing information provided by third parties. 47 U.S.C. § 230(c)(1). Even though traditional publishers retain liability for performing essentially equivalent acts in the “non-virtual world,” Congress chose to treat interactive service providers differently by immunizing them from liability stemming from sorting, searching, and publishing third-party information. As we explained in *Batzel v. Smith*:

[Section] 230(c)(1)[] overrides the traditional treatment of publishers, distributors, and speakers under statutory and common law. As a matter of policy, “Congress decided not to treat providers of interactive computer services like other information providers such as newspapers, magazines or television and radio stations” Congress . . . has chosen to treat cyberspace differently.

333 F.3d 1018, 1026-1027 (9th Cir. 2003) (quoting *Blumenthal v. Drudge*, 992 F. Supp. 44, 49 (D.D.C. 1998) (footnote omitted)).

³*Carafano v. Metrosplash.com, Inc.*, 339 F.3d 1119, 1123 (9th Cir. 2003).

Now, with the stroke of a pen or, more accurately, a few strokes of the keyboard, the majority upends the settled view that interactive service providers enjoy broad immunity when publishing information provided by third parties. Instead, interactive service providers are now joined at the hip with third-party users, and they rise and fall together in liability for Internet sortings and postings.

To be sure, the statute, which was adopted just as the Internet was beginning a surge of popular currency,⁴ is not a perfect match against today's technology. The Web 2.0 version is a far cry from web technology in the mid-1990s. Nonetheless, the basic message from Congress has retained its traction, and there should be a high bar to liability for organizing and searching third-party information. The bipartisan view in Congress was that the Internet, as a new form of communication, should not be impeded by the transference of regulations and principles developed from traditional modes of communication. The majority repeatedly harps that if something is prohibited in the physical world, Congress could not have intended it to be legal in cyberspace. Yet that is precisely the path Congress took with the CDA: the anomaly that a web-host may be immunized for conducting activities in cyberspace that would traditionally be cause for liability is exactly what Congress intended by enacting the CDA.

In the end, the majority offers interactive computer service providers no bright lines and little comfort in finding a home within § 230(c)(1). The result in this case is driven by the distaste for housing discrimination, a laudable endgame were housing the real focus of this appeal. But it is not. I share the majority's view that housing discrimination is a troubling issue. Nevertheless, we should be looking at the housing issue

⁴According to one commentator, in 1985, there were approximately 1,000 host computers connected to the Internet; by 1995, that number had exploded to 4,000,000. Paul H. Arne, *New Wine in Old Bottles: The Developing Law of the Internet*, 416 PLI/Pat 9, 15 (Sept. 1995).

through the lens of the Internet, not from the perspective of traditional publisher liability. Whether § 230(c)(1) trumps the Fair Housing Act (“FHA”) is a policy decision for Congress, not us. Congress has spoken: third-party content on the Internet should not be burdened with the traditional legal framework.

I respectfully part company with the majority as to Part 2⁵ of the opinion because the majority has misconstrued the statutory protection under the CDA for Roommate’s publishing and sorting of user profiles. The plain language and structure of the CDA unambiguously demonstrate that Congress intended these activities—the collection, organizing, analyzing, searching, and transmitting of third-party content—to be beyond the scope of traditional publisher liability. The majority’s decision, which sets us apart from five circuits, contravenes congressional intent and violates the spirit and serendipity of the Internet.

Specifically, the majority’s analysis is flawed for three reasons: (1) the opinion conflates the questions of liability under the FHA and immunity under the CDA; (2) the majority rewrites the statute with its definition of “information content provider,” labels the search function “information development,” and strips interactive service providers of immunity; and (3) the majority’s approach undermines the purpose of § 230(c)(1) and has far-reaching practical consequences in the Internet world.

⁵The complaint centers on the responses and profiles generated by the users. To the extent that the inquiry in isolation is part of the claims, then I agree with Part 1 of the majority’s opinion that § 230(c)(1) would not protect Roommate. However, I cannot join the majority insofar as it eviscerates the distinction between traditional publishers and webhosts. *See, e.g.*, Maj. Op. at 3456 (ignoring the Congressional carveout for interactive service providers and concluding that if a face-to-face transaction were illegal, it could not be legal in cyberspace).

To begin, it is important to recognize what this appeal is not about. At this stage, there has been no determination of liability under the FHA, nor has there been any determination that the questions, answers or even the existence of Roommate’s website violate the FHA. The FHA is a complicated statute and there may well be room for potential roommates to select who they want to live with, e.g., a tidy accountant wanting a tidy professional roommate, a collegiate male requesting a male roommate, an observant Jew needing a house with a kosher kitchen, or a devout, single, religious female preferring not to have a male housemate. It also bears noting that even if Roommate is immune under the CDA, the issue of user liability for allegedly discriminatory preferences is a separate question. *See Zeran v. Am. Online, Inc.*, 129 F.3d 327, 330 (4th Cir. 1997) (stating that “the original culpable party” does not “escape accountability”).

By offering up inflammatory examples, the majority’s opinion screams “discrimination.” The hazard is, of course, that the question of discrimination has not yet been litigated. In dissenting, I do not condone housing discrimination or endorse unlawful discriminatory roommate selection practices; I simply underscore that the merits of the FHA claim are not before us. However, one would not divine this posture from the majority’s opinion, which is infused with condemnation of Roommate’s users’ practices. To mix and match, as does the majority, the alleged unlawfulness of the information with the question of webhost immunity is to rewrite the statute.

Examples from the opinion highlight that the majority’s conclusion rests on the premise that Roommate’s questions and matching function violate the FHA:

- “Unlawful questions solicit (a.k.a. ‘develop’) unlawful answers.” Maj. Op. at 3459.
- “If such questions are unlawful when posed face-to-face or by telephone, they don’t magically

become lawful when asked electronically online.” *Id.* at 3456.

- “If such screening is prohibited when practiced in person or by telephone, we see no reason why Congress would have wanted to make it lawful to profit from it online.” *Id.* at 3461.
- “Roommate’s search function thus differs materially from generic search engines such as Google, Yahoo! and MSN Live Search, in that Roommate designed its system to use allegedly unlawful criteria so as to limit the results of each search, and to force users to participate in its discriminatory process.” *Id.*
- “By contrast, ordinary search engines do not use unlawful criteria to limit the scope of searches conducted on them, nor are they designed to achieve illegal ends—as Roommate’s search function is alleged to do here.” *Id.*
- “Roommate’s website is designed to force subscribers to divulge protected characteristics and discriminatory preferences.” *Id.* at 3470.

The entire opinion links Roommate’s ostensibly reprehensible conduct (and that of its users) with an unprecedented interpretation of the CDA’s immunity provision. The majority condemns Roommate for soliciting illegal content, but there has been no determination that Roommate’s questions or standardized answers are illegal. Instead of foreshadowing a ruling on the FHA, the opinion should be confined to the issue before us—application of § 230(c)(1) to Roommate. The district court has not yet ruled on the merits of the FHA claim and neither should we.

The Statute

With this background in mind, I first turn to the text of the statute. Section 230 begins with a detailed recitation of findings and policy reasons for the statute. Congress expressly found that the “Internet and other interactive computer services offer a forum for a true diversity of political discourse, unique opportunities for cultural development, and myriad avenues for intellectual activity,” and that “[i]ncreasingly Americans are relying on interactive media for a variety of political, educational, cultural, and entertainment services.” 47 U.S.C. § 230(a)(3), (5). Congress declared that “[i]t is the policy of the United States to . . . promote the continued development of the Internet and other interactive computer services and other interactive media.” § 230(b)(1).⁶

Unlike some statutes, subsections (a) and (b) set out in clear terms the congressional findings and policies underlying the statute. For this reason, it strikes me as odd that the majority begins, not with the statute and these express findings, but with legislative history. Granted, Congress was prompted by several cases, particularly the *Prodigy* case, to take action to protect interactive service providers. See *Stratton Oakmont, Inc. v. Prodigy Servs. Co.*, 1995 N.Y. Misc. LEXIS 229 (N.Y. Sup. Ct. May 24, 1995). But that case does not cabin the scope of the statute, and the background leading up to enactment of the CDA is no substitute for the language of the statute itself. See *Chicago Lawyers’ Comm. for Civil Rights Under the Law, Inc. v. Craigslist, Inc.*, No. 07-1101, slip op. at 8 (7th Cir. Mar. 14, 2008) (concluding that, as enacted, “Section 230(c)(1) is general[,]” despite its “genesis” in *Prodigy*).

⁶The statute also seeks to “remove disincentives for the development and utilization of blocking and filtering technologies” and “to ensure vigorous enforcement of Federal criminal laws to deter and punish trafficking in obscenity, stalking, and harassment by means of computer.” § 230(b)(4), (5).

Section 230(c), the heart of this case, is entitled “Protection for ‘good samaritan’ blocking and screening of offensive material[.]” The substantive language of the statute itself is not so limited. Section 230(c)(1) provides:

(1) Treatment of publisher or speaker

No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.

§ 230(c)(1). Since it was first addressed in 1997 in *Zeran*, this section has been interpreted by the courts as providing web-host “immunity,” although to be more precise, it provides a safe haven for interactive computer service providers by removing them from the traditional liabilities attached to speakers and publishers.⁷ See *Zeran*, 129 F.3d at 330 (“By its plain language, § 230 creates a federal immunity to any cause of action that would make service providers liable for information originating with a third-party user of the service.”).

We have characterized this immunity under § 230(c)(1) as “quite robust.” *Carafano*, 339 F.3d at 1123. Five of our sister circuits have similarly embraced this robust view of immunity by providing differential treatment to interactive service providers. *Chicago Lawyers’ Comm. for Civil Rights Under the Law, Inc. v. Craigslist, Inc.*, No. 07-1101, slip op. at 7-8 (7th Cir. Mar. 14, 2008); *Universal Commc’n Sys. v. Lycos, Inc.*, 478 F.3d 413, 415 (1st Cir. 2007); *Green v. Am. Online*, 318 F.3d 465, 470 (3d Cir. 2003); *Ben Ezra, Weinstein, & Co., Inc. v. Am. Online Inc.*, 206 F.3d 980, 986 (10th Cir. 2000);

⁷The second part of this subsection, § 230(c)(2), is more accurately characterized as an immunity provision, but is not relevant to our discussion here. Compare 47 U.S.C. § 230(c)(2) (stating that “[n]o provider or user of an interactive computer service shall be held liable . . .”) (emphasis added).

Zeran, 129 F.3d at 330; *see also Whitney Info. Network, Inc. v. Xcentric Ventures, LLC*, No. 2:04-cv-47-FtM-34SPC, 2008 U.S. Dist. LEXIS 11632 (M.D. Fla. Feb. 15, 2008); *Doe v. MySpace, Inc.*, 474 F. Supp. 2d 843, 849 (W.D. Tex. 2007); *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1118 (W.D. Wash. 2004); *Blumenthal*, 992 F. Supp. at 50-53; *Barrett v. Rosenthal*, 146 P.3d 510, 529 (Cal. 2006); *Gentry v. eBay, Inc.*, 121 Cal. Rptr. 2d 703, 717-18 (Cal. Ct. App. 2002); *Schneider v. Amazon.com, Inc.*, 31 P.3d 37, 42-43 (Wash. Ct. App. 2001).

Key to this immunity provision are the terms “interactive computer service” provider and “information content provider.” The CDA defines an “interactive computer service” as any “information service, system, or access software provider that provides or enables computer access by multiple users to a computer server.” § 230(f)(2). An interactive computer service provider is not liable as a “publisher” or “speaker” of information if the “information” is “provided by another information content provider.” § 230(c)(1). The statute then defines an “information content provider” as a “person or entity that is responsible, in whole or in part, for the creation or development of information provided through the Internet or any other interactive computer service.” § 230(f)(3). If the provider of an interactive computer service is an information content provider of the information at issue, it cannot claim immunity as a publisher or speaker. *Carafano*, 339 F.3d at 1123.

Courts deciding the question of § 230(c)(1) immunity “do not write on a blank slate.” *Universal Commc’n*, 478 F.3d at 418. Even though rapid developments in technology have made webhosts increasingly adept at searching and displaying third-party information, reviewing courts have, in the twelve years since the CDA’s enactment, “adopt[ed] a relatively expansive definition of ‘interactive computer service’ and a relatively restrictive definition of ‘information content provider.’” *See Carafano*, 339 F.3d at 1123 (footnotes omitted). As

long as information is provided by a third party, webhosts are immune from liability for publishing “ads for housing, auctions of paintings that may have been stolen by Nazis, biting comments about steroids in baseball, efforts to verify the truth of politicians’ promises, and everything else that third parties may post on a web site.” *Craigslist*, No. 07-1101, slip op. at 9. We have underscored that this broad grant of webhost immunity gives effect to Congress’s stated goals “to promote the continued development of the Internet and other interactive computer services” and “to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services.” *Carafano*, 339 F.3d at 1123 (discussing § 230(b)(1), (2)).

Application of § 230(c)(1) to Roommate’s Website

Because our focus is on the term “information content provider,” and what it means to create or develop information, it is worth detailing exactly how the website operates, what information is at issue and who provides it. The roommate matching process involves three categories of data: About Me or Household Description; Roommate Preferences; and Comments.

To become a member of Roommates.com, a user must complete a personal profile by selecting answers from drop-down menus or checking off boxes on the screen. The profile includes “location” information (e.g., city and state, region of the city, and data about the surrounding neighborhood); details about the residence (e.g., the total number of bedrooms and bathrooms in the home, and amenities such as air conditioning, wheelchair access, high-speed Internet, or parking), and the “rental details” (e.g., monthly rent charged, lease period, and availability). The last section of the profile is the “Household Description” section,⁸ which includes the total

⁸A user who is a room-seeker fills out an equivalent section named “About Me.”

number of occupants in the home, their age range, gender, occupation, level of cleanliness, whether they are smokers, and whether children or pets are present.

The remaining sections of the registration process are completely optional; a user who skips them has created a profile based on the information already provided. At his option, the user may select an emoticon to describe the “household character,” and may upload images of the room or residence. Next, users may, at their option, specify characteristics desired in a potential roommate, such as a preferred age range, gender, and level of cleanliness. If nothing is selected, all options are included.⁹ The final step in the registration pro-

⁹The following is an example of a member profile:

The Basics

Rent: \$800 per month + \$800 deposit

Lease: 6 month

Date available: 09/01/04 (14 days)

Utilities included: N/A

Features: Private bedroom, Private bathroom

Residence & Vicinity

Building: House, 2 bed, 1.5 bath

Features: N/A

Location: (Central) Long Beach, CA

Household

Occupant: 1, Age 26, Male (straight)

Occupation: Student

Smoking habits: Outside smoker

Cleanliness: About average

Children: Children will not be living with us

Pets: Dog(s)

Preferences

Age group: 18-99

Gender: Male (straight or gay), Female (straight or lesbian)

Smoking: Smoking okay

Cleanliness level: Clean, Average, Messy

Pets: Dog okay, Cat okay, Caged pet okay

Children: Children okay

Comments

LOOKING FOR CHILL ROOMMATE [sic] TO SHARE 2 BR HOUSE WITH DOG AND FERRET - RENT 800/MO+util.6mo.lease.

cess, which is also optional, is the “Comments” section, in which users are presented with a blank text box in which they may write whatever they like, to be published with their member profiles.

Users may choose an optional “custom search” of user profiles based on criteria that they specify, like the amount of monthly rent or distance from a preferred city. Based on the information provided by users during the registration process, Roommate’s automated system then searches and matches potential roommates. Roommate’s Terms of Service provide in part, “You understand that we do not provide the information on the site and that all publicly posted or privately transmitted information, data, text, photographs, graphics, messages, or other materials (‘Content’) are the sole responsibility of the person from which such Content originated.”

Roommate’s users are “information content providers” because they are responsible for creating the information in their user profiles and, at their option — not the website’s choice — in expressing preferences as to roommate characteristics. § 230(f)(3). The critical question is whether Roommate is itself an “information content provider,” such that it cannot claim that the information at issue was “provided by another information content provider.” A close reading of the statute leads to the conclusion that Roommate is not an information content provider for two reasons: (1) providing a drop-down menu does not constitute “creating” or “developing” information; and (2) the structure and text of the statute make plain that Congress intended to immunize Roommate’s sorting, displaying, and transmitting of third-party information.

Roommate neither “creates” nor “develops” the information that is challenged by the Councils, i.e., the information provided by the users as to their protected characteristics and the preferences expressed as to roommate characteristics. All Roommate does is to provide a form with options for standardized answers. Listing categories such as geographic loca-

tion, cleanliness, gender and number of occupants, and transmitting to users profiles of other users whose expressed information matches their expressed preferences, can hardly be said to be creating or developing information. Even adding standardized options does not “develop” information. Roommate, with its prompts, is merely “selecting material for publication,” which we have stated does not constitute the “development” of information. *Batzel*, 333 F.3d at 1031. The profile is created solely by the user, not the provider of the interactive website. Indeed, without user participation, there is no information at all. The drop-down menu is simply a pre-categorization of user information before the electronic sorting and displaying that takes place via an algorithm. If a user has identified herself as a non-smoker and another has expressed a preference for a non-smoking roommate, Roommate’s sorting and matching of user information are no different than that performed by a generic search engine.

Displaying the prompt “Gender” and offering the list of choices, “Straight male; Gay male; Straight female; Gay female” does not develop the information, “I am a Gay male.” The user has identified himself as such and provided that information to Roommate to publish. Thus, the user is the sole creator of that information; no “development” has occurred. In the same vein, presenting the user with a “Preferences” section and drop-down menus of options does not “develop” a user’s preference for a non-smoking roommate. As we stated in *Carafano*, the “actual profile ‘information’ consist[s] of the particular options chosen” by the user, such that Roommate is not “responsible, even in part, for associating certain multiple choice responses with a set of [] characteristics.” 339 F.3d at 1124.

The thrust of the majority’s proclamation that Roommate is “developing” the information that it publishes, sorts, and transmits is as follows: “[W]e interpret the term ‘development’ as referring not merely to augmenting the content generally, but to materially contributing to its unlawfulness.”

Maj. Op. at 3462. This definition is original to say the least and springs forth untethered to anything in the statute.

The majority's definition of "development" epitomizes its consistent collapse of substantive liability with the issue of immunity. Where in the statute does Congress say anything about unlawfulness? Whether Roommate is entitled to immunity for publishing and sorting profiles is wholly distinct from whether Roommate may be liable for violations of the FHA. Immunity has meaning only when there is something to be immune *from*, whether a disease or the violation of a law. It would be nonsense to claim to be immune only from the innocuous. But the majority's immunity analysis is built on substantive liability: to the majority, CDA immunity depends on whether a webhost materially contributed to the unlawfulness of the information. Whether the information at issue is unlawful and whether the webhost has contributed to its unlawfulness are issues analytically independent of the determination of immunity. Grasping at straws to distinguish Roommate from other interactive websites such as Google and Yahoo!, the majority repeatedly gestures to Roommate's potential substantive liability as sufficient reason to disturb its immunity. But our task is to determine whether the question of substantive liability may be reached in the first place.

Keep in mind that "unlawfulness" would include not only purported statutory violations but also potential defamatory statements. The irony is that the majority would have us determine "guilt" or liability in order to decide whether immunity is available. This upside-down approach would knock out even the narrowest immunity offered under § 230(c) — immunity for defamation as a publisher or speaker.

Another flaw in the majority's approach is that it fails to account for all of the other information allegedly developed by the webhost. For purposes of determining whether Roommate is an information content provider vis-a-vis the profiles,

the inquiry about geography and the inquiry about gender should stand on the same footing. Both are single word prompts followed by a drop-down menu of options. If a prompt about gender constitutes development, then so too does the prompt about geography. And therein lies the rub.

Millions of websites use prompts and drop-down menus. Inquiries range from what credit card you want to use and consumer satisfaction surveys asking about age, sex and household income, to dating sites, e.g., match.com, sites lambasting corporate practices, e.g., ripoffreports.com, and sites that allow truckers to link up with available loads, e.g., getloaded.com. Some of these sites are innocuous while others may not be. Some may solicit illegal information; others may not. But that is not the point. The majority's definition of "development" would transform every interactive site into an information content provider and the result would render illusory any immunity under § 230(c). Virtually every site could be responsible in part for developing content.

For example, the majority purports to carve out a place for Google and other search engines. Maj. Op. at 3461. But the modern Google is more than a match engine: it ranks search results, provides prompts beyond what the user enters, and answers questions. In contrast, Roommate is a straight match service that searches information and criteria provided by the user, not Roommate. It should be afforded no less protection than Google, Yahoo!, or other search engines.

The majority then argues that "providing *neutral* tools to carry out what may be unlawful or illicit searches does not amount to 'development.'" Maj. Op. at 3464. But this effort to distinguish Google, Yahoo!, and other search engines from Roommate is unavailing. Under the majority's definition of "development," these search engines are equivalent to Roommate. Google "encourages" or "contributes" (the majority's catch phrases) to the unlawfulness by offering search tools that allow the user to perform an allegedly unlawful match. If

a user types into Google's search box, "looking for a single, Christian, female roommate," and Google displays responsive listings, Google is surely "materially contributing to the alleged unlawfulness" of information created by third parties, by publishing their intention to discriminate on the basis of protected characteristics. In the defamation arena, a webhost's publication of a defamatory statement "materially contributes" to its unlawfulness, as publication to third parties is an element of the offense. At bottom, the majority's definition of "development" can be tucked in, let out, or hemmed up to fit almost any search engine, creating tremendous uncertainty in an area where Congress expected predictability.

"Development" is not without meaning. In *Batzel*, we hinted that the "development of information" that transforms one into an "information content provider" is "something more substantial than merely editing portions of an email and selecting material for publication." 333 F.3d at 1031. We did not flesh out further the meaning of "development" because the editor's alterations of an email message and decision to publish it did not constitute "development." *Id.*

Because the statute does not define "development," we should give the term its ordinary meaning. *See San Jose Christian Coll. v. City of Morgan Hill*, 360 F.3d 1024, 1034 (9th Cir. 2004) (stating that dictionaries may be used to determine the "plain meaning" of a term undefined by a statute). "Development" is defined in Webster's Dictionary as a "gradual advance or growth through progressive changes." *Webster's Third New International Dictionary* 618 (2002). The multiple uses of "development" and "develop" in other provisions of § 230 give texture to the definition of "development," and further expose the folly of the majority's ungrounded definition. *See, e.g.,* § 230(b)(3) (stating that "[i]t is the policy of the United States to encourage the *development* of technologies which maximize user control over what information is received by individuals, families, and schools") (emphasis

added).¹⁰ Defining “development” in this way keeps intact the settled rule that the CDA immunizes a webhost who exercises a publisher’s “traditional editorial functions — such as deciding whether to publish, withdraw, post-pone, or alter content.” *Batzel*, 333 F.3d at 1031 n.18.¹¹

Applying the plain meaning of “development” to Roommate’s sorting and transmitting of third-party information demonstrates that it was not transformed into an “information content provider.” In searching, sorting, and transmitting information, Roommate made no changes to the information

¹⁰Congress also stated in the CDA that “[i]t is the policy of the United States to—(1) to promote the continued *development* of the Internet and other interactive computer services and other interactive media,” and “(4) to remove disincentives for the *development* and utilization of blocking and filtering technologies . . .” § 230(b)(1), (4) (emphasis added).

¹¹The majority’s notion of using a different definition of “development” digs the majority into a deeper hole. *See* Maj. Op. at 3461-63. For example, adopting the Wikipedia definition of “content development”—“the process of researching, writing, gathering, organizing and editing information for publication on web sites”—would run us smack into the sphere of Congressionally conferred immunity. Wikipedia, Content Development (Web), http://en.wikipedia.org/w/index.php?title=Content_development_%28web%29&oldid=188219503 (last visited Mar. 24, 2008). Both our circuit and others have steadfastly maintained that activities such as organizing or editing information are traditional editorial functions that fall within the scope of CDA immunity. *See, e.g., Carafano*, 339 F.3d at 1124-25; *Zeran*, 129 F.3d at 330. Likewise, an alternative definition of “development” from Webster’s such as “a making usable or available” sweeps too broadly, as “making usable or available” is precisely what Google and Craigslist do. In an effort to cabin the reach of the opinion, the majority again goes back to whether the content is legal, i.e., a dating website that requires sex, race, religion, or marital status is legal because it is legal to discriminate in dating. *See* Maj. Op. at 3464. Of course this approach ignores whether the claim may be one in tort, such as defamation, rather than a statutory discrimination claim. And, this circularity also circumvents the plain language of the statute. Interestingly, the majority has no problem offering up potentially suitable definitions of “development” by turning to dictionaries, but it fails to explain why, and from where, it plucked its definition of “development” as “materially contributing to [the] alleged unlawfulness” of content. *See* Maj. Op. at 3462.

provided to it by users. Even having notice that users may be using its site to make discriminatory statements is not sufficient to invade Roommate's immunity. *See Zeran*, 129 F.3d at 333 (stating that "liability upon notice has a chilling effect on the freedom of Internet speech.>").

The majority blusters that Roommate develops information, because it "requir[es] subscribers to provide the information as a condition of accessing its services," and "designed its search system so it would steer users based on the preferences and personal characteristics that Roommate itself forces subscribers to disclose." Maj. Op. at 3458, 3460.¹² But the majority, without looking back, races past the plain language of the statute. That Roommate requires users to answer a set of prompts to identify characteristics about themselves does not change the fact that the users have furnished this information to Roommate for Roommate to publish in their profiles. Nor do Roommate's prompts alter the fact that users have chosen to select characteristics that they find desirable in potential roommates, and have directed Roommate to search and compile results responsive to their requests. Moreover, tagging Roommate with liability for the design of its search system is dangerous precedent for analyzing future Internet cases.

Even if Roommate's prompts and drop-down menus could be construed to seek out, or encourage, information from users, the CDA does not withhold immunity for the encouragement or solicitation of information.¹³ *See Blumenthal*, 992 F. Supp. at 52 (stating that "Congress has made a different

¹²Again, Roommate does not force users to disclose preferences as to roommate characteristics.

¹³The First Circuit has noted that "[i]t is not at all clear that there is a culpable assistance exception to Section 230 immunity[.]" similar to the notion of secondary liability under the Electronic Communications Privacy Act of 1986. *Universal Commc'n*, 478 F.3d at 421. But it also stated that it "need not decide whether a claim premised on active inducement might be consistent with Section 230 in the absence of a specific exception." *Id.*

policy choice by providing immunity even where the interactive service provider has an *active, even aggressive role* in making available content prepared by others.”) (emphasis added); *Gentry*, 121 Cal. Rptr. 2d at 718 (noting that “enforcing appellants’ negligence claim would place liability on eBay for simply compiling false and/or misleading content created by the individual defendants and other coconspirators.”). The CDA does not countenance an exception for the solicitation or encouragement of information provided by users.

A number of district courts have recently encountered the claim that an interactive website’s solicitation of information, by requiring user selection of content from drop-down menus, transformed it into an information content provider. Unsurprisingly, these courts reached the same commonsense solution that I reach here: § 230(c)(1) immunizes the interactive service provider. See *Whitney Info. Network, Inc. v. Xcentric Ventures, LLC*, No. 2:04-cv-47-FtM-34SPC, 2008 U.S. Dist. LEXIS 11632, at *36 (M.D. Fla. Feb. 15, 2008) (stating that the “mere fact that Xcentric provides categories from which a poster must make a selection in order to submit a report on the [] website is not sufficient to treat Defendants as information content providers of the reports”); *Global Royalties, Ltd. v. Xcentric Ventures, LLC*, No. 07-956-PHX-FJM, 2007 U.S. Dist. LEXIS 77551 (D. Ariz. Oct. 10, 2007). Simply supplying a list of options from which a user must select options “is minor and passive participation” that does not defeat CDA immunity. *Global Royalties*, 2007 U.S. Dist. LEXIS 77551, at *9; see also *Corbis*, 351 F. Supp. 2d at 1118 (holding that even though Amazon.com “may have encouraged third parties to use the Zshops platform and provided the tools to assist them, that does not disqualify it from immunity under § 230 because the Zshops vendor ultimately decided what information to put on its site.”).

Carafano presented circumstances virtually indistinguishable from those before us, yet the majority comes to the exact opposite conclusion here in denying immunity for sorting and

matching third-party information provided in response to webhost prompts. The website in *Carafano*, an online dating service named Matchmaker.com, asked its users sixty-two detailed questions and matched users according to their responses. We held that § 230(c)(1) immunized the dating service, and flatly rejected the proposition that matching, sorting, and publishing user information in response to webhost prompts abrogated CDA immunity. *Carafano*, 339 F.3d at 1124-25. A provider's "decision to structure the information provided by users," which enables the provider to "offer additional features, such as 'matching' profiles with similar characteristics or highly structured searches based on combinations of multiple choice questions," ultimately "promotes the expressed Congressional policy 'to promote the continued development of the Internet and other interactive computer services.'" *Id.* (quoting § 230(b)(1)). Now the majority narrows *Carafano* on the basis that Matchmaker did not prompt the allegedly libelous information that was provided by a third party. Maj. Op. at 3468. But the majority makes this distinction without *any* language in the statute supporting the consideration of the webhost's prompting or solicitation.

The structure of the statute also supports my view that Congress intended to immunize Roommate's sorting and publishing of user profiles. An "interactive computer service" is defined to include an "access software provider." § 230(f)(2). The statute defines an "access software provider" as one that provides "enabling tools" to "filter," "screen," "pick," "choose," "analyze," "digest," "search," "forward," "organize," and "reorganize" content. § 230(f)(4)(A)-(C).

By providing a definition for "access software provider" that is distinct from the definition of an "information content provider," and withholding immunity for "information content providers," the statute makes resoundingly clear that packaging, sorting, or publishing third-party information are not the kind of activities that Congress associated with "infor-

mation content providers.” Yet these activities describe exactly what Roommate does through the publication and distribution of user profiles: Roommate “receives,” “filters,” “digests,” and “analyzes” the information provided by users in response to its registration prompts, and then “transmits,” “organizes,” and “forwards” that information to users in the form of uniformly organized profiles. Roommate is performing tasks that Congress recognized as typical of entities that it intended to immunize.

Finally, consider the logical disconnect of the majority’s opinion. The majority writes—and I agree—that the open-ended Comments section contains only third-party content. Maj. Op. at 3471-75. But if Roommate’s search function permits sorting by key words such as children or gender, the majority would label Roommate’s use of such criteria as a “discriminatory filtering process.” *Id.* at 3465.

At a minimum, the CDA protects the search criteria employed by websites and does not equate tools that “filter,” “screen,” “pick,” “choose,” “analyze,” “digest,” “search,” “forward,” “organize,” and “reorganize” with the “creation or development” of information. § 230(f)(4)(A)-(C).

Ramifications of the Majority Opinion

I am troubled by the consequences that the majority’s conclusion poses for the ever-expanding Internet community. The unwise narrowing of our precedent, coupled with the mixing and matching of CDA immunity with substantive liability, make it exceedingly difficult for website providers to know whether their activities will be considered immune under the CDA. We got it right in *Carafano*, that “[u]nder § 230(c) . . . so long as a third party willingly provides the essential published content, the interactive service provider receives full immunity regardless of the specific editing or selection process.” 339 F.3d at 1124 (quoted in *Doe*, 474 F. Supp. 2d at 847; *Chicago Lawyers’ Comm. for Civil Rights Under the*

Law, Inc. v. Craigslist, Inc., 461 F. Supp. 2d 681, 690 n.7 (N.D. Ill. 2006); *Dimeo v. Max*, 433 F. Supp. 2d 523, 530 n.12 (E.D. Pa. 2006); *Prickett v. Infousa, Inc.*, No. 04:05-CV-10, 2006 U.S. Dist. LEXIS 21867, at *4 (E.D. Tex. Mar. 30, 2006)).

Significantly, § 230(e) expressly exempts from its scope certain areas of law, such as intellectual property law and federal criminal laws. § 230(e)(1) (“Nothing in this section shall be construed to impair the enforcement of [selected obscenity statutes] or any other Federal criminal statute.”); § 230(e)(2) (“Nothing in this section shall be construed to limit or expand any law pertaining to intellectual property.”). *See also Perfect 10, Inc. v. CCBILL LLC*, 488 F.3d 1102, 1118 (9th Cir. 2007). Thus, for example, a webhost may still be liable as a publisher or speaker of third-party information that is alleged to infringe a copyright. Notably, the CDA does not exempt the FHA and a host of other federal statutes from its scope. *See* § 230(e). The FHA existed at the time of the CDA’s enactment, yet Congress did not add it to the list of specifically enumerated laws for which publisher and speaker liability was left intact. The absence of a statutory exemption suggests that Congress did not intend to provide special case status to the FHA in connection with immunity under the CDA. *See TRW Inc. v. Andrews*, 534 U.S. 19, 28 (2001) (stating that “[w]here Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent.”) (citation omitted); *see also Craigslist*, No. 07-1101, slip op. at 8 (stating that “[t]he question is not whether Congress gave any thought to the Fair Housing Act, but whether it excluded § 3604(c) from the reach of § 230(c)(1)”).

Anticipating the morphing of the Internet and the limits of creative genius and entrepreneurship that fuel its development is virtually impossible. However, Congress explicitly drafted the law to permit this unfettered development of the Internet.

Had Congress discovered that, over time, courts across the country have created more expansive immunity than it originally envisioned under the CDA, Congress could have amended the law. But it has not. In fact, just six years ago, Congress approved of the broad immunity that courts have uniformly accorded interactive webhosts under § 230(c).

In 2002, Congress passed the “Dot Kids Implementation and Efficiency Act,” which established a new “kids.us” domain for material that is safe for children. Pub. L. No. 107-317, 116 Stat. 2766. Congress stated that the statutory protections of § 230(c) were extended to certain entities that operated within the new domain. 47 U.S.C. § 941 (stating that certain entities “are deemed to be interactive computer services for purposes of § 230(c)”). The Committee Report that accompanied the statute declared:

The Committee notes that ISPs have successfully defended many lawsuits using section 230(c). *The courts have correctly interpreted section 230(c)*, which was aimed at protecting against liability for such claims as negligence (See, e.g., *Doe v. America Online*, 783 So.2d 1010 (Fla. 2001)) and defamation (*Ben Ezra, Weinstein, and Co. v. America Online*, 206 F.3d 980 (2000); *Zeran v. America Online*, 129 F.3d 327 (1997)). The Committee intends these interpretations of section 230(c) to be equally applicable to those entities covered by H.R. 3833.

H.R. REP. NO. 107-449 (emphasis added). These statements “reflect the Committee’s intent that the existing statutory construction,” i.e., broad immunity for interactive webhosts, “be maintained in a new legislative context.” *Barrett*, 146 P.3d at 523 n.17 (discussing H.R. Rep. No. 107-449); *see also Heckler v. Turner*, 470 U.S. 184, 209 (1985) (noting that subsequent legislative history can shed useful light on Congressional intent). This express Congressional approval of the courts’ interpretation of § 230(c)(1), six years after its

enactment, advises us to stay the course of “robust” webhost immunity.

The consequences of the majority’s interpretation are far-reaching. Its position will chill speech on the Internet and impede “the continued development of the Internet and other interactive computer services and other interactive media.” § 230(b)(1). To the extent the majority strips immunity because of sorting, channeling, and categorizing functions, it guts the heart of § 230(c)(1) immunity. Countless websites operate just like Roommate: they organize information provided by their users into a standardized format, and provide structured searches to help users find information. These sites, and their attendant display, search, and inquiry tools, are an indispensable part of the Internet tool box. Putting a lid on the sorting and searching functions of interactive websites stifles the core of their services.

To the extent the majority strips immunity because the information or query may be illegal under some statute or federal law, this circumstance puts the webhost in the role of a policeman for the laws of the fifty states and the federal system. There are not enough Net Nannies in cyberspace to implement this restriction, and the burden of filtering content would be unfathomable.

To the extent the majority strips immunity because a site solicits or actively encourages content, the result is a direct restriction on the free exchange of ideas and information on the Internet. As noted in the amici curiae brief of the news organizations, online news organization routinely solicit third-party information. Were the websites to face host liability for this content, they “would have no choice but to severely limit its use” and “[s]heer economics would dictate that vast quantities of valuable information be eliminated from websites.” Brief of Amici Curiae News Organizations in Support of Roommate.com, LLC 22.

To the extent the majority strips immunity because a website “materially contributed” to the content or output of a website by “specialization” of content, this approach would essentially swallow the immunity provision. The combination of solicitation, sorting, and potential for liability would put virtually every interactive website in this category. Having a website directed to Christians, Muslims, gays, disabled veterans, or childless couples could land the website provider in hot water.¹⁴

Because the statute itself is cumbersome to interpret in light of today’s Internet architecture, and because the decision today will ripple through the billions of web pages already online, and the countless pages to come in the future, I would take a cautious, careful, and precise approach to the restriction of immunity, not the broad swath cut by the majority. I respectfully dissent and would affirm the district court’s judgment that Roommate is entitled to immunity under § 230(c)(1) of the CDA, subject to examination of whether the bare inquiry itself is unlawful.

¹⁴It is no surprise that there are countless specialized roommate sites. See, e.g., <http://islam.tc/housing/index.php>, <http://christian-roommates.com>, and <http://prideroommates.com>.

Ley del Derecho sobre la Propia Imagen
Ley Núm. 139 de 13 de julio de 2011

Para adoptar un nuevo estatuto que regule el uso y protección sobre la propia imagen para propósitos comerciales en Puerto Rico que se conocerá, como la “Ley del Derecho sobre la Propia Imagen”; y para otros fines.

EXPOSICION DE MOTIVOS

Por años hemos tenido en nuestro sistema una línea muy difusa entre dos derechos constitucionales importantes: el derecho a la libertad de expresión, en una situación en que la expresión impugnada es de naturaleza comercial; y el derecho a la intimidad, en su vertiente del derecho a la propia imagen.

La Carta de Derechos de la Constitución del Estado Libre Asociado de Puerto Rico protege expresamente el derecho fundamental a la intimidad y la dignidad de las personas. El Tribunal Supremo de Puerto Rico ha reconocido que la protección a lo privado opera *ex proprio vigore* y puede hacerse valer entre personas privadas. Vigoreaux Lorenzana v. Quizno’s Sub, Inc 2008 T.S.P.R. 38; López Tristani v. Maldonado Carrero, 2006 T.S.P.R. 143; López Rivera v. E.L.A., 2005 T.S.P.R. 102; Castro Cotto v. Tiendas Pitusa, Inc., 159 D.P.R.650 (2003); Vega Rodríguez v. Telefónica de P.R., 2002 T.S.P.R 50; Arroyo v. Rattan Specialties, 117 D.P.R. 35 (1986); Colón v. Romero Barceló, 112 D.P.R. 573 (1982). Ante la ausencia de legislación específica sobre el uso de la propia imagen, los tribunales han tenido que aplicar las normas derivadas del derecho general de la responsabilidad extracontractual que surge del Art. 1802 del Código Civil, enmarcado en los parámetros constitucionales. El Tribunal ha reconocido el mencionado derecho subjetivo para configurar una causa de acción en daños por violación al derecho a la intimidad. Vigoreaux Lorenzana v. Quizno’s Sub, Inc., *supra*.

A través de nuestra jurisprudencia podemos encontrar casos en los que se ha reclamado el uso indebido de la imagen de una persona, particularmente para usos comerciales. Se considera como imagen la proyección o representación de la figura humana mediante cualquier procedimiento o técnica de reproducción. La imagen propia constituye un atributo fundamental con el cual se individualiza socialmente a la persona; es decir, es parte integral de la identidad del sujeto representado. López Tristani v. Maldonado Carrero, *supra*. Aunque no cabe duda que la expresión para fines lucrativos y comerciales se encuentra bajo el ámbito de protección de las constituciones de Puerto Rico y de los Estados Unidos, ésta puede ser regulada sustancialmente por el Estado con mayor facilidad. In re Gervitz Carbonell, 2004 T.S.P.R. 141.

Mientras el derecho sobre la propia imagen o derecho a la publicidad, como se conoce en algunas jurisdicciones, provee al individuo un derecho propietario sobre lo que es su identidad, el derecho a la intimidad protege la información que tiene el Estado u otras personas sobre ese individuo, sus comunicaciones, cuerpo y pensamientos. Aunque a veces concurren las violaciones a ambos, ya que se producen por una interferencia no autorizada ni consentida de terceros, los bienes jurídicos concretos protegidos en ambos derechos son diferentes. Por otro lado, el derecho a la propia imagen se diferencia de la difamación en que ésta última requiere publicación de información falsa.

La tendencia actual predominante, tanto en el derecho civil como en el derecho común anglosajón, es el reconocimiento de la protección de la imagen o derecho de publicidad como un derecho independiente. Este derecho otorga a su titular la facultad *erga omnes* de excluir la reproducción y publicación de la propia imagen por un tercero que carece del consentimiento para ello. Vigoreaux Lorenzana v. Quizno’s Sub, Inc., *supra*. Cabe destacar que en algunos lugares como España, el derecho a la propia imagen es un derecho de rango constitucional. En los Estados Unidos, aunque se ha reconocido jurisprudencialmente en varios estados, ya existen otros que han tomado la iniciativa de establecer un derecho a la publicidad de manera estatutaria. Este derecho establece que el sujeto tiene derecho a participar económicamente en la comercialización de su propia imagen, su nombre o aspectos reconocibles de su persona.

Jurisprudencialmente se ha establecido que toda persona tiene derecho a controlar dónde, cuándo y cómo se le toma una fotografía o se reproduce de cualquier forma su imagen, siempre y cuando no se trate de una figura accesoria. Bonilla Medina v. Partido Nuevo Progresista, 140 D.P.R. 294 (1996); Cólon v. Romero Barceló, *supra*. Sin embargo, como ha reiterado nuestro más Alto Foro Judicial en los casos citados anteriormente, no hay legislación específica. Es importante no sólo establecer esta protección por vía estatutaria, sino que quede claro que la misma cobija a toda persona, aún a aquellas que no son figuras

públicas. Esta Asamblea Legislativa entiende que es tiempo de que quede claramente definido en nuestro ordenamiento el derecho a la propia imagen.

DECRETASE POR LA ASAMBLEA LEGISLATIVA DE PUERTO RICO:

Artículo 1. – Título

Esta Ley se conocerá como la “Ley del Derecho sobre la Propia Imagen”.

Artículo 2. – Definiciones

- a) Agente autorizado - aquel que está autorizado directamente para consentir a nombre de una persona la utilización de su imagen, bajo un contrato de agencia o representación.
- b) Daños – todos los daños pecuniarios, incluyendo pero sin limitarse a, el dinero dejado de devengar si hubiera concedido una licencia sobre su imagen, así como las ganancias del infractor derivadas exclusivamente del uso no autorizado de la imagen del propietario.
- c) Imagen – nombre, fotografía, retrato, voz, firma, atributo o cualquier representación de una persona que sirva para identificar a esa persona, ante un observador o escucha promedio, mediante cualquier procedimiento o técnica de reproducción.
- d) Negligencia crasa – ausencia total de cuidado o el ejercicio de un grado tan pequeño de cuidado, que origina una presunción de indiferencia hacia las consecuencias, implicando una total despreocupación
- e) Parodia – imitación burlesca que utiliza algunos elementos que, por lo menos en parte, comente o se burle directamente de la persona, alterando su imagen.
- f) Persona – persona natural, viva o muerta, independientemente del uso que se le haya dado a su imagen para propósitos comerciales. Incluye aquella entidad jurídica a quien una persona haya otorgado una licencia o haya transferido su derecho a la propia imagen.
- g) Persona accesoria – persona que no se presenta en el plano principal de una comunicación, sino como parte de un grupo o figura de trasfondo.
- h) Propósito comercial – el uso de la imagen de una persona en conexión con el anuncio, la oferta de venta o la venta de un producto, mercancía, bien o servicio en el mercado.
- i) Propósitos publicitarios – el uso de la imagen de una persona al difundir o informar al público sobre un bien o servicio en el mercado a través de los medios de comunicación, incluyendo el uso en los anuncios institucionales.
- j) Sátira - expresión cuyo objeto es censurar o poner en ridículo a alguien o algo, utilizando la imagen sin alteración o transformación.

Artículo 3. – Causa de Acción

Cualquier persona natural o jurídica que utilice la imagen de otra persona con fines o propósitos comerciales, mercantiles o publicitarios, sin el consentimiento previo de ésta, de la persona que posea una licencia sobre tal imagen, de los herederos en caso de haber fallecido o del agente autorizado de uno de éstos, responderá por los daños causados.

En el evento de no obtenerse el consentimiento requerido en esta Ley, la persona afectada podrá presentar una acción para detener la utilización de dicha imagen y para recobrar los daños causados, incluyendo regalías dejadas de devengar o cualquier pérdida económica resultante de la violación del derecho aquí establecido.

Artículo 4. – Remedios

El propietario del derecho a la propia imagen que encuentre que el mismo ha sido violentado tendrá disponible el remedio de interdicto, así como una acción en daños y perjuicios. El Tribunal fijará la cuantía de los daños tomando como base los siguientes elementos: el beneficio bruto que hubiera obtenido la parte infractora mediante el uso de la imagen en cuestión; el importe de la ganancia que la persona perjudicada hubiere dejado de percibir como resultado de la actuación de la parte demandada; el valor del menoscabo que la actuación del demandado le hubiera ocasionado al demandante; y cualquier otro factor que a juicio del tribunal cuantifique adecuadamente los daños.

El tribunal, en su discreción, podrá fijar la cuantía de los daños en una cantidad que no exceda tres (3) veces la ganancia del demandado y/o la pérdida del demandante cuando determine que la violación fue intencional o de mala fe.

En la alternativa, el demandante podrá optar por solicitarle al tribunal, daños estatutarios. Los daños estatutarios podrán fijarse en una cuantía no menor de \$750 ni mayor de \$20,000 por violación, según el tribunal lo considere justo. En un caso en el cual el tribunal determine que la violación fue intencional o debido a una negligencia crasa, el tribunal, en su discreción, podrá aumentar la cuantía de

daños estatutarios a una suma no mayor de \$100,000 por violación. Cada violación bajo estos daños estatutarios será equivalente al acto de la utilización ilegal de la imagen del reclamante en un trabajo, independiente del número de copias que se hagan del trabajo en cuestión en un momento dado.

Además, si el caso se resuelve a favor del titular del derecho, el tribunal siempre fijará la cuantía de las costas, honorarios y gastos del pleito a favor de éste.

Cuándo el tribunal determine que el demandado desconocía y no tenía razón para saber o creer que sus actos constituían una violación a los derechos del demandante, el tribunal, en su discreción, podrá reducir la cuantía de daños.

Los remedios provistos por este Artículo son en adición a los remedios provistos por cualquier otro estatuto estatal o federal aplicable.

Artículo 5. – Transmisibilidad

Los derechos bajo esta Ley son derechos discernibles de propiedad libremente transferibles en todo o en parte a cualquier persona o entidad con personalidad jurídica a través de una transferencia escrita, incluyendo pero no limitándose a un contrato firmado entre las partes, poderes, licencias, donaciones y testamentos, o mediante sucesión intestada.

Artículo 6. – Extensión

El derecho a la propia imagen se extenderá hasta 25 años después de la muerte de la persona, independientemente de si se utilizó para propósitos comerciales durante su vida.

Artículo 7. - Prescripción

Toda acción o procedimiento que se lleve a cabo para hacer cumplir cualquier disposición de esta Ley deberá iniciarse no más tarde de un (1) año a partir de la fecha en que la persona afectada adquirió o debió haber adquirido conocimiento del surgimiento de los hechos que dan pie a la causa de acción que sirve de base para dicha acción o procedimiento.

Artículo 8. – Excepciones

Esta Ley no aplicará bajo las siguientes circunstancias:

- (a) Cuando se utilice la imagen de una persona en cualquier medio como parte de un reportaje noticioso, expresión política, transmisión de evento deportivo o artístico, o una presentación que tenga un interés público legítimo, y en donde no sea utilizada con propósitos comerciales o publicitarios.
- (b) Cuando se utilice la imagen de una persona como parte de una sátira o parodia, en donde el propósito principal del uso de la imagen no sea uno comercial o publicitario.
- (c) Cuando se utilice la imagen con propósitos de crítica o comentario, académicos o investigativos, siempre que dicha utilización no constituya una explotación encubierta de la imagen protegida.
- (d) Cuando se utilice la imagen de una persona accesoria.

Artículo 9. – Aplicabilidad

Esta Ley aplica a cualquier acto o evento que ocurra dentro de los límites territoriales de Puerto Rico, independientemente del domicilio, residencia o ciudadanía de la persona.

Artículo 10. – Inmunidad Limitada

Los dueños o empleados de cualquier medio, incluyendo pero sin limitarse a, periódicos, revistas, vallas publicitarias, internet y estaciones de radio o televisión, en el que aparezca la imagen de una persona en violación de esta Ley, no será responsable excepto en el caso que se establezca que tenían conocimiento de que el uso de esa imagen se hizo sin la autorización requerida por esta Ley.

Artículo 11. – Cláusula de Separabilidad

Si cualquier cláusula, párrafo, artículo, sección, inciso o parte de esta Ley fuere declarada inconstitucional por un tribunal competente, la sentencia a tal efecto dictada no afectará, perjudicará ni invalidará el resto de la misma. El efecto de dicha sentencia quedará limitado a la cláusula, párrafo, artículo, sección, inciso o parte de la misma que así hubiere sido declarada inconstitucional.

Artículo 12. – Vigencia

Esta Ley comenzará a regir inmediatamente después de su aprobación.

EN EL TRIBUNAL SUPREMO DE PUERTO RICO

<p>Roberto Vigoreaux Lorenzana y Mary Ann Cortés Camacho, etc.</p> <p>Demandantes-Apelantes</p> <p>vs.</p> <p>Quizno's Sub, Inc.; Aprendo Strada, Inc. y Otros</p> <p>Demandados-Apelados</p>	<p>Certiorari</p> <p>2008 TSPR 38</p> <p>173 DPR _____</p>
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Número del Caso: AC-2007-21

Fecha: 29 de febrero de 2008

Tribunal de Apelaciones:

Región Judicial de San Juan - Panel IV

Juez Ponente:

Hon. Luis Roberto Piñero González

Abogados de la Parte Peticionaria:

Lcdo. René Arrillaga Armendáriz
Lcdo. Ricardo Arrillaga Armendáriz
Lcdo. Rafael E. Silva Almeyda

Abogados de la Parte Recurrída:

Lcda. Dora M. Peñagaricano Suárez
Lcdo. José M. Couto-LLinás

Materia: Daños y Perjuicios

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EN EL TRIBUNAL SUPREMO DE PUERTO RICO

Roberto Vigoreaux Lorenzana
y Mary Ann Cortés Camacho,
etc.

Demandantes-Apelantes

v.

AC-2007-21 Certiorari

Quizno's Sub, Inc.; Aprendo
Strada, Inc. y Otros

Demandados-Apelados

Opinión del Tribunal emitida por el Juez Presidente señor
Hernández Denton

San Juan, Puerto Rico, a 29 de febrero de 2008.

En el caso de epígrafe nos corresponde establecer un delicado balance entre dos derechos constitucionales importantes: la libertad de expresión, en una situación en que la expresión impugnada es de naturaleza comercial; y el derecho a la intimidad, en su vertiente del derecho a la propia imagen. Por entender que, en las circunstancias particulares de este caso, el derecho a la intimidad consagrado en la Constitución del Estado Libre Asociado de Puerto Rico y el derecho patrimonial a la propia imagen del Sr. Roberto Vigoreaux prevalecen sobre los intereses comerciales de Quizno's Sub, Inc., revocamos el dictamen recurrido.

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I.

Los hechos de este caso no están en controversia. Como parte de una campaña publicitaria de mercadeo, la cadena de restaurantes de comida rápida Quizno's Sub, Inc. (en adelante, Quizno's) publicó un anuncio en la prensa escrita del país, en el cual aparecían unas fotografías del Sr. Carlos Pesquera Morales y del Sr. Roberto Vigoreaux Lorenzana (en adelante, señor Vigoreaux Lorenzana o el peticionario). Véase Apéndice I. Ambos fueron candidatos que perdieron en las primarias celebradas el 9 de noviembre de 2003 de sus respectivos partidos, apenas cinco días antes de la publicación de la mencionada publicación comercial.¹

El referido anuncio promocionaba un emparedado de pollo que vende Quizno's con la frase "*Para los que se quedaron con las ganas*" sobrepuesta entre las dos fotografías. Debajo de éstas, se encontraba una imagen del sándwich y la frase "*Vuelve el delicioso Chicken Carbonara*".² Surge del expediente que Aprendo Strada, Inc., representante de Quizno's en Puerto Rico, no solicitó autorización ni le pagó dinero alguno al señor Vigoreaux Lorenzana para utilizar su imagen en el mencionado anuncio. Tampoco lo hizo J. Walter

¹ El señor Vigoreaux Lorenzana era candidato a la alcaldía de San Juan por el Partido Popular Democrático, mientras que el señor Pesquera Morales era candidato a la gobernación de Puerto Rico por el Partido Nuevo Progresista.

² Dicho anuncio se publicó en una página completa del periódico El Nuevo Día. Ambas fotografías ocupaban más de dos terceras partes del anuncio. Además, en letras pequeñas insertadas en la esquina inferior izquierda, se anunciaba lo siguiente: "*Lleva este anuncio hoy a tu Quizno's favorito y recibe \$2 de descuento en el delicioso Chicken Carbonara*".

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Thompson, agencia de publicidad a cargo de las cuentas publicitarias de Quizno's en Puerto Rico.³

En virtud de lo anterior, el señor Vigoreaux Lorenzana, su esposa Mary Ann Cortés Camacho, la sociedad legal de gananciales compuesta por ambos y Vigomar, Inc. presentaron una demanda de daños y perjuicios contra Quizno's, Aprendo Strada, Inc., J. Walter Thompson y otros (en adelante, Quizno's o los recurridos) ante el Tribunal de Primera Instancia. En dicha demanda, arguyeron que la reproducción de la imagen del señor Vigoreaux Lorenzana por parte de los codemandados se hizo sin su autorización expresa o tácita y sin que éste hubiese recibido compensación alguna por su uso. Por tanto, adujeron que la publicación del anuncio violó el derecho a la propia imagen y el derecho de publicidad del señor Vigoreaux Lorenzana. En vista de ello, solicitaron el pago de \$500,000.00 como resarcimiento por los daños morales sufridos a base de la alegada exposición del señor Vigoreaux Lorenzana a la vergüenza y humillación, y por los daños económicos alegadamente sufridos como consecuencia de la apropiación de su imagen comercial sin obtener el consentimiento correspondiente.

Luego de varios incidentes procesales, el foro de instancia dictó sentencia sumaria a favor de Quizno's y los demás codemandados. Específicamente, el tribunal sentenciador determinó que el señor Vigoreaux Lorenzana era

³ Se desprende del expediente que tampoco se obtuvo el consentimiento del señor Pesquera Morales, ni que se le remuneró por la publicación del anuncio.

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una figura pública por su participación en la palestra política en el momento de la publicación del anuncio y que, por tanto, era inmeritorio su reclamo de derecho a su propia imagen, toda vez que la publicación de la fotografía se encuentra en la llamada esfera de la historia contemporánea. Además, concluyó que el señor Vigoreaux Lorenzana no podía invocar su derecho a la intimidad ni reclamar daños por alegadamente haber sido objeto de humillación y burla, dado que el referido anuncio constituyó una parodia o sátira política protegida por el derecho a la libertad de expresión que cobija a los codemandados.

Inconforme, el señor Vigoreaux Lorenzana, su esposa, y Vigomar, Inc., acudieron ante el Tribunal de Apelaciones, el cual confirmó la sentencia apelada. En síntesis, dicho foro concluyó que en el balance de intereses, el derecho de intimidad del señor Vigoreaux Lorenzana cede ante el derecho a la libertad de expresión comercial de Quizno's y los demás codemandados. Determinó, al igual que el Tribunal de Primera Instancia, que el anuncio en referencia constituye una sátira política cuya divulgación está protegida por el derecho constitucional a la libertad de expresión, a pesar de su claro propósito comercial o lucrativo. Además, adujo que como la fotografía publicada no revelaba aspectos íntimos y privados del señor Vigoreaux Lorenzana, a éste no le amparaba expectativa de intimidad alguna.

Por no estar de acuerdo con dicho dictamen, el señor Vigoreaux Lorenzana, su esposa, y Vigomar, Inc., acuden ante este Tribunal. En esencia, sostienen que el foro apelativo

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incidió al no reconocerle al señor Vigoreaux Lorenzana su derecho a la propia imagen, el derecho a la intimidad y el derecho a la publicidad, aun cuando Quizno's se apropió de su imagen en un anuncio para vender un sándwich con el único objetivo de lucrarse económicamente, obviando así la doctrina de enriquecimiento injusto. Específicamente, el señor Vigoreaux Lorenzana invoca la causal de daños reconocida en Colón v. Romero Barceló, 112 D.P.R. 573 (1982), por violación al derecho a la intimidad en su vertiente del derecho a la propia imagen.

Examinado el recurso, expedimos el auto. Con el beneficio de la comparecencia de todas las partes, procedemos a resolver.

II.

Ninguna ley en nuestro ordenamiento jurídico atiende expresamente la controversia en el caso de autos, a saber, si se infringió el derecho de intimidad y publicidad del señor Vigoreaux Lorenzana al incluir en un anuncio comercial publicado en un periódico de circulación general una foto suya sin su consentimiento, haciendo alusión a su derrota reciente en la contienda primarista. Ante la ausencia de legislación específica, las normas aplicables a este caso son aquéllas derivadas del derecho general de responsabilidad extracontractual que surge del Art. 1802 del Código Civil, 31 L.P.R.A. sec. 5141, lo que -a su vez- se debe enmarcar en los parámetros constitucionales invocados por las partes.

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A.

Sabido es que la Carta de Derechos de la Constitución del Estado Libre Asociado de Puerto Rico protege expresamente el derecho fundamental a la intimidad y dignidad de las personas. Art. II, Secs. 1 y 8, Const. E.L.A., L.P.R.A., Tomo 1, ed. 1999, págs. 257, 301.⁴ En ocasiones anteriores, hemos expresado que éste es un derecho de la personalidad, el cual goza de la más alta protección bajo nuestra Constitución y faculta a su titular a impedir o limitar la intervención de terceros -sean particulares o poderes públicos- contra la voluntad del sujeto. López Tristani v. Maldonado Carrero, res. 8 de septiembre de 2006, 2006 T.S.P.R. 143; Castro Cotto v. Tiendas Pitusa, Inc., 159 D.P.R. 650 (2003).

Dada la primacía y la envergadura de este derecho fundamental, hemos reconocido que la protección a lo privado opera *ex proprio vigore* y puede hacerse valer entre personas privadas, eximiéndolas así del requisito de acción estatal necesario para activar los derechos constitucionales de los ciudadanos. López Tristani v. Maldonado Carrero, *supra*; López Rivera v. E.L.A., res. 11 de julio de 2005, 2005 T.S.P.R. 102; Cotto v. Tiendas Pitusa, Inc., *supra*, pág. 658; Vega

⁴ El derecho a la intimidad está expresamente consagrado en la Sección 8 del Artículo II de nuestra Constitución, el cual dispone que "[t]oda persona tiene derecho a [la] protección de [la] ley contra ataques abusivos a su honra, a su reputación y a su vida privada o familiar". Art. II Sec. 8, Const. E.L.A., *supra*. Por su parte, la Sección 1 del Artículo II establece la inviolabilidad de la dignidad del ser humano como principio básico que inspira los demás derechos incluidos en la Carta de Derechos. Véase Vega Rodríguez v. Telefónica de P.R., 156 D.P.R. 584, 601 (2002); Soc. de Gananciales v. Royal Bank de P.R., 145 D.P.R. 308 (1998).

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Rodríguez v. Telefónica de P.R., *supra*, pág. 600-01 (2002); Arroyo v. Rattan Specialties, 117 D.P.R. 35, 64 (1986); Colón v. Romero Barceló, *supra*, pág. 575. Tal protección es necesaria no tan sólo para que se pueda lograr una adecuada paz social o colectiva, sino para alcanzar una calidad mínima de la vida humana, al mantener un reducto de ésta fuera del alcance de terceros. López Tristani v. Maldonado Carrero, *supra*; Arroyo v. Rattan Specialties, *supra*, pág. 62. Es por ello que el derecho a la intimidad se puede hacer valer mediante una demanda por daños al amparo del Art. 1802 del Código Civil de Puerto Rico, *supra*, de forma tal que se pueda resarcir al agraviado por los perjuicios causados al violar el deber de no intervenir con la vida privada de los demás. Véanse Castro Cotto v. Tiendas Pitusa, Inc., *supra*, pág. 659; Soc. de Gananciales v. Royal Bank de P.R., *supra*, pág. 201-202, citando a Colón v. Romero Barceló, *supra*.

A la luz de los hechos particulares de este caso, reiteramos que el derecho de daños en Puerto Rico se rige, tanto en su forma como en su contenido, por el sistema del derecho civil. Valle v. American International Insurance Co., 108 D.P.R. 692 (1979). Por tanto, y a tenor con la normativa constitucional examinada, es menester señalar que la doctrina civilista reconoce el derecho a la propia imagen como un derecho de la personalidad, protegido por principios constitutivos del ordenamiento jurídico. En primer lugar, se considera como imagen la proyección o representación de la figura humana mediante cualquier procedimiento o técnica de reproducción. A su vez, la imagen propia constituye un

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atributo fundamental con el cual se individualiza socialmente a la persona; es decir, es parte integral de la identidad del sujeto representado. López Tristani v. Maldonado Carrero, *supra*.

A tales efectos, el tratadista Eduardo Vázquez Bote explica que “[s]obre esa imagen se reconoce un derecho, inherente a la personalidad, que sólo puede actuar, normalmente, el sujeto de la imagen misma”. E. Vázquez Bote, Los denominados derechos de la personalidad, Boletín Mexicano de Derecho Comparado, Año VI, Núm. 18, Septiembre-Diciembre, 1973, pág. 425. En vista de ello, hemos expresado que la propia imagen es digna de tutela por su estrecha relación con la intimidad de la persona como con su honor. López Tristani v. Maldonado Carrero, *supra*; C. Fernández Sessarego, Derecho a la identidad personal, Editorial Astrea, Buenos Aires, Argentina, 1992, sec. 17, págs. 138-142; J. Santos Briz, La responsabilidad civil, Ed. Montecorvo, Madrid, España, 1993, vol. I, págs. 199-201.

A pesar de que ninguna ley especial ni el Código Civil de Puerto Rico contempla expresamente el derecho a la propia imagen, este Tribunal ha reconocido el mencionado derecho subjetivo para configurar una causa de acción en daños por violación al derecho a la intimidad, el cual, según indicamos, surge expresamente de la Constitución del Estado Libre Asociado de Puerto Rico. Const. ELA. Art. II, Secs. 1 y 8, *supra*. En esencia, hemos establecido que toda persona tiene derecho a controlar dónde, cuándo y cómo se le toma una fotografía o se reproduce de cualquier forma su imagen.

Bonilla Medina v. Partido Nuevo Progresista, 140 D.P.R. 294 (1996); Cólon v. Romero Barceló, *supra*.

Al reconocer el derecho a la propia imagen como una vertiente del derecho a la intimidad en Bonilla Medina v. PNP, *supra*, pág. 301, y Cólon v. Romero Barceló, *supra*, pág. 578, expresamos que

[e]n virtud de este derecho toda persona puede oponerse a que se reproduzca su efigie o se obtengan pruebas fotográficas de la misma, por personas a quienes no hayan concedido autorización expresa o tácita [...]. La autorización para hacer una fotografía no incluye la autorización para publicarla, ya que la publicación afecta la personalidad del interesado más intensamente que el simple hecho de retratarlo. La autorización para ser publicada puede incluir alguna limitación cuya amplitud se determinará según la interpretación del caso concreto. Citando a J. Santos Briz, El Derecho de Daños, Madrid, Ed. Rev. Der. Privado, 1963, págs. 178-179.

A su vez, en tales pronunciamientos reconocimos la existencia de varias defensas oponibles a esta causa de acción, al señalar que se considera admisible, sin perjuicio de otras causas de justificación, la publicación o la toma de fotografías en la esfera llamada de historia contemporánea (*aus dem Bereich der Zeitgeschichte*) no referida a la vida privada, o cuando reproduzcan reuniones, manifestaciones u otros actos públicos semejantes o sucesos o localidades públicos en los que la persona fotografiada sea una figura accesoria. Bonilla v. PNP, *supra*, pág. 302; Cólon v. Romero Barceló, *supra*, pág. 578; citando a J. Santos Briz, *supra*.

Además, en ambos casos concluimos que se admite la publicación de fotografías hechas sin petición del interesado cuando así lo justifique un interés público o un serio

interés artístico, o cuando el derecho constitucional a la libertad de expresión del demandado prevalezca sobre los intereses del sujeto fotografiado. *Id.* Véase además, L. Díez-Picazo & A. Gullón, Sistema de Derecho Civil, Tecnos, 1992, pág. 377.

A tenor con lo anterior, señalamos que toda lesión de la personalidad es antijurídica salvo que concurra una causa de justificación o el consentimiento del afectado, o que el acto se considere socialmente adecuado por ser conforme a derecho en atención a la ordenación ético social de la vida en común. Cólon v. Romero Barceló, *supra*, pág. 580; citando a J. Santos Briz, *supra*, págs. 165-166. No obstante, también aclaramos que aun en estos casos no debe tolerarse tomar o publicar una fotografía cuando a ello se oponga un interés legítimo, como lo sería el derecho a la intimidad del fotografiado. Igualmente, debe considerarse inadmisibile la publicación de una fotografía cuando la toma de la misma haya violado intereses dignos de una protección predominante.

Ahora bien, el derecho a la propia imagen en otras jurisdicciones no se limita a ser considerado como una vertiente derivada del derecho a la intimidad. A diferencia de la normativa mencionada, Castán propone que la tutela de la imagen se manifiesta como una forma o derivación de la protección del honor. J. Castán Tobeñas, Los derechos de la personalidad, Revista General de Legislación y Jurisprudencia, Tomo XXV, 1952, pág. 56. Por tanto, el mencionado derecho se violenta sólo cuando su publicidad o difusión cause una injuria u ofensa a la personalidad, sin

que necesariamente se interfiera con la intimidad del sujeto. Según Castán, esta normativa doctrinal ha sido adoptada en el ordenamiento de varios países civilistas.⁵

Por otro lado, la tendencia actual predominante -tanto en el derecho civil como en el derecho común anglosajón- es el reconocimiento de la protección de la imagen como un derecho independiente.⁶ Este derecho otorga a su titular la facultad *erga omnes* de excluir la reproducción y publicación de la propia imagen por un tercero que carece del consentimiento para ello, al dar pie a la responsabilidad extracontractual del que publica y reproduce la misma. De acuerdo a esta interpretación, no se trata de una mera protección frente al autor de la fotografía, sino de un límite al derecho de libertad de expresión de la ciudadanía. Véase X. O'Callaghan, Libertad de expresión y sus límites: honor, intimidad e imagen, Ed. Revista de Derecho Privado, Madrid, 1991, pág. 117-118. A pesar de la naturaleza autónoma del derecho a la propia imagen, en esta corriente doctrinal, el Tribunal Constitucional español ha expresado que éste es "un derecho de la personalidad, derivado de la dignidad humana y dirigido a la protección del patrimonio moral de las personas". STC

⁵ Véase, a modo comparativo, Art. 10, Código Civil de Italia; Art. 31, Ley de Propiedad Intelectual de Argentina.

⁶ En España, el derecho a la propia imagen es de jerarquía constitucional. Art. 18.1, Const. española 1978. Además, existe una ley especial que tipifica como intromisión ilegítima la utilización de la imagen de una persona para fines publicitarios, comerciales o de naturaleza análoga. Ley de 5 de mayo 1982. Véanse además, F. Herrero-Tejedor, Honor, Intimidad y Propia Imagen, Editorial Colex, 2ª ed., Madrid, 1994, pág. 100; J. Royo Jara, La Protección del Derecho a la

14/2003, de 28 de enero de 2003. Véase además, STC 81/2001, de 26 de marzo de 2001; STC 99/1994, de 11 de abril de 1994.

De otro modo, en la doctrina civilista se ha planteado la existencia de un derecho patrimonial a la imagen, relativamente ajeno al derecho de la personalidad. Ésta es la normativa que ha adoptado la jurisprudencia federal y el derecho común de gran parte de los estados, bajo la figura del derecho a la publicidad (“right of publicity”).⁷ Al amparo de esta protección patrimonial, que se caracteriza como un derecho de propiedad intelectual, el sujeto tiene derecho a participar económicamente en la comercialización de su propia imagen, su nombre o su parecido. S. Dogan & M. Lemley, What the right of publicity can learn from trademark law, 58 Stan. L. Rev. 1161 (2006); F. Igartúa Arregui, La apropiación comercial de la imagen y de los nombres ajenos, Tecnos, Madrid, 1991, págs. 76-98; X. O’Callaghan, *supra*.

Aunque se puede decir que el valor económico de la imagen de una persona es de naturaleza intangible, ésta puede tener un valor comercial o publicitario que responda a las características y esfuerzos particulares de la persona en un ámbito determinado. En el mundo contemporáneo, la explotación de las imágenes de artistas y celebridades es indudablemente un gran negocio, que se utiliza constantemente en los mercados lucrativos de publicidad. A su vez, la utilización

Propia Imagen, Editorial Colex, Madrid, 1987; Arts. 22 y 23, Kunsturhebergesetz, Ley de Creación Artística Alemana (KUG).

⁷ En algunos estados el derecho a la publicidad es de naturaleza estatutaria. Véase California Civil Code Sec.

no autorizada de la imagen de una persona para propósitos comerciales, sin su remuneración o consentimiento, generalmente da lugar a una causa de acción en daños por violación al derecho a la publicidad de la persona afectada. R. Schechter & J. Thomas, Intellectual Property: The Law of Copyrights, Patents and Trademarks, Thomson & West, 2003, págs. 263-269.⁸

De hecho, cabe señalar que el derecho patrimonial a la propia imagen -o el derecho a la publicidad- también se ha enraizado en el derecho a la intimidad. R.A. Epstein, Torts, Sec. 19.3 (1999). En su célebre e influyente artículo sobre la intimidad, el decano Prosser demostró que la "privacidad" es un término sombrilla que incluye cuatro diversas causas de acción que dan lugar a la imposición de responsabilidad extracontractual. W. L. Prosser, Privacy, 48 Cal. L. Rev. 383 (1960). Éstas incluyen, a saber, la protección del individuo

3334.1; Virginia Code Sec. 8.01-40. En otros estados, la doctrina se ha desarrollado mediante jurisprudencia.

⁸ A tales efectos, la doctrina sugiere que en estos casos existen daños económicos como consecuencia de una disminución de los ingresos que pudieron haberse obtenido por la participación consentida del individuo en ese mercado de publicidad; o por causa de un enriquecimiento injusto del que ha obtenido beneficios a costa de las características de la identidad de otra persona sin compensarle por ello. Para un análisis económico del derecho patrimonial a la propia imagen, véase E. Amat. Llari, El derecho a la propia imagen y su valor publicitario, La Ley, Madrid, 1992, págs. 19-23. Véase además, R. Posner, Economic Analysis of Law, 6ta ed. Aspen Publishers, New York, 2003, págs. 42-43. Al hacer el cómputo del valor comercial de la imagen para resarcir los daños económicos, se pueden tomar en cuenta, como variables reductoras de la indemnización, los beneficios derivados por el sujeto a raíz de la publicación. Éste sería el caso de un candidato político que se beneficia de la publicidad positiva, aunque sea para fines comerciales y lucrativos de

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contra la intromisión indebida en su vida privada; la prohibición de revelar o divulgar aspectos privados e íntimos de la persona, ocasionando vergüenza y humillación como consecuencia de su publicación; y la responsabilidad por distorsionar y representar bajo una falsa luz las características individuales de la persona, sacando públicamente de contexto sus posturas o pronunciamientos sin que medie justificación alguna. Por último, y en lo pertinente, **el derecho a la intimidad incluye una causa de acción contra todo aquel que se apropia indebidamente del nombre, imagen, o parecido de una persona para propósitos lucrativos o comerciales.**⁹

B.

Por otra parte, la Carta de Derechos de la Constitución del Estado Libre Asociado de Puerto Rico consagra la libertad de expresión como uno de los valores de la más alta jerarquía constitucional, al disponer que “[n]o se aprobará ley alguna

un tercero. Véase, a modo ilustrativo, Paulsen v. Personality Postres, 59 Misc. 2d. 444, 299 N.Y.S. 2d 501 (1968).

⁹ Esta causa de acción por violación al derecho a la publicidad fue reconocida como una causa de acción derivada del derecho a la intimidad en Zacchini v. Broadcasting Co., 433 U.S. 562 (1977). En ese caso, el Tribunal Supremo Federal hizo un balance entre los intereses económicos que emanan de la identidad de una celebridad y el interés público en la publicación no autorizada y no remunerada de su imagen. El Tribunal Supremo Federal determinó que tal apropiación de la imagen del demandante fue indebida y constituyó una violación a su derecho patrimonial a la propia imagen. No obstante, en ese caso queda claro la dicotomía entre la causa de acción por virtud del derecho a la intimidad, el cual protege contra las angustias mentales que resultan de publicidad no deseada; y el derecho a la publicidad, el cual protege intereses pecuniarios y no emocionales. Véase, a modo ilustrativo, Ventura v. Titan Sports, Inc., 65 F.3d 725, 730 (8vo Cir. 1995).

que restrinja la libertad de palabra o el derecho del pueblo a reunirse en asamblea pacífica y a pedir al gobierno la reparación de agravios". Art. II, Sec. 4, Const. E.L.A., *supra*. Este Tribunal ha expresado reiteradamente que la libertad de expresión es una "raíz indiscutible del sistema democrático de gobierno". Bonilla v. PNP, *supra*, pág. 299; Mari Bras v. Casañas, 96 D.P.R. 15, 20-21 (1968). A su vez, hemos establecido en casos de daños y perjuicios derivados del derecho a la intimidad que la libertad de expresión también puede ser una defensa, pues el ejercicio legítimo de un derecho es una causa de exclusión de antijuridicidad que elimina la culpa. Véanse Bonilla v. PNP, *supra*; Colón v. Romero Barceló, *supra*.¹⁰

En armonía con esta normativa, hemos enfatizado que la expresión política debe recibir el más alto grado de protección constitucional en nuestra sociedad pluralista. El libre intercambio de ideas, opiniones e información sobre los procesos gubernamentales y políticos permite que la toma de decisiones se realice de manera democrática. Bonilla v. PNP, *supra*. Por tanto, es evidente la preeminencia de la expresión política dentro de la protección constitucional a la libertad de expresión.

Ahora bien, es preciso distinguir entre la expresión política y la expresión comercial en nuestro ordenamiento constitucional. Hemos expresado anteriormente que el valor

¹⁰ Véase además, R. Colón Cortés, Reconstruyendo la casa de cristal: la responsabilidad civil extracontractual derivada de los daños ocasionados al derecho a la intimidad, 72 Rev. Jur. U.P.R. 695 (2003).

superior otorgado a la libertad de expresión “no supone una irrestricción absoluta, de forma que no pueda subordinarse a otros intereses cuando la necesidad y conveniencia pública lo requieran”. Muñiz v. Administrador del Deporte Hípico, 156 D.P.R. 18, 24 (2002); Bonilla v. PNP, *supra*, pág. 300; Mari Brás v. Casañas, *supra*, pág. 21. Sin embargo, también hemos señalado que las limitaciones a la libertad de expresión serán interpretadas restrictivamente, de manera que no abarquen más de lo imprescindible. Muñiz v. Administrador del Deporte Hípico, *supra*; Velázquez Pagán v. A.M.A., 131 D.P.R. 568, 577 (1992).

Aunque no cabe duda que la expresión para fines lucrativos y comerciales se encuentra bajo el ámbito de protección de las constituciones de Puerto Rico y de los Estados Unidos, ésta puede ser regulada sustancialmente por el Estado con mayor facilidad. Véase In re Gervitz Carbonell, res. 28 de julio de 2004, 2004 T.S.P.R. 141. El propósito fundamental de este tipo de expresión es promover una transacción comercial, no necesariamente el libre intercambio de ideas. Por tanto, la expresión comercial está sujeta a una protección constitucional menos rigurosa que otras formas de expresión, como lo es la expresión política.¹¹

¹¹ Véase, a modo ilustrativo, Bd. of Trustees v. Fox, 492, U.S. 469 (1989); Posadas de Puerto Rico Associates v. Tourism Co. Of Puerto Rico, 478 U.S. 328 (1986); Va. Pharmacy Bd. v. Va. Consumer Council, 425 U.S. 748 (1976), Capital Broadcasting Co. V. Mitchell, 333 F. Supp. 582. (D.D.C. 1971), 405 U.S. 1000 (1972). Además, el Tribunal Supremo Federal ha sugerido que si se utiliza un mensaje social para la promoción de un producto o marca, el mensaje en su

Por último, reiteramos que la libertad de expresión se puede aducir en pleitos entre particulares. Colón v. Romero Barceló, *supra*, pág. 582; ELA v. Hermandad de Empleados, 104 D.P.R. 436 (1975); Sucn. de Victoria v. Iglesia Pentecostal, 102 D.P.R. 20 (1974). En los referidos casos, sopesamos los intereses envueltos -a saber, la libertad de expresión y el derecho a la intimidad- para determinar cuál derecho prevalece a base de las circunstancias particulares de la controversia.

En esta ocasión, precisamente, nos corresponde establecer un balance entre los intereses de la libre expresión de Quizno's y los intereses del señor Vigoreaux Lorenzana sobre su intimidad e imagen propia.

III.

A.

El señor Vigoreaux Lorenzana alega que sufrió una violación del derecho a la propia imagen, del derecho a la intimidad y de su derecho de publicidad por la publicación de su fotografía en un anuncio comercial sin su consentimiento. Antes de dilucidar la tensión imperante entre los intereses constitucionales invocados por las partes, debemos evaluar la aplicación de alguna de las causas de justificación y las defensas oponibles al derecho a la propia imagen que reconocen nuestra jurisprudencia y la doctrina civilista.

totalidad constituye una expresión comercial. Bolger v. Youngs Drug Products Corp., 463 U.S. 60 (1983).

Tanto los codemandados como los foros apelativos aducen que la fotografía publicada se encuentra en la llamada esfera de historia contemporánea, conforme a nuestros pronunciamientos en Bonilla v. PNP, *supra*, y Colón v. Romero Barceló, *supra*. En dichos casos, expresamos que la publicación o la toma de fotografías como medio para difundir la historia contemporánea, cuando no se trate de la vida privada del objeto del individuo, no conllevará responsabilidad extracontractual. En tales supuestos, se entendería que el derecho a la propia imagen cede ante el interés público apremiante de acceso a la información y la divulgación de ideas. A su vez, también expresamos que la doctrina civilista permite tomar o publicar la fotografía de una persona, aun sin su consentimiento, cuando ésta sea una figura accesoria en alguna reunión, manifestación u otro acto o suceso público.¹²

En el caso de autos, surge del expediente que la fotografía del señor Vigoreaux Lorenzana publicada en el anuncio de Quizno's no es, ni se obtuvo, de forma escandalosa. A diferencia de Colón v. Romero Barceló, *supra*, no se trata de una foto grotesca utilizada para "capitalizar" a costa del dolor ajeno. La mencionada fotografía había sido publicada anteriormente en un periódico de circulación general, y no revelaba aspectos privados o íntimos del señor

¹² A raíz de ello, la causa de acción por el derecho a la propia imagen en Bonilla no procedió, entre otras razones, porque el demandante era una figura accesoria en el anuncio político publicado por la campaña del gobernador Pedro Rosselló González, y la fotografía se tomó en el contexto de un evento público.

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Vigoreaux Lorenzana. Sin embargo, a pesar de que en el caso de epígrafe la fotografía se tomó en un evento público, la efigie del señor Vigoreaux Lorenzana no era una figura accesoria ni en el anuncio ni en la propia imagen fotográfica publicada por Quizno's. Todo lo contrario, las fotografías del señor Vigoreaux Lorenzana y del señor Pesquera Morales ocupan una posición céntrica y prominente en el anuncio de referencia.¹³ De hecho, cada fotografía ocupa casi la mitad del mencionado anuncio, que a su vez constituyó media página del periódico El Nuevo Día.

Por otro lado, no se desprende del expediente, ni ha sido alegado por las partes, que la fotografía ostente un serio interés artístico que justifique su publicación sin el consentimiento del peticionario. Mucho menos se trata de una fotografía que se publica por razón de interés público. Conforme a nuestros pronunciamientos en Cólon v. Romero Barceló, *supra*, pág. 581, la causa de exclusión de antijuridicidad referente al interés público "prevalece cuando la intromisión a la intimidad es necesaria e inevitable y constituye el medio más adecuado para obtener un fin lícito". Claramente, la expresión comercial de Quizno's en controversia no fue el medio más adecuado para mercadear

¹³ Además, en Bonilla v. PNP, *supra*, pág. 302, también enfatizamos que aquellos hechos no trataban de una persona que gozaba de amplio reconocimiento en Puerto Rico. Dicha conclusión sustentó el carácter de accesoriedad de la fotografía, por lo que resolvimos que no procedía la concesión de un remedio en daños a favor del señor Bonilla. Tales hechos son claramente distinguibles del caso de autos, pues las partes han estipulado, y es de conocimiento general,

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sus productos, ni tampoco constituyó una intromisión inevitable y necesaria contra el derecho a la propia imagen del señor Vigoreaux Lorenzana.¹⁴

Ahora bien, en vista de que la fotografía no revelaba aspectos de la vida privada del peticionario, y dado que la misma no se tomó de forma escandalosa, el foro apelativo concluyó que el derecho a la intimidad del señor Vigoreaux Lorenzana no fue infringido. Además, adujo que por ser figura pública, “[éste] no podía tener expectativa de privacidad alguna.” Para llegar a esta conclusión, el tribunal apelativo limitó el alcance del derecho a la intimidad a supuestos donde hay una intromisión indebida con los aspectos de la vida privada del demandante. Ciertamente, la publicación de la fotografía no constituyó una interferencia con la esfera íntima y privada de la vida del señor Vigoreaux Lorenzana.

No obstante, y a tenor con la normativa anteriormente expuesta, el derecho a la intimidad también incluye una causa de acción contra todo aquel que se apropia indebidamente del nombre, imagen, o parecido de una persona **para propósitos comerciales**. Al partir de la premisa que los objetivos de Quizno’s en la publicación del anuncio bajo nuestro escrutinio eran evidentemente comerciales, no cabe duda que

que el señor Vigoreaux Lorenzana es una figura pública, conocido en los ambientes de la política y del espectáculo.

¹⁴ Cabe destacar que en gran parte de las jurisdicciones civilistas, las excepciones mencionadas, incluyendo las doctrinas de historia contemporánea (*aus dem Bereich der Zeitgeschichte*) y figuras públicas, no aplican cuando la imagen se utiliza para propósitos comerciales. Véase Gerstenberg, Urheberrecht Kommentar (dir. Schrickler) 1987,

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la diseminación de la fotografía configuró la utilización indebida de la imagen del peticionario. Por tanto, el tribunal apelativo erró al determinar que al señor Vigoreaux Lorenzana no le amparaba el derecho a la intimidad, en la vertiente del derecho a la propia imagen.

Aclarado lo anterior, debemos considerar la validez de la conclusión de los foros recurridos, en el sentido de que el anuncio de referencia constituye una hipérbole retórica, una parodia y una sátira política cuya divulgación está protegida por el derecho constitucional a la libertad de expresión, a pesar de su claro propósito comercial o lucrativo.

B.

En primer lugar, afirmamos nuevamente que la libertad de expresión es una defensa oponible a los casos de derecho a la propia imagen y a los casos de libelo, pues su ejercicio legítimo consiste en una causa de exclusión de antijuridicidad que elimina la culpa. Sin embargo, hemos expresado que no debe confundirse el derecho a la propia imagen con la difamación. Algunos de los rasgos que distinguen la acción en daños derivada de la violación al derecho a la propia imagen del libelo son: (i) que no se trata de una publicación en ejercicio de la libertad de prensa, pues es una persona o entidad particular quien promueve la publicación; (ii) la acción en daños por violación al derecho a la propia imagen no requiere que la

pág. 770 en F. Igartúa Arregui, *supra*, pág. 123-128; E. Amat Llari, *supra*, pág. 65.

reproducción tenga impacto ofensivo alguno, y; (iii) la verdad no es defensa. Pérez Rosado v. El Vocero, 149 D.P.R. 427, 443 (1999).¹⁵

Por tanto, es menester señalar que las causas de justificación invocadas por el foro apelativo y por los recurridos -a saber, la sátira, la parodia y la hipérbole retórica- sólo han sido reconocidas por este Tribunal en casos de libelo, y no en casos de violación al derecho a la propia imagen ni en casos de expresión comercial. Véase Garib Bazain v. Clavell, 135 D.P.R. 475 (1994).¹⁶ En vista de ello, nos corresponde evaluar estas figuras a la luz de los hechos particulares del caso de autos.

A tenor con la casuística del Tribunal Supremo Federal, y a modo ilustrativo, definimos la figura de hipérbole retórica como una expresión alegadamente difamatoria que no es accionable si se utiliza en un sentido figurativo, flexible y

¹⁵ Véase, a modo ilustrativo, Zacchini v. Scripps-Howard Broad. Co., *supra*, pág. 574. En este caso, el Tribunal Supremo Federal indicó que el estándar de malicia real, según elaborado para casos de difamación en New York Times Co. v. Sullivan, 376 U.S. 254 (1965), no aplica a supuestos de derecho a la publicidad.

¹⁶ A tales efectos, y a modo persuasivo, Nowak & Rotunda expresan lo siguiente:

The Supreme Court has not yet held that First Amendment principles should restrict defamation or privacy actions when the subject matter of the action is a commercial performance or commercial information. **Invasion of an individual's right of publicity for commercial purposes may be subjected to greater state regulation than publication of information regarding a person's private life or activity when that publication or activity is unrelated to a commercial venture.** Nowak & Rotunda, Treatise on Constitutional Law: Substance and

no necesariamente por su significado literal. Garib Bazain v. Clavell, *supra*, pág. 486. Es decir, la hipérbole retórica es una defensa oponible a las imputaciones de falsedad o mendacidad de una expresión alegadamente libelosa. Véase, a modo ilustrativo, Greenbelt Pub. Assn. v. Bresler, 398 U.S. 6 (1970).

Claramente, los foros recurridos erraron al aplicar esta doctrina al caso de autos. El presente caso versa sobre el derecho a la propia imagen frente a una expresión comercial y no sobre una causa de acción de difamación o libelo que precise la adjudicación de la falsedad del anuncio publicado. A diferencia de la difamación, la causa de acción por violar el derecho a la propia imagen no está condicionada a la naturaleza falsa de la expresión imputada. Como expresamos en Pérez Rosado v. El Vocero, *supra*, la verdad no es defensa en acciones de responsabilidad civil de esta índole. Por tanto, es impertinente la conclusión del tribunal apelativo en cuanto a que la expresión comercial de Quizno's no puede ser razonablemente interpretada para evocar hechos reales.

De la misma manera, el foro apelativo confunde las doctrinas relacionadas a la parodia y a la sátira política. En el contexto del libelo, hemos señalado que “[e]l humor, sea en forma de sátira, parodia, chistes, etc., rinde una función dual al entretener y servir de crítica social simultáneamente. Como tal, amerita una protección especial en nuestra sociedad.” Garib Bazain v. Clavell, *supra*, pág. 488.

Procedure, Third Edition, West Group, St. Paul, 2007, Sec. 16.36, pág. 502-503.

Aunque surge del expediente que las fotografías del señor Vigoreaux Lorenzana y del señor Pesquera Morales se publicaron en un contexto humorístico, la función principal de la publicación del anuncio no era entretener ni servir de crítica social.¹⁷ El objetivo del anuncio de Quizno's era estrictamente comercial, pues sólo intentaba promover la venta de su nuevo emparedado. De hecho, el propósito comercial de la publicación se desprende del propio anuncio, el cual ofrecía un descuento de dos dólares (\$2) para la compra del sándwich a todo aquel que llevara el anuncio a una sucursal de Quizno's. Como ya señalamos, la expresión comercial está sujeta a una protección constitucional menos rigurosa que otras formas de expresión, como lo eran las expresiones políticas que se encontraban en tensión con el derecho a la propia imagen en los casos de Bonilla, supra, y Colón, supra.¹⁸

¹⁷ Cf. Hustler Magazine v. Falwell, 485 U.S. 46, 50 (1988). En este caso, el Tribunal Supremo Federal denegó una demanda por libelo presentada por Jerry Falwell contra Hustler Magazine, por haber publicado una parodia de un anuncio del licor Campari con una caricatura que representaba al ministro describiendo su "primera experiencia" con el licor como un encuentro incestuoso con su madre en una letrina. La madre del ministro aparecía como una alcohólica promiscua y Falwell como un alcohólico hipócrita. El tribunal expresó que, por naturaleza, las parodias y las caricaturas pueden ser patentemente ofensivas y frecuentemente van dirigidas a herir los sentimientos del sujeto afectado. A pesar de esto, el tribunal reconoció que ambas formas literarias son un elemento muy importante y enriquecedor de la discusión pública y política. A diferencia del caso de autos, la parodia publicada tenía la función inherente de ser una crítica social y no tenía el propósito de promover una transacción comercial. En Hustler, se trataba de una parodia de un anuncio, no de una expresión comercial como tal.

¹⁸ Véase, a modo ilustrativo, White v. Samsung Electronics America, 971 F. 2d 1395 (9no Cir. 1992). En este caso, Vanna

Más aún, cabe destacar que los foros recurridos utilizaron indistintamente las figuras de la sátira y la parodia, confundiendo e ignorando las diferencias de la casuística en cuanto a estas defensas desarrolladas por la doctrina y la jurisprudencia en casos de libelo, libertad de expresión y derechos de autor. Primeramente, la vigésima segunda edición del el Diccionario de la Real Academia Española (2001) define la parodia meramente como una "imitación burlesca". **Claramente, la fotografía del señor Vigoreaux Lorenzana no es una imitación burlesca de otro anuncio, expresión o imagen, por lo que el anuncio, según esta definición, no constituye una parodia.** De otra parte, en el contexto de propiedad intelectual, el Tribunal Supremo Federal ha esbozado que una parodia es aquella expresión que utiliza algunos elementos de la composición original para crear una obra nueva que, por lo menos en parte, comente o se burle directamente de la obra original. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 580 (1994).¹⁹ De acuerdo a esta definición, la fotografía publicada por Quizno's tampoco es una parodia, pues no hay ninguna alteración en la imagen del señor Vigoreaux Lorenzana y no se observa valor

White demandó a Samsung Electronics por violación a su derecho a la publicidad, a base de que este último publicó un anuncio para promover la venta de un VCR utilizando un robot con peluca, vestido y joyas, que jugaba a la ruleta y que gozaba de un gran parecido con la demandante. El noveno circuito determinó que Samsung se había apropiado indebidamente de la identidad de Vanna White y que la parodia no era relevante ante el contenido principal de la expresión comercial, a saber, promover la compraventa del producto anunciado.

transformativo alguno en la publicación de la misma. El mero acto de insertar unas palabras burlescas sobre la fotografía no es suficiente para crear una obra nueva bajo la doctrina de parodia de propiedad intelectual.

Por otro lado, el referido diccionario define la sátira como una “[c]omposición poética u otro escrito cuyo objeto es censurar acremente o poner en ridículo a alguien o algo”. Cónsono con ello, el Tribunal Supremo Federal ha expresado que la sátira utiliza la obra original sin alteración o transformación significativa para criticar otro elemento social, no relacionado necesariamente con la obra original misma, por lo que se requiere mayor justificación para el mero acto de apropiación. Por tanto, la sátira tiene una protección constitucional de menor jerarquía que la parodia, especialmente cuando se utiliza para propósitos lucrativos y comerciales. Campbell v. Acuff-Rose Music, Inc., *supra*, pág. 581.

Es evidente que la fotografía publicada del señor Vigoreaux Lorenzana es una exposición literal de su imagen que no tiene valor transformativo alguno que la convierta en una parodia constitucionalmente protegida para propósitos de la doctrina y la jurisprudencia mencionada.²⁰ Como máximo, se

¹⁹ Véase además, R. Posner, When is parody fair use? 21 J. Leg. Stud. 67 (1992).

²⁰ Cf. Cardtoons L.C. v. Major League Baseball Assoc., 3 F. 3d. 959 (10mo Cir., 1996). En ese caso, las caricaturas de los beisbolistas eran claramente una parodia, con un evidente valor transformativo y artístico. Pese a la naturaleza comercial de las tarjetas, y a diferencia del caso de autos, el propio producto mercadeado por Cardtoons era una parodia, por lo que no se trataba realmente de una expresión

podría considerar que ésta es una sátira con una protección constitucional muy limitada, dado el propósito comercial y mercantilista de la publicación del anuncio. El valor económico del anuncio publicado por Quizno's, en el contexto del mercadeo de bienes comerciales, se deriva principalmente de la fama y notoriedad del señor Vigoreaux Lorenzana y del señor Pesquera Morales. Al ser candidatos derrotados, tampoco se puede aducir que éstos derivaron algún beneficio electoral por la publicación del anuncio. Además, no existe un interés legítimo en que los recurridos obtengan de gratis algún aspecto del peticionario que tiene valor comercial en el mercado y que, de ordinario, tendrían que pagar y obtener su consentimiento para su utilización. Kalven, Privacy in Tort Law Were Warren and Brandeis Wrong?, 31 Law & Contemp. Prob. 326, 331 (1966).

Por último, es menester aclarar que la condición de figura pública no priva por completo al individuo de su expectativa a la intimidad, como parece sugerir el tribunal apelativo. Este Tribunal ha señalado que catalogar a un demandante como "figura pública" significa "que para prevalecer en un pleito de difamación se le someterá a un criterio más riguroso de prueba, que su derecho a la intimidad pesa menos que el derecho de otros a la libre expresión, a menos que demuestre la existencia en éstos de malicia real". Garib Bazain v. Clavell, *supra*, pág. 483;

comercial. Véase además, a modo ilustrativo, ETW Corp. v. Jireh Publ'g, Inc. 332 F.3d 915, 918 (6^{to} Cir. 2003); Hoffman v. Capital Cities/ABC, Inc. 255 F3d. 1180 (9^{no} Cir. 2001);

Clavell v. El Vocero de P.R., 115 D.P.R. 685, 692-693 (1984).

En ningún momento hemos expresado que la figura pública pierde su intimidad por completo, ni mucho menos que su personalidad es de dominio público para propósitos comerciales.²¹

Además, en ocasiones anteriores hemos expresado que ante un reclamo de violación a este derecho constitucional, "[l]a cuestión central es si la persona tiene un derecho razonable a abrigo, donde sea, dentro de las circunstancias del caso específico, la expectativa de que su intimidad se respete". Cotto v. Tiendas Pitusa, Inc., *supra*, pág. 659; citando a E.L.A. v. P.R. Tel. Co., *supra*, pág. 402. Es decir, lo que constituye un ataque abusivo o una intromisión a la intimidad dependerá de las circunstancias particulares en que se manifiesta la acción estatal o personal, y la naturaleza del

Comedy III Productions, Inc. v. Gary Saderup, Inc., 25 Cal. 4th 387, 21 P.3d 797, 106 Cal. Rptr. 2d 126 (2001).

²¹ Véase, a modo comparativo, Von Hannover v. Alemania, 40 T.E.D.H. 1 (24 de junio de 2004). En ese caso, la princesa Carolina de Mónaco acudió en alzada al Tribunal Europeo de Derechos Humanos para impugnar una sentencia del Tribunal Constitucional alemán que denegó la expedición de un *injunction* para paralizar la publicación de unas fotografías suyas -tomadas en lugares públicos y semipúblicos- en unas revistas sensacionalistas alemanas, por ésta ser una figura pública (personalidad absoluta de la historia contemporánea). El Tribunal Europeo de Derechos Humanos dictó sentencia en contra de Alemania por no aplicar adecuadamente el delicado balance de intereses entre el derecho a la intimidad de una figura pública y la libertad de expresión de varias revistas sensacionalistas. En síntesis, concluyó que el derecho a la intimidad garantizado por el Artículo 8 del Convenio Europeo de Derechos Humanos cobija a las figuras públicas y prevalece sobre los intereses de las mencionadas revistas, a la luz de que "el elemento determinante, a la hora de establecer un equilibrio entre la protección de la vida privada y la libertad de expresión, debe residir en la contribución que las fotografías y los artículos publicados hacen al debate de interés general". *Id.* 76.

interés privado que se quiere proteger. En otras palabras, el criterio rector para determinar si existe o no la referida protección es si quien la reclama tiene una expectativa legítima a la intimidad bajo las circunstancias particulares y concretas del caso. Cotto v. Tiendas Pitusa, Inc., *supra*, pág. 660.

De conformidad con ello, entendemos que el tribunal apelativo erró al señalar que al trasladarse del mundo del espectáculo a la esfera política, el señor Vigoreaux Lorenzana perdió todo control sobre su intimidad y su imagen comercial. Es cierto que las figuras políticas están sujetas a un escrutinio riguroso sobre sus funciones y capacidades, e incluso sobre su personalidad y carácter. Aunque la expectativa de intimidad del señor Vigoreaux Lorenzana era limitada por su condición de legislador y figura política al momento de los hechos, todavía le amparaba su derecho a la propia imagen.²² Por tanto, esta realidad no inmuniza a las

²² Véase, a modo persuasivo, J. Thomas MacCarthy, The Rights of Publicity and Privacy § 4:23, 2d ed, West Thomson, 2007:

However, all this is not to say that a political figure has less right of publicity when another makes unpermitted use of his or her identity in a commercial, nonpolitical context. For example, a Justice of the United States Supreme Court **should have the same scope of rights and remedies as anyone else against the unpermitted use of identity to draw attention to an ordinary commercial advertisement.** Thus, a Supreme Court Justice should have the right to an injunction and damages if the Ajax Coffee Co. runs a magazine advertisement without permission featuring a photo of the Justice and reading: "Justice Zelda Zak judges hard cases every day, but our coffee tasters have to make just as difficult distinctions in selecting only the finest coffee beans for Ajax Coffee." The fact that

entidades comerciales de responder civilmente por utilizar sin autorización la imagen e identidad de un sujeto para fines estrictamente lucrativos, sin que medie ninguna expresión artística o transformativa, o alguna de las causas de justificación anteriormente mencionadas.

Por todo lo anterior, concluimos que el uso no autorizado de la identidad de una persona para mercadear un producto o proponer una transacción comercial no es permisible y da lugar a una causa de acción por violación al derecho a la propia imagen, valor tutelado por el derecho a la intimidad. Dado que el señor Vigoreaux Lorenzana es una figura pública, es evidente que su conocida identidad se utilizó para mercadear el emparedado y promover un mayor volumen de ventas a costa de su propia imagen. Dicha imagen fue utilizada para propósitos de publicidad, sin que mediaran los elementos humorísticos y derivativos suficientes que la transformaran en una expresión protegida por el derecho a la libertad de expresión. Un comercio tiene el derecho a diseminar información sobre sus productos pero incurrirá en responsabilidad civil extracontractual si utiliza la imagen de una persona sin su consentimiento o sin que medie alguna de las mencionadas causas de justificación.²³

politicians, and especially former politicians, have appeared in commercial advertising to pitch products leads the public to not be surprised to see a politician's name or picture used in an advertisement.

²³ A su vez, la causa de acción reconocida en el presente caso no se basa en la probabilidad de confusión por un endoso comercial bajo una falsa luz, sino en el derecho moral y patrimonial a la propia imagen del peticionario. Sin embargo,

En el caso ante nos, la expresión comercial cede ante el derecho a lo privado. Al no constituir una parodia o expresión constitucionalmente protegida de mayor jerarquía que el derecho a la intimidad, concluimos que la publicación no autorizada de la fotografía de referencia para propósitos comerciales configuró una violación al derecho a la propia imagen del peticionario. Nuestra jurisprudencia ha reconocido que el concepto de culpa del Art. 1802, *supra*, es tan infinitamente amplio como la conducta de los seres humanos e incluye cualquier falta de una persona que produce un mal o daño. Colón v. Romero Barceló, *supra*, pág. 579; Gierbolini v. Employers Fire Ins. Co. 104 D.P.R. 853 (1976). Es por ello que además de constituir una infracción al derecho subjetivo de la personalidad del señor Vigoreaux Lorenzana, concluimos que el acto en controversia también constituye una violación de naturaleza patrimonial.

IV.

Por los fundamentos que anteceden, resolvemos que el peticionario tiene derecho a participar económicamente en la comercialización de su propia imagen, su nombre o su parecido, conforme al valor de tasación de tal imagen en el mercado de publicidad al momento de los hechos, pues le ampara un derecho patrimonial a la propia imagen. A su vez, tiene derecho a la concesión de daños morales por haber sufrido una violación del derecho a la intimidad, en la vertiente subjetiva de su derecho a la propia imagen. No

es razonable inferir que el anuncio de referencia puede inducir a los consumidores a asociar equivocadamente al

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obstante, dada la naturaleza novel de la controversia y la expectativa de intimidad limitada del señor Vigoreaux Lorenzana por ser una figura política al momento de la publicación del anuncio, resolvemos que en el caso particular ante nos los daños morales son accesorios y marginales, por lo cual no deben ser mayores a los daños económicos que en su momento determine el tribunal de instancia.

Por consiguiente, revocamos la Sentencia emitida por el Tribunal de Apelaciones y, en consecuencia, devolvemos el caso al Tribunal de Primera Instancia para que continúe con los trámites ulteriores conforme a lo aquí resuelto.

Se dictará Sentencia de conformidad.

Federico Hernández Denton
Juez Presidente

producto con el peticionario.

EN EL TRIBUNAL SUPREMO DE PUERTO RICO

Roberto Vigoreaux Lorenzana
y Mary Ann Cortés Camacho,
etc.

Demandantes-Apelantes

v.

AC-2007-21 Certiorari

Quizno's Sub, Inc.; Aprendo
Strada, Inc. y Otros

Demandados-Apelados

SENTENCIA

San Juan, Puerto Rico, a 29 de febrero de 2008.

Por los fundamentos expuestos en la Opinión que antecede, la cual se hace formar parte integral de la presente Sentencia, se revoca la Sentencia emitida por el Tribunal de Apelaciones y, en consecuencia, se devuelve el caso al Tribunal de Primera Instancia para que continúe con los trámites ulteriores conforme a lo aquí resuelto.

Lo pronunció, manda el Tribunal y certifica la Secretaria del Tribunal Supremo. El Juez Asociado señor Rivera Pérez no intervino.

Aida I. Oquendo Graulau
Secretaria del Tribunal Supremo

CREATIVE COPYRIGHT FOR CREATIVE BUSINESS

NOTE

HIRAM A. MELÉNDEZ-JUARBE *

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WHAT DOES IT MEAN TO THINK CREATIVELY ABOUT CREATIVE INTELLECTUAL assets in a digitally networked environment? How do we conceive of copyright law in the face of consumer cultures that expect flexibility in the use of copyrighted works and the ability to share creative digital goods? How should we approach copyright enforcement, licensing, and business designs in light of value created by users of intellectual works?

In this short essay, prepared for the inaugural issue of the University of Puerto Rico Business Law Journal, I will argue that the intuitive attitude that dominates copyright law, practice and advocacy may, in some occasions, be an obstacle to developing successful business enterprises in the creative fields. I present these views, not with specific prescriptions about how to design business models, but to generally challenge the idea that flexible and liberal views about copyright law are necessarily anathema to successful commercial ventures in the current milieu.

I. COPYRIGHT AS INCENTIVES VS. COPYRIGHT FOR ITS OWN SAKE

Traditional economic justifications for intellectual property start from the assumption that—unlike tangible property—information products are public goods subject to free riding which, consequently, risks underproduction.¹ The

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¹ That is, they are non-excludable and non-rival, therefore, one could not exclude others from using an idea once made available; consumption by one does not prevent consumption by others. Because of the inability to exclude others, it is thought that a producer of intellectual works will not be able to recoup fixed costs of creation, hence, the idea will not be produced in the first place. See WILLIAM LANDES & RICHARD POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 12-13 (2003); COOTER & ULEN, *LAW AND ECONOMICS* 124-42 (2008). To address this problem and incentive

copyright monopoly thus aims to maximize efficiency by providing sufficient incentives to compensate free riding while avoiding deadweight loss. But because innovation is cumulative, information is both an output and an input of the creative process.² In this sense, information products have social value (as inputs to downstream innovators) that exceed the private value to the first upstream creator.³

The scope and duration of copyright law depends on how much these innovation *spillovers*, or positive externalities, are believed to aid follow-on creators. Hence, copyright's scope depends on policy determinations about balancing incentives provided to initial creators with the innovation's social benefits.⁴ This balance has been one of the laws' most celebrated goals: to incentivize creators by granting a statutory monopoly over works, while simultaneously limiting the monopoly to feed a public domain for further creators.

Nonetheless, it is well known that digital technologies have changed the landscape in which copyright law operates. They have disturbed balances previously thought to accommodate conflicting (but complementary) interests in

production and dissemination of intellectual works, the law grants some creators monopoly rights over their works. This, consequently, may give rise to economic distortions: namely, that the copyright owner may obtain monopoly profits, and that a loss in consumer surplus (or deadweight loss) will be created (consumers who value the work at less than the monopoly price will not purchase it, although they would otherwise consume it at competitive price). Because a monopolist's marginal revenue declines as the number of copies sold increases (on account of the downward-slope in demand curve), the marginal revenue is always lower than the price (instead of equal to price as for a competitive firm) for all units sold—unless price discrimination is possible. The monopolist will maximize her profits, and consequently, will grant access to the work up until where marginal revenue equals marginal cost. Therefore, she will choose a level of output lower than one offered in a competitive market, whilst choosing a price higher than those in said competitive markets. COOTER & ULEN, *supra* at 32-36 (2008); William W. Fisher, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1700-05 (1988).

2 Innovations are the output of a first creator and an input to the second (while the first creator's input is an earlier creator's output). LANDES & POSNER, *supra* note 1, 66-67.

3 Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257 (2007).

4 See Suzanne Scotchmer, *Standing in the Shoulders of Giants: Cumulative Research and the Patent Law*, 5 J. ECON. PERSP., No. 1 (1991), at 29-41. The weaker copyright protection is, the more a second author can take from previous works without paying a license and thus, the lower the second author's costs of creating new works. LANDES & POSNER, *supra* note 1 at 68. Conversely, the stronger the protection, the higher the cost of creating works for the second author. This is why copyright law must balance its incentive-producing function with a level of public access to allow for follow-up creativity. *Id.* at 69. Because these are all empirical questions, Frischmann & Lemley, *supra* note 3 at 268-71, it is not surprising that, when adhering to the incentives paradigm, the Supreme Court defers to Congress as a matter of institutional competence. *Harper & Row v. Nation Enterprises*, 471 U.S. 539, 558 (1985); *Eldred v. Ashcroft*, 537 U.S. 186 (2003) ("By establishing a marketable right to the use of one's expression, copyright supplies the economic incentive to create and disseminate ideas"); ("The Copyright Clause ...empowers Congress to define the scope of the substantive right. Judicial deference to such congressional definition is 'but a corollary to the grant to Congress of any Article I power.'"). On judicial deference in the copyright context see Paul Schwartz & William Michael Treanor, *Eldred and Lochner: Copyright Term Extension and Intellectual Property as Constitutional Property*, 112 YALE L. J. 2331 (2003).

incentives and public access. The ease with which digital products can be reproduced and shared at virtually no cost enabled innovative practices that concomitantly shocked a content industry whose entire revenue plan depended on the sale of physical copies.⁵ With that shock came a multilayered response spearheaded by law and technology.⁶

Copyright owners' initial response to challenges posed by digital technologies is—to some extent—understandable. These technologies are after all, intensely disruptive of well established business models. Former Harvard Business School professor Debora Spar described a cycle that emerges when disruptive technologies appear where, after a period of *creative anarchy* triggered by the innovation, settled interests seek stability through the law.⁷ Following an initial unregulated and disruptive period, radical technological developments, once they reach a level of maturity and commercialization, are gradually normalized and regulated (by state or private organizations). What had been a threatening technology is eventually tamed—in many cases to protect the interests of the very pioneers who brought about the innovation. In other cases, it is not pioneers who ask for rules; professor Spar contends that “sometimes it is the state, and sometimes a coalition of societal groups affected by the new technology and the market it has wrought.”⁸ In any case, private firms usually ask for rules when a new technology *lands* in a context that is unprepared to assimilate it.

This is exactly what happened when digital technologies *landed* in an analog world. Both legal and technological responses to these technologies were put into place. In the process, copyright protection stopped being regarded instrumentally, *i.e.*, as a means to an end (to provide innovation incentives), and was replaced by a view of copyright as an end in itself (that is, copyright protection

5 For an interesting example of how the content industry has reacted to these new business models see the conflicting positions of the music industry and the startup MP3.com over the new entrant's impact on the incumbent's potential (yet unexplored) market in *UMG Recordings v. MP3.com, Inc.*, 92 F. Supp.2d 349 (S.D.N.Y. 2000). *Cf. Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007) (displaying a more permissive attitude toward the market entrant where, as in that case, use of copyrighted content is *transformative* under fair use analysis—even when making exact copies of the original work, albeit for different purposes—since transformative uses cannot be inferred to produce a market harm to copyright owner absent a showing of such harm).

6 As is the case of the employment of DRMs and the enactment of the anti-circumvention provisions of the Digital Millennium Copyright Act. Pub. L. 105-304, 112 Stat. 2863 (1998), 17 U.S.C.A. §§ 1201-05.

7 *Creative anarchy* refers to a phase in the life of a disruptive innovation when, together with commercialization of the innovation, an unregulated *anarchic* market emerges spawning a host of competitors and innovators. Here, many innovations emerge from both enthusiasts (such as free and open software) and commercially minded enterprises. The technology, at this stage, appears unruly and undomesticated (e.g. Napster in the late 1990s), but in fact, it eventually is (e.g. *MGM Studios, Inc. v. Grokster, Ltd.* 545 U.S. 913 (2005)) (sometimes at the behest of initial innovators, and sometimes at the insistence of interests affected by the technology). DEBORA L. SPAR, *RULING THE WAVES: FROM THE COMPASS TO THE INTERNET, A HISTORY OF BUSINESS AND POLITICS ALONG THE TECHNOLOGICAL FRONTIER* 15 (2001).

8 *Id.* at 18.

for its own sake). This view promotes absolute protection of works regardless of copyright's incentivizing promise. We can see how his paradigm got settled by examining some of the technological and legal responses to the impact of digital technologies on copyright law.

Technological responses are well known; I have discussed them in other writings.⁹

The very same features of the digital age that empower ordinary individuals also lead business continually to expand markets for intellectual property and digital content. Yet as businesses do so, they must deal with features of the digital age that empower consumers and give them new abilities to copy, distribute, and manipulate digital content.¹⁰

Thus, in an effort to control and monetize particularized uses of content, we have witnessed the emergence of Digital Rights Management systems or Technological Protection Measures (these are "technological method[s] intended to promote the authorized use of digital works.")¹¹

As a consequence, through these technologies content owners today are capable of controlling their works well beyond legitimate claims of copyright by limiting fair uses; affecting—otherwise protected—personal non-commercial use of content;¹² regulating works in the public domain;¹³ or impeding the exercise of rights that a user would otherwise have according to the first sale doctrine.¹⁴ In some cases, as with the music industry, consumer demand for interoperability and flexibility in the use of digital goods has pressured content owners to provide works with less rigorous protection.¹⁵

On the legal side, these technological responses are reinforced by the Digital Millennium Copyright Act (DMCA), which severely punishes efforts to circum-

⁹ Hiram A. Meléndez-Juarbe, *DRM Interoperability*, 15 B.U. J. SCI. TECH. L. 181 (2009).

¹⁰ Jack Balkin, *Digital Speech and Democratic Culture: A Theory of Freedom of Expression for the Information Society*, 79 N.Y.U. L. REV. 1, 14 (2004).

¹¹ Ian Kerr, Alana Maurushat & Christian Tacit, *Technological Protection Measures: Tilting at Copyright's Windmill*, 34 OTTAWA L. REV. 7, 13 (2002-2003). See generally, EBERHARD BECKER, ET AL. (EDS.), *DIGITAL RIGHTS MANAGEMENT: TECHNOLOGICAL, LEGAL AND POLITICAL ASPECTS* 3 (2003); JOAN VAN TASSEL, *DIGITAL RIGHTS MANAGEMENT: PROTECTING AND MONETIZING CONTENT* (2006).

¹² *Sony v. Universal Studios*, 464 U.S. 417 (1984); Pamela Samuelson, *Copyright And Freedom Of Expression In Historical Perspective*, 10 J. INTELL. PROP. L. 319, 331 (2003); L. Ray Patterson & Christopher M. Thomas, *Personal Use In Copyright Law: An Unrecognized Constitutional Right*, 50 J. COPYRIGHT SOC'Y U.S.A. 475 (2003).

¹³ Timothy Armstrong, *Digital Rights Management and the Process of Fair Use*, 20 HARV. J. L. & TECH. 49 (2006); Dan Burk & Julie Cohen, *Fair Use Infrastructure for Rights Management Systems*, 15 HARV. J.L. & TECH. 41, 57 (2001).

¹⁴ 17 U.S.C. § 109(a) ("the owner of a particular copy . . . is entitled . . . to sell or otherwise dispose of the possession of that copy . . .").

¹⁵ Meléndez-Juarbe, *supra* note 9 at 218.

vent DRMs' access-control mechanisms.¹⁶ Section 1201(a) of the DMCA prohibits the circumvention of a “technological protection measure that effectively controls access to a work,”¹⁷ while section 1201(b) addresses the manufacture, distribution or traffic technologies primarily designed to circumvent a DRM “that effectively protects a right of the copyright owner.”¹⁸ Courts have found that the DMCA's anti-circumvention provisions are independent from the fair use defense, finding liability even if such defense is available.¹⁹

These legal and technological developments can be said to create a new legal right to control how we *access* copyrighted works, even if we legitimately own specific media (e.g., a DVD) containing such work (e.g., a movie).²⁰ These reactions emerged late in the twentieth century in the context of an unprecedented amplification of the copyright monopoly, both procedurally and substantively, as explained at the margin.²¹

While it is true that digital technologies unsettled the underlying terrain that supported a balance between incentives and public access, current copyright protection (both through law and technological protection measures) has redrawn previous balances and strengthened the copyright monopoly well

¹⁶ It also prohibits or the manufacture or distribution of such technology. See 17 U.S.C. §§ 1201-1205.

¹⁷ 17 U.S.C. § 1201(a).

¹⁸ 17 U.S.C. § 1201(b).

¹⁹ *Realnetworks, Inc. v. Streambox, Inc.*, 2000 WL 127311 (W.D. Wash. 2000); *Universal City Studios v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000). *But see* *Lexmark v. Static Control Components*, 387 F.3d 522 (6th Cir. 2004); *Chamberlain v. Skylink*, 381 F. 3d 1178 (Fed. Cir. 2004) (requiring that the protection against circumvention technology under 1201(a) be related to copyrighted work).

²⁰ “Every act of perception or of materialization of a digital copy requires a prior act of access. And if the copyright owner can control access, she can condition how a user apprehends the work, and whether a user may make a further copy.” Jane Ginsburg, *From Having Copies to Experiencing Works: The Development on an Access Right in US Copyright Law*, 50 J. COPYRIGHT SOC'Y U.S.A. 113, 115 (2003).

²¹ Since 1976, many of the formal requirements required to protect works have been eliminated, moving copyright protection away from the positive law paradigm. For example, it is no longer required that a work be published prior to protection. 17 U.S.C. § 102(a) (“copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression . . .”). Requirements such as notice, 17 U.S.C. § 401(a), deposit, 17 U.S.C. § 407(a), registration, 17 U.S.C. § 408(a), and term renewal, 17 U.S.C. § 304, have been eliminated. Today a work is protected by default since its creation and fixation in a tangible medium of expression, 17 U.S.C. § 102(a), for the life of the author plus seventy years, 17 U.S.C. § 302(a), instead of the shorter and fragmented periods that predated the 1976 Act. The term of copyright protection has been extended several times during the last century delaying the entrance of works into the public domain (sometimes even reverting their public domain status and reestablishing their protection). *Eldred v. Ashcroft*, 537 U.S. 186 (2003). Furthermore, copyright protection today is not limited to reproduction rights since it includes, for instance, the right to make derivative works. 17 U.S.C. § 101, 106(2). Additionally, infringement is subject to steep statutory damages, costs and attorney's fees, 17 U.S.C. § 504(c), 505, while the litigation costs to individual users remain notoriously prohibitive.

beyond the basic economic incentives justification. The literature excited by this contemporary reality comes from all sides of the ideological spectrum.²²

In all, the expansive shape of current copyright law and practice cannot be supported by the traditional incentives rationale. It is, however, sometimes justified from other perspectives. For example, both in rhetoric and legal argumentation, strong protections are sometimes favored through a moral argument about what is fair or just: an argument about property rights over information with a whiff of Lockean natural right over one's creations—forgetting that the metes and bounds of the copyright monopoly are just that: a policy-oriented, state-created monopoly.²³ On other occasions, the expansive view of copyright deploys an economic logic unrelated to the provision of incentives. Some favor a regime of *absolute protection*²⁴ through a set of *ex post* economic justifications.²⁵ Contrary to traditional incentives theory that considers copyright's potential incentives *ex ante* (that is, copyright as a *precondition* for innovation), *ex post* advocates argue that absolute and strong intellectual property rights give the first creator (and only him or her) efficient incentives to innovate across time and improve over an existing work.²⁶ According to this controversial (yet, increasingly popular) view, strong protection prevents overuse, or tragedy of the commons, avoiding a decrease in the value of intellectual property rights.²⁷ In

²² See, e.g., LANDES & POSNER, *supra* note 1; WILLIAM W. FISHER III, *PROMISES TO KEEP: TECHNOLOGY, LAW AND THE FUTURE OF ENTERTAINMENT* (Stanford University Press 2004); BOYLE, *THE PUBLIC DOMAIN: ENCLOSING THE COMMONS OF THE MIND* (2009); NEIL NETANEL, *COPYRIGHT'S PARADOX* 34-35 (Oxford University Press 2008); LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* (2004); YOCHAI BENKLER, *THE WEALTH OF NETWORKS: HOW SOCIAL PRODUCTION TRANSFORMS MARKETS AND FREEDOM* 29 (YALE UNIVERSITY PRESS 2006).

²³ See JOHN LOCKE, *SECOND TREATISE OF GOVERNMENT* ¶¶ 25-52. On Locke, see generally JEREMY WALDRON, *THE RIGHT TO PRIVATE PROPERTY* 137- 252 (1988). On its relation to copyright law see Dianne Leenheer Zimmerman, *Information Goods as Speech, Information as Goods: Some Thoughts on Marketplaces and the Bill of Rights*, 33 WM. & MARY L. REV. 665, 675-77 (1992); Roberta Rosenthal Kwall, *Inspiration and Innovation: The Intrinsic Dimension of the Artistic Soul*, 81 NOTRE DAME L. REV. 1945, 1979 (2006).

²⁴ Anne Barron, *Copyright Infringement, 'Free Riding' and the Lifeworld*, 8 (LSE Working Papers 17/2008, 2008), available at, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1280893.

²⁵ Mark Lemley, *Ex Ante versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129 (2004).

²⁶ See e.g., Randal C. Picker, *Fair Use v. Fair Access*, 16 (U. Chi. L. & Econ. Olin Working Paper No. 392, 2008), available at, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1104764 (arguing that the initial author is in a better position to "take advantage of the information that we know will be forthcoming to make the second-stage investment decision").

²⁷ LANDES & POSNER, *supra* note 1 at 222 (discussing congestion externalities that they argue are applicable to copyright law):

One purpose of giving the owner of a copyright a monopoly of derivative works is to facilitate the scope and timing of the exploitation of the copyrighted work—to avoid, as it were, the 'congestion' that would result if once the work was published anyone could make and

this sense, the argument ceases to be about initial incentives and morphs into an argument about absolute copyright protection at all costs as an end in itself and for its own sake (about protecting the copyright owner well after creation and well beyond what's necessary for innovation).

The shape of copyright law has increasingly been influenced by these *ex-post* justifications, although recent judicial decisions, especially in the realm of *fair use*, have begun to pull back a bit.²⁸ Content industries, their lawyers, and counsels sometimes believe that absolute protection and strong copyright enforcement are the only way to grapple with the perceived threat of digital technologies. The centralization of *all copyright monopoly facets* in the hands of the owner is seen as the only efficient way to use that creative good. That belief usually comes armed with its own supply of rhetorical devices about *piracy*, *theft*, *fairness*, and, as described by Google's Senior Copyright Counsel William Patry, a host of overblown metaphors that contribute to a moral panic about quotidian engagement with digital works.²⁹

Sometimes, as the music industry has learned in recent years, creative industries are forced to modify absolute protection strategies because of their alienating effects on consumer demand or difficulty with practical enforcement.³⁰ But in the main, businesses, as well as their strategists and attorneys, have a hard time conceiving the protection of their intellectual assets through something other than the *ex post*, absolute protection paradigm. Although there are a million reasons why as a matter of social or constitutional policy these inclinations might be unwise, my aim is not to explore them here.³¹ The question here is different: whether these inclinations make sense in cases where user creativity and flexibility in the use of digital works create value. In such cases we must ask whether it makes more sense to embrace, rather than reject or attack, the disruptive features of digital technologies. Businesses may be able to capture value created by public access practices and make such capture the premise of creative business models in our digital era. This is the challenge to which I turn next.

sell translations, abridgements, burlesques, sequels, versions in other media from that of the original . . . or other variants without the copyright owner's authorization.

Id. at 226.

²⁸ Bill Graham Archives v. Dorling Kindersley, 448 F.3d 605 (2d Cir. 2006); Perfect 10 v. Visa, 494 F.3d 788 (9th Cir. 2007); Perfect 10 v. Amazon, 508 F.3d 1146 (9th Cir. 2007) (displaying a more permissive attitude toward the market entrant where, as in that case, use of copyrighted content is *transformative* under fair use analysis—even when making exact copies of the original work, albeit for different purposes—since transformative uses cannot be inferred to produce a market harm to copyright owner absent a showing of such harm).

²⁹ WILLIAM PATRY, MORAL PANICS AND THE COPYRIGHTS WARS (2009).

³⁰ Meléndez Juarbe, *supra* note 9 at 216-17.

³¹ See Hiram Meléndez Juarbe, Creative Commons y la Agenda de Contenido Abierto, 69 REV. COL. ABOG. P.R. 151 (2008); Meléndez Juarbe, *supra* note 9; LESSIG, *supra* note 22; NETANEL, *supra* note 22; BOYLE, *supra* note 22; FISHER, *supra* note 22.

II. THINKING CREATIVELY: TRANSCENDING THE LOCKSMITH

Not all businesses think creatively about their intellectual property. They should; but they don't.

Diane Zimmerman observes four types of reactions by businesses in the creative fields to the interaction between copyright law and digital technologies.³² These are: *Naysayers*, *Locksmiths*, *Subverters*, and *Explorers*. The first conforms a minority breed that stays away from digital distribution channels while embracing traditional legal protections. For instance, for a long time copyrights holders over *The Beatles'* musical compositions were *Naysayers*, refusing almost all forms of online digital distribution.³³

Explorers, at the other extreme, abandon copyright laws altogether, seeking profits from services connected to their creative works while experimenting with innovative business models. These "are individuals and entities interested in disseminating their own expressive materials—and who may well hope to profit directly or indirectly from doing so—but without help from the formal legal regime set out in the Copyright Act."³⁴ Musicians (such as the band Radiohead), authors (like Stephen King), and many others sometimes benefit from innovative distribution and payment schemes such as voluntary pricing, honor systems or mixed schemes where hard copies are sold and digital copies are not.

In the middle of the spectrum we find *Locksmiths* (those who rely on copyright and other alternative measures to aggressively enforce their interests, such as DRMs) and *Subverters* (who employ copyright law's mechanisms to serve non-enclosure ends, and hence subverting it, such as businesses relying on Free and Open Source Licenses like Creative Commons and GNU Public License). The interaction between *Explorers*, *Locksmiths* and *Subverters* is at the center of current and future arrangements for the distribution of creative works.³⁵

Locksmith attitudes are reflected in the absolute protection (or *ex post*) paradigm previously described, and conform a complex reaction to the effect of digital "disruptive technologies"³⁶ on settled interests. In the current milieu, a driver behind this attitude may be what Harvard Business School's Clayton Christensen calls the *Innovator's Dilemma*.³⁷ According to this view, incumbent businesses are inclined to reject disruptive technologies since—rationally—it is

³² Diane L. Zimmerman, *Living without Copyright in a Digital World*, 70 ALB. L. REV. 1375 (2007).

³³ *Id.* at 1378.

³⁴ *Id.* at 1382.

³⁵ *Id.* at 1383, 1388.

³⁶ Disruptive technologies are those that, contrary to *sustaining* technologies that "improve the performance of established products", they "bring to the market a very different value proposition that had been available previously." CLAYTON M. CHRISTENSEN, *THE INNOVATOR'S DILEMMA* xviii (2000).

³⁷ CLAYTON M. CHRISTENSEN, *THE INNOVATOR'S DILEMMA* (2000).

in their best interest to invest in sustaining innovations (especially those that only improve existing innovations) and not invest in (thus resisting) those radical technologies that may challenge their place in the market.³⁸

Although this account has much explanatory value, it is not always the case that things play out that way. Disruptive technologies are not always seen as threatening. One cannot ignore more complex *Subverter* and *Explorer* attitudes that embrace those disruptive features of digital technologies. For instance, as mentioned, we see emerging business strategies in the music industry that experiment with both open and proprietary products,³⁹ and allow vendors such as iTunes to release DRM-free music.⁴⁰ Increasingly, we see a more subtle world of *Subverters* and *Explorers* or what Lessig calls *hybrid economies*, where “either a commercial entity . . . aims to leverage value from a sharing economy, or . . . a sharing economy . . . builds a commercial entity to better supports its sharing aims.”⁴¹

Classic examples of native-born hybrids are Slashdot.org, Flickr, Youtube, Craigslist and Google: companies that are able to capture the value created by sharing activities by users and build business models that mix the free (free as in *freedom to do things*, and not necessarily free as in *cost-free*) with the proprietary. These companies are able to see and recognize the value that free usage of intellectual resources has to consumers and can earn substantial revenues from it. Some openness—in copyright lingo—does not necessarily contradict economic success.

What is more, we increasingly encounter crossovers into these hybrids. MIT’s Eric Von Hippel describes how companies sometimes find it in their best interest to forego some IP enforcement in order to benefit from user innovation.⁴² The *Lego Mindstorms* project presents a famous example. Lego initially resisted how individuals hacked and repurposed computerized and motorized Lego figures on IP grounds, only to later learn the value that had been created by users in being able to share their modifications and innovations. Lego leveraged this spontaneously-formed, networked community of user innovators, and harnessed its value. Today, we find in their website user created designs and mod-

³⁸ See LAWRENCE LESSIG, *THE FUTURE OF IDEAS* 89-90 (2001); WILLIAM PATRY, *MORAL PANICS AND THE COPYRIGHT WARS* 40-41 (2009) (Oxford).

³⁹ See e.g., Jon Fine, *Radio Head’s Business Head*, BUSINESSWEEK, Oct. 1, 2007, http://www.businessweek.com/innovate/FineOnMedia/archives/2007/10/radioheads_busi.html.

⁴⁰ Jesús Díaz, *iTunes Gets DRM Free, New Prices, Purchase Over 3G*, Jan. 6, 2009, <http://i.gizmodo.com/5124588/itunes-gets-drm-free-new-prices-purchase-over-3g>. Since 2007 Apple had been selling songs from EMI’s entire music catalog without DRMs. See Apple, *DRM-Free Songs from EMI Available on iTunes for \$1.29 in May*, Apr. 2, 2007, <http://www.apple.com/pr/library/2007/04/02itunes.html>.

⁴¹ LAWRENCE LESSIG, *REMIX: MAKING ART AND COMMERCE THRIVE IN THE HYBRID ECONOMY* 177 (2008).

⁴² ERIC VON HIPPEL, *DEMOCRATIZING INNOVATION* (2005).

ifications to their products; innovations embraced by a company that crossed over to a hybrid economy,⁴³ moving from a *Locksmith* attitude to an *Explorer* or *Subverter* one.

Other less-known examples exist. The Center for Technology and Society of the Fundação Getulio Vargas Law School in Brazil and the Young Foundation in London, host the *Open Business* project,⁴⁴ a repository showcasing hundreds of businesses based on hybrid economies. Examples range from music,⁴⁵ fashion,⁴⁶ digital design,⁴⁷ and software development,⁴⁸ to film,⁴⁹ and consulting services.⁵⁰ Lessig's *Remix: Making Art and Commerce Thrive in the Hybrid Economy* describes at length powerful examples.⁵¹

These commercial initiatives emerge, in part, thanks to a measure of disintermediation in human interaction observable in a digitally connected world; the democratization and cheapening of computing power; the irreversible fact that distribution of digital works is virtually costless; the distributed and granular nature of online creativity; and the fact that digital technologies allow communities of users to emerge imposing their creative energies into the works they acquire.⁵² It is not a world of passive *consumers* but, more broadly, a world of active *users* engaged creatively adding value to the works and to the communities they belong to.⁵³ Spillovers of digital creative works are not necessarily used more efficiently if they are controlled by a single entity or person.⁵⁴ In a digitally connected world, sometimes positive externalities of intangible works are better left to the hands of users who are capable of adding value through their use, which can—in turn—form the basis for creative businesses.

As with everything else in a competitive capitalist economy, some of these endeavors are bound to be more successful than others. But some are. And all are based on business models that are not blind to the value created by users and by the very features of digital technologies that are seen as threatening by some. Sometimes—and this is the point I want to drive home—when these entrepre-

43 See LEGO.com MINDSTORMS: Home, <http://mindstorms.lego.com/> (last visited June 3, 2010).

44 OpenBusiness, <http://www.openbusiness.cc/> (last visited June 3, 2010).

45 Magnatune: we are not evil, <http://magnatune.com/> (last visited June 3, 2010).

46 Custom Dress Shirts, <http://www.blank-label.com/> (last visited June 3, 2010).

47 99 designs.com, <http://99designs.com/> (last visited June 3, 2010).

48 The Apache Software Foundation, <http://www.apache.org/> (last visited June 8, 2010); Canonical Homepage, <http://www.canonical.com/> (last visited June 3, 2010).

49 Remixing Cinema, <http://aswarmofangels.com/> (last visited June 3, 2010).

50 Brain Candy LLC, <http://braincandyllc.com/> (last visited June 3, 2010).

51 LESSIG, *supra* note 41.

52 YOCHAI BENKLER, *THE WEALTH OF NETWORKS* (2007).

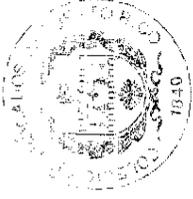
53 Yochai Benkler, *From Consumers to Users: Shifting the Deeper Structures of Regulation Toward Sustainable Commons and User Access*, 52 FED. COMM. L. J. 561 (2000).

54 See Frischmann & Lemley, *supra* note 3.

neers consciously forego opportunities for copyright enforcement or adopt open and free licenses such as Creative Commons,⁵⁵ they employ alternative *Explorer* or *Subverter* attitudes toward the interaction between intellectual property and the digital environment. In short, they think creatively about copyright for their creative businesses. In doing so, these entrepreneurs consciously or unconsciously challenge the *absolute protection/Locksmith/ex-post* paradigm.

What is more, when they think creatively about copyright in a digital era, these entrepreneurs challenge the artificially-created polarity between, on one hand, advocating for reasonable copyright regimes that sensibly target the incentives goal and, on the other, successful commercial ventures deployed in our contemporary information economy.

⁵⁵ Puerto Rico - Creative Commons, <http://creativecommons.org/international/pr/> (last visited June 3, 2010).



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CREATIVE COMMONS EN
PUERTO RICO Y LA AGENDA DE
CONTENIDO LIBRE

HIRAM A. MELENDEZ JUARBE*

El proyecto creative commons nació en Estados Unidos en el año 2001, lanzándose las primeras licencias libres en diciembre de 2002.¹ A un año de su inauguración, se estimaron aproximadamente 1 millón de referencias a páginas de internet utilizando estas licencias.² A 18 meses del lanzamiento, esta cifra había aumentado a 1.8 millones.³ Para diciembre del 2005, ya el número alcanzaba los 45 millones.⁴

En junio del 2006 aproximadamente 145 millones de páginas de internet, provenientes de todas partes del mundo ostentaban

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Mis derechos de autor sobre este escrito se encuentran sujetos a la licencia Creative Commons conocida como Atribución 3.0 Puerto Rico. Puede ver un resumen de esta licencia en <http://creativecommons.org/licenses/by/3.0/pr>.

¹ Michael W. Carroll, *Creative Commons as Conversational Copyright*. Villanova Law/Public Policy Research Paper No. 2007-8, página 450, disponible en SSRN: <http://ssrn.com/abstract=978813>

² *Id.*

³ *Id.*

⁴ http://wiki.creativecommons.org/License_statistics

contenido digital expresando, sin ambigüedad, la disponibilidad de obras de toda clase a la humanidad.⁵

Este incremento tumultuoso en el uso de licencias Creative Commons es importante, no sólo porque demuestra el éxito de este proyecto. Los números nos sirven como una medida, aunque muy cruda, del comportamiento humano que subyace a las cifras. Que tantos millones de personas hayan puesto a disposición de todos sus obras sin reparo, a cambio de nada, puede que resulte sorprendente. Después de todo, la premisa tradicional que sustenta todo el derecho de propiedad intelectual es que los innovadores y creadores necesitan *siempre* algún incentivo económico para crear, por lo que la ley les ayuda a controlar cómo se usa su material. Y hay algo de verdad en esto.

La ley protege la propiedad intelectual de un autor, en gran medida, porque buena parte de la creación cultural, artística y científica, ocurre cuando tenemos la garantía de que sacaremos provecho económico a nuestro trabajo intelectual. Muchas creaciones culturales no existirían sin ese incentivo importante; es cierto. Pero enfatizar demasiado ese punto nos ha llevado a un destino problemático. Hoy día, por ejemplo, la protección legal a los autores dura por toda su vida, más 70 años después de su muerte... mucho más de lo necesario para incentivarle a crear con la consécuencia de enclaustrar esa obra por varias generaciones. Por un tiempo mucho más extendido de lo que un autor necesita para verse recompensado, y con trabas legales que impiden la reutilización de los productos culturales, nos vemos privados de trastear con los elementos básicos de nuestra cultura.

Por otro lado, en Puerto Rico así como en casi todos los países del mundo, los derechos de autor están protegidos bajo el concepto de "derechos morales".⁶ Bajo la óptica de los derechos morales, toda obra es concebida como una extensión de la persona del artista; es parte de su esencia y, como tal, debe protegerse como si con ello se defendiera la dignidad misma del autor. Bajo

⁵ Michael W. Carroll, *Creative Commons as Conversational Copyright*. Villanova Law/Public Policy Research Paper No. 2007-8, página 450, disponible en SSRN: <http://ssrn.com/abstract=978813>
⁶ 31 LPRA § 1401, et seq.

este concepto, los autores son vistos románticamente; como seres especiales que depositan su alma y pasión intensa en un lienzo o pedazo de papel.⁷

Sucedé, sin embargo, que esta concepción tradicional de los derechos de autor parte de varias premisas que hoy día debemos comenzar a revisar. Por un lado, debemos reexaminar la noción tradicional de lo que es un autor original y, por otro, la historia del incentivo económico como único provocador de innovación.

En cuanto a lo primero, tenemos que comenzar reconociendo que la innovación no ocurre en saltos de gigante. La noción romántica del autor solitario y pensado, esperando y obteniendo impresionantes momentos de eureka, es simplemente anacrónica. Todo autor es en algún momento usuario de obras de otros que le precedieron. Todo autor es prestamista de sus obras a creadores subsiguientes... pero antes de eso fue prestatario de obras anteriores. La innovación es incremental y azarosa. Va de poquito en poquito, tomando de lo previo, experimentando con un entramado de influencias, experiencias, ocurrencias, ideas de unos y de otros.... hasta llegar a aquel estado muy indefinido, difuso y problemático que a veces llamamos "lo original". Aquello que, se insiste en el derecho, es la expresión de la personalidad de un ser humano y de más nadie.

Por otro lado, hay miles de razones por las cuales uno es creativo que no tienen nada que ver con el control subsiguiente de la obra y la recompensa monetaria. Yo todavía no conozco un sólo profesor de derecho que se haya hecho rico vendiendo los artículos de revista que publica... los bancos de datos comerciales Westlaw y Lexis sí... pero nosotros no. Y aún así la producción académica es rica, pues hay otros incentivos por vía del reconocimiento, satisfacción profesional, mercados profesionales paralelos o simple-

⁷ Para un análisis de la interacción entre las licencias creative commons y los derechos morales en Puerto Rico, véase, Clínica de Derecho Cibernético Universidad de Puerto Rico, *Moral Rights In Puerto Rico and the Puerto Rico V3.0 Creative Commons License* (2007), disponible en <http://creativecommons.org/international/pr/>. Véase además, Reynal v. Tribunal Superior, 102 DPR 260 (1974); Ossorio Ruiz v. Secretario, 106 DPR 49 (1977); Pantofo v. Wometco, 115 DPR 495 (1984); Cotto Morales v. Calo Ríos, 140 DPR 604 (1996); Harguindey Ferrer v. U.I., 148 D.P.R. 13 (1999).

mente la búsqueda de alternativas jurídicas sensibles. Lo mismo es aplicable a las artes y las ciencias en general, por lo que para esos casos es necesario encontrar sistemas jurídicos que permitan mayor flexibilidad en cuanto al flujo de obras y aportaciones.

Reconociendo que quien contribuye a nuestro entorno cultural necesita a su vez de un cúmulo creativo desde dónde partir, el derecho de propiedad intelectual siempre ha reconocido que los derechos de los autores son limitados, no absolutos ni perpetuos. Siempre han durado un número de años lo suficientemente largo como para que un autor pueda sacarle provecho económico a su trabajo, pero lo suficientemente corto como para que en algún momento esa obra deje de estar en el control exclusivo del autor y se eleve al dominio público.

Por eso, la propiedad intelectual no sólo responde a la historia del incentivo, sino que se balancea con otra historia; el relato igualmente importante del acceso a contribuciones artísticas y científicas por el público y por otros creadores. Enfatizo la palabra: *balance*. Se trata de un balance entre el control por el generador de una obra, por un lado, y por otro, el acceso por el público.

Pero hemos aceptado e internalizado la idea de que la creación artística pertenece exclusivamente a alguien, y más nadie, que el hecho de que hoy encontremos sobre 145 millones de páginas con licencias CC nos sorprende. La realidad es que esa es la forma en que siempre ha operado la interacción social con productos artísticos, científicos y académicos. La norma, no la excepción, es compartir; es la expresión artística, ininterrumpida, o al menos con pocas trabas legales, y mucho menos mediada por la amenaza de cartas de abogados sobre qué se puede y no se puede usar. Lo usual es, como he dicho, un balance sensible entre el control individual sobre la obra, pero limitado para permitir ciertos usos y trabajos derivados de ésta o limitado en tiempo para acelerar su llegada al dominio público.

Lo mismo ocurre con la investigación científica: el conocimiento se transmite entre investigadores, y se convierte en herramienta generadora de mayor investigación y, eventualmente, en aportaciones social y económicamente productivas. Científicos, académicos, educadores y artistas atestiguan con su práctica diaria que los procesos culturales y científicos son compartidos.

Lamentablemente, el recrudescimiento en la protección de propiedad intelectual (tanto en derechos de autor como en el campo de las patentes); la concentración oligopólica en la industria del entretenimiento y más que nada la agresividad con la que se litigan los ya fortalecidos derechos de propiedad intelectual, dan al traste con las dinámicas cotidianas de los trabajadores culturales.⁸

El internet, por otro lado, acentúa la capacidad humana para interactuar y—por razón de la naturaleza digital de las imágenes, videos, música y documentos—esta interacción social incluye, por primera vez en la historia de la humanidad, la capacidad de compartir sin costo alguno obras, constante y permanentemente con literalmente todo el mundo.⁹ Además, potencia una transformación individual en la manera en que interactuamos con los productos culturales: se acabó la era en que recibíamos pasivamente imágenes e información por televisión, periódicos o radio, desde un eje central. Hoy somos nosotros los que contribuimos contenido en internet y damos forma a nuestro entorno cultural, negociando y renegociando nuestra relación con la cultura, definiendo y redefiniendo cómo es nuestra experiencia con nuestro entorno. Ya no somos los *consumidores* pasivos de información diseñada desde un centro con pocos elementos críticos para audiencias masivas. Hoy somos *productores* y *publicadores activos* de pequeños y grandes pedazos información con audiencias de todos los tamaños y clases.¹⁰

Claro, estas posibilidades liberadoras y expresivas representan un reto para los dueños de contenido. No siempre un autor desea lo mismo para todas sus obras. A veces querrá controlar más, a veces menos. Y eso se entiende. Lo importante, sin embargo, es que tenga las herramientas necesarias para poner en vigor su autonomía; para poner en práctica su deseo. Y ahí es que entra Creative Commons.

⁸ LAWRENCE LESSIG, FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY (2004); YOCHAI BENKLER, THE WEALTH OF NETWORKS: HOW SOCIAL PRODUCTION TRANSFORMS MARKETS AND FREEDOM (2006).

⁹ WILLIAM W. FISHER III, PROMISES TO KEEP: TECHNOLOGY, LAW AND THE FUTURE OF ENTERTAINMENT 11-18 (2004).

¹⁰ Yochai Benkler, *From Consumers to Users: Shifting the Deeper Structures of Regulation Toward Sustainable Commons and User Access*, 52 FED. COMM. L. J. 561 (2000).

Hace ya casi dos años aquí en la Escuela de Derecho nos dimos cuenta —bastante tarde debo admitir— que el mundo de las leyes estaba bastante desconectado de lo que ocurría espontánea y naturalmente entre los artistas boricuas antes y después del internet y sin la ayuda de Creative Commons. Las generaciones de artistas contemporáneos que prácticamente crecieron —y crecimos— cibernautas (con la accesibilidad a insumo artístico instantáneo) ya venían operando y generando trabajo creativo libremente, sin necesidad de consultar a un abogado o abogada sobre si su trabajo tomaba demasiado de otros o si se parece más de lo debido a otro. Sabemos que los procesos creativos sencillamente no operan a base de pedir permiso, sino todo lo contrario: son espontáneos y viven por retar. La innovación, sencillamente, quiere ser libre.

Por eso Creative Commons, en Puerto Rico y en todas partes, siempre llega tarde. La plataforma legal que provee se coloca sobre prácticas y normas sociales pre-establecidas y muy maduras. Facilita mecanismos claros, sencillos, y entendibles por todo el mundo en torno a las reglas de juego que acompañan a cada trabajo con una de estas licencias para así darle estabilidad legal a las decisiones de cada innovador sobre su obra.

Ya Creative Commons es una institución madura y probada. Se ha convertido en un estándar internacional para instituciones de toda índole. Ahora nos toca promover su uso y ayudar a consolidar principios de cultura libre en nuestra isla. Y es aquí que, no sólo los individuos son importantes, ... si no que las instituciones son indispensables.

Hace poco, por ejemplo, el profesorado de la facultad de artes y ciencias de la Universidad de Harvard asumió la siguiente política *institucional*: todo profesor que publique cualquier investigación o artículo de cualquier índole en cualquier revista, viene obligado a concederle a la Universidad dicho trabajo para que, paralelo a su publicación en revista, la Universidad haga disponible el mismo gratuitamente al público en internet.¹¹ Acto seguido, la facultad de derecho de esa Universidad asumió una política similar.¹²

¹¹ <http://www.earlham.edu/~peters/fos/2008/02/text-of-harvard-policy.html>

¹² Harvard Law faculty votes for 'open access' to scholarly articles, 7 de mayo de 2008, http://www.law.harvard.edu/news/2008/05/07_openaccess.php.

Es decir, los profesores se impusieron a sí mismos (y a la institución) la obligación de crear un repositorio abierto de artículos —es decir, libres—para beneficio de la humanidad. Si las revistas quieren publicar artículos de esa facultad, tendrán que aceptar ese hecho y punto. Y no es para menos. El desarrollo cultural y científico depende de la diseminación del conocimiento; si hoy día, con el estado tan avanzado de la tecnología y ante la tan alabada revolución informática, no podemos tener acceso al saber generado por nuestros contemporáneos. Sencillamente habremos fracasado como sociedad por no brindar al público aquello que le pertenece a la humanidad: el conocimiento.

Asimismo, el Congreso de Estados Unidos requirió a todos los investigadores cuyos trabajos con auspiciados por el National Institutes of Health¹³ que sometan a esa institución aquellas investigaciones aceptadas para publicación para hacerlas disponible en un archivo digital público (PUB MED), al cabo de un año de haber sido publicada en revistas académicas o comerciales. Nuevamente, se trata de *instituciones* dando la cara por la agenda de apertura.

Claro está, las políticas de propiedad intelectual de las instituciones (tanto en derechos de autor como en el caso de las patentes) responden a intereses complejos y diversos que deben analizarse caso a caso e institución por institución, pero estos ejemplos sirven para enfatizar un punto: *es el turno de las instituciones*. Ahora les toca a ellas hacer lo que los individuos han hecho por siglos: liberar el contenido. Le toca a la Universidad de Puerto Rico, a sus facultades, a la Revista Jurídica, por ejemplo, a revistas de artes, ciencias sociales, políticas y ciencias naturales, al sistema de biblio-

¹³ <http://publicaccess.nih.gov/> (firmada por el presidente el 26 de diciembre de 2007). Véase la sección 218 del PL 110-161 (Consolidated Appropriations Act, 2008). Su texto lee:

The Director of the National Institutes of Health shall require that all investigators funded by the NIH submit or have submitted for them to the National Library of Medicine's PubMed Central an electronic version of their final, peer-reviewed manuscripts upon acceptance for publication, to be made publicly available no later than 12 months after the official date of publication: Provided, That the NIH shall implement the public access policy in a manner consistent with copyright law.

tecas de todas las universidades y del país (públicas y privadas), a las agencias administrativas, a toda clase de organización—incluso las que son con fines de lucro— establecer políticas institucionales sensatas. Nos toca a todos contribuir a una cultura libre a todos los niveles.

La agenda en la denominada era de la información, es asegurarnos que la información sea realmente libre. Con Creative Commons en Puerto Rico damos un paso en esa dirección.

#1: Manda a imprimir camisetas con la siguiente idea: "Que las mujeres se callen en las asambleas, como se hace en todas las Iglesias de los santos. No les está permitido tomar la palabra; que sean más bien obedientes, tal como lo dice la misma Ley. Si quieren instruirse en algún punto, que consulten en casa a su propio marido." (I-Corintios 14: 34-38). Viaja por la isla y reparte las camisetas en la entrada de las Iglesias protestantes dirigidas por una ministra o pastora. Regresa de noche y consigue, donde nadie la encontre, una copia de *Le deuzième sexe* de Simone de Beauvoir.

Ejercicios de Ateo-Terrorismo estético: Instrucciones para explorar los límites sociales de la primera enmienda

Bernat Tort 2008

#2. Haz un video de una mujer embazada y con burka. La mujer aparece de pie y comienza a levantarse la burka revelando bajo la barriga su pene erecto. Comienza a masturbarse. El video concluye cuando ella eyacula. (Nota: La curvatura del pene deberá ser paralela a la de la barriga). Título: el video "La asintota: o la indecidibilidad de la Resolución". Proyecta el video cinco veces al día (amanecer, mediodía, media tarde, atardecer y noche) en pantallas ubicadas por toda la ciudad y orientadas de cara a la Kaaba.

#3. Haz una pintura de un padre clavando de manos y pies a su hijo recién nacido a un tablón de madera. Don la sangre del niño ha escurrido a su izquierda. La letra griega "A" y a su derecha "O". Título: la pieza "The True Meaning of Christmas". Haz fotocopias a color de la pieza con su título y pégalas en tarjetas de navidad en tu farmacia favorita. (Vacación infeliz: Proyecta la imagen sobre la fachada de una iglesia un domingo mientras bautizan niños.)

#4 Para suicidarse poéticamente (In Memoriam Thich Quang Duc): Toma una foto de una mujer destruda en cuñillas sobre el quirán abierto y bañado en sangre menstrual. Título: la pieza: "Peinado original". Pasquínala en la acera opuesta a la entrada de una mezquita. Y sientate en posición de loto justo debajo de la foto con los instrumentos de pasquínado en las manos.

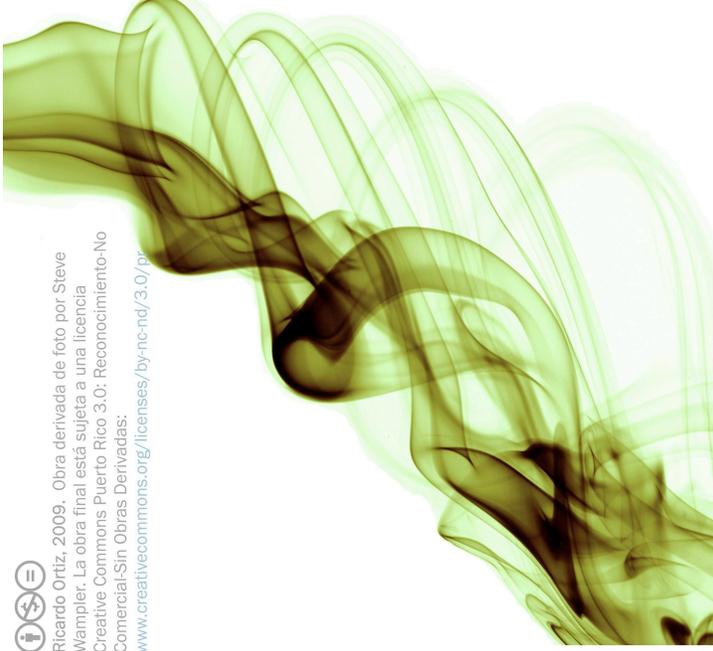
Liberando la creatividad

Creative Commons es una corporación sin ánimo de lucro que ha desarrollado un innovador proyecto internacional con el objetivo de fortalecer a creadores y creadoras para que sean ellos y ellas quienes definan los términos bajo los cuales sus obras pueden ser usadas, qué derechos desean entregar y bajo qué condiciones lo harán. Creative Commons es una respuesta al régimen tradicional de derechos de autor o *copyright*, el cual impone obstáculos excesivos al proceso creativo y la cultura libre. Bajo dicho régimen, las creaciones artísticas, literarias e intelectuales quedan automáticamente y por defecto bajo la protección de las leyes de *copyright*, las cuales establecen que toda creación original plasmada en un medio tangible tiene "todos los derechos reservados". Específicamente, esto significa que el autor de una obra original tiene unos derechos exclusivos: copiar, distribuir, ejecutar públicamente, exhibir públicamente y hacer trabajos derivados de dicha obra original. Es decir, toda persona que desee utilizar la obra de otra persona, debe primero solicitar permiso al autor de la obra. Por ejemplo, desde el instante que una persona hace un garabato original en una servilleta de un bar, el autor del garabato adquiere los derechos exclusivos sobre el mismo y todo aquel que desee reutilizar el garabato tiene que pedirle permiso al autor. Sin embargo, muchas personas prefieren una alternativa a estos derechos exclusivos del régimen del *copyright*, en particular aquellos que realizan sus creaciones en formato digital o en internet, un lugar que siempre ha prometido comunicación y colaboración sin trabas.

Creative Commons ensaya resolver un problema dual: por un lado, que autores interesados en hacer cumplir sólo algunos de sus derechos exclusivos no tienen una forma fácil de anunciarlo y, por otro lado, que personas que quieren copiar y reutilizar obras creadas por otros no tienen una forma fiable de identificar los trabajos que están legalmente disponibles para tales usos. ¿Cómo resuelve este problema Creative Commons? Creative Commons crea unas licencias que definen un abanico de posibilidades entre dos extremos: los derechos de autor plenos ("todos los derechos reservados") y el dominio público ("sin derechos reservados"). Específicamente, a través de las licencias Creative Commons, un autor ofrece su obra con sólo "algunos derechos reservados" en vez de "todos los derechos reservados" y, como resultado, concede permiso para que otros puedan reutilizar flexiblemente su obra (para usos creativos subsiguientes), según la licencia específica seleccionada por el autor. En otras palabras, las licencias de Creative Commons no contradicen el régimen tradicional del *copyright*, sino que son herramientas para que los autores de obras originales puedan comunicar al mundo cuáles derechos exclusivos desean retener y cuáles desean ceder. De esta manera, las licencias Creative Commons ayudan a autores a mantener sus derechos de *copyright* mientras simultáneamente permiten, bajo ciertas condiciones, algunas excepciones con respecto a dichos derechos exclusivos.



Ricardo Ortiz, 2009. Obra derivada de foto por Steve Wampler. La obra final está sujeta a una licencia Creative Commons Puerto Rico 3.0: Reconocimiento-No Comercial-Sin Obras Derivadas:
www.creativecommons.org/licenses/by-nc-nd/3.0/pr/



Las seis licencias de Creative Commons se generan a través de la recombinación de las siguientes cuatro condiciones:



Reconocimiento. El material creado por un artista puede ser distribuido, copiado y exhibido por terceras personas si se muestra en los créditos.



No Comercial. El material original y los trabajos derivados pueden ser distribuidos, copiados y exhibidos mientras su uso no sea comercial.



Sin Obras Derivadas. El material creado por un artista puede ser distribuido, copiado y exhibido pero no se puede utilizar para crear un trabajo derivado del original.



Compartir Igual. El material creado por un artista puede ser modificado y distribuido pero bajo la misma licencia que el material original.

Específicamente, las seis licencias generadas a través de la recombinación de las condiciones anteriores son:



Reconocimiento: El material creado por un artista puede ser distribuido, copiado y exhibido por terceros si se muestra en los créditos.



Reconocimiento - Compartir Igual: El material creado por un artista puede ser distribuido, copiado y exhibido por terceros si se muestra en los créditos. Las obras derivadas tienen que estar bajo los mismos términos de licencia que el trabajo original.



Reconocimiento - Sin Obras Derivadas: El material creado por un artista puede ser distribuido, copiado y exhibido por terceros si se muestra en los créditos. No se pueden realizar obras derivadas.



Reconocimiento - No Comercial: El material creado por un artista puede ser distribuido, copiado y exhibido por terceros si se muestra en los créditos. No se puede obtener ningún beneficio comercial.



Reconocimiento - No Comercial - Compartir Igual: El material creado por un artista puede ser distribuido, copiado y exhibido por terceros si se muestra en los créditos. No se puede obtener ningún beneficio comercial y las obras derivadas tienen que estar bajo los mismos términos de licencia que el trabajo original.



Reconocimiento - No Comercial - Sin Obras Derivadas: El material creado por un artista puede ser distribuido, copiado y exhibido por terceros si se muestra en los créditos. No se puede obtener ningún beneficio comercial. No se pueden realizar obras derivadas.