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The Moral of the Story: What *Grokster* Has to Teach About the DMCA

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¶1

We have reached a telling intersection in the law of secondary copyright liability. Cases in which defendants seek to broaden the safe harbors of Section 512 of the Digital Millennium Copyright Act (“DMCA”)¹ are running up against precedent generated by *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*,² in which courts have held service providers liable for promoting infringement by their users.³ In some instances, the behavior for which the defendants are seeking shelter under Section 512 bears more resemblance to the sort of purposeful conduct condemned by the Supreme Court in its 2005 *Grokster* decision⁴ than that of the prototypical “innocent” service provider Congress sought to shield under the DMCA.⁵

* Partner, Pryor Cashman LLP. © 2011 Jacqueline C. Charlesworth. The author has represented certain parties in the litigation against *YouTube* discussed in this essay. The views expressed herein, however, are the author’s own, and should not be attributed to her law firm or clients. Copyright in this article is held by the author.

¹ The DMCA’s safe harbors are set forth in Section 512 of the Copyright Act, 17 U.S.C. § 512 (2010). Those most relevant to the activities addressed in this essay are Sections 512(c) and (d). Section 512(c) (“Information Residing on Systems or Networks at Direction of Users”) immunizes qualifying internet service providers from liability from monetary damages and all but very limited injunctive relief for infringing material residing on their system or network “by reason of the storage at the direction of a user,” provided that the service provider does not have (i) actual knowledge that the material is infringing; (ii) is not aware of facts and circumstances from which infringing activity is apparent (often referred to as the “red flag” test); (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove or disable it; (iv) does not receive a financial benefit directly attributable to the infringing activity, if it has the right and ability to control the activity; and (v) responds expeditiously to a DMCA-compliant takedown notice. *Id.* § 512(c). In addition, in order to qualify for the safe harbor, the service provider must (vi) appoint a designated agent to receive DMCA notices; (vii) implement a reasonable policy providing for the termination of repeat infringers; and (viii) accommodate broadly available technical measures for the protection of copyrighted works that do not impose substantial costs or burdens on the service provider. *Id.* § 512(c)(2), (i). Section 512(d) (“Information Location Tools”) provides a safe harbor from liability for “referring or linking users to an online location containing infringing material or infringing activity” for providers that meet a list of conditions analogous to those required under Section 512(c). *Id.* § 512(d). The other two safe harbors, Section 512(a) (“Transitory Digital Network Communications”) and Section 512 (b) (“System Caching”), protect qualifying providers from liability for “transmitting, routing, or providing connections for material,” and “intermediate and temporary storage of material,” respectively. *Id.* § 512(a)-(b).

² *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

³ See, e.g., *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578, 2009 U.S. Dist. LEXIS 122661 (C.D. Cal. Dec. 21, 2009) (currently on appeal to the Ninth Circuit) (operation of websites permitting unlawful distribution of copyrighted content); *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp.2d 124 (S.D.N.Y. 2009) (online bulletin board service enabling large-scale infringement of music files).

⁴ *Grokster*, 545 U.S. 913.

⁵ See, e.g., *ALS Scan v. RemarQ Communities*, 239 F.3d 619, 625 (4th Cir. 2001) (DMCA immunity is granted only to “innocent” service providers “who can prove they do not have actual or constructive knowledge of the infringement . . .”).

¶2 It seems we may be having another *Grokster* moment in the law. Just as in the pre-*Grokster* era, when the staple article of commerce doctrine of *Sony Corporation v. Universal City Studios, Inc.*⁶ was expanding beyond the realm of legitimate innovation to protect purposefully infringing activity—ultimately necessitating corrective action by the Supreme Court—so, too, the DMCA safe harbors, as construed in *Viacom International, Inc. v. YouTube, Inc.*⁷ and by some other courts,⁸ are threatening to swallow the very principles of secondary liability they were meant to incorporate. With respect to inducement of infringement liability in particular, at least one recent decision, *Columbia Pictures Industries, Inc. v. Fung*,⁹ has recognized the inherent conflict between DMCA immunity and *Grokster* culpability. According to Judge Wilson—notably, the same Judge Wilson whose grant of summary judgment in favor of the *Grokster* defendants at the trial level was ultimately reversed by the Supreme Court—a finding that a defendant induced infringement necessarily renders that defendant ineligible for the Section 512 safe harbors.¹⁰

¶3 This essay reviews *Fung* and *Viacom*, then revisits *Grokster* to demonstrate how the core principles of that case should guide judicial engagement with the DMCA safe harbors. Under the edifying light of *Grokster*, the missteps of *Viacom* are apparent, and the logic of *Fung* is undeniable.

I. FUNG

¶4 In *Fung*, the defendants operated a series of websites that permitted users to download copyrighted movies, television shows and other material.¹¹ The undisputed facts on summary judgment established that the defendants advertised the availability of infringing content, which was offered up in “browseable categories” on their sites; provided technical assistance to users seeking to infringe by downloading copyrighted works; and failed even to attempt to implement a filtering mechanism.¹² The court found that defendants’ periodic posting of lists of copyrighted content—such as top-grossing films—not only sent a message of infringement, but stimulated further infringement.¹³ In addition, defendant Fung had made statements indicating that he was personally aware that his site facilitated unlawful activity, for example, “[T]hey accuse us for [sic] thieves, and they r [sic] right”¹⁴

¶5 As additional evidence of inducement, Fung’s business model was premised on the draw of unauthorized content, which increased advertising revenues.¹⁵ Addressing the question of whether 75% versus 95% of the content on defendants’ site was infringing, the court noted that the precise percentage was “irrelevant”—what mattered was that defendants’ users had infringed on a “significant scale.”¹⁶

¶6 Based on this record, the *Fung* court concluded that the defendants had “engaged in ‘purposeful, culpable expression and conduct’ aimed at promoting infringing uses” of their websites, and were liable for inducing infringement.¹⁷ The defendants, however, argued that their copyright-inducing

⁶ *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

⁷ *Viacom Int’l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010).

⁸ *See, e.g.*, *Perfect 10, Inc. v. CCBill, LLC*, 488 F.3d 1102 (9th Cir. 2007) (safe harbors applied to website host even though hosted sites had names such as “illegal.net” and “stolencelebritypics.com”); *Viacom* at 718 F. Supp. 2d at 518 (safe harbors held to apply to video-sharing site notwithstanding evidence that site “welcomed” and profited from infringement); *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 665 F. Supp. 2d 1099, 1111 (C.D. Cal. 2009) (safe harbors applied to video site despite evidence that its founders, employees and investors were aware of widespread infringement on site).

⁹ *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578, 2009 U.S. Dist. LEXIS 122661 (C.D. Cal. Dec. 21, 2009).

¹⁰ *Id.* at *67-68.

¹¹ *Id.* at *57-61.

¹² *Id.* at *39-55.

¹³ *Id.* at *39-40.

¹⁴ *Id.* at *20.

¹⁵ *Id.* at *54-55.

¹⁶ *Id.* at *18.

¹⁷ *Id.* at *35-56 (quoting *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005)).

activities were immunized by three of the four DMCA safe harbors: Section 512(a) (transitory digital network communications), 512(c) (information residing on systems or networks at the direction of users) and 512(d) (information location tools).¹⁸

¶7 Judge Wilson opened his analysis of defendants' Section 512 safe harbor defense by observing:

In many ways, the Digital Millennium Copyright Act is simply a restatement of the legal standards establishing secondary copyright infringement—in many cases, if a defendant *is* liable for secondary infringement, the defendant *is not* entitled to Digital Millennium Copyright Act immunity; if a defendant *is not* liable for secondary infringement, the defendant *is* entitled to Digital Millennium Copyright Act immunity. The two sets of rules do not entirely overlap, but this framework is helpful for understanding the Act's statutory text and structure.¹⁹

¶8 The court determined that Sections 512(a) and (c) did not apply because defendants had admitted that the infringing materials did not “pass through or reside on Defendants' system.”²⁰ But more than that, the plaintiffs' claims “were premised on active inducement of infringement, not passive transmission or storage of infringing material.”²¹ That is, by definition, inducement of infringement could not qualify as the type of passive activity protected by these safe harbors.

¶9 Turning to defendants' Section 512(d) defense, the court expanded its analysis by addressing the knowledge standard of the DMCA:

In order to obtain safe harbor, a defendant cannot have knowledge of ongoing infringing activities. This ‘knowledge’ standard is defined as “actual knowledge” or “willful ignorance.” According to the widely-cited House and Senate Report on the law, “if the service provider becomes aware of a ‘red flag’ from which infringing activity is apparent, it will lose the limitation of liability if it takes no action.”²²

¶10 The same evidence that established the defendants' liability for inducement—which the court dutifully catalogued again—also established their “willful ignorance” of ongoing infringement.²³ In light of this evidence, the only way defendants could have avoided actual knowledge of the violations they caused would have been to “engage in willful blindness.”²⁴ Because either state of knowledge, actual or willfully blind, is disqualifying under Section 512(d), the safe harbor could not apply:²⁵

[I]nducement liability and the Digital Millennium Copyright Act safe harbors are inherently contradictory. Inducement liability is based on active bad faith conduct aimed at promoting infringement; the statutory safe harbors are based on passive good faith conduct aimed at operating a legitimate internet business.²⁶

¹⁸ *Id.* at *4.

¹⁹ *Id.* at *57 (citing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001)); *see also* Jane C. Ginsburg, *Separating the Sony Sheep From the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs*, 50 ARIZ. L. REV. 577, 591 (2008) (“[A]nalysis of the statutory provisions shows that an internet entrepreneur whose conduct would expose it to secondary liability for copyright infringement should be unlikely to qualify for the statutory immunity. The acts to which the immunity attaches are relatively limited in scope, and even as to these, the threshold requirements for immunity closely track the traditional elements of secondary liability.”).

²⁰ *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578, 2009 U.S. Dist. LEXIS 122661, at *60 (C.D. Cal. Dec. 21, 2009).

²¹ *Id.* at *60-61.

²² *Id.* at *62-63 (quoting H.R. Rep. No. 105-551(II), at 53 (1998)); *see also* S. Rep. No. 105-190, at 44 (1998).

²³ *Id.* at *62-67.

²⁴ *Id.* at *67.

²⁵ As an additional disqualifier from DMCA immunity, the court also cited the defendants' failure to “discourage repeat infringers” from violating plaintiffs' copyrights. *Id.* at *67 (quoting *In re Aimster Copyright Litig.*, 334 F.3d 643, 655 (7th Cir. 2003)).

²⁶ *Id.* at *67-68.

II. VIACOM

¶11 At the other end of the spectrum, the recent decision in *Viacom v. YouTube*²⁷ stands as an example of a court's own willful blindness to evidence of inducing conduct on the part of a service provider. In *Viacom*, the court—relying on a novel and expansive construction of the Section 512 safe harbors—simply declined to review the substantial record compiled by the plaintiffs concerning YouTube's exploitation and manipulation of infringing content, or to hear oral argument from the parties, before granting summary judgment to the defendants on the applicability of the DMCA safe harbors.

¶12 The record ignored by the *Viacom* court was filled with examples of culpable intent. One of YouTube's founders, for instance, objected to the removal of infringing material from the site, because "if you remove the potential copyright infringements . . . site traffic and virality will drop to maybe 20% of what it is."²⁸ A YouTube executive came up with a plan to pay lip service to copyright law by removing only some infringing material from their site: "That way, the perception is that we are concerned about this type of material and we're actively monitoring it. [But] [t]he actual removal of this content will be in varying degrees . . ." ²⁹ Accordingly, users would still be able to find "truckloads of . . . copyrighted content" by "actively searching for it."³⁰ When Google (also a defendant in the litigation) chose to acquire YouTube for \$1.65 billion in 2006,³¹ it candidly referred to its expensive prize as a "video Grokster" and "rogue enabler" of infringement that was "completely sustained by pirated content."³²

¶13 Instead of parsing the record before it into undisputed findings of fact and contested issues—as one would expect in the summary judgment context—the *Viacom* court brushed aside the specifics and merely observed in summary fashion:

[A] jury could find that the defendants not only were generally aware of, but welcomed, copyright-infringing material being placed on their website. Such material was attractive to users, whose increased usage enhanced defendants' income from advertisements displayed on certain pages of the website, with no discrimination between infringing and non-infringing content.³³

¶14 Even while acknowledging the possibility that YouTube fostered and profited from infringement on its site, the court concluded that YouTube was immune from secondary liability because it removed content when it received DMCA takedown notices.³⁴ In the words of Judge Stanton: "[A]wareness of pervasive copyright-infringing, however flagrant and blatant, does not impose liability on the service provider" unless the service provider has "knowledge of specific and identifiable infringements of particular individual items."³⁵

¶15 These are remarkable statements to come from a federal judge. According to the *Viacom* court, a defendant can be aware of *pervasive, flagrant and blatant* infringement on its site and still enjoy immunity under the law. Further, according to the court, a defendant can *welcome and benefit from* such infringement, but escape liability. Despite the resonance of such a business model with the conduct censured in *Grokster*, the *Viacom* court was of the view that *Grokster* had "little application" to the

²⁷ *Viacom Int'l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010).

²⁸ Decl. of William M. Hohengarten (Part Eight) Ex. 215, *Viacom Int'l, Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010) (No. 07 Civ. 2103) (No. 214-55).

²⁹ *Id.* Ex. 230 (No. 214-70).

³⁰ *Id.*

³¹ See *Google To Acquire YouTube for \$1.65 Billion in Stock*, GOOGLE PRESS CTR. (Oct. 9, 2006), http://www.google.com/intl/en/press/pressrel/google_youtube.html (last visited Apr. 20, 2011).

³² See *Viacom's Statement of Undisputed Facts in Support of Its Motion for Partial Summary Judgment on Liability and Inapplicability of the Digital Millennium Copyright Act Safe Harbor Defense at 35-6*, *Viacom Int'l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010) (No. 07 Civ. 2103) (No. 187).

³³ 718 F. Supp. 2d at 518.

³⁴ *Id.* at 519.

³⁵ *Id.* at 524.

issues before it. The court exonerated YouTube's behavior because YouTube, unlike Grokster, removed specifically identified infringing items after they were posted.³⁶

¶16 Under the DMCA, a service provider is ineligible for the Section 512 safe harbors if (among other things) it has either "actual knowledge that . . . material or an activity" on its site is infringing, or—under the so-called "red flag" test—is "aware of facts or circumstances from which infringing activity is apparent," and fails expeditiously to remove the material.³⁷ The *Viacom* court not only imposed an "item-specific" standard for actual knowledge, but also grafted that same standard onto the "awareness of facts or circumstances" test of Section 512, effectively reading the "red flag" test out of the statute.³⁸

¶17 The *Viacom* opinion also summarily disposed of the alternate possibility that YouTube could be held liable under the "financial benefit/right and ability to control" prong of Section 512(c). Even assuming that YouTube profited directly from infringing activity, the court held, that would not be enough. According to Judge Stanton, the "right and ability to control" infringement requires "item-specific" knowledge of particular infringing activity.³⁹ The opinion cited no specific authority for this proposition, which renders the financial benefit/control test of the statute superfluous: if the service provider has item-specific knowledge of infringement and fails to take action, there is no need to reach the question of whether the provider can control the infringement from which it is profiting.⁴⁰

¶18 According to the *Viacom* court, then, no matter how much the evidence might point to a defendant's awareness of, and conscious plan to capitalize on, unlawful activity by its users, absent "item-specific" knowledge of infringement—a standard that appears nowhere in the DMCA—the provider is absolved of responsibility.⁴¹ In practical effect, then, the court deemed an after-the-fact takedown program sufficient to meet the safe harbor criteria set forth in Sections 512(c) and (d).⁴² It thus embraced institutionalized disregard of infringing activity as a winning and profitable strategy for service providers that seek to traffic in copyrighted goods supplied by users. Such an interpretation of the DMCA offends not only core principles of copyright law, as illuminated by the Supreme Court in *Grokster*, but even more basic legal norms.

III. FROM SONY TO GROKSTER

¶19 The *Grokster* case was a resetting of the law because the law had begun to depart from the reality of the conduct it was addressing. By 2005, the Supreme Court's twenty-year-old decision in *Sony Corporation v. Universal City Studios, Inc.*⁴³—which framed the rule for secondary infringement liability in the case of a distributor of a device that could be used for both infringing and non-infringing purposes—was threatening to morph into a safe harbor for distributors who deliberately sought to

³⁶ *Id.* at 526 ("To such a provider, the DMCA gives a safe harbor.").

³⁷ 17 U.S.C. § 512(c)(1)(A) (2010).

³⁸ 718 F. Supp. 2d at 525. In support of its interpretation of the "red flag" test, the *Viacom* court looked to *Veoh Networks*, which in turn relied upon *CCBill*, where the Ninth Circuit improbably decided that website names such as "illegal.net" and "stolencelebritypics.com" did not constitute "red flags" of infringing activity. *Id.* at 524.

³⁹ *Id.* at 523.

⁴⁰ Because the *Viacom* court interpreted the financial benefit/right to control test as requiring "item-specific" knowledge of infringement before the provider is expected to control it, it did not analyze the question of whether the infringing content on YouTube results in a direct financial benefit to YouTube, other than to observe that "there may be arguments" concerning whether YouTube's advertising revenues are "directly attributable to" infringements," a disqualifying factor under the DMCA. *See id.* at 527.

⁴¹ *See id.* at 518-19.

⁴² In further support of this result, the court rejected plaintiffs' arguments that YouTube engaged in conduct beyond "storage at the direction of a user," the activity protected under Section 512(c). *Id.* at 526-27. Despite his recognition that "to the extent defendants' activities go beyond . . . 'storage' and allied functions," such activities would not be immunized, Judge Stanton declined to analyze the matter further. The court also held that YouTube's "repeat infringer" policy was adequate for purposes of Section 512(i). *Id.* at 527-28.

⁴³ 465 U.S. 1112 (1984).

capitalize on consumers' infringing behavior but could assert a modicum, or theoretical modicum, of legitimate activity made possible through their technology.⁴⁴

¶20 In *Sony*, the Supreme Court drew on the patent law's staple article of commerce doctrine to conclude that Sony, which manufactured and distributed Betamax video tape recorders, could not be held liable for contributory liability merely because its product could be used to infringe, since the Betamax VTR was also capable of "substantial noninfringing" uses.⁴⁵ A critical dimension of *Sony* that is overlooked in cursory discussions of the Court's holding was the Court's determination that the average consumer's "principal[]" use of the Betamax to record free broadcast television for later home viewing—to which even the studio respondents did not object—was a fair use of copyrighted programming.⁴⁶ As the Court explained, its rejection of liability in the case "require[d] a quite detailed recitation of the findings" of the district court to this effect.⁴⁷ And the Court did review those findings at considerable length, including the fact that many copyright owners expressed a willingness to allow private "time-shifting" of their programming.⁴⁸

¶21 A second distinguishing aspect of *Sony* that sometimes falls by the wayside is that once the Betamax recorder was sold to the consumer, Sony no longer had the ability to control the consumer's use of the device. The Court concluded that Sony could not be charged with culpable knowledge based solely on an awareness that its product *might* be used to infringe.⁴⁹ As the Court explained, "[t]he only contact between Sony and the users of the Betamax . . . occurred at the moment of sale."⁵⁰ Thus, Sony's relationship to any infringing use was quite different from that of a software distributor that maintains ongoing contact with its distributees, may know of or be able to track infringing uses, and/or can update and enhance its software product to mitigate infringement.⁵¹

¶22 But, as happens in the law, the shorthand version of *Sony* strayed from its underlying factual rationale and took on a life of its own. "Capable of substantial noninfringing uses" became the hopeful mantra of those accused of contributory infringement. *Sony* thus became a primary battleground as the age of the Internet dawned.

¶23 In *A&M Records, Inc. v. Napster, Inc.*, the first of the major peer-to-peer file-sharing cases, the defendant sought to invoke *Sony* to excuse its facilitation of users' copying and distribution of copyrighted music files at the district court level.⁵² According to the defendant, users were not taking recordings for which they would otherwise have to pay; rather, they were "sampling" and "space-shifting" songs—activities, Napster argued, that qualified as "substantial noninfringing uses" under *Sony*'s rule.⁵³ Substantial, yes; noninfringing, no. The district court, looking to statistical studies submitted by the plaintiffs, was not impressed by Napster's rationalizations: "[T]he most credible explanation for the exponential growth of traffic to the [Napster] website is the vast array of free MP3 files offered by other users" ⁵⁴ In other words, Napster's users simply liked to help

⁴⁴ *Metro-Goldwyn-Mayer Studios v. Grokster Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004) (affirming lower court's finding of no liability for mass infringement where peer-to-peer file-sharing systems were capable of "substantial or commercially significant noninfringing uses"); cf. *In re Aimster Copyright Litig.*, 334 F.3d 643, 651 (7th Cir. 2003) (addressing peer-to-peer service's argument that it should escape liability because its system could be used for noninfringing purposes).

⁴⁵ *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984).

⁴⁶ *Id.* at 421.

⁴⁷ *Id.*

⁴⁸ *Id.* at 442-56. Indeed, no less an earnest personage than (the late) Fred Rogers of *Mr. Rogers' Neighborhood* testified that he had "absolutely no objection to home taping for noncommercial use and expressed the opinion that it is a real service to families to be able to record children's programs and show them at appropriate times." *Id.* at 445.

⁴⁹ *Id.* at 438-40.

⁵⁰ *Id.* at 438.

⁵¹ See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 916-17 (N.D. Cal. 2000) ("Courts have distinguished the protection *Sony* offers to the manufacture and sale of a device from scenarios in which the defendant continues to exercise control over the device's use."), *aff'd in part, rev'd in part, and remanded on other grounds*; see also *In re Aimster Copyright Litig.*, 334 F.3d 643, 648 (7th Cir. 2003) (noting that the Supreme Court thought Sony could not "demix" infringing from noninfringing uses "because once Sony sold the recorder it lost all control over its use").

⁵² 114 F. Supp. 2d 896.

⁵³ *Id.* at 913.

⁵⁴ *Id.* at 916.

themselves to music without paying for it; Napster’s “primary role” in facilitating this conduct rendered *Sony* inapplicable.⁵⁵

¶24 Turning to the substance of plaintiffs’ contributory infringement claims, the district court found that Napster had both actual and constructive knowledge of the infringements it was facilitating. In reaching this conclusion, the court cited a Napster founder’s acknowledgment that Napster users were exchanging “pirated” music; that the record labels had notified Napster of 12,000 infringing songs that Napster failed to remove; and that Napster executives had themselves downloaded infringing material.⁵⁶ Judge Patel expressly rejected Napster’s contention that “titles in the Napster directory cannot be used to distinguish infringing from non-infringing files and thus [the] defendant cannot know about infringement by any particular user of any particular musical recording or composition,” observing that “[t]he law does not require actual knowledge of specific acts of infringement.”⁵⁷

¶25 Napster had also raised a DMCA defense, claiming immunity under the Section 512(d) safe harbor. Citing the actual and constructive knowledge disqualifiers of Section 512(d), the district court matter-of-factly disposed of this defense on the ground that Section 512(d) excludes service providers who have “[a]ctual knowledge that the material or activity is infringing’ . . . or [are] aware of facts or circumstances from which infringing activity is apparent.’ . . . Defendant has failed to persuade this court that subsection 512(d) shelters contributory infringers.”⁵⁸

¶26 On appeal, the Ninth Circuit upheld the district court’s conclusion that plaintiffs were likely to prevail on their claims of contributory infringement and were thus entitled to a preliminary injunction to halt the use of their copyrighted works to the extent those works were identified in notices to Napster.⁵⁹ Unlike the district court, however, the Ninth Circuit based its determination on Napster’s “actual, specific” knowledge of infringement—which, in its view, rendered *Sony* inapplicable—rather than relying on Napster’s constructive knowledge of users’ activities.⁶⁰ Perhaps anticipating that it would someday have plenty of opportunity to spill ink over the DMCA, the Ninth Circuit punted on Napster’s Section 512(d) defense, explaining that the issue should await further development at trial.⁶¹

¶27 A few years later, in the *Aimster* litigation⁶²—which involved a peer-to-peer file-sharing system operating via AOL’s instant messaging service—the defendant tried the *Sony* defense again. Again, on appeal, the court did not buy it. While acknowledging that “obviously” *Aimster*’s system could be used in a noninfringing way, Judge Posner, writing for the Seventh Circuit, observed: “Were that the law, the seller of a product or service used *solely* to facilitate copyright infringement, though it was capable in principle of noninfringing uses, would be immune from liability for contributory infringement.”⁶³ In other words, such an interpretation of *Sony*’s holding was untenable, because it would let blatant infringers off the hook. Judge Posner allowed the Supreme Court more credit than that.⁶⁴

⁵⁵ *Id.* at 917.

⁵⁶ *Id.* at 918-19.

⁵⁷ *Id.* at 918.

⁵⁸ *Id.* at 919 n.24 (citing 17 U.S.C. § 512(d)(1)(A)-(B) (2000)).

⁵⁹ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001).

⁶⁰ *Id.* Under the Ninth Circuit’s analysis, the question of whether *Sony* barred the plaintiffs’ claims turned on whether Napster had actual, as opposed to constructive, knowledge of its users’ direct infringements. *Id.* This construction of *Sony* was later criticized by the Seventh Circuit in its *Aimster* opinion. See *In re Aimster Copyright Litig.*, 334 F.3d 643, 649 (7th Cir. 2003) (citing 2 Paul Goldstein, *Goldstein on Copyright* § 6.1.2, at 6:12-1 (2d ed. 2003)). Professor Goldstein has explained how the Ninth Circuit’s erroneous interpretation of *Sony* led to the Circuit Court’s later holding in *Grokster* that was overturned by the Supreme Court. 2 Goldstein § 8.3.1, at 8:29-:30.

⁶¹ *Napster*, 239 F.3d at 1025.

⁶² *Aimster*, 334 F.3d 643.

⁶³ *Id.* at 651 (emphasis in original).

⁶⁴ *Id.* (“That would be an extreme result, and one not envisaged by the *Sony* majority.”).

¶28 Judge Posner also had some things to say on the issue of knowledge. The owner and overseer of the Aimster system, John Deep, took the position that because the Aimster software encrypted the transmissions through which its users traded music files, he was not aware of the songs being copied, and thus lacked the actual knowledge of infringement supposedly required to hold him liable.⁶⁵ Observing that “Aimster blinded itself in the hope that by doing so it might come within the rule of the *Sony* decision,”⁶⁶ Judge Posner soundly rejected such a self-serving tactic: “Willful blindness is knowledge, in copyright law . . . as it is in the law generally”⁶⁷

¶29 In his *Aimster* opinion, Judge Posner equated a contributory infringer with one who aids and abets a crime.⁶⁸ He likened Deep to a drug trafficker who sought to avoid knowledge of the illicit transactions under his watch by absenting himself from the actual delivery of the goods:⁶⁹

One who, knowing or strongly suspecting that he is involved in shady dealings, takes steps to make sure that he does not acquire full or exact knowledge of the nature and extent of those dealings is held to have a criminal intent [citation omitted] because a deliberate effort to avoid guilty knowledge is all that the law requires to establish a guilty state of mind.⁷⁰

¶30 Like the drug trafficker, Deep should not escape liability for the unlawful conduct he facilitated by closing his eyes to the obvious.⁷¹ Or, to put it another way, the law should be interpreted so as to discourage—not incentivize—illegal activity.

¶31 The *Aimster* court further held that the DMCA did not save the defendant, as that Act “does not abolish contributory infringement.”⁷² In this case, “[f]ar from doing anything to discourage repeat infringers of the plaintiffs’ copyrights, Aimster invited them to do so”⁷³ As the court of appeals explained, “[t]he common element” of the DMCA safe harbors “is that the service provider must do what it can reasonably be asked to do to prevent the use of its service by ‘repeat infringers.’”⁷⁴ An invitation to infringe is the opposite of what is expected under the DMCA.

¶32 In *Napster* and *Aimster*, then, courts rejected interpretations of *Sony*—as well as of the DMCA safe harbors—that would have excused purposeful facilitation of infringement. But then along came *Grokster*. *Grokster* also involved peer-to-peer file-sharing, but the software at issue in *Grokster* did not include a centralized indexing or messaging system.⁷⁵

¶33 Like their predecessors, the *Grokster* defendants invoked *Sony*, asserting that their file-swapping systems were immune because they permitted substantial noninfringing uses.⁷⁶ According to the defendants, at least some copyright owners did not mind the unauthorized use of their works; their software permitted the dissemination of public domain works, such as Shakespeare; and one of the defendants had even provided its users with the opportunity to download briefs generated by the resulting infringement litigation (although, as the Supreme Court dryly observed in its eventual review of the matter, the popularity of the briefs “has not been quantified”).⁷⁷ Against defendants’ assertions of benign purpose, the record indicated that nearly 90% of the massive amount of material

⁶⁵ *Id.* at 650.

⁶⁶ *Id.* at 653.

⁶⁷ *Id.* at 650.

⁶⁸ *Id.* at 651.

⁶⁹ *Id.* at 650.

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.* at 655.

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1041 (C.D. Cal. 2003).

⁷⁶ *Id.* at 1035-36.

⁷⁷ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 922-23 (2005); *see also* *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001); *supra* text accompanying notes 60-62.

being downloaded by users of the *Grokster* defendants' software systems was protected by copyright.⁷⁸

¶34 On the question of *Sony*, the district court looked to the Ninth Circuit's *Napster* opinion and held that plaintiffs had to show that the *Grokster* defendants had actual—not merely constructive—knowledge of infringement to overcome the *Sony* defense.⁷⁹ But Judge Wilson saw fit to elaborate on the Ninth Circuit's standard:

[I]n order to be liable under a theory of contributory infringement, [the defendants] must have actual knowledge of infringement at a time when they can use that knowledge to stop the particular infringement. In other words, Plaintiffs' notices of infringing conduct are irrelevant if they arrive when Defendants do nothing to facilitate, and cannot do anything to stop, the alleged infringement . . . Here, it is undisputed that Defendants are generally aware that many of their users employ Defendants' software to infringe copyrighted works The question, however, is whether *actual knowledge of specific infringement* accrues at a time when [the] Defendant materially contributes to the alleged infringement and can therefore do something about it.⁸⁰

¶35 In other words, to meet the court's knowledge requirement, the plaintiffs had to identify each particular illegal file before it was instantaneously transferred from one computer to another by virtue of defendants' software. Otherwise the defendant who supplied this system of mass infringement was off the hook.

¶36 In the decentralized peer-to-peer context of *Grokster*, such a standard for liability presented a hopeless fiction for the plaintiffs. There was no realistic possibility that copyright owners could identify the precise files about to be distributed by, and to, countless individual users, let alone serve notices on the relevant parties before the particular infringements were consummated. And more than that, the rule clearly invited would-be secondary infringers to design their systems to avoid detection of infringement, by rewarding them with *Sony* immunity. Apparently believing that his hands were tied, Judge Wilson acknowledged the problem with the standard he had applied, observing that he was “not blind to the possibility that Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting from the illicit draw of their wares.”⁸¹

¶37 On appeal, the Ninth Circuit not only adhered to, but amplified the district court's problematic analysis, holding that *Sony* barred the plaintiffs' claims because the plaintiffs' takedown notices did not arrive in time for the defendants to stop specific acts of infringement that had already taken place.⁸² In so doing, the court not only expressly disavowed Judge Posner's reasoning in *Aimster*, but also its own, earlier dictate in *Napster* that “[t]urning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability.”⁸³ In a parting flourish, the Ninth Circuit went so far as to lecture that a reexamination of the law in this area would be unwise, because courts should “exercise caution before restructuring liability theories for the purpose of addressing specific market abuses, despite their apparent present magnitude.”⁸⁴

¶38 Happily for copyright owners, the Supreme Court disagreed.

⁷⁸ *Grokster*, 545 U.S. at 922.

⁷⁹ 259 F. Supp. 2d at 1036.

⁸⁰ *Id.* at 1037-38 (emphasis in original).

⁸¹ *Id.* at 1046. Later on, in *Fung*, with the benefit of the Supreme Court's clarification in *Grokster*, Judge Wilson was able to address this concern. See discussion of *Fung*, *supra*.

⁸² *Metro-Goldwyn-Mayer Studios v. Grokster Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004).

⁸³ *Id.* at 1166 (citation omitted).

⁸⁴ *Id.* at 1167.

IV. GROKSTER

¶39 As articulated by the Supreme Court, the question to be answered in *Grokster* was “under what circumstances the distributor of a product capable of both lawful and unlawful use” can be held “liable for the acts of copyright infringement by third parties using the product.”⁸⁵ The Court responded by holding that one who “distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”⁸⁶

¶40 In reaching this result, the Court sharply criticized the Ninth Circuit’s reading of *Sony*, opining that the lower court had misinterpreted *Sony* to limit secondary liability “quite beyond the circumstances to which the case applied.”⁸⁷ More specifically, the Court flatly rejected the Ninth Circuit’s problematic construction that distributors could not be secondarily liable unless they had “specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information.”⁸⁸ Further, explained the Court, “nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law.”⁸⁹

¶41 The Court then revisited patent law to locate the antidote to *Sony*’s overly broad substantial noninfringing use rule, officially importing the inducement of infringement doctrine into copyright law to address instances of “purposeful, culpable expression and conduct” for the purpose of promoting infringing activity.⁹⁰ Evaluating the record in *Grokster*, the Court cited the defendants’ intent to attract former Napster users, as well as their incentive to generate more advertising revenue through a higher volume of infringing uses, as evidence of inducement.⁹¹ Further, the defendants’ failure to pursue filtering tools to mitigate third-party infringements underscored their intent to facilitate such infringements.⁹² Like Judge Posner, the Court referenced aiding and abetting liability as an equivalent of inducement.⁹³ The Court noted as well the “tendency [in tort law] to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong.”⁹⁴

¶42 Thus, the Supreme Court’s decision in *Grokster* did not turn on the particular amount of infringing use of defendants’ systems, although the amount was substantial. Nor did it turn on the specificity of defendants’ knowledge of those infringements; defendants had general knowledge that their systems were used to infringe, but, due to the decentralized nature of those systems, were not aware of which or when particular files were being copied. Rather, the touchstone of the Court’s unanimous holding was defendants’ culpable intent to build a business based on copyright violation.

¶43 Justice Kennedy underscored the Court’s concern when he commented during the oral argument in *Grokster* that “from an economic standpoint and a legal standpoint, [it] sounds wrong” that “unlawfully expropriated property can be used by the owner of the instrumentality as part of the startup capital for his product.”⁹⁵ That is, to borrow Professor Ginsburg’s succinct terminology,

⁸⁵ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 918-19 (2005).

⁸⁶ *Id.* at 919.

⁸⁷ *Id.* at 933.

⁸⁸ *Id.* at 934 (citation omitted).

⁸⁹ *Id.* at 934-35.

⁹⁰ *Id.* at 936-37. Although the Court looked primarily to patent law, it had previously recognized the concept that inducing others to infringe can give rise to copyright liability. *See Kalem Co. v. Harper Bros.*, 222 U.S. 55, 62-63 (1911) (finding that where defendant “not only expected but invoked” infringing of copyrighted book through advertisement of infringing films, defendant was contributorily liable); *see also Grokster*, 545 U.S. at 935 (citing *Kalem Co.*, 222 U.S. at 62-63).

⁹¹ *Id.* at 939-40.

⁹² *Id.* at 939.

⁹³ *Id.* at 936 (citing *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988)).

⁹⁴ *Id.* (citing *W. KEETON, D. DOBBS, R. KEETON & D. OWEN, PROSSER & KEETON ON LAW OF TORTS* 37 (5th ed. 1984)).

⁹⁵ Transcript of Oral Argument at 36, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (No. 04-480), available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/04-480.pdf. Similarly, Congress made clear in enacting the DMCA that safe harbor protection is not intended for service providers in a position to control infringement where “the value of the service lies in providing access to infringing material.” H.R. REP. NO. 105-551, pt. 2, at 54 (1998).

infringement should not be a “business asset.”⁹⁶ The evidence in *Grokster* showed “a purpose to cause and profit from third-party acts of copyright infringement.”⁹⁷ As the Court ultimately held, when such an “unlawful objective is unmistakable,”⁹⁸ the conduct is inexcusable.⁹⁹

V. THE LESSONS OF GROKSTER

A. The Law Should Not Be Interpreted to Promote Infringement

¶44 A basic tenet of our law is that one should not encourage others to break it. As Judge Posner noted in *Aimster*, in criminal law this principle manifests itself as aiding and abetting liability.¹⁰⁰ The knowing supplier of the means to commit a crime is held accountable for the consequent criminal act.¹⁰¹ Likewise, the purposeful supplier of a means to infringe is held responsible for the resulting infringement. To quote Justice Holmes a full century ago, such liability under copyright rests “on principles recognized in every part of the law.”¹⁰²

¶45 The overarching moral of the *Grokster* story is that copyright law, like other law, serves a normative purpose. Confronted by district and appellate court decisions interpreting the *Sony* precedent in a manner that immunized actors that blatantly encouraged infringement for profit, the Supreme Court refined its earlier analysis so that such conduct could be sanctioned. The Court did not need to resolve the issue it left open in *Sony*—the amount of infringing activity required to take a device out of *Sony*’s safe harbor—or address the defendants’ precise knowledge of infringement, because the critical question of secondary liability in *Grokster* was not one of degree, but of kind: whether the defendant had engaged in culpable behavior by promoting unlawful activity.

¶46 There is nothing either in the DMCA or its well-traveled legislative history to suggest that Congress intended to amend to the Copyright Act for the purpose of promoting copyright violations. Service providers and their advocates are fond of asserting that the Section 512 safe harbors were created to permit the growth of the Internet.¹⁰³ This may be true, but it is only a half-truth. Congress was also concerned about the countervailing rights of copyright owners: “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.”¹⁰⁴ Congress intended that the law

⁹⁶ Ginsburg, *supra* note 20, at 579.

⁹⁷ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 941 (2005).

⁹⁸ *Id.* at 940

⁹⁹ *See id.* at 936.

¹⁰⁰ *In re Aimster Copyright Litig.*, 334 F.3d 643, 651 (7th Cir. 2003). Similarly, “[t]he common law of torts has long punished not only tortfeasors but also those who aid and abet the commission of a tort.” Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. DAVIS L. REV. 225, 227 (2005).

¹⁰¹ Judge Kozinski articulated this point in his well-known dissent evaluating the responsibility of a credit card company that facilitated infringing transactions, in *Perfect 10, Inc. v. Visa International Service, Association*.

If you lend money to a drug dealer knowing he will use it to finance a drug deal, you materially assist the transaction, even if you never see the drugs. Or, if you knowingly drive a principal to the scene of the crime, you provide material assistance, even if nothing happens during the ride.

Perfect 10, Inc., v. Visa Int’l Serv., Ass’n, 494 F.3d 788, 815 (9th Cir. 2007) (Kozinski, J., dissenting) (citing *United States v. Lopez*, 482 F.3d 1067, 1076-79 (9th Cir. 2007)); *see also* Mark Bartholomew, *Cops, Robbers, and Search Engines: The Questionable Role of Criminal Law in Contributory Infringement Doctrine*, 2009 BYU L. REV. 783, 799-800 (“[Criminal accomplice liability] roughly corresponds to contributory liability in intellectual property law . . .”).

¹⁰² *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 63 (1911).

¹⁰³ *See, e.g.*, Brief of Google Inc. as Amicus Curiae in Support of Affirmance at 4, *Columbia Pictures Indus., Inc. v. Fung*, No. 10-55946 (9th Cir. Feb. 8, 2011) (“The statute aims to ‘facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age . . .’”) (quoting S. REP. NO. 105-190, at 1-2 (1998)).

¹⁰⁴ S. REP. NO. 105-190, at 8.

“adapt in order to make digital networks safe places to disseminate and exploit copyrighted materials.”¹⁰⁵ As one court explained not very long after the DMCA was enacted, the statute is designed to protect “innocent” service providers engaged in “passive” activity: “The DMCA’s protection of an innocent service provider disappears at the moment the service provider loses its innocence, i.e., at the moment it becomes aware that a third party is using its system to infringe.”¹⁰⁶

¶47 Section 512 offers Internet service providers only qualified immunity from secondary liability, in exchange for compliance with a series of conditions that are manifestly aimed at mitigating infringement. As much as providers like to suggest that particular aspects of the safe harbors depart from the secondary liability standards of the common law (inevitably in ways that benefit the providers), it is indisputable that Congress chose to deny safe harbor protection to defendants that have knowledge of user infringements and fail to take corrective action. It is likewise indisputable that Congress chose to deny protection to providers that could control infringing conduct but instead choose to derive financial benefit from it. If Congress had wanted to enact a statute that permitted service providers to embrace infringement so long as they implemented a takedown program, it could have done so. It did not.

¶48 As the Supreme Court has instructed, “statutory construction . . . is a holistic endeavor.”¹⁰⁷ To the extent a court believes the safe harbor provisions of the DMCA require interpretation, they should be construed so as to produce a “substantive effect that is compatible with the rest of the law.”¹⁰⁸ The DMCA denies protection to those who fail to take action when they are aware of infringement, the Copyright Act within which it is codified proscribes and punishes infringement (in some instances as criminal conduct),¹⁰⁹ and the Supreme Court has made clear that liability should be imposed on those who promote infringement. More generally, our legal system frowns upon those who aid and abet unlawful activity. Section 512 should not be interpreted to undermine the statutory scheme of which it is a part, or fundamental principles of law.

B. A Knowledge Standard That Protects Wrongdoers Is Wrong

¶49 *Grokster* is also instructive on the more particular question of how to understand the knowledge standards of the DMCA. In *Grokster*, both the trial court and Ninth Circuit interpreted *Sony* as requiring knowledge of specific infringements on the part of defendants before secondary liability could attach. In their view, more general knowledge of users’ illegal activities—even knowledge of widespread infringement—was insufficient to take the defendants out of *Sony*’s safe harbor.

¶50 The Supreme Court expressly rejected the lower courts’ item-specific approach to knowledge:

Because the [Ninth] Circuit found the [defendants’] software capable of substantial lawful use, it concluded on the basis of its reading of *Sony* that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

This view of *Sony*, however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory.¹¹⁰

¹⁰⁵ *Id.* at 2.

¹⁰⁶ *ALS Scan, Inc. v. Remarq Cmtys., Inc.*, 239 F.3d 619, 625 (1996); see also R. Anthony Reese, *The Relationship Between ISP Safe Harbors and Ordinary Rules of Copyright Liability*, 32 COLUM. J.L. & ARTS 427, 431-32 (2009) (stating that a provider that stores or links to infringing material and finds out about it loses safe harbor protection unless it removes or disables access).

¹⁰⁷ *United Sav. Ass'n v. Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988).

¹⁰⁸ *Id.*; see also *Citizens Bank v. Strumpf*, 516 U.S. 16, 20 (1995) (“It is an elementary rule of construction that [an] act cannot be held to destroy itself.”) (quoting *Tex. & Pac. Ry. Co. v. Abilene Cotton Oil Co.*, 204 U.S. 426, 446 (1907)).

¹⁰⁹ 17 U.S.C. §§ 501-506 (2010). As Judge Kozinski averred in his dissent in *Perfect 10, Inc. v. Visa International Service Association*: “I am aware of no policy of the United States to encourage electronic commerce in stolen goods . . .” 494 F.3d 788, 824 (9th Cir. 2007) (Kozinski, J., dissenting).

¹¹⁰ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 934 (2005).

¶51 The point the Supreme Court was making is that secondary liability for infringement does not turn on a singular and restrictive definition of knowledge. A tortured knowledge rule that insulates culpable conduct is incompatible with a principled approach to copyright law.

¶52 It is equally inappropriate to read an item-specific knowledge requirement into the DMCA when there is nothing in the text or legislative history of the DMCA to require it. It is the same sort of unwarranted limitation of liability denounced in *Grokster*. Even more, it is an invitation for service providers to engage in a shell game of ignoring obvious signs of infringement, while purposefully organizing their activities to embrace and profit from it.

¶53 Congress clearly signaled its desire to avoid such a result by drawing a line in Section 512 between providers that are genuinely ignorant of infringement and those that become aware of it and permit it to flourish: a service provider does not qualify for the safe harbor if it “turn[s] a blind eye to ‘red flags’ of obvious infringement.”¹¹¹ As Professor Ginsburg has suggested, it is the job of courts to sort through the evidence and distinguish between conduct that is culpable and conduct that is not.¹¹² A shortcut through inconvenient facts based on a contrived knowledge standard does not satisfy Congress’ mandate.

C. The DMCA Must Not Be Blindly Applied

¶54 In *Grokster*, the Supreme Court did not establish a measure of infringing activity that was too much.¹¹³ It flatly rejected a rule of item-specific knowledge before liability could attach. And, the fact that noninfringing items such as Shakespeare or freely shared legal tomes might be available through the defendants’ service did not excuse the defendants’ illicit objective. *Grokster* teaches that in evaluating a claim of inducement, a court must not rely on an abstract, legalistic test at the expense of the facts.

¶55 In failing to evaluate plaintiffs’ evidence of inducement simply because YouTube operated a takedown program—and summarily concluding that the *Grokster* model did not “comport” with YouTube’s model for that same reason—the *Viacom* court suggested a false and legally pernicious dichotomy between services with takedown programs and those without.¹¹⁴ It is certainly an untenable result if our legal system permits a takedown process to immunize the affirmative misconduct that results in the necessity for the takedown process in the first place.

¶56 In the adolescence of the Internet, we are seeing complex business models that may combine *Grokster*-like purpose with other, ostensibly benign functionalities. Services seeking to capitalize on the draw of infringing goods may exhibit superficial respect for copyright concerns—by implementing a takedown program, for instance—yet rest secure in the knowledge that their users will continue to supply the content on which they depend in limitless quantities. (Witness the YouTube executive’s exhortation to remove some, but to preserve “truckloads,” of infringing material on that site.) As suggested by *Fung*, a website’s overt, organized exploitation of large quantities of unauthorized content that the site permits to be freely uploaded by users—and to flourish—is *itself* an enticement for users to upload more.¹¹⁵ It is advertisement by example.

¹¹¹ S. REP. NO. 105-190, at 48 (1998); *see also* H.R. REP. NO. 105-551, at 53 (1998).

¹¹² Ginsburg, *supra* note 20, at 602 (stating that courts should apply Section 512 in a way that separates the “Sony sheep” from the “Grokster goat[s]”).

¹¹³ As Professor Ginsburg has aptly observed, however, while *Grokster*’s inducement standard may have displaced inquiries into the substantiality of noninfringing use, a service provider’s facilitation of large-scale infringement may nonetheless be probative of culpable intent. *See* Ginsburg, *supra* note 20, at 584-85.

¹¹⁴ Such a rule, for instance, would mean that if the operators of the notorious LimeWire file-sharing service—recently found liable for inducing infringement on a massive scale—had simply responded to takedown notices, they would have been freed of responsibility for their actions despite “overwhelming evidence that [they] engaged in purposeful conduct that fostered infringement.” *Arista Records LLC v. Lime Grp. LLC*, 715 F. Supp. 2d 481, 509 (S.D.N.Y. 2010).

¹¹⁵ *See* *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578, 2009 U.S. Dist. LEXIS 122661, at *39-40 (C.D. Cal. Dec. 21, 2009).

¶57 Courts must resist the invitation to oversimplify reality by arbitrarily dividing the Internet world into “true pirates” and everyone else.¹¹⁶ Not every pirate is holed up in a garage, has a name ending in “-ster” or spells “wares” with a “z.”¹¹⁷ Some dress in expensive clothing and have MBAs.¹¹⁸ Courts need to sort through the facts without prejudging them, and beware pirates in disguise.

D. Inducing Copyright Infringement Is Not Good Safe Harbor Behavior

¶58 The gravamen of inducement liability is the defendant’s conduct in promoting infringement.¹¹⁹ The DMCA nowhere suggests that active promotion of infringement is an activity protected by the safe harbors. Section 512(c), for example, exempts qualifying services from secondary liability based on infringement of copyright “by reason of . . . storage at the direction of a user”—not by reason of storage encouraged by the provider.¹²⁰

¶59 *Grokster* held that a provider that “distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement,” is liable as an inducer of infringement.¹²¹ Such a standard entails awareness that one’s actions are facilitating infringement. Instead of acting on such knowledge to *mitigate* the infringement, however, as required by Section 512, the inducer disregards the knowledge in order to *further* infringement. This is the inherent contradiction identified by Judge Wilson in *Fung*.¹²²

¶60 To understand why an inducer cannot be eligible for DMCA immunity, one need only imagine a scenario where a defendant is found liable under the *Grokster* standard, but still seeks to sail freely in the DMCA safe harbors. In order to claim immunity, such a defendant—who has been adjudged to have deliberately promoted infringement—would need to establish that it did not know of the infringement it was deliberately promoting. The two states of being are mutually exclusive. To interpret Section 512 otherwise simply makes no sense.¹²³

¶61 Even if one could concoct some tortured reading of the DMCA to permit such a result—and, undoubtedly, there will be those who try—it would be wholly at odds with the Supreme Court’s directive in *Grokster*. *Grokster* condemns business models that seek to capitalize on violations of copyrighted property. In interpreting the Section 512 safe harbors, courts should not themselves be promoting such bad behavior.

¹¹⁶ In addition to the *Viacom* opinion, 718 F. Supp. 2d 514 (S.D.N.Y. 2010), such specious binary thinking is evident in a recent brief submitted in the currently pending appeal of *Fung*, in which amicus Google asserts that “*Grokster* articulates a strict standard for inducement designed to distinguish between true ‘pirate’ services and those that operate with a legitimate purpose.” Brief of Google Inc. as Amicus Curiae in Support of Affirmance, *supra* note 104, at 8. No; the *Grokster* standard is designed to distinguish between those that induce infringement and those that operate with a legitimate purpose.

¹¹⁷ See, e.g., *Fung*, 2009 U.S. Dist. LEXIS 122661, at *42 (explaining that “warez” is a well-known search term in the “pirating community”).

¹¹⁸ For example, according to his website, Mark Gorton, the founder of LimeWire—and defendant in the ensuing litigation, see *supra* note 115—earned an MBA from Harvard Business School, an M.S.E.E. from Stanford University, and a B.S. magna cum laude from Yale University. *Company*: BOARD OF DIRECTORS, LIME BROKERAGE LLC, http://www.limebrokerage.com/company/leadership_board.shtml (last visited Feb. 24, 2011).

¹¹⁹ “[T]he central inquiry [of *Grokster*] is based on the defendants’ ‘purposeful, culpable expression and conduct.’ . . . [T]he clear import of the Supreme Court’s opinion was that a defendant may be secondarily liable for his conduct and activities, separate and apart from any products, devices, or tools he distributes.” *Columbia Pictures Indus., Inc. v. Fung*, No. CV 06-5578, 2010 U.S. Dist. LEXIS 91169, at *6 n.1 (C.D. Cal. May 20, 2010) (citation omitted) (granting permanent injunction).

¹²⁰ 17 U.S.C. § 512(c)(1) (2010).

¹²¹ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 545 U.S. 913, 936-37 (2005).

¹²² See *supra* text accompanying notes 24-27.

¹²³ A basic canon of statutory interpretation is that statutes are to be “construed [so] as to avoid . . . absurdity.” *Holy Trinity Church v. United States*, 143 U.S. 457, 460 (1892).