LANDLORDS, DANCE HALLS, AND UGC HOSTS: DIRECT FINANCIAL BENEFIT AND THE DIGITAL MILLENNIUM COPYRIGHT ACT

by
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In 1998, the prospect of secondary liability severely crippling the Internet inspired Congress to pass the Digital Millennium Copyright Act (DMCA). To that end, Congress created safe harbor provisions to set predictable boundaries for online service providers (OSPs) seeking to stay clear of liability for the acts of their users. Ten years later, the World Wide Web is inextricably embedded in humanity's social fabric. Advances in technology have enabled massive collaboration between Internet users and OSPs under the banner of Web 2.0, generating a shift in social mores, transforming business models, and unleashing an enormous wave of copyright infringement. Safe harbor under § 512(c) requires, inter alia, that an OSP "does not receive a financial benefit directly attributable to the infringing activity." Though the promise of spectacular financial benefit for OSPs that host mass infringement seems clear, the scope of safe harbor protection remains eerily uncertain as we approach the billion-dollar lawsuit between Viacom and YouTube. This Comment traces the direct financial benefit test from its common law origins through its application to OSPs under the DMCA. Finding the statutory test structurally defective and definitionally challenging, this Comment sifts through the kaleidoscopic case law to synthesize judicial logic and set forth a cleaner, flexible methodology that renders § 512(c) more predictable, consistent, and clear. Observing the dangers of stretching vicarious liability beyond the employer-employee relationship, this Comment concludes that courts have shrewdly addressed the flawed direct financial benefit test while consistently employing safe harbors correctly.

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I. INTRODUCTION

The startling growth of websites hosting user-generated content (UGC) has fostered widespread public affinity for the Internet.[1] Web 2.0, as the UGC era has been coined,[2] embraces blogs, wikis, and social networking sites that enable users to share photos, videos, and information. In essence, it is a massive collaborative movement sustained by user-posted material.[3] YouTube, a video-sharing Internet site that allows users to upload video content, spearheads a narrower charge of Web 2.0.[4] Housing more than 40% of the 15 billion videos available

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[1] *See* Brandon Brown, *Fortifying the Safe Harbors: Reevaluating the DMCA in a Web 2.0 World*, 23 BERKELEY TECH. L.J. 437, 437–38 (2008) (arguing that the "Web 2.0 environment has altered the landscape of the Internet in a way that calls into question several DMCA requirements.").

[2] Germinating in the wreckage of the 2001 dot-com bust, "the gravitational core" of Web 2.0 conceptualizes the Web as an integrated platform rather than as individual proprietary projects. Harnessing humanity's collective intelligence through a wider array of contributions and a seamless perpetual publication cycle, the Web 2.0 environment "*automatically gets better the more people use it*." Tim O'Reilly, *What is Web 2.0: Design Patterns and Business Models for the Next Generation of Software*, O'REILLY, Sept. 30, 2005, http://oreilly.com/web2/archive/what-is-web-20.html. Web 2.0 sensibilities appear in applications like Flickr, BitTorrent, Wikipedia, blogging, tagging, and cost-per-click advertising. *Id.* For a seminal discussion of Web 2.0, see O'Reilly, *supra*.

[3] *See* Eugene C. Kim, Note, *YouTube: Testing the Safe Harbors of Digital Copyright Law*, 17 S. CAL. INTERDISC. L.J. 139, 139 (2007); Brown, *supra* note 1, at 442.

[4] YouTube.com was founded in February 2005. Eclipsing early rivals grouper.com and bolt.com, YouTube's video library is almost ten times larger than its closest competitor's archives. Press Release, comScore, YouTube Surpasses 100 Million U.S. Viewers for the First Time, (Mar. 4, 2009), http://www.comscore.com/Press_Events/Press_Releases/2009/3/YouTube_Surpasses_100_Million_US_Viewers. While entrenched competitors like Fox, Viacom, Microsoft, and Yahoo have the financial resources to battle YouTube, the meteoric rise of Hulu and Veoh demonstrates that the online-video market is still open to smaller and newer players. *Id.*; *see also* Trevor Cloak, Note, *The Digital Titanic: The Sinking of YouTube.com in the DMCA's Safe Harbor*, 60 VAND. L. REV. 1559, 1560 (2007).

online,[5] YouTube is streaming 1.2 billion videos a day worldwide.[6] It has repeatedly surpassed 100 million unique viewers per month since December 2008.[7] While the UGC movement quickly gained traction, YouTube expanded its market share of videos viewed from 46% to 60% during 2006[8] to more than 75% by May 2008—an astounding share even when compared to Google's search-engine dominance.[9] Three years ago, YouTube was handling more traffic than all 56 television cable and broadcasting network websites combined.[10]

As expected, the astronomical increase in traffic has attracted substantial interest from advertisers and sent website revenues soaring. Garnering $200 million of the $1.35 billion in online advertising revenues in 2008, YouTube is projected to bring in $350 million in 2009.[11] Online advertising income industry-wide is expected to annually exceed $4 billion by 2011.[12] Although YouTube still operates in the red, its anticipated growth in revenue suggests that YouTube's profits will soon dwarf its costs.[13] Even at a glance, the advent of UGC websites appears to be enormously popular with the public and freakishly lucrative for its promoters.[14]

Not everyone, however, is pleased with Web 2.0. Copyright holders are livid that UGC hosts are ruthlessly exploiting previously inaccessible avenues for copyright infringement.[15] One conservative estimate has YouTube's income derived from advertising revenue attributable to infringing content calculated at $15 million a year.[16] Furthermore,

5 *See* Press Release, comScore, *supra* note 4 (estimating the number of uploaded videos for January 2009).

6 *See* Michael Arrington, *YouTube Video Streams Top 1.2 Billion/Day*, TECH CRUNCH, Jun. 9, 2009, http://www.techcrunch.com/2009/06/09/youtube-video-streams-top-1-billionday/.

7 *See* Press Release, comScore, *supra* note 4.

8 *See* Christopher D. Newkirk & Thomas A. Forker, *Does YouTube's Bright Past Mean a Cloudy Future?*, 19 INTELL. PROP. & TECH L.J. 1, 1 (2007).

9 Google only held a 67% search engine market share in April 2008. *See* Marshall Kirkpatrick, *YouTube Continues to Destroy All Competitors in Declining Video Market*, READ WRITE WEB, Jun. 26, 2008, http://www.readwriteweb.com/archives/youtube_continues_to_destroy_all.php.

10 *See* Kim, *supra* note 3, at 140 n.14 (explaining market share calculated for February 2007).

11 *See* Erick Schonfeld, *Is YouTube Building Market Dominance at the Expense of Building a Business?*, TECHCRUNCH, May 30, 2008, http://www.techcrunch.com/2008/05/30/is-youtube-building-market-dominance-at-the-expense-of-building-a-business/.

12 *See id.*

13 *See* Todd Spangler, *YouTube May Lose $470 Million in 2009: Analysts*, Apr. 3, 2009, http://www.multichannel.com/article/191223-YouTube_May_Lose_470_Million_In_2009_Analysts.php (observing that YouTube has yet to make money because its bandwidth, licensing, and miscellaneous costs are significantly higher than its competitors); Ben Parr, *YouTube vs. Hulu: Which is the Future of Online Video?*, MASHABLE, May 10, 2009, http://mashable.com/2009/05/10/youtube-hulu-future/.

14 *See* Brown, *supra* note 1, at 451–52.

15 *See id.* at 437–38.

16 *See id.* at 451–52 nn.107–09.

YouTube's conjectured shift toward premium content in search of more advertising dollars magnifies the television networks' problem.[17] And traditional media have another reason to worry: the general public appears to be slowly switching from television viewing to online videos.[18]

Web hosts fervently maintain that the Internet's automated nature, coupled with the unfathomable quantity of user activity, makes screening every upload for infringement technologically impossible and economically fatal.[19] Congress and the courts during the last dozen years have generally agreed.[20] Critics of UGC web hosts call the alleged inability of programmers to regulate websites "a legal and technological fiction."[21] Moreover, they can readily argue that any business model based on advertising revenues encourages UGC hosts to condone infringement even more willingly than if end users paid subscription fees and financed their own additional services.[22]

The ever-uneasy balance between promoting public access to creative works and protecting the incentive to create is currently facing its most awesome challenge to date—a one billion dollar lawsuit between Viacom and YouTube.[23] Viacom, a television and movie industry titan,[24] alleges that Internet giants YouTube and Google[25] are secondarily liable for supplying a website that permitted users to post online 150,000 of

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[17] *See* Peter Cashmore, *YouTube Ads: YouHate Em*, MASHABLE, Apr. 5, 2009, http://mashable.com/2009/04/05/youtube-ads-youhate-em/ ("YouTube is set to copy rival Hulu, switching its emphasis to premium shows, clips, and movies . . . . The reason is clear: *no one wants to advertise on your cat video.*" (emphasis in original)).

[18] *See* Josh Catone, *Watch Out TV: YouTube is Taking Over*, READ WRITE WEB, Jun. 5, 2008, http://www.readwriteweb.com/archives/watch_out_tv_youtube_is_taking_over.php (observing that TV's share of the videos-viewed market dwindled from 75% to 70% from February 2007 to February 2008, while the share watched on personal computers increased from 11% to 19% over the same period: the trends apply across all generations). In January 2009, more than three-quarters of the Internet audience in the United States viewed video online. *See* Press Release, comScore, *supra* note 4.

[19] *See* Russ VerSteeg, *Viacom v. YouTube: Preliminary Observations*, 9 N.C. J.L. & TECH. 43, 43–54 (2007).

[20] *See infra* Section III.A. Excepting the peer-to-peer *Napster-Aimster-Grokster* trilogy, courts have generally granted safe harbor protection to OSPs.

[21] Brown, *supra* note 1, at 442.

[22] *See* Jonathan J. Darrow & Gerald R. Ferrara, *Social Networking Websites and the DMCA: A Safe-Harbor from Copyright Infringement Liability or the Perfect Storm?*, 6 NW. J. TECH & INTELL. PROP. 1, 25 (2007).

[23] *See* Complaint for Declaratory and Injunctive Relief and Damages at ¶ 10, Viacom Int'l, Inc. v. YouTube, Inc., 540 F. Supp. 2d 461 (S.D.N.Y. 2008) (No. 07 Civ. 2103) [hereinafter Viacom Complaint].

[24] Viacom controls, *inter alia*, Paramount Pictures Corp., Black Entertainment Television, Country Music Television, Nickelodeon, VH1, Comedy Central, and MTV. *See id.* ¶¶ 15–20.

[25] Google purchased YouTube in November 2006 for $1.65 billion. YouTube is a wholly-owned subsidiary of Google, which makes YouTube's parent company potentially liable. *See* Defendants' Answer and Demand for Jury Trial at ¶¶ 9 & 26, Viacom Int'l, Inc. v. YouTube, Inc., 540 F. Supp. 2d 461 (S.D.N.Y. 2008) (No. 07 Civ. 2103) [hereinafter YouTube Answer].

Viacom's copyrighted videos.[26] YouTube has countered that safe harbor provisions in the Digital Millennium Copyright Act (DMCA)[27] protect it from secondary liability for its users' copyright violations.[28] A finding of secondary liability could severely damage YouTube while crippling the current UGC business model and disheartening a consuming public that has grown very fond of Internet activities over the past decade.[29]

In general, copyright law protects "original works of authorship fixed in any tangible medium of expression."[30] With this protection, an author possesses the exclusive rights to reproduce, distribute, publicly perform, publicly display, or create a derivative of the copyrighted work.[31] Direct infringement occurs where another person commits the unauthorized exercise of any of these five rights.[32] A person may be secondarily liable where that person (1) has the right and ability to control the infringing activity, and receives a direct financial benefit from the infringing activity,[33] or (2) knowingly induces, causes, or materially contributes to the infringing conduct of another.[34] Absent a valid common law defense, many online service providers (OSPs)[35] may have found themselves secondarily liable prior to the passage of the DMCA.

Fearing unlimited liability for OSPs after a string of early Internet cases, Congress provided OSPs with protection against secondary liability for copyright infringement.[36] Of the four DMCA safe harbors supplied by Congress,[37] 17 U.S.C. § 512(c)—which conditionally immunizes owners of sites who have infringing material "Residing on Systems or Networks at

[26] *See* Viacom Complaint, *supra* note 23, at ¶ 3.

[27] Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860 (codified in scattered sections of 17 U.S.C. (1998)).

[28] *See* YouTube Answer, *supra* note 25, at 10 (citing 17 U.S.C. § 512 as its first affirmative defense).

[29] *See* Darrow & Ferrara, *supra* note 22, at 6 n.40 ("Since the MP3.com and Napster battles, the public has become increasingly aware of copyright issues, and a growing portion has viewed copyright law with disdain.") (citing Peter K. Yu, *P2P and the Future of Private Copying*, 76 U. COLO. L. REV. 653, 679 (2005)).

[30] 17 U.S.C. § 102(a) (2006).

[31] *Id.* §§ 106(1)–(5).

[32] *See id.* § 501.

[33] This is the common law vicarious liability test. *See infra* text accompanying note 63.

[34] *See* Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971) (setting forth the test for contributory infringement).

[35] The term online service provider (OSP) encompasses not only traditional Internet access providers (ISPs) who merely transmit information, but also web hosts who store content and manipulate information. OSP is a broader term than ISP, and better captures the coverage provided by the safe harbors set forth in 17 U.S.C. § 512 (2006).

[36] The DMCA was passed in response to the fears that infringement suits would cripple the growth of the Internet. *See* Mark A. Lemley, *Rationalizing Internet Safe Harbors*, 6 J. TELECOMMS. & HIGH TECH. L. 101, 101–02 (2007).

[37] *See* 17 U.S.C. §§ 512(a)–(d). *See infra* note 109 and accompanying text.

Discretion of Users"—is at the center of the UGC storm.[38] Section 512(c)(1)(B), the most mysterious of the seven § 512(c) conditions,[39] requires that a party "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."[40] In essence, it is a codified version of the common law test for vicarious liability. The first clause is the direct financial benefit test; the second is the control test.[41]

The DMCA direct financial benefit test germinated in common law agency principles under the doctrine of vicarious liability.[42] Imposed in virtually every area of the law, vicarious liability applies in circumstances where it is just to hold one party accountable for the actions of another.[43] Novel challenges confront the just application of the direct financial benefit test in the cyber world. Instantaneous, low-cost reproduction of copyrighted works has undermined social mores that sustain the belief that unauthorized copying is wrong.[44] In addition, the standard UGC web host business model—obtaining revenues through third-party advertisements rather than directly from user fees—has maneuvered away from the subscription-based business plan that Congress thought would connect a direct infringer to its web host.[45] Moreover, the statutory structure of the DMCA impairs the development of direct financial benefit test precedent.[46] A litany of safe harbor conditions, all easier to prove than the directness of benefit, lends credence to the idea that the theory of contributory infringement renders superfluous a finding of vicarious liability for Internet activities.[47]

This Comment argues that the direct financial benefit test has become a woefully malleable, useless, and oft-avoided relic in post-DMCA case law involving OSPs. Part II traces the common law roots of the direct

[38] The majority of safe harbor battles have occurred under § 512(c). *See* Brette G. Meyers, *Filtering Systems or Fair Use? A Comparative Analysis of Proposed Regulations for User-Generated Content*, 26 CARDOZO ARTS & ENT. L.J. 935, 939 (2009) (evaluating three different sets of UGC principles and suggesting that a blend of the ideas is the solution to getting OSPs to set helpful industry standards).

[39] *See infra* note 111.

[40] 17 U.S.C. § 512(c)(1)(B).

[41] *See* Polygram Int'l Publ'g, Inc. v. Nev./TIG, Inc., 855 F. Supp. 1314, 1324 (D. Mass. 1994) ("This two-pronged test has been widely adopted, although courts often refer to the two elements by the shorthand terms 'control' and 'benefit.'").

[42] *See infra* Part II.A.

[43] *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 435 (1984).

[44] *See, e.g., In re* Aimster Copyright Litig., 334 F.3d 643, 645 (7th Cir. 2003) ("The swappers, who are ignorant or more commonly disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement, are [generally] the direct infringers.").

[45] *See infra* Part III.A.

[46] *See infra* Part III.B.

[47] *See* Charles S. Wright, Comment, *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement Into the Digital Millennium Copyright Act of 1998*, 75 WASH. L. REV. 1005, 1022 n.144 (2000).

financial benefit test through its introduction to the electronic marketplace. Part III identifies structural defects and definitional problems in the DMCA direct financial benefit test before synthesizing the related Internet case law. Extracting indicators of direct financial benefit, Part III also illustrates how courts marginalize or avoid altogether employing the test. Part IV strings *Viacom International, Inc. v. YouTube, Inc.* through the judicially construed statutory test, demonstrating that the financial benefit YouTube derives from advertising is safely indirect under the DMCA test. Part V concludes that courts have evaluated Internet secondary liability cases so shrewdly that the glaring defects in § 512(c)(1)(B) are best left alone.

II. THE EXPANSION OF VICARIOUS LIABILITY

Tort liability requires a sufficiently direct connection between a tortfeasor and an injured party. This Part traces the widening scope of activities for which parties may be liable in tort law from its Anglo-American origins into modern times. It shows that the current confusion about the scope of liability under the direct financial benefit test is caused by conflating (1) the control and benefit elements and (2) the source of infringing acts with the source of revenue.

A. *Common Law Development of the Direct Financial Benefit Test*

An outgrowth of criminal law, the earliest English tort law established liability solely for injuries directly attributable to another person's acts.[48] It became clear, however, that liability should sometimes exist even where the link between a tortfeasor and his victim was more remote.[49] For instance, a person who throws a log may not only be liable for striking another person, but may also be liable to a different person who later trips over that log.[50] As a result, the common law began recognizing indirect torts during the thirteenth century.[51] Pushing back against open-ended liability is the principle of proximate cause. Though

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[48] *See* 3 WILLIAM HOLDSWORTH, A HISTORY OF ENGLISH LAW 371–75 (5th ed. 1942) (1908). Criminal and tort law were not sharply distinguished before the fifteenth century. While the concept of wrongdoing began trickling into the ethical calculus of Medieval English law, a man in those days acted at his own peril and could be found liable regardless of whether the harm caused was intentional, negligent, or accidental.

[49] *See id.* at 379–82. Faint notions of the concept of proximate cause began to work their way into English jurisprudence during the fourteenth and fifteenth centuries.

[50] *See* VICTOR E. SCHWARTZ, ET AL., PROSSER, WADE, AND SCHWARTZ'S TORTS: CASES AND MATERIALS 4 (11th ed. 2005).

[51] *See id.* at 3–4. The division between direct and indirect torts began as a pair of common law writs: the writ of trespass and the writ of trespass on the case, or action on the case. Torts were divided into direct harms (trespasses), where the tortfeasor directly caused injury to another person, and indirect harms (trespasses on the case), more akin to modern negligence actions. *Id.*

modern negligence law explores foreseeability rather than directness, proximate cause delineates the boundary between the results of actions too directly predictable for a tortfeasor to avoid liability and too indirectly imaginable for an actor to be legally accountable.[52] Similarly, the direct financial benefit test serves as the linchpin between sufficiently direct acts that create tort liability and situations where an indirect participant should not be held liable.

Directness is not only a question of *which* acts should create liability, but also *who* should be within the scope of liability. Medieval English law required that artisans personally demonstrate a certain degree of skill in their professions, but also appreciated that the promise of a tort remedy for grievous misdeeds would be undermined were innkeepers, common carriers, smiths, and surgeons not also potentially liable for the acts of those they employed.[53] As a result, secondary liability sprung from the relationship between employer and employee.[54] This master-servant relationship was formed where an employer controlled and benefited from his employee's services.[55] Where an employer benefited from a servant's labor, the employer could be held liable for injuries caused by an employee to a third party while the employee was acting within the scope of employment.[56] By combining (1) the ability to control an employee's acts with (2) the direct financial benefit derived from the underlying activity, courts had devised the doctrine of vicarious liability.[57]

Complicated relationships between twentieth century actors have broadened the scope of parties who may be held vicariously liable beyond

[52] The nineteenth-century shift to a fault-based standard maneuvered tort law away from the direct-indirect distinction that began six centuries earlier. The distinction between proximate cause and direct causation is near the heart of the debate in Judge Cardozo's majority opinion and Judge Andrews's dissent in *Palsgraf v. Long Island R.R. Co.*, 162 N.E. 99 (N.Y. 1928).

[53] *See* 3 HOLDSWORTH, *supra* note 48, at 385–86 (observing that public policy favoring tort liability for professionals with expertise was not an "adequate safeguard to the public unless the persons professing such skill had been made liable, not only for the acts done by themselves, but also for the acts done by their servants in the pursuit of their several callings"); *see also* Polygram Int'l Publ'g, Inc. v. Nev./TIG, Inc., 855 F. Supp. 1314, 1325 (D. Mass. 1994) ("The law of vicarious liability treats the expected losses as simply another cost of doing business. The enterprise and the person profiting from it are better able than either the innocent injured plaintiff or the person whose act caused the loss to distribute the costs and to shift them to others who have profited from the enterprise.").

[54] *See* Darrow & Ferrara, *supra* note 22, at 9.

[55] *See* 3 HOLDSWORTH, *supra* note 48, at 382. The master-servant relationship originally created absolute liability in the master for the wrongful acts of servants in an era where servants were more like slaves than employees. *Id.*

[56] *See* Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 GEO. L.J. 1833, 1858–59 (2000) (noting that scope of employment "limitations reflect a policy against applying enterprise liability in the absence of close control over an underlying tortious act taken on behalf of the vicariously liable defendant.").

[57] The distinction between acts and activities grows more important the further the principle of vicarious liability is stretched. *See infra* Part IV.C.

an employer-employee relationship.[58] Courts have met the proliferation of manufactured goods and an ever-expanding supply chain with the theory of strict products liability.[59] Increasingly complex business connections have stretched agency theory beyond traditional bounds to include licensing and franchising agreements, securities regulation, and liability for harms to the environment.[60] In effect, the scope of activities through which financial benefit may be obtained has widened considerably, while the ability to control the acts of one's business connections has not expanded apace.[61] As a result, a daunting task falls to the courts: balance the realization that modern harms are increasingly indirect with the prospect of unlimited liability for actors progressively more remote from the injuries that have been caused. Internet relationships are at the outer ripple of directness, where the prospect of wider legal responsibility risks abandoning the common law roots of vicarious liability.[62]

B. *Vicarious Liability in the Copyright Context*

Copyright law recognizes that vicarious liability extends beyond the world of master and servant; "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."[63] In cases where the underlying

[58] *See* Yen, *supra* note 56, at 1856 (citing George L. Priest, *The Invention of Enterprise Liability: A Critical History of the Intellectual Foundations of Modern Tort Law*, 14 J. LEGAL STUD. 461, 527 (1985)) (noting that while enterprise liability seems sensible on its face, it becomes problematic because there is no logical limit to where liability should stop); R. Anthony Reese, *The Problems of Judging Young Technologies: A Comment on* Sony, *Tort Doctrines, and the Puzzle of Peer-to-Peer*, 55 CASE W. RES. L. REV. 877, 880 (2005) ("[V]iewing the control and direct financial interest prongs of the vicarious liability test as indicators of whether the agency *relationship* between the parties is the kind that justifies holding one liable for the acts of the other may help determine the appropriate scope of vicarious liability in copyright law.").

[59] *See* Yen, *supra* note 56, at 1861–62 (arguing that strict products liability should follow the same approach to secondary liability, but that limits clearly must exist: gun manufacturers and brewers, for example, are almost never liable for the misdeeds of end users because they are too far removed from the harm).

[60] *See* Herbert B. Chermside, Jr., Annotation, *Vicarious Liability of Private Franchisor*, 81 A.L.R.3d 764, 767 (1977); HAROLD S. BLOOMENTHAL & SAMUEL WOLFF, SECURITIES AND FEDERAL CORPORATE LAW 14–21(2d ed. 2009); William B. Johnson, Annotation, *Private Entity's Status as Owner or Operator Under § 107(a)(1, 2) of Comprehensive Environmental Response, Compensation, and Liability Act (42 USCS § 9607(a)(1, 2)) (CERCLA)*, 140 A.L.R. FED. 181, 231–32 (1997).

[61] *See* Yen, *supra* note 56, at 1865 (noting that liability arguments will extend to include investors, search engines, credit card companies, and makers of digital recorders).

[62] *Id.* at 1863 ("[T]he relationship between [O]SP and subscriber is not at all like the kind of relationship that gives rise to vicarious liability in tort.").

[63] Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971).

activity involves the exchange of physical goods, direct financial benefit is more easily demonstrable.[64] In *Shapiro, Bernstein & Co. v. H. L. Green Co.*, for example, the direct infringer sold bootlegged copies of music through a phonograph record department he operated under a licensing agreement within an H.L. Green Co. store.[65] Observing that secondary liability was not limited to cases of strict agency, the Second Circuit marched through two lines of precedent.[66] In one line, landlords who had limited control of tenants and who received fixed rents were not held vicariously liable for their tenant's acts.[67] In the other line, dance hall operators that actively policed the premises and whose income directly depended on fees from people who came to hear the copyrighted works were found vicariously liable.[68] Deeming H.L. Green more dance hall operator than landlord, the court asserted that "the imposition of vicarious liability" did not seem "unduly harsh or unfair" given H.L. Green's "strong [financial] concern" in the direct infringer's sale of bootlegged records.[69] The Second Circuit thought it significant that H.L. Green, the licensor, had (1) retained ten to twelve percent of the bootlegged sales; (2) handled all the money through its cashiers; and (3) marked receipts of purchase with H.L. Green's own name.[70]

Eight years later, the same court in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.* found vicariously liable a musical promotion company (CAMI) that managed, booked, and engineered local concerts through grass roots development in small communities.[71] CAMI earned compensation amounting to as much as forty percent of its artists' revenues—a benefit substantially derived from the promotion of infringing acts.[72] In 1996, twenty-five years after *Gershwin Publishing Corp.*, the Ninth Circuit in *Fonovisa, Inc. v. Cherry Auction, Inc.* found vicariously liable a defendant who ran swap meets that brought together independent vendors and purchasers for the unauthorized sale of copyrighted music.[73] Cherry Auction's receipt of revenue from exhibition booths, customer entry fees, and concessions sales established a direct financial benefit because the infringing acts served as a "draw" for its customers.[74]

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[64] *See* Polygram Int'l Publ'g, Inc. v. Nev./TIG, Inc., 855 F. Supp. 1314, 1330–31 (D. Mass. 1994).

[65] Shapiro, Bernstein & Co. v. H. L. Green Co., 316 F.2d 304, 306 (2d Cir. 1963).

[66] *Id.* at 307.

[67] *Id.*

[68] *Id.*

[69] *Id.* at 308.

[70] *Id.* at 306.

[71] *See* Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1160 (2d Cir. 1971).

[72] *Id.* at 1161.

[73] *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 261 (9th Cir. 1996) (reversing and remanding trial court's dismissal of vicarious liability claim).

[74] *Id.* at 263.

In all three cases, liability was found where a secondarily liable defendant marketed the same type of goods and services that actually infringed the copyrighted works. A pair of 1990s trade show cases unearthed a blurrier line where the indirect infringer's source of profit came not from marketing the infringing activity, but rather from renting out venues for unrelated activities where infringement incidentally occurred. In *Polygram International Publishing, Inc. v. Nevada/TIG, Inc.*, the court conjectured that computer trade show organizers could be held vicariously liable for exhibitors who played infringing songs in the exhibitors' booths.[75] Though the trade show organizers had not earned revenue directly from the sale of infringing material, the five-day and 132,000 person show earned profits for organizers through (1) exhibition booth costs of $40 per square foot, (2) admission fees of $75 a person, and (3) advertising revenues promoting the trade show.[76] Facing similar facts, the court in *Artists Music, Inc. v. Reed Publishing, Inc.* drew the opposite conclusion.[77] Granting summary judgment on the vicarious liability claim, the New York District Court determined that sponsoring a trade show and renting space to exhibitors while collecting admission fees from attendees depended in no way on whether exhibitors played the infringing music.[78]

Three ideas flowing from these five cases are particularly instructive. First, the infringement vis-à-vis the purported secondary infringer in *Artists Music, Inc.* and *Nevada/TIG, Inc.* was incidental. The courts reached contrary conclusions because they approached financial benefit differently. Citing legislative history from the 1976 Copyright Act, the *Nevada/TIG, Inc.* court suggested that deriving either a direct or *indirect* financial benefit could establish secondary liability in the public performance context.[79] Foreshadowing the conservative approach taken in the DMCA, the *Artists Music, Inc.* court did not think the 1976 Act broadened vicarious liability under copyright law;[80] in other words, there must be a direct link between the subject matter marketed and the

[75] 855 F. Supp. 1314 (D. Mass. 1994).

[76] *Id.* at 1318–19 (validating plaintiff's liability theories, but dismissing the action because the plaintiff had not proven that the performers and the trade show exhibitors allegedly infringing musical works lacked the authorization to perform the songs).

[77] *See* Yen, *supra* note 56, at 1849 (discussing Artists Music, Inc. v. Reed Publ'g, Inc., 31 U.S.P.Q.2d (BNA) 1623, 1624–27 (S.D.N.Y. 1994)).

[78] *See Artists Music, Inc.*, 31 U.S.P.Q.2d at 1627.

[79] *See Polygram Int'l Publ'g, Inc.*, 855 F. Supp. at 1326 (stating that to be held a related or vicarious infringer in the case of performing rights, a defendant "must either actively operate or supervise the operation of the place wherein the performances occur, or control the content of the infringing program, and expect commercial gain from the operation and either direct or indirect benefit from the infringing performance") (citing H.R. REP. NO. 94-1476, at 159–60 (1976)).

[80] The *Artists Music, Inc.* court specifically rejected plaintiff's argument that musical ambience enhanced the show's financial success. *See* Yen, *supra* note 56, at 1850 (citing *Artists Music, Inc.*, 31 U.S.P.Q.2d at 1627).

infringing acts to establish vicarious liability—regardless of whether the infringing media is permanent or ephemeral.

Second, the direct financial benefit test subtly swings from two hinges: (1) the relationship between what an alleged secondary infringer is marketing and the subject matter that actually infringes, and (2) the relationship between an alleged secondary infringer and the source of its revenue. Where the infringing material is unrelated to that which is marketed, a finding of secondary liability is unreasonably problematic. *Artists Music, Inc.*, therefore, stands on stronger ground than *Nevada/TIG, Inc.*[81] On the other hand, liability is more appropriate where a party alleged to be secondarily liable markets the same activities as the directly infringing acts. Some percentage of a secondarily liable party's revenue is paid by direct infringers who commit the infringing act(s); third-party sponsors—those who do not themselves infringe, but financially support the underlying activity—supply the remainder. Liability clearly exists in the cases like *Shapiro, Bernstein & Co.*, where the entire financial benefit comes from the direct infringer.[82] Liability is somewhat harder to find in cases like *Gershwin Publishing Corp.* and *Fonovisa, Inc.*, where direct infringers pay for access to the venue, but third-party sponsors generate revenue through ancillary environmental effects like admissions tickets, concessions, and parking.[83] Moving farther down the continuum, the even more remote yet judicially untested scenario occurs where none of the financial benefit to a party alleged to be vicariously liable comes directly from the direct infringer. This is the crux of *Viacom International, Inc. v. YouTube, Inc.*[84]

Third, the defendants held secondarily liable in *Shapiro, Bernstein & Co.* and *Gershwin Publishing Corp.* were involved in agency relationships with the direct infringers; those found liable in *Nevada/TIG, Inc.* and *Fonovisa, Inc.* were not.[85] Pursued to its logical limit, the implication of *Nevada/TIG, Inc.* and *Fonovisa, Inc.* is that a profit motive loosely connected to infringing activity could, by itself, demonstrate a direct financial benefit.[86] By allowing an OSP's profit motive to establish a "directness" of benefit, however unrelated an infringing source is to a financing source, the vicarious liability test unwittingly morphs into (1) the right and ability to control the money-making activity and (2) the

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[81] *See infra* note 137.

[82] *See supra* text accompanying notes 65–70.

[83] *See supra* text accompanying notes 71–74.

[84] *See infra* Part IV.

[85] *See* RESTATEMENT (THIRD) OF AGENCY § 1.01 (2005) ("Agency is the fiduciary relationship that arises when one person (a 'principal') manifests assent to another person (an 'agent') that the agent shall act on the principal's behalf and subject to the principal's control, and the agent manifests assent or otherwise consents so to act."); *see supra* text accompanying notes 63–78.

[86] *See* Alfred C. Yen, Sony*, Tort Doctrines, and the Puzzle of Peer-to-Peer*, 55 CASE W. RES. L. REV. 815, 824 (2005).

right and ability to supervise the infringing activity.[87] This conflation of control and financial benefit not only broadens the scope of secondary liability, but also derogates the function and purpose of the direct financial benefit test. Congress made precisely this mistake when it crafted safe harbors for OSPs under the DMCA.[88]

C. *Vicarious Liability and the Arrival of the Internet*

The danger of secondary liability is frighteningly acute in the cyber world because the Web introduces a third party into the chain of liability that has nothing to do with the infringing content itself. Not only could a copyright holder sue (1) a direct infringer who posted infringing material online and (2) a bulletin board or website hosting infringing works, but also (3) the Internet access provider that brought the parties together. Exploiting favorable precedent in the early 1990s, copyright holders targeted prospective secondary infringers with deeper pockets while efficiently consolidating litigation and settlement costs in fewer culpable parties.[89] Furthermore, the exponential growth of physically remote online infringers sent potential liability for OSPs skyrocketing.[90] Given the economic advantages of concentrating liability in fewer, larger defendants legally accountable for an increasing number of remote acts, it is easy to understand why "[s]uing actual infringers is becoming passé in digital copyright law."[91]

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[87] If a profit motive is enough to establish a benefit, then all a plaintiff would need to demonstrate is that a secondarily liable defendant controlled its own business activities. *See infra* note 214.

[88] The language of 17 U.S.C. § 512(c)(1)(B) requires "the right and ability to *control*" the infringing activity rather than the right and ability to supervise the infringing activity. 17 U.S.C. § 512(c)(1)(B) (2006) (emphasis added). By narrowing the scope of the control test, Congress rendered the direct financial benefit test superfluous and ensured that its scope would be a mystery. *See infra* text accompanying notes 115–18.

[89] *See* Darrow & Ferrara, *supra* note 22, at 4; Nive Elkin-Koren, *Making Technology Visible: Liability of Internet Service Providers for Peer-to-Peer Traffic*, 9 N.Y.U. J. LEGIS. & PUB. POL'Y 15, 26 (2006) (noting that large OSPs make good targets because they have deep pockets, serve as gatekeepers to Internet infringement, are within national borders and easier to haul into court, and are capable of shaping Internet usage through technical standards and pricing mechanisms).

[90] *See* Wright, *supra* note 47, at 1021 ("[T]he on-line environment allows the immediate formation of innumerable, non-negotiated, contractual relationships, thus potentially affixing vicarious liability to many more entities than in a brick-and-mortar environment."). The peer-to-peer software violations in *Napster, Inc.* illustrate the hopelessness of targeting direct infringers. *See* Peter S. Menell & David Nimmer, *Legal Realism in Action: Indirect Copyright Liability's Continuing Tort Framework and* Sony*'s De Facto Demise*, 55 UCLA L. REV. 143, 178 (2007) (noting that 75 million Napster users were downloading 10,000 files every second within months of the 1999 beginning to the peer-to-peer networking craze) (citing A & M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 902 (N.D. Cal. 2001)).

[91] *See* Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1346 (2004).

Early Internet decisions amplified the scope-of-liability uncertainties present in the corresponding "real-world" cases. In *Sega Enterprises, Ltd. v. Maphia,* the court ordered seizure of a bulletin board operator's computer equipment after he obtained profits from direct payment for infringing copies of games uploaded on and copied from a bulletin board network.[92] Even more severe, the court in *Playboy Enterprises, Inc. v. Frena* went so far as to find *direct* liability for a defendant who operated a bulletin board service on which his subscribers had illegally posted copyrighted photographs.[93] Fearing the vertical trajectory of online infringement, the *Frena* court observed that Frena's type of conduct would severely impair a copyright holder's right to generate revenue were the conduct to become widespread.[94]

In 1995, a California district court sounded the alarm to Congress that OSPs needed additional protection against secondary liability.[95] The court in *Religious Technology Center v. Netcom On-line Communication Services, Inc.* (*Netcom*) ruled that a bulletin board operator and its Internet access provider should not be held liable for infringing acts committed by the bulletin board's subscribers.[96] That the Internet access provider, Netcom, charged a fixed subscription fee to its subscribers meant that infringement in Netcom's digital pipelines neither attracted additional business nor increased Netcom's value to its subscribers.[97] In dispensing with the vicarious liability claim against Netcom,[98] the court stated that it did "not find workable a theory of infringement that would hold the entire Internet liable for activities that cannot reasonably be deterred."[99] Congress was of a similar mind when passed the DMCA three years later.[100]

[92] *See* Sega Enters., Ltd. v. Maphia, 857 F. Supp. 679, 683–90 (N.D. Cal. 1994).

[93] *See* Playboy Enters., Inc. v. Frena, 839 F. Supp. 1552, 1554, 1559 (M.D. Fla. 1993) (finding direct liability even though Frena (1) never personally uploaded infringing material, (2) removed infringing material as soon as he became aware of it, and (3) vigorously monitored infringing activity after he initially received notice of the infringing acts from the plaintiff).

[94] *See id.* at 1559.

[95] Religious Tech. Ctr. v. Netcom On-line Commc'n Servs., Inc., 907 F. Supp. 1361, 1369 n.12 (N.D. Cal. 1995) ("Netcom does not fall under [the common carrier] statutory exemption, and thus faces the usual strict liability scheme that exists for copyright. Whether a new exemption should be carved out for online service providers is to be resolved by Congress, not the courts.").

[96] *See id.* at 1377.

[97] *See id.* The court also rejected the plaintiffs' argument that Netcom, unlike CompuServe and AOL, offered regulation-free access and therefore direct financial benefit occurred just by leaving the infringing works online. *Id.*

[98] *See id.* Klemesrud, the bulletin board operator, escaped vicarious liability because the plaintiffs failed to assert that he obtained a direct financial benefit from the infringing activity. *Id.*

[99] *Id.* at 1372.

[100] *Netcom* became a model for the type of OSP conduct Congress wanted to protect when it passed the DMCA. The current firefight over secondary liability is a product of technological change. In 1998, Internet access providers operated primarily on a subscription-based business model. Congress did not envision the peer-

III. THE DMCA AND THE DIRECT FINANCIAL BENEFIT TEST

This Part examines the DMCA version of the direct financial benefit test. It exposes a flawed statutory regime and identifies structural defects and definitional challenges which ensured that the test would be irrelevant to the outcome of § 512(c) cases that were to follow. After synthesizing judicial thought on the scope of the direct financial benefit test into a predictable, yet flexible, sliding scale standard, this Part compiles indicators from Internet case law that suggest an alleged secondarily liable party has received a direct financial benefit under § 512(c)(1)(B).

A. *Legislative Intent and § 512(c)(1)(B)*

Moved to action by *Netcom*, Congress in 1998 passed the DMCA.[101] Nested within section II of the DMCA, the Online Copyright Infringement Liability Limitation Act (OCILLA) included the safe harbor provisions subsequently codified in § 512.[102] Unlike the Clinton Administration's Intellectual Property Task Force, Congress thought credible the prospect that unlimited secondary liability could cripple OSPs.[103] Congress was concerned that the novelties of the cyber world would encourage courts to hold OSPs legally accountable for employing technologies with substantial noninfringing uses.[104] It posited that flat fees and one-time set-up costs minimized OSPs incentives to aid

to-peer model, let alone the high-traffic advertising revenue model employed by UGC hosts today. *See* Brown, *supra* note 1, at 453; Mike Scott, *Safe Harbors Under the Digital Millennium Copyright Act*, 9 N.Y.U. J. LEGIS. & PUB. POL'Y 99, 137 (2005).

[101] *See* Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860 (codified in scattered sections of 17 U.S.C. (1998)).

[102] *See* Brown, *supra* note 1, at 444; Jerome H. Reichman et al., *A Reverse Notice and Takedown Regime to Enable Public Interest Uses of Technically Protected Copyrighted Works*, 22 BERKELEY TECH. L.J. 981, 992 (2007).

[103] Recognizing the commercial value of the Internet and conflicts with existing copyright law, the Clinton Administration convened The Information Infrastructure Task Force to articulate and implement the vision for the National Information Infrastructure. Scott, *supra* note 100, at 113–15. Public hearings and written comments resulted in the Green Paper in July 1994; the revised findings appeared in the White Paper in September 1995. *Id.* The White Paper was unsympathetic to the concerns of OSPs. Internet operators were perceived to be in a better position to monitor and control infringing uses than were copyright owners. *Id.* Moreover, it was argued that the prospect of secondary liability would give OSPs strong incentives to ensure that their sites were not used for infringement, and strong incentives to develop infringement technology prevention. *Id.*; *see also* Reichman et al., *supra* note 102, at 988 (citing BRUCE A. LEHMAN, INFORMATION INFRASTRUCTURE TASK FORCE, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE 109–24 (1995), *available at* http://www.uspto.gov/web/offices/com/doc/ipnii/ipnii.pdf.).

[104] *See* Scott, *supra* note 100, at 154 (citing S. REP. NO. 105-190, at 44 (1998)). This concern arose despite the governing precedent in *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984) (finding no contributory infringement where video recorders that defendant manufactured had "substantial noninfringing uses").

infringement, and therefore should not incur liability.[105] Congress conjectured that, absent protection from infringement of their electronically posted works, copyright owners would be reticent to place creative material online in the face of mass piracy.[106] Congress urged "courts [to] take a common-sense, fact-based approach" rather than "a formalistic" bent when employing safe harbors,[107] molding the DMCA atop the underlying common law rather than preempting it.[108]

The DMCA set forth safe harbor provisions for routing, transitory storage information residing on systems and networks at the discretion of the user, and referential linking tools.[109] Under § 512(c), an OSP is immune from monetary damages for infringing materials "Residing on Systems or Networks at Direction of Users."[110] Congress crafted seven conditions for eligibility to receive safe harbor protections under § 512(c).[111] Of particular interest to UGC hosts, § 512(c)(1)(B) provides that an OSP will retain its safe harbor so long as, *inter alia*, 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."[112] Despite Congress's intent to mold the safe harbor

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[105] *See* Scott, *supra* note 100, at 154 (citing S. REP. NO. 105-190, at 44–45 (1998) ("'[O]ne-time set-up fee[s] and flat periodic payments for service from a person engaging in infringing activities,' as well as 'fees based on the length of the message (per number of bytes, for example) or by connect time,' as [pricing] models . . . 'would not constitute receiving a "financial benefit directly attributable to the infringing activity."'")).

[106] *See* Brown, *supra* note 1, at 437 n.1 ("Due to the ease with which digital works can be copied and distributed worldwide virtually instantaneously, copyright owners will hesitate to make their works readily available on the Internet without reasonable assurance that they will be protected against massive piracy.") (citing S. REP. NO. 105-190, at 8).

[107] *See* H.R. REP. NO. 105-551, pt. 2, at 54 (1998).

[108] For example, the DMCA does not alter any common law defenses. *See* 17 U.S.C. § 512(l) (2006). *See also* Ellison v. Robertson, 357 F.3d 1072, 1076 (9th Cir. 2004) ("But '[r]ather than embarking on a wholesale clarification of' the various doctrines of copyright liability, Congress opted 'to leave current law in its evolving state and, instead, to create a series of "safe harbors," for certain common activities of service providers.'") (citing S. REP. NO. 105-190, at 19).

[109] *See* 17 U.S.C. §§ 512(a)–(d).

[110] *See* 17 U.S.C. § 512(c). Injunctive relief under § 512(j) may still apply.

[111] In order to be eligible for § 512(c) protection, the OSP must first satisfy three threshold elements applicable to all four § 512 safe harbors: it must be (1) a "service provider" that (2) has affirmatively set forth a termination policy for repeat infringers and (3) has not interfered with "standard technical measures" of copyrighted works. *See* 17 U.S.C. §§ 512(k)(1)(B), (i)(1)(A)–(B). Next, an OSP must demonstrate that it (4) does not have actual knowledge or awareness of the circumstances of the actual infringement; (5) "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"; (6) acts "expeditiously" to remove or disable access to material that is claimed to be infringing; and (7) has designated an agent to receive and process takedown notices for alleged infringement. *See* 17 U.S.C. §§ 512(c)(1)(A)–(C), (c)(2).

[112] *See* 17 U.S.C. § 512(c)(1)(B).

provisions to the evolving common law mosaic, the statutory structure of the DMCA neutralizes any effective use of the direct financial benefit test. Furthermore, contradictory judicial opinions concerning the scope of the direct financial benefit test cloud the purpose for which safe harbors were created.[113]

B. Structural Defects: Hiding in the DMCA Safe Harbor Rubric

OSPs must meet seven conditions to preserve their § 512(c) safe harbors.[114] Framed differently, courts wishing to invalidate a § 512(c) safe harbor have six alternatives to employ before they must address § 512(c)(1)(B).[115] On the other hand, a court must tackle § 512(c)(1)(B) where it ultimately validates the § 512(c) safe harbor for an OSP. The problem here: the direct financial benefit test is linked *in the same condition* to the right and ability to control infringing conduct.[116] In other

[113] *See infra* Part III.C.

[114] *See* sources cited *supra* note 111.

[115] Other than the very broad threshold "service provider" condition under § 512(k)(1)(B), only the direct financial benefit test has not been critical to the disposition of a § 512(c) case. The condition requiring a termination policy for repeat infringers under § 512(i)(1)(A) caused the court to remand in *Perfect 10, Inc. v. CCBill LLC.* 488 F.3d 1102, 1120 (9th Cir. 2007), *superseding* 481 F.3d 751 (9th Cir. 2007), *aff'g in part, rev'g in part,* 340 F. Supp. 2d 1077 (C.D. Cal. 2004). The non-interference with "standard technical measures" condition under § 512(i)(1)(B) undid safe harbors in *Universal Cities Studios, Inc. v. Reimerdes.* 111 F. Supp. 2d 294, 346–47 (S.D.N.Y. 2000) (granting plaintiffs (DVD producers) an injunction against use of a DE-CSS descrambler that disabled digital protection programs on digital movies), *aff'd sub nom.* Universal Cities Studios, Inc. v. Corley, 273 F.3d 429 (2d Cir. 2001). Actual knowledge or awareness of the circumstances of the actual infringement under § 512(c)(1)(A) was decisive in *In re Aimster Copyright Litig.* 334 F.3d 643, 655 (7th Cir. 2003) (granting preliminary injunction for Internet file sharing service; letters to the operator, the existence of a tutorial, activity in chat rooms, and the operation of "Club Aimster" demonstrated that operator had actual knowledge of infringing activity), *aff'g,* 252 F. Supp. 2d 634 (N.D. Ill. 2002). *See also* ALS Scan, Inc. v. RemarQ Cmtys., Inc., 239 F.3d 619, 621 (4th Cir. 2001) (finding plaintiff's assertion that defendant had actual knowledge and satisfactory notice of infringement required reversal of trial court's dismissal of the complaint). The condition that an OSP must designate an agent to receive and process takedown notices for alleged infringement under § 512(c)(2) necessitated remand in *Ellison v. Robertson.* 357 F.3d 1072, 1080 (9th Cir. 2004) (finding triable issues concerning defendant's termination policy and adequacy of notifications where (1) defendant changed the email address to which takedown notices were to be sent and (2) failed to provide the new address to the public; this also raised a question of expeditious removal under § 512 (c)(1)(C)), *aff'g in part, rev'g in part,* 189 F. Supp. 2d 1051, 1057–58 (C.D. Cal. 2002). Of course, the direct financial benefit test can only be critical to disposition if the other six conditions, in addition to the right and ability to control, are satisfied. That said, no court has remanded for fact-finding regarding direct financial benefit.

[116] *See* Polygram Int'l Publ'g, Inc. v. Nev./TIG, Inc., 855 F. Supp. 1314, 1327–31 (D. Mass. 1994). Judge Keeton astutely noted that vicarious liability, which springs from the general test of an agency relationship between parties, employs elements rather than factors. *Id.* at 1325. By weaving control and benefit into the same safe

words, a party alleged to be secondarily liable can satisfy the combined control-benefit condition by showing *either* that control or benefit is missing. Given the statute's wording—"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*"[117]—courts have sensibly treated control as a threshold element that must be satisfied before analyzing benefit.[118]

Moreover, a judicial finding of a right and ability to control infringing acts could be made where there is no direct financial benefit obtained from the infringing activity. Not a single court has made such a finding; every court concluding that an OSP had the right and ability to control has also found a direct financial benefit.[119] As a result, circumstances where a direct financial benefit may have been received but § 512(c)(1)(B) is satisfied for a lack of control never come to light.[120] Accordingly, there is a dearth of direct financial benefit precedent—a deficiency that only gets harder to remedy as holdings on the other six conditions become more numerous, clearer, and easier to employ.

The problem may run deeper. The Supreme Court has twice avoided using vicarious liability to resolve cases where new technologies confronted copyright law. In a pre-DMCA case, the Court in *Sony Corp. of America v. Universal City Studios, Inc.* dispositively employed the theory of contributory infringement rather than hazard a precise determination of direct financial benefit under a theory of vicarious liability.[121] Twenty

harbor element, or condition, Congress muted the effect of the direct financial benefit element. *Id.* at 1326–27.

[117] *See* 17 U.S.C. § 512(c)(1)(B) (emphasis added).

[118] *See* Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082, 1093–94 (C.D. Cal. 2001) ("Because the undisputed facts establish that eBay does not have the right and ability to control the infringing activity, the Court need not evaluate the financial benefit element of this prong."). Subsequent district courts have followed *Hendrickson*'s lead. *See* Corbis Corp. v. Amazon.com, Inc., 351 F. Supp. 2d 1090, 1110 (W.D. Wash. 2004); Io Group, Inc. v. Veoh Networks, Inc., 586 F. Supp. 2d 1132, 1151 (N.D. Cal. 2008).

[119] *See supra* text accompanying note 108. This was evidently true of the direct financial benefit test prior to passage of the DMCA. *See Polygram Int'l Publ'g, Inc.*, 855 F. Supp. at 1330 ("As with determinations of 'control,' courts have not formulated an explicit test for determining whether a benefit to a defendant is 'direct,' perhaps in part because, as the case law demonstrates, it is difficult to define and measure the 'direct' financial benefit that a performance of music confers.").

[120] *See, e.g.*, *Hendrickson*, 165 F. Supp. 2d at 1094 (stating eBay makes money by collecting (1) an "insertion fee" for each listing and (2) a "final value fee" based on a percentage of the highest bid at the end of the auction, but the *Hendrickson* court settled § 512(c)(1)(B) on the control test); *Corbis Corp.*, 351 F. Supp. 2d at 1094, 1110 (finding no secondary liability despite (1) a $39.99 credit card processing fee and (2) a 2.5% to 5.0% commission that Amazon earned on what was sold). Control has been clearer to policy makers as well. President Clinton's Information Infrastructure Task Force felt that OSPs had the right and ability to control infringing material, though they were less certain that OSPs obtained a direct financial benefit. *See* Scott, *supra* note 100, at 111.

[121] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 435 n.17 (1984) ("[R]easoned analysis of respondents' unprecedented contributory

years later, with the Internet cruising along at full throttle, the Court in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.* sidestepped vicarious liability to craft a new theory of secondary liability.[122] In reaching different conclusions, neither Court analyzed direct financial benefit even though plaintiffs pleaded the theory of vicarious liability in both cases.[123] Though the DMCA direct financial benefit test is demonstrably useless in application, the greater problem may be the application of vicarious liability to Internet activities at all.[124]

C. *Definitional Challenges: Scope of Direct Financial Benefit*

A court that claws its way through the other six conditions and concludes that an OSP has the right and ability to control the infringing activity must confront the most nebulous § 512(c) language: "receive a financial benefit directly attributable to the infringing activity."[125] Though conventional wisdom suggests a narrow interpretation of "directly attributable," this section demonstrates how courts have wisely blended congressional intent with the plain language of § 512(c)(1)(B) to silently produce a flexible yet predictable sliding scale standard in establishing the scope of direct financial benefit.

1. *Narrow Interpretation of Direct Financial Benefit*

Considering the significant factual differences between the real world and the cyber world, academics generally condone a more restrictive reading of vicarious liability for OSPs than given at common law.[126] The language of § 512(c)(1)(B) supports a narrower reading of direct financial benefit, and, by implication, broader safe harbors.[127] Section 512(c)(1)(B) employs the language "receive[s] a financial benefit directly attributable to the infringing activity," rather than the common law standard "has a direct financial interest" in the infringing

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infringement claim necessarily entails consideration of arguments and case law which may also be forwarded under [vicarious liability], and indeed the parties to a large extent rely upon such arguments and authority in support of their respective positions on the issue of contributory infringement.").

[122] *See* Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 930 n.9 (2005) ("Because we resolve the case based on an inducement theory, there is no need to analyze separately MGM's vicarious liability theory."). Notably, the Ninth Circuit did not analyze direct financial benefit "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." *See id.* at 928.

[123] *See supra* notes 121–22.

[124] *See infra* Part IV.C.

[125] 17 U.S.C. § 512(c) (2006).

[126] *See, e.g.*, Yen, *supra* note 56, at 1844.

[127] *See* Edward Lee, *Decoding the DMCA Safe Harbors*, 32 COLUM. J. L. & ARTS 233, 233 (2009); Brown, *supra* note 1, at 446 (suggesting that a more modernized rule should be expected given the improvements DMCA was supposed to make).

activity.[128] A receipt of benefit, rather than possession of an interest, suggests an immediate gain rather than the broader prospect of eventual profit.[129] Similarly, the control test in § 512(c)(1)(B) is interpreted more narrowly than its common law analog, requiring actual rather than mere legal control.[130]

Moreover, evidence of congressional intent supports a narrower interpretation of § 512(c)(1)(B). Safe harbors arrived in 1998 with a purpose to "provide certainty for copyright owners and Internet service providers with respect to copyright infringement liability online."[131] The legislative history clearly indicates that the DMCA direct financial benefit test was intended to be narrower than its common law cousin.[132] Furthermore, the legislative history does not indicate that an indirect financial benefit could, by itself, create secondary liability under the DMCA. By way of contrast, it was critical to Judge Keeton's rationale in *Nevada/TIG, Inc.*, a pre-DMCA case, that the legislative history of the 1976 Copyright Act intimated that secondary liability might attach for an indirect financial benefit in cases of public performance.[133] Accordingly, the dicta commonly drawn from *Nevada/TIG, Inc.*—that secondary liability could spring from infringing acts completely unrelated to the subject matter that the purported secondary infringer was marketing—is inapplicable in the DMCA sphere.[134]

Envisioning § 512(c)(1)(B) under a purely narrow interpretation, however, is purely imaginative given anomalies festering in the case law. The court in *Perfect 10, Inc. v. CCBill LLC* recently declared that the scope of the common law and statutory tests was similarly broad.[135] The Ninth

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[128] 17 U.S.C. § 512(c)(1)(B) (2006); Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971).

[129] *See* Lee, *supra* note 127, at 241.

[130] *See* Wright, *supra* note 47, at 1010–12, 1022, 1030 (observing that the secondarily liable defendant in *Shapiro, Bernstein & Co.* exhibited a high degree of actual control; § 512(c)(1)(B) requires the right and ability to control; and "[i]f a court construes § 512(c)(1)(B) as coterminous with the legal-control standard of *Fonovisa II*, the phrase 'in a case in which the service provider has the right and ability to control such activity' becomes superfluous because every qualifying service provider would be such a case").

[131] *See* Lee, *supra* note 127, at 243 (citing S. REP. NO. 105-190, at 2 (1996); H.R. REP. NO. 105-551, pt.2, at 49–50 (1998)).

[132] *See id.* at 250 ("As to secondary liability, the bill changes existing law in two primary respects: (1) no monetary relief can be assessed for the passive, automatic acts identified in *Religious Technology Center v. Netcom On-line Communications Services, Inc.*; and (2) the current criteria for finding contributory infringement or vicarious liability are made clearer and *somewhat more difficult to satisfy*.") (citing H.R. REP. NO. 105-551, pt.1, at 11 (1998)).

[133] H.R. REP. NO. 94-1476, at 159–60 (1976).

[134] This undermines the forced logic of *Napster, Inc.* and *Fonovisa, Inc. See infra* note 137.

[135] *See, e.g.*, Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102, 1117 (9th Cir. 2007). *See* Lee, *supra* note 127, at 239 (declaring that the common law and statutory standards for direct financial benefit are not identical, and that the *CCBill* court is wrong). Lee astutely observed that the common law standard may be tightening to meet the

Circuit in *Ellison v. Robertson* dispensed with the district court's notion that a "draw" must be substantial to establish a direct financial benefit.[136] The uncertain role that "atmosphere-enhancing" infringement has on the overall benefit an OSP receives clouds predictability.[137] *A & M Records, Inc. v. Napster, Inc.* is strikingly inconsistent with the requirement that an OSP "receive" a financial benefit if the effects of infringement on *future* revenues and userbase create a direct financial benefit.[138] The kaleidoscopic body of case law, perplexing at best, suggests that courts are not applying the direct financial benefit test the same way to every defendant.

2. *Sliding Scale Approach*

Though strong arguments favor a narrow interpretation of the direct financial benefit test, courts have ingeniously carved a flexible yet predictable interpretation out of the ambiguity in § 512(c)(1)(B). In crafting the DMCA, Congress vowed to leave the common law alone in its evolving state.[139] Evidencing confidence in the Court's treatment of copyright law, the legislative history clearly condones the thrust of *Sony Corp. of America*: protecting and encouraging the development of technologies that have substantial noninfringing uses.[140] Furthermore, it

narrower approach to the direct financial benefit test, creating the illusion that § 512(c)(1)(B) is getting wider over time.

[136] *See* Ellison v. Robertson, 357 F.3d 1072, 1077–78 (9th Cir. 2004), *aff'g in part, rev'g in part,* 189 F. Supp. 2d 1051 (C.D. Cal. 2002).

[137] *Compare* Polygram Int'l Publ'g, Inc. v. Nev./TIG, Inc., 855 F. Supp. 1314, 1327–31 (D. Mass. 1994) ("[Public performances] have sometimes relied on an inferred, overall benefit that a performance of music confers on an establishment, rather than attempting to discern the 'direct' benefit.'"), *and* A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1023 (9th Cir. 2001) ("[F]inancial benefit may be shown 'where infringing performances enhance the attractiveness of a venue.'") (citing Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 263 (9th Cir. 1996)), *with* Artists Music, Inc. v. Reed Publ'g (USA), Inc., 31 U.S.P.Q.2d (BNA) 1623, 1626–27 (S.D.N.Y. 1994), *and Ellison*, 357 F.3d at 1079 ("The essential aspect of the 'direct financial benefit' inquiry is whether there is a causal relationship between the infringing activity and any financial benefit a defendant reaps, regardless of *how substantial* the benefit is in proportion to a defendant's overall profits.").

[138] *See* Lemley & Reese, *supra* note 91, at 1368 (observing that *Napster, Inc.* loosened the "draw" standard to include future revenues based on increased userbase; "not only can a defendant be held liable if it earns money from providing ancillary services to customers attracted by infringement, it can be held liable if it is likely to earn such money in the future").

[139] *See supra* note 108.

[140] *See supra* note 104. The quest for percentages linked to direct financial benefit reveals the hidden genius in *Sony Corp. of America v. Universal City Studios*—a case that, ironically, may have said more than any other about direct financial benefit without actually ruling on vicarious liability. Television producers in *Sony Corp. of America* claimed that the defendants, by manufacturing and selling Betamax home video tape recorders, were secondarily liable because they enabled viewers to watch copyrighted programs broadcast over public airwaves. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 420 (1984). Reasoning that the average member of the public used video tape recorders (VTRs) for time-shifting rather than as a substitute for watching

is of little consequence for purposes of interpreting the directness of the financial benefit that *Sony Corp. of America* was a contributory infringement case; the Court's acknowledgement that similar arguments countenance contributory negligence and vicarious liability claims has empowered lower courts to analyze the relative percentages of infringing material under both theories of liability.[141] For these reasons, the direct financial benefit test can be expected to "breathe"—lightly where there are substantial noninfringing uses and deeply where there are not. Where infringing acts fairly represent the nature of an OSP's underlying activity, it is just to hold an OSP liable as a vicarious infringer; where infringing acts comprise an insufficient component of the underlying activity, secondary liability is harder to find.[142] Accordingly, a sliding scale establishes the scope of the direct financial benefit test relative to the degree that infringing acts fairly represent an OSP's underlying activity. As the percentage of an OSP's financial benefit derived straight from a direct infringer decreases, infringing activity as a percentage of an OSP's activity must increase for vicarious liability to attach.[143]

While the common law supplies data points that delineate the scope of the direct financial benefit test in each case,[144] the methodology here poses two questions. The first is whether the underlying activity is of the same subject matter as the infringing acts. If it is too unconnected, secondary liability does not apply. In effect, this keeps the troublesome dicta from *Nevada/TIG, Inc.* out of the discussion.[145] If the subject matter is the same, the second inquiry examines the percentage of revenue an OSP receives directly from the direct infringers. The stronger the financial connection between direct infringer and an OSP, the more direct the benefit derived, and the less severe the infringement must be for secondary liability to attach. If the rubric holds, the direct financial benefit test ought to be least forgiving in cases like *Shapiro, Bernstein & Co.*, where a secondarily liable party's entire financial benefit comes from the direct infringer;[146] somewhat narrower in cases like *Gershwin Publishing Corp.* and *Fonovisa, Inc.*, where a secondarily liable party draws income in some percentage from direct infringers and some from third parties sponsoring the activity;[147] and is narrowest of all where none of

television, the Court felt that the financial harm that would result from penalizing the defendants outweighed the harm to plaintiffs because VTRs offered substantial noninfringing uses. *Id.* at 421. Phrased differently, the existence of substantial noninfringing uses meant that Sony's revenue was not directly obtained as a result of the infringing activity of its customers. *Id.* at 419–27.

[141] *See supra* note 121.

[142] *See Sony Corp. of Am.*, 464 U.S. at 435.

[143] *See infra* text accompanying notes 180–81.

[144] *See infra* text accompanying notes 156–61.

[145] *See supra* note 137.

[146] *See supra* text accompanying notes 65–70.

[147] *See supra* text accompanying notes 71–74.

the financial benefit to a party allegedly secondarily liable comes directly from the direct infringer.[148]

The sliding scale approach is flexible enough to comfortably dispose of Napsters and Groksters[149] while remaining predictable and safe enough to preserve protections for those who faithfully honor the Internet "good citizenship" requirements.[150] It respects the flexible and non-formalistic *modus operandi* requested of courts by Congress.[151] Such an approach honors the importance of relationships between parties, rectifying the problem of addressing the vicarious liability elements in isolation.[152] It permits courts to preserve the balance between copyright owners and technological development, reducing any judicial tendency to play kingmaker with copyright law.[153] Finally, the sliding scale approach is consistent with cost-benefit analysis;[154] where infringing conduct becomes so extensive despite the existence of noninfringing uses, the burden is on the OSP to curtail the expansion of infringement.[155]

D. *Practical Indicators of Direct Financial Benefit*

Though the direct financial benefit test has not been decisive in a single case, courts have provided clues as to what may be direct enough to destroy an OSP's safe harbor. First, OSPs with a very high percentage of infringing material on their sites are more likely to exhibit direct

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148 The sliding scale does nothing more than set the relative scope of the direct financial benefit test. It does not by itself establish liability in a case where the OSP does not have the right and ability to control the infringing conduct, nor does it exonerate a defendant that flunks any other § 512(c) safe harbor condition.

149 *See* Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 940 (2005) (asserting that increases in ad revenues "alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear"); Lee, *supra* note 127, at 245 ("Congress intended to disqualify some, but not all, forms of vicarious infringement—namely, the more egregious kinds—from the DMCA safe harbors."). *See infra* text accompanying notes 156–60.

150 *See* Yen, *supra* note 56, at 1838.

151 *See* H.R. REP. NO. 105-551, pt. 2, at 54 (1998).

152 *See* Lemley & Reese, *supra* note 91, at 1379.

153 *See* Douglas Lichtman & William Landes, *Indirect Liability for Copyright Infringement: An Economic Perspective*, 16 HARV. J.L. & TECH. 395, 401 (2003) ("The driving concern in *Sony* was a fear that indirect liability would have given copyright holders control over what was then a new and still-developing technology.").

154 *See* Yen, *supra* note 56, at 1865 (arguing that restraining an expanding scope of secondary liability gets harder the more judicial attention is siphoned away from two important factors: defendant's intent and social cost/benefit analysis).

155 *See, e.g.*, Menell & Nimmer, *supra* note 90, at 201–03. Google and YouTube understand this principle and are acting accordingly. Though "paradigmatically on the safe side" under *Sony Corp. of America*, "Google has decided to ameliorate harm because the foreseeable risks of harm posed by YouTube can be reduced or avoided by the adoption of a reasonable alternative, namely, taking down infringing videos and acting to forestall their future posting" through the use of technological measures. *Id.* at 202–03.

financial benefit. The rationale, which comfortably migrates from the peer-to-peer cases, is that websites infested with infringing material draw a disproportionately high percentage of customers interested in infringing material.[156] Whether direct infringers pay for access to the site or third-party sponsors advertise as a result of increased traffic, increases in revenue reciprocally feed increases in an OSP's userbase that is devoted to infringing.[157] Any revenues a party alleged to be secondarily liable earns, therefore, are imputed as incident to the infringing activities.

This was the case in *A & M Records, Inc. v. Napster, Inc.*, where almost all of Napster's users' downloads infringed copyrighted works.[158] In *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, the free release of software enabled a then-unprecedented 100 million copies to circulate—more than ninety percent of which were infringing.[159] By distinguishing between absolutes and percentages, Justice Ginsberg's concurrence in *Grokster, Ltd.* further buttresses the notion that relative quantities of infringement matter significantly in the analysis.[160] It is a principle that resonated with the Ninth Circuit a year earlier. In *Ellison v. Robertson*, the court strongly intimated that the percentage of infringing vis-à-vis noninfringing material affects whether or not a direct financial benefit has been extracted. The *Ellison* court found that AOL's USENET group access was insignificant in comparison to the draw created by "AOL's vast array of products and services."[161]

A second indicator of direct financial benefit appears where an OSP receives more than a fixed fee for its services.[162] As noted in Part III.B, several courts have dismissed cases where OSPs did not have the right

[156] Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 922–23 (2005).

[157] *See* A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1022–23 (9th Cir. 2001), *aff'g in part, rev'g in part,* 114 F. Supp. 2d 896, (N.D. Cal. 2000). Considering that "Napster's future revenue [was] directly dependent upon 'increases in userbase,'" the Ninth Circuit stated that the quality and quantity of infringing works would only increase under Napster's business model. *Id.* at 1023.

[158] *Id.* at 1013.

[159] *See Grokster, Ltd.*, 545 U.S. at 922–23.

[160] *See id.* at 948 (Ginsberg, J., concurring) ("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 uses may be reflective of, and dwarfed by, the huge total volume of files shared.").

[161] *See* Ellison v. Robertson, 357 F.3d 1072, 1077–78 (9th Cir. 2004).

[162] *Netcom* set the standard, and the legislative history confirms its validity, that receiving a fixed fee for services indicates that an OSP is not receiving a direct financial benefit from the infringing material. Religious Tech. Ctr. v. Netcom On-line Commc'n Servs., Inc., 907 F. Supp. 1361, 1377 (N.D. Cal. 1995) ("There [was] no evidence that infringement by [the direct infringer], or any other user of Netcom's services, in any way enhances the value of Netcom's services to subscribers or attracts new subscribers."); S. REP. NO. 105-90, at 44 (1998). Courts have adhered very closely to the talismanic statement in the legislative history. *See supra* note 105.

and ability to control the infringing acts despite scorching examples of OSP revenues earned beyond fix fees.[163] The *In re Aimster Copyright Litigation* court, however, found secondary liability where Aimster gave users the opportunity to join for a fee "Club Aimster," a related Internet application where users could access and download top forty hits—virtually all of which were copyrighted.[164] Moreover, as the *Ellison* court noted, operating on a fixed fee does not immunize an OSP "where the value of the service lies in providing access to infringing material."[165] Cybernet, the defendant in *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, organized a group of websites that collectively contained ten thousand images that infringed plaintiff's copyrights.[166] The websites were shielded from public view behind Cybernet's scripted and access-restricted age verification service.[167] Cybernet sold passwords via credit card, collected verification fees, and received ancillary benefits from member websites while paying out only half of its income to sites collectively receiving two million hits a day.[168]

Third, the use of advertising materials that promote infringement may indicate that an OSP has derived a direct financial benefit. Napster's chat room not only gave it knowledge of the software user's infringing activity, but also served as a promotional tool for harnessing customer demand for infringing works.[169] Grokster's newsletter promoted access to copyrighted works by conjoining in the consumer's mind the services Grokster provided with those found illegal in *Napster, Inc.*[170] Cybernet advertised, paid commissions to webmasters, provided technical and content advice, reviewed sites, and attempted to control product quality by marketing a unified brand.[171] Directly advertising infringing acts, rather than the activity underlying the infringement, creates an illegal business purpose that draws a higher percentage of customers to the site ostensibly for reasons of infringement.[172]

An important caveat is that the absence of a paying subscriber does not act as a liability shield where the advertiser has treated an infringing host's website as a draw. Although the defendants in *Grokster, Ltd.* did not receive revenue directly from their end users, the defendants sold advertising space.[173] Revenues went up as advertisements increased, which in combination with a high percentage of infringing works translated

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[163] *See supra* text accompanying note 120.
[164] *In re* Aimster Copyright Litig., 334 F.3d 643, 645–46 (7th Cir. 2003).
[165] *Ellison*, 357 F.3d at 1079 (quoting S. REP. NO. 105-190, at 45 (1998)).
[166] *See* Perfect 10, Inc. v. Cybernet Ventures, Inc., 213 F. Supp. 2d 1146, 1171 (C.D. Cal. 2002).
[167] *See id.* at 1158.
[168] *See id.* at 1158, 1171.
[169] *See* A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1011 (9th Cir. 2001).
[170] *See* Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 938 (2005).
[171] *See Perfect 10, Inc.*, 213 F. Supp. 2d at 1170.
[172] *A & M Records, Inc.*, 239 F.3d at 1023.
[173] *See Grokster, Ltd.*, 545 U.S. at 926.

into secondary liability.[174] Notably, however, the *Grokster, Ltd.* Court eschewed vicarious liability in favor of the inducement test.[175] As a result, the affect that advertising revenue has on financial benefit remains unclear as *Viacom International, Inc. v. YouTube, Inc.* further develops.

Compiling the indicators, courts have not found direct financial benefit in the DMCA context where OSPs (1) do not advertise by promoting infringing acts, (2) do not collect more than a fixed fee from their users,[176] and (3) do not house an unduly high percentage of infringing works. Finding no secondary liability in *Ellison*, the Ninth Circuit asserted that substantial overlap existed between the goods or services that draw customers to websites and those that merely enhance a website's value.[177] The court in *Perfect 10, Inc. v. CCBill LLC* found no evidence of alleged direct financial benefit beyond the web host's fixed fee.[178] In *Hendrickson v. eBay, Inc.*, limited infringement against the backdrop of twenty-five million buyers and sellers at an auction where the web host only received a fixed fee did not cost eBay its safe harbor.[179]

Whether the source of an OSP's income is entirely, partially, or not at all received from direct infringers, the leitmotif humming its way through case law is clear: the higher the percentage of revenue drawn from direct infringers, the lower the percentage of infringing material must be to create liability under the test.[180] YouTube receives all of its funding from third-party sources; therefore, it must have a correspondingly high percentage of infringing works in its archives to be secondarily liable. The billion-dollar question, however—whether a defendant receiving its entire revenue from third-party advertising sources rather than direct infringers can obtain a direct financial benefit under § 512(c)—is open as the colossal Viacom-YouTube lawsuit continues to unfold. In the closest approach to the question, the Ninth Circuit in *Hendrickson* asserted that:

> [T]he issue raised by Plaintiff's copyright claim is not whether eBay can be held secondarily liable for "third party advertisements." . . . Rather, the question is whether eBay can be held secondarily liable for providing the type of selling platform/forum and services that it provided, however limited or automated in nature, to sellers of counterfeit copies of the film . . . .[181]

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[174] *See id.*

[175] *See id.* at 930 n.9.

[176] The sole exception to this rule is *Perfect 10, Inc. v. Cybernet*, 213 F. Supp. 2d 1146 (C.D. Cal. 2002) (finding that Cybernet obtained a direct financial benefit, despite collecting only fixed-fee revenues, because the exclusive value of its service was providing access to infringing material). *See supra* text accompanying notes 165–68.

[177] *See* Ellison v. Robertson, 357 F.3d 1072, 1079 (9th Cir. 2004).

[178] *See* Perfect 10, Inc. v. CCBill LLC, 481 F.3d 751, 767 (9th Cir. 2007).

[179] *See* Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082, 1084, 1094 (C.D. Cal. 2001).

[180] *See supra* text accompanying notes 139–43.

[181] *Hendrickson*, 165 F. Supp. 2d at 1087.

IV. THE DIRECT FINANCIAL BENEFIT TEST AND YOUTUBE

This Part demonstrates that YouTube does not derive a "financial benefit directly attributable to the infringing activity" simply because it earns extraordinarily high revenue from one set of sources (its advertisers) while hosting significant copyright infringement posted by another (its users). Firmly resting on statutory and judicial support, YouTube will successfully champion the legality of the current UGC economic model if *Viacom International, Inc. v. YouTube, Inc.* is litigated to judgment.

A. *Viacom's Direct Financial Benefit Allegations*

Though Viacom's sweeping allegations against YouTube draw from a thicker factual background,[182] the charge that YouTube obtained a direct financial benefit involves a compact set of claims. Viacom asserts that YouTube "profit[s] handsomely" by exploiting the copyrighted works of others "to draw millions of users to its website."[183] Viacom propounds that YouTube, despite "tout[ing] itself as a service for sharing home videos," permits users to upload entire television episodes, entire movies, and significant segments of many copyrighted works.[184] At the time Viacom filed suit, illegal uploads of Viacom's works allegedly numbered more than 150,000 and covered an array of popular cartoons, dramas, and news shows.[185] Viacom claims that YouTube achieves its goals by "deriv[ing] advertising revenue directly attributable to the infringing works, because advertisers pay YouTube to display banner advertising to users whenever they log on to, search for, and view infringing videos."[186] Similarly, that YouTube "derives additional advertising revenue when those users search for and watch other videos on the site."[187] Conjecturing that YouTube's core business purpose is to amass an unauthorized library of copyrighted works,[188] Viacom argues that "YouTube's brazen disregard

[182] The licensing deal that YouTube and Viacom previously struck expired in 2006. Negotiations for renewal broke down in February 2007 when Viacom demanded a minimum payment nearing $1 billion from YouTube. Viacom filed suit one month later. For a fuller factual recap, *see* Kim, *supra* note 3, at 143.

[183] Viacom Complaint, *supra* note 23, at ¶ 37.

[184] *Id.* ¶ 30.

[185] *Id.* ¶ 3. The 150,000 infringing copies, allegedly viewed 1.5 billion times, included cartoon clips from *SpongeBob SquarePants*, *South Park*, and *Ren & Stimpy*; news clips from *The Daily Show with Jon Stewart* and *The Colbert Report*; music and video clips from *MTV Unplugged*; and films *An Inconvenient Truth* and *Mean Girls*. *Id.*

[186] *Id.* ¶ 37. Chief Executive at Google, Eric Schmidt, said that "[t]he goal of [Google] is not to monetise everything, our goal is to change the world—monetisation is a technology to pay for it." *See* Sarah Arnott, *Google Admits it Still Can't Make Money from YouTube*, INDEPENDENT.IE, June 13, 2008, http://www.independent.ie/business/technology/google-admits-it-still-cant-make-money-from-youtube-1408459.html.

[187] Viacom Complaint, *supra* note 23, at ¶ 37.

[188] *Id.* ¶ 5.

of the intellectual property laws fundamentally threatens not just Plaintiffs, but the economic underpinnings of one of the most important sectors of the United States economy."[189]

B. *YouTube's Canary Survives in* Io Group, Inc.

Assuming safe harbor protections are primarily economic in nature, YouTube received excellent news from a California district court in August 2008.[190] The plaintiff in *Io Group, Inc. v. Veoh Networks, Inc.* distributed adult entertainment audiovisual works.[191] Defendant Veoh supplied software and a website that enabled users to share UGC that included job interviews, family gatherings, and movies made by aspiring filmmakers.[192] Founded in 2006, Veoh had archives that contained hundreds of thousands of videos uploaded by users before the lawsuit was filed.[193] Notices of alleged copyright infringement were issued for less than seven percent of Veoh's video collection.[194] Veoh wisely altered plans to participate in Google-sponsored advertisement programs and did not charge its users to participate in a "premium content" plan—by which users posting videos would have been able to make money for the number of views uploaded videos received while giving Veoh a fraction of the proceeds—as Veoh had originally intended.[195]

If the corpus of Ninth Circuit case law is persuasive in the Second Circuit,[196] YouTube will have enough oxygen to survive allegations of vicarious infringement if Viacom insists on dragging it into the judicial lair. The *Io Group, Inc.* court found that Veoh comfortably satisfied all seven conditions required for its safe harbor.[197] Distinguishing *Napster, Inc.* in dispensing with § 512(c)(1)(B) on the control test, the *Io Group, Inc.* court predictably avoided discussion of direct financial benefit.[198]

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[189] *Id.* ¶ 2.

[190] *See* Io Group, Inc. v. Veoh Networks, Inc., 586 F. Supp. 2d 1132, 1155 (N.D. Cal. 2008).

[191] *Id.* at 1136.

[192] *Id.*

[193] *Id.*

[194] *Id.*

[195] *Id.*

[196] *Viacom Int'l, Inc. v. YouTube, Inc.* is the first § 512(c) safe harbor case to be litigated in the Second Circuit. Most of the action has occurred in the Ninth Circuit along with a splash of activity in the Fourth and the Seventh Circuits. *See* Lee*, supra* note 127, at 259 n.15.

[197] *See Io Group, Inc.*, 586 F. Supp. 2d at 1155.

[198] *Id.* at 1151. Viacom's arguments that "YouTube has the right and ability to control the massive infringement on its site" are as unconvincing as Io Group's. *See* Viacom Complaint, *supra* note 23, ¶ 28. Viacom contends that YouTube has the right and ability to control the infringing activity because (1) it is YouTube's website; (2) YouTube has the unilateral right to impose terms and conditions; (3) YouTube imposes content-based restrictions; (4) YouTube proactively removes pornography but not other obvious infringement; and (5) YouTube requires that everyone posting content on its site grant YouTube a worldwide license to violate all of the posters § 106 exclusive rights. *Id.* The thrust of Viacom's arguments, however, misses a critical

Launching into now-familiar economic rationales, the *Io Group, Inc.* court reaffirmed that "[t]he DMCA was intended to facilitate the growth of electronic commerce, not squelch it."[199] Moreover, that any proposal requiring Veoh to change its business model to prevent infringing activity ran contrary to that principle.[200]

Even in the unlikely event that the *Viacom International, Inc.* court does not dispense with § 512(c)(1)(B) on the control element, YouTube will satisfy the direct financial test under *Io Group, Inc.* A "financial benefit directly attributable to the infringing activity" simply does not exist if the UGC web host (1) does not actively advertise or promote infringing acts, (2) does not collect more than a fixed fee from its users,[201] and (3) does not house an unduly high percentage of infringing works.[202] As in *Io Group, Inc.*, YouTube has not actively promoted infringing acts through advertising or provided finding tools that directly encouraged infringing activity.[203] YouTube's user fees are fixed at a cost of zero; thus, there is no direct incentive to expand a userbase that specifically and prolifically infringes copyrighted works.[204]

Finally, the complete disconnect between YouTube's infringing sources and its funding sources should secure it the narrowest interpretation of the direct financial benefit test and the widest safe harbor.[205] On this point, YouTube should escape liability because the

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distinction. As the *Io Group, Inc.* court observed, "the pertinent inquiry is not whether Veoh has the right and ability to control its *system*, but rather, whether it has the right and ability to control the *infringing activity*." *See Io Group, Inc.*, 586 F. Supp. 2d at 1151. "[T]he right and ability to control infringing activity . . . cannot simply mean the ability of a service provider to block or remove access to materials posted on its website or stored on its system." *Id.* at 1150. Were it otherwise, all OSPs would violate the control element and, in doing so, render as surplusage the control clause in § 512(c)(1)(B). *See* Wright, *supra* note 130, at 1030. Furthermore, Viacom's reasoning would punish OSPs for restricting *any* of their users' activities and regulating *any* of the content on their sites. This amounts to nothing less than a full frontal assault on the core principle sustaining DMCA safe harbor provisions: protection for OSPs who make reasonable efforts to control infringing activity.

[199] *Io Group, Inc.*, 586 F. Supp. 2d at 1154 (citing S. REP. NO. 105-190, at 1–2 (1998)).

[200] *Id.* at 1154.

[201] Note the *Cybernet* exception. *See supra* text accompanying notes 165–68.

[202] *See supra* Part III.D.

[203] Unlike Veoh, YouTube does not supply software to its users. *See Io Group, Inc.*, 586 F. Supp. 2d at 1136. Splitting an even finer line between *Io Group, Inc.* and *YouTube, Inc.* might be a theoretical secondary infringement lawsuit against BitTorrent. *See also* Rebecca Giblin, *A Bit Liable? A Guide to Navigating the U.S. Secondary Liability Patchwork*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 7, 46–48 (2008). BitTorrent issues its file-chopping software for free and without built-in advertising, but the website itself is supported by paid advertising and has secured millions in venture capital. *Id.* at 11, 46. Giblin presents BitTorrent as another case where a defendant could be liable under a broad interpretation of the direct financial benefit test were it not for the absence of the right and ability to control the infringing activity. *Id.* at 48.

[204] *See supra* note 157 and accompanying text.

[205] *See supra* notes 146–48 and accompanying text.

percentage of infringing works in YouTube's archives appears to fall well below the peer-to-peer infringing percentages of *Napster, Inc.*, *In re Aimster*, and *Grokster, Ltd.*[206] Assuming YouTube has the right and ability to control the infringing acts, Viacom prevails on its vicarious liability claim only in the instance where "directly attributable to the infringing activity" includes OSPs that receive no money from direct infringers.[207] In other words, Viacom must show that Congress intended to penalize profitable web hosts well beyond the broadest reaches of enterprise liability in any other area of the law.[208] Where courts have not embraced the DMCA, the economic sensibilities of *Sony Corp. of America* and *Netcom* still bode poorly for plaintiffs in cases where UGC web hosts are implicated.[209]

C. Free Tenancy: YouTube as Digital Landlord

Returning for a moment to the world of landlords and dance hall operators,[210] a retrospective glance at the pre-Web world is available through the modern lens. At first blush, the landlord appears as culpable as the dance hall operator. The landlord receives money directly from a tenant committing the illegal acts, while the dance hall operator draws revenue from both a direct infringer and noninfringing third parties. The landlord, however, does not market an apartment as a venue for illegal operations; the dance hall operator markets the dance hall experience as dancing, mingling, and music—some of which may be infringing. Furthermore, the landlord cannot continuously control its tenant's acts for the duration of the contract; the dance hall operator is open only at limited times, shares limited space with patrons, and selects the activities of its guests—some of which may be infringing. In short, earning revenue directly from a source committing "real-world" illegal

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[206] A & M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896 (N.D. Cal. 2000); *In re* Aimster Copyright Litig., 334 F.3d 643 (7th Cir. 2003); Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005). Even the most conservative estimates placed the defendants in *Grokster, Ltd.* over 75% infringing material. *See* Lemley & Reese, *supra* note 91, at 1380–81. Without the supporting bad faith and blatant infringement that was present in *Grokster, Ltd.,* there will almost certainly not be enough to establish that YouTube received a direct financial benefit. Kenneth Li, *Big Media Videos Play Small Role on YouTube: Study*, REUTERS, Apr. 4, 2007, http://www.reuters.com/article/internetNews/idUSN0436270020070404 (citing a Vidmeter study that concluded that a mere 10% of YouTube's clips, from December 2006 through January 2007, were infringing copyrights).

[207] *See supra* text accompanying notes 180–81.

[208] *See* Reichman et al., *supra* note 102, at 994 ("[I]t will not be surprising if the court tells Viacom that it should take its complaint to Congress, as Viacom is essentially trying to achieve through litigation what the copyright industry was unable to obtain from Congress in 1998.").

[209] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984); Religious Tech. Ctr. v. Netcom On-line Commc'n Servs., Inc., 907 F. Supp. 1361 (N.D. Cal. 1995). *See* Lauren Brittain Patten, Note, *From Safe Harbor to Choppy Waters: YouTube, the Digital Millennium Copyright Act, and a Much Needed Change of Course*, 10 VAND. J. ENT. & TECH. L. 179, 190 (2007); Menell & Nimmer, *supra* note 90, at 201–02.

[210] *See supra* text accompanying notes 66–70.

acts is less significant to a finding of vicarious liability than having control enough to prevent infringement.[211]

Paradoxically, a direct financial benefit appears easier to establish where a party receives income from a noninfringing source than where a party receives income directly from the tortfeasor but has less control over the illegal activities. This anomaly is the product of attempts to stretch the principle of vicarious liability as originally applied to the feudal serf, in many ways a slave under complete ownership and control; to the clear and continual monetary relationship of employer and employee; to the fleeting but thorough supervision of a dance hall operator over its patrons; still farther to a landlord that has no power to choose his tenant's activities; and, finally, past its breaking point, where an OSP has never met, does not share space with, does not charge a fee to, and cannot control a user or the user's decision to upload illegal content while simultaneously achieving a cost-effective way of producing a very important public good.[212]

Though it is somewhat unsettling to think of a website as one's landlord, the relationship between UGC host and user is as functionally remote as between property lessor and lessee.[213] It is the inability to physically control the users themselves, rather than control access to the facilities,[214] that distinguishes the digital world from the dance hall. It is beyond the power of OSPs to reach into the homes of direct infringers to prevent the volitional act of copyright infringement at its source.[215] Rogue posters can always register with OSPs under new aliases, and background checks would be prohibitively costly.[216] Moreover, it is absurd to maintain

[211] The wrong conclusion is easy to draw when mixing up one party's ability to control an act with another party's financial benefit from the underlying activity. *See, e.g.*, Patten, *supra* note 209, at 202 ("Looking to the foundation case of *Shapiro* . . . YouTube is more analogous to a *music hall proprietor* who *benefits* from the unlawful activities of his performers than a *landlord* who has no knowledge or *control* over his tenants.") (emphasis added).

[212] *See* Wright, *supra* note 47, at 1021 ("The Internet also raises questions of categorization that render the traditional analogies of vicarious liability awkward."); Lemley & Reese, *supra* note 91, at 1373 ("Copyright in the United States has always been seen principally as a utilitarian response to a public goods problem.").

[213] *See* Yen, *supra* note 56, at 1852–54 (observing a physical difference between trade show hosts with only a few hundred booths for operators that can be directly controlled and OSPs that have more difficulty supervising and have less financial interest in subscriber activities).

[214] *See* Io Group, Inc. v. Veoh Networks, Inc., 586 F. Supp. 2d 1132, 1151 (N.D. Cal. 2008) ("[T]he pertinent inquiry is not whether [an OSP] has the right and ability to control its [sic] *system*, but rather, whether it has the right and ability to control the *infringing activity*.").

[215] *See* Yen, *supra* note 56, at 1842 ("Although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy for a third party." (citing Religious Tech. Ctr. v. Netcom On-line Commc'n Servs., Inc., 907 F. Supp. 1361, 1370 (N.D. Cal. 1995)).

[216] *See Io Group, Inc.*, 586 F. Supp. 2d at 1144 ("Observing that the DMCA requires reasonable, not perfect, [termination] policies . . . '[t]he mere fact that [the repeat

that a highly automated system streaming 1.2 billion videos a day could somehow be sensitive to the nuances of fair use even if digital watermarking and electronic tracking become both cost-effective and technologically reliable.[217] Finally, there are still remedies available for copyright owners even if denied access to an OSP's war chest—beginning with the direct sources of the infringement.[218]

V. CONCLUSION

The DMCA direct financial benefit test is not serving any meaningful function. The statutory scheme under § 512(c) renders the test useless by offering courts six easier alternatives for removing an OSP from safe harbor protections. As a result, courts avoid the legal theory of vicarious liability in the digital context where at all possible. If forced to confront the statutory version of the vicarious liability test, courts have universally addressed § 512(c)(1)(B) on the right and ability of an OSP to control the infringing acts. Though the DMCA generally, and safe harbors in particular, may have achieved a number of successes, the direct financial benefit test is not one of them.

The urge to correct what is broken is almost irresistible. Remedial suggestions for the direct financial benefit test range include a consistent application of the narrow interpretation of the test,[219] injecting a substantiality requirement into the test,[220] or promulgating congressional oversight.[221] No one, however, is calling for the complete overhaul of the failed statutory scheme on § 512(c)(1)(B) grounds—and for good reason. In the case of the direct financial benefit test, statutory dysfunction has not impaired the ability of tribunals to appropriately mete out justice. By treating, on a sliding scale, the relationship between the percentage of infringing material and the relationship between the

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infringer] appeared on zShops under a different user name and identity does not, by itself, create a legitimate question of fact . . . .'" (quoting Corbis Corp. v. Amazon.com, Inc., 351 F. Supp. 2d 1090, 1104 (W.D. Wash. 2004))).

[217] *See* 17 U.S.C. § 107 (2006); Brown, *supra* note 1, at 444 ("'[T]he Committee believes that technology is likely to be the solution to *many* of the issues facing copyright owners and service providers in this digital age.'" (emphasis added) (quoting H.R. REP. NO. 105-551, pt. 2, at 61 (1998))).

[218] *See* Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 962–65 (2005) (Breyer, J., concurring). As Justice Breyer noted, copyright holders have other legal and extralegal remedial tools beyond secondary liability claims. These include direct infringement lawsuits; improvements in technology like watermarking and fingerprinting; improvements in technology that make lawful copying cheaper, thereby reducing the incentive to infringe; and licensing and royalty deals where parties have the incentive to pay for uses that may or may not be protected. *Id.* at 962, 964. If all else fails, copyright holders are still entitled to pursue favorable legislation. *Id.* at 963.

[219] *See* Lee, *supra* note 127, at 234 ("[T]he DMCA safe harbors provide partial immunity to vicarious liability . . . .").

[220] *See* Brown, *supra* note 1, at 464.

[221] *See* Lee, *supra* note 127, at 263–64.

funding source and the acts of infringement, courts have silently constructed a rubric that over time has become increasingly predictable while remaining flexible. Technologies designed to infringe have been ruthlessly suppressed by the judiciary, while those that hold more promise are allowed to flourish.[222]

Courts are cognizant of the challenges that face copyright holders,[223] but they are also aware of superior alternatives to crushing popular technologies.[224] As Justice Breyer astutely noted in *Grokster, Ltd.*, the law has a tendency to favor protecting technology over protecting copyright owners where the two clash.[225] It is not surprising given such a preference that, in a world that embraces cameras, computers, and photocopiers, we have come to accept increased copyright violations.[226] The direct financial benefit test could stand some improvement. That said, the growing public disdain for copyright law should make Congress extra cautious if it opts to tinker with the success or failure of a wildly popular and massive collaborative movement.[227]

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[222] *See supra* text accompanying notes 156–68.

[223] *See, e.g.,* Io Group, Inc. v. Veoh Networks, Inc., 586 F. Supp. 2d 1132, 1155 (N.D. Cal. 2008) ("This court appreciates that these new opportunities also present new challenges to the protection of copyright in the online world; and, the decision rendered here is confined to the particular combination of facts in this case and is not intended to push the bounds of the safe harbor so wide that less than scrupulous service providers may claim its protection.").

[224] *See* Kim, *supra* note 3, at 166.

[225] *See* Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 960 (2005) (Breyer, J., concurring). The law has already gone out of its way to confer a benefit on those who create artistic works. Despite the griping, authors generally benefit by even the smallest fraction from noninfringing use more than they would without the existence of rampantly infringing technology at all; the real question is whether they would still create knowing that they will receive a substantially smaller percentage of the revenue than that estimated under laboratory conditions.

[226] *See* Darrow & Ferrara, *supra* note 22, at 6.

[227] *See supra* note 29 and accompanying text.