

The Online Copyright Auction: How High Will the Bidding Go?

I. INTRODUCTION

The Internet makes it possible for millions of people to buy and sell just about anything online.¹ Internet auction sites, such as eBay, provide a forum for these transactions to occur.² By offering 4,700 different categories of goods and services, eBay gives its users easy access to engage in economic commerce.³

This easy access to e-commerce, however, comes at a cost to many copyright owners.⁴ With the advancements in technology, the standards of traditional copyright law must fight to keep up.⁵ Indeed, a recent decision stated that, “[t]he world wide web has progressed far faster than the law and, as a result, courts are struggling, to catch up.”⁶

The struggle is evident in the analysis of vicarious liability cases leading up to and into the age of the Internet.⁷ It is also evidenced in the recent decision of

1. Daniel P. Dem, THE INTERNET GUIDE FOR NEW USERS 16 (1994) (defining Internet). “[T]he Internet is the ‘set of all interconnected IP networks’ – the collection of several thousand local, regional, and global computer networks interconnected in real time via the TCP/IP Internetworking Protocol suite.” *Id.* Cited in Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc., 907 F. Supp. 1361, 1365 n. 2 (N.D. Cal. 1995).

2. eBay.com, User Agreement, at <http://www.ebay.com/help/community/png-user2.html> (last visited Mar. 18, 2003) (outlining services and terms of services offered by eBay). The terms of access include membership eligibility, fees and services, instructions for buying and selling on fixed and auction formats, privacy concerns and liability issues. *Id.*

3. Eric J. Sinrod, *E-Legal: E-Bay not Secondarily Liable for Copyright Infringement*, SPECIAL TO LAW.COM (Sept. 11, 2001).

4. See generally, e.g., 165 F. Supp. 2d 1082 (C.D. Cal. 2001) (finding Internet service provider free from liability).

5. David L. Hitchcock & Kathy E. Needleman, Symposium: *Exploring Emerging Issues: New Intellectual Property, Information Technology, and Security in Borderless Commerce: Current Status of Copyright Protection in the Digital Age and Related Topics*, 8 TEX. WESLEYAN L. REV. 539, 541 (2002) (questioning present copyright laws ability to protect copyrights). “Today, technology is evolving at an apparently exponential rate, while the law proceeds at a Darwinian pace.” *Id.*

6. Costar Group, Inc. and Costar Realty Information, Inc. v. Loopnet, Inc., 164 F. Supp. 2d 688, 694 (D. Md. 2001) (explaining how legislatures and courts try to keep up with intellectual property rights on Internet).

7. See generally Ellison v. Roberston, 189 F. Supp. 2d 1051, 1062 (C.D. Cal. 2002); A&M Records v. Napster, Inc. 239 F.3d 1004 (9th Cir. 2001); Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082 (C.D. Cal. 2001); Costar Group, Inc. and Costar Realty Information, Inc. v. Loopnet, Inc., 164 F. Supp. 2d 688, 699 (D. Md. 2001); Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996); Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc., 907 F. Supp. 1361, 1370 (N.D. Cal. 1995); Gershwin Publ’g Co. v. Columbia Artists

Hendrickson v. eBay, Inc.,⁸ where a court for the first time interpreted the safe harbor provisions of the Digital Millennium Copyright Act (DMCA).⁹ The court's interpretation resulted in protection for eBay from secondary liability for copyright infringement.¹⁰

Although the facts in *Hendrickson* proved favorable to eBay, the holding illustrates a move away from providing copyright protection on the Internet and a move toward protecting e-commerce.¹¹ Nonetheless, post-eBay case law shows that it is still too early to determine the lasting effects.¹² It is apparent that the widespread access to information and e-commerce will play an important role in the decision of whether an online service provider is liable for copyright infringement.¹³ Only time will tell how the law will balance the importance of e-commerce with the rights of copyright holders.

II. EBAY: THE ONLINE AUCTION

eBay is an online service provider ("OSP") that offers a venue for individuals to buy, sell and trade millions of items.¹⁴ As an OSP, eBay does not directly participate in the buying and selling of goods and services as a traditional auctioneer would.¹⁵ In contrast, eBay maintains that it merely provides a forum for its users to "offer, sell, and buy just about anything, at anytime, from anywhere."¹⁶

Despite the attempt to downplay its function, however, eBay readily admits that it is "the world's largest online marketplace."¹⁷ In addition to its auction format, eBay also offers its users a fixed marketplace method, where users can choose to sell or purchase goods or services at a fixed price.¹⁸ Regardless of

Mgmt., 443 F.2d 1159 (2d Cir. 1971); *Shapiro, Bernstein & Co., v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963).

8. 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

9. See generally *id.*

10. See generally *id.*; see also *infra* discussion section V and accompanying text (analyzing *Hendrickson* Court's decision protecting eBay from secondary liability).

11. See *infra* discussion section VI and accompanying text (discussing how *Hendrickson* continues trend of protecting e-commerce); see also *infra* notes 47-50 and accompanying text (discussing Congress' interest in protecting Internet commerce).

12. Eric J. Sinrod, *E-Legal: E-Bay not Secondarily Liable for Copyright Infringement*, SPECIAL TO LAW.COM (Sept. 11, 2001); see also discussion section VI and accompanying text (discussing lack of clarity in post-eBay cases).

13. See *infra* discussion section VI (analyzing previous case law regarding relationship between liability and economics).

14. eBay.com, Company Overview, at <http://www.eBay.com/community/aboutebay/overview/index.html> (last visited Mar. 18, 2003) (describing eBay's mission statement and features available to users).

15. *Id.* An online service provider offers access to Internet and other online services.

16. eBay.com, User Agreement, at <http://www.ebay.com/help/community/png-user2.html> (last visited Mar. 18, 2003).

17. eBay.com, Company Overview, at <http://www.ebay.com/help/community/aboutebay/overview/index.html> (last visited Mar. 18, 2003). In fact, eBay asserts that it is the "most popular shopping destination on the Internet" according to user minutes. *Id.*

18. *Id.*

whether the user selects the auction or fixed market place option, eBay claims no responsibility for the truth or accuracy of goods and services bought and sold on its site.¹⁹

On any given day, eBay adds approximately one million new goods or services to its database, servicing approximately 42.4 million users on global scale.²⁰ eBay requires that its users become members and sign user agreements before listing and selling items.²¹ Qualified users then interact in the initial transactions under assumed screen names, which ensures a level of privacy.²²

In the case of an auction, eBay automatically sends an e-mail to both the seller and highest bidder at its conclusion.²³ eBay then reveals the identities of the parties only after consummation of the transaction.²⁴ Although users control the transaction, in terms of pricing and communicating, eBay does receive a listing fee and a percentage of the final sale.²⁵

The high number of users, coupled with the private nature of the auction process, creates an environment for copyright infringement to thrive.²⁶ The copyright holder is placed in a difficult, if not impossible, position of securing its property rights.²⁷ The scope of infringement includes all forms of copyrighted materials, including books, movies, music recordings and software.²⁸ The most serious form of copyright infringement, in terms of monetary loss, comes from the piracy of motion pictures and music, which results in billions of dollars in lost profits.²⁹

In an attempt to educate its users on the basics of copyright law, eBay provides general guidelines and fundamental rules pertaining to copyright.³⁰

19. eBay.com, User Agreement, at <http://www.ebay.com/help/community/png-user2.html> (last visited Mar. 18, 2003) (asserting no responsibility over "quality, safety or legality" of items up for sale).

20. Eric J. Sinrod, *E-Legal: E-Bay not Secondarily Liable for Copyright Infringement*, at SPECIAL TO LAW.COM (Sept. 11, 2001); see also eBay.com, Company Overview, at <http://www.eBay.com/community/aboutebay/overview/index.html> (last visited Mar. 18, 2003).

21. eBay.com, User Agreement, at <http://www.ebay.com/help/community/png-user2.html> (last visited Mar. 18, 2003) (describing eligibility, fees, services, rules and regulations). Individuals who choose to merely browse the auction site need not sign the user agreement. *Id.*

22. *Id.*

23. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001) (describing eBay's role in auction process).

24. See *id.*

25. *Id.* at 1094.

26. 144 CONG. REC. S11887 (daily ed. Oct. 8, 2000) (statement of Sen. Kohl) (describing "epidemic" of copyright infringement on Internet).

27. See *id.*; see also *infra* note 84 and accompanying text (discussing burden on copyright holder to protect rights).

28. *Id.* (describing different forms of copyright infringement on Internet).

29. See generally ifpi.org, Representing the Recording Industry Worldwide, at <http://www.ifpi.org> (last visited Mar. 18, 2003). The recording industry, for instance, lost 4.2 billion dollars due to pirated music sales on the Internet. *Id.*

30. eBay.com, Copyrights, Trademarks & Your Listing, at <http://pages.ebay.com/help/community/png-copyrights.html> (last visited Mar. 18, 2003) (providing definition of copyright, rules for copyright usage, remedial information regarding fraud and copyright infringement).

eBay also offers a Verified Rights Owner Program (VeRO) to all holders of intellectual property that focuses on protecting copyrights and trademarks.³¹ Members of VeRO receive certain benefits, including response to infringement allegations and limited information about eBay users.³² One key benefit VeRO offers is the ability to conduct automatic searches for possible infringing goods.³³ Although VeRO members can report alleged incidents of copyright infringement directly to eBay staff, non-members must report such infringements directly to the copyright owner.³⁴

eBay claims that the sheer number of users makes it prohibitively difficult to assure copyright protection.³⁵ Despite eBay's attempts to curtail and remedy alleged secondary copyright infringements, it continues to stress its lack of responsibility and ability to monitor its site.³⁶ This inability of police power over items posted for sale provides a basis for contention regarding secondary liability for OSP's.³⁷

III. EVOLUTION OF COPYRIGHT LAW

A. Early Statutory Protection: The 1976 Copyright Act

The 1976 Copyright Act ("Act") governs traditional copyright issues, providing protection for original works of authorship fixed in a tangible medium of expression.³⁸ The author obtains a bundle of rights if the work is sufficiently original and fixed in tangible form.³⁹ Registration of the copyrighted work is not required to file suit for copyright infringement, but it does allow for statutory remedies, such as obtaining attorney's fees in

31. eBay.com, eBay's Verified Rights Owner (VeRO) Program: Protecting Intellectual Property, at <http://pages.ebay.com/help/community/VeRO-program.html> (last visited Mar. 18, 2003).

32. *Id.* Other benefits of VeRO include access to customer support and priority e-mail queues regarding alleged infringements. *Id.*

33. *Id.* (describing search mechanism and process for VeRO members).

34. eBay.com, eBay's Verified Rights Owner (VeRO) Program: Protecting Intellectual Property, at <http://pages.ebay.com/help/community/VeRO-program.html> (last visited Mar. 18, 2003). Due to the privacy of the auction transactions, it is obvious that non-members have an added challenge in remedying the alleged copyright infringement.

35. eBay.com, eBay's Verified Rights Owner (VeRO) Program: Protecting Intellectual Property, at <http://pages.ebay.com/help/community/VeRO-program.html> (last visited Mar. 18, 2003) (stating eBay's inability to monitor whether every seller has right to sell listed item).

36. *Id.*; see also *supra* note 19 and accompanying text (stating eBay's lack of responsibility for monitoring items listed for sale).

37. See, e.g., *infra* note 170 and accompanying text (discussing *Hendrickson* decision regarding copyright owner's responsibility to provide exact numbers identifying infringing material).

38. 17 U.S.C. § 102(a) (2000). The Act protects the following categories of works: 1) literary; 2) musical, including any accompanying words; 3) dramatic, including any accompanying music; 4) pantomimes and choreographic; 5) pictorial, graphic and sculptural; 6) motion pictures and other audiovisual works; 7) sound recordings; and 8) architectural works.

39. 17 U.S.C. § 501 (2000). The term "fixed" means existing in a permanent form for longer than a transitory period. *Id.*

litigation.⁴⁰

The Act grants owners exclusive control over their copyrighted work.⁴¹ Copyright holders have exclusive rights to carry out themselves or authorize others to: 1) reproduce work in copies or phonorecords; 2) prepare derivative works; 3) distribute copies or phonorecords; 4) perform work publicly; 5) display copyrighted work publicly; 6) and perform work publicly through digital audio transmission if such work is a sound recording.⁴² In some cases, however, a copyright owner's rights are limited.⁴³

The Internet posed many problems for the effect of the 1976 Copyright Act, as it did not address a system or provide guidelines for guarding against online copyright infringement.⁴⁴ Vast amounts of information, including copyrighted material in every form, became available to millions of people to use and copy illegally.⁴⁵ In response to the need for an enhanced form of protection for copyright holders on the Internet, Congress enacted the Digital Millennium Copyright Act.⁴⁶

B. Digital Millennium Copyright Act

In 1998, Congress passed The Digital Millennium Copyright Act (DMCA) in order to balance the need for copyright protection on the Internet with the growth of e-commerce.⁴⁷ According to the legislative history, "[t]his bill recognizes the significance of our copyright laws as America and the world have become increasingly computerized. The Internet is rapidly changing our lives, and our copyright laws must keep pace."⁴⁸ To keep pace so to speak, the DMCA encouraged copyright owners to publish their work on the Internet with the assurance that the newly established guidelines would protect their copyrighted work.⁴⁹ The DMCA also emphasized the importance of

40. See *id.* The Berne Convention excluded the registration requirement for those countries participating in the convention. See generally Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, last revised July 24, 1971, 25 U.S.T. 1341.

41. 17 U.S.C. § 106A (2000).

42. *Id.*

43. See generally 17 U.S.C. §§ 107–121 (2000). One example is the Fair Use doctrine found in the 1976 Copyright Act, which provides protection for freedom of speech. 17 U.S.C. § 107 (2000).

44. See *infra* note 46 and accompanying text (finding no mention of protection of copyrighted works on Internet).

45. 144 CONG. REC. S11887 (daily ed. Oct. 8, 1998) (statement of Sen. Kohl) (expressing concern for large amounts of illegal copying on Internet). "[T]he Internet has made it possible for information- including valuable American copyrighted works- to flow around the globe in a matter of hours, and Internet end users can receive copies of movies, music, software, video games and literary and graphic works that are as good as the originals." 144 CONG. REC. S11887 (daily ed. Oct. 8, 1998) (statement of Sen. Hatch).

46. *Id.*

47. 144 CONG. REC. S11887 (daily ed. Oct. 8, 1998) (statement of Sen. Thurmond) ("Intellectual property is an increasingly important part of the American economy").

48. *Id.*

49. 144 CONG. REC. S12730 (daily ed. Oct. 20, 1998) (statement of Sen. Leahy) (explaining general scope and purpose of DMCA). The Congressional Record also emphasizes the importance of protecting creativity of

cooperation between copyright owners and Internet service providers in the fight against copyright infringement on the Internet.⁵⁰

1. DMCA Provisions Governing Copyright Protection on the Internet

The DMCA also responded to the negative economic impact of foreign piracy, which amounts to an estimated 15 billion dollars each year.⁵¹ Thus, in Article I of the DMCA, Congress included global online guidelines to protect copyrighted work by incorporating the World Intellectual Property Organization Copyright Treaty and the World Intellectual Property Organization Performances and Phonograms Treaty.⁵² The two international treaties established copyright protection and management systems, articulated penalties for circumventing such systems, and designated forms of copyrighted material entitled protection.⁵³

Title II of the DMCA directly addressed the balance sought by Congress to protect copyrighted materials and promote e-commerce by limiting the liability of copyright infringement of OSP's.⁵⁴ This ensured, in effect, that copyright protection did not come at a cost to the expansion of the Internet and e-commerce.⁵⁵ The language in these provisions went beyond the language in the 1976 Copyright Act, expanding protection from television broadcast systems to digital transmissions, systems and networks.⁵⁶

2. Safe Harbor Provisions

Section 512 of Title II of the DMCA provides safe harbor provisions for service providers that limit liability for copyright infringement on the Internet.⁵⁷ The DMCA defines a service provider as an "entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing,

all forms of copyrighted media. *Id.*

50. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001) (citing 17 U.S.C. § 512 (2000)).

51. 144 CONG. REC. S11887 (daily ed. Oct. 8, 1998) (statement of Sen. Kohl) (expressing need to eradicate piracy on Internet).

52. *Id.* (explaining foreign piracy as "just out of control"); *see also generally* 17 U.S.C. §§ 101-105 (2000) (discussing treaty implementation in detail).

53. *See generally* 17 U.S.C. §§ 101-105 (2000).

54. *See supra* notes 47-49, 51-52 and accompanying text (discussing legislative intent to protect Internet economics and creative works); *see also generally* § 101, Title II.

55. CONG. REC. S11887 (daily ed. Oct. 8, 1998) (statement of Sen. Hatch). In addition to securing copyright in the global, digital environment, the DMCA also clarifies the liability of service providers for copyright infringement liability. *Id.* The service providers needed more certainty in this area in order to attract the substantial investments necessary to continue the expansion and upgrading of the Internet. *Id.*

56. *See generally* 17 U.S.C. §§ 201-203 (2000) (describing how digital systems fall within service provider liability exemption).

57. *See generally* 17 U.S.C. § 512(c) (2000).

without modification to the content of the material as sent or received.”⁵⁸ The definition also encompasses a “provider of online services or network access, or the operator of facilities thereof.”⁵⁹ The DMCA does not specify whether the definition of “service provider” encompasses online service providers, Internet service providers, or both.⁶⁰

The first safe harbor provision, found in 17 U.S.C. § 512(a), applies when copyright infringement results when the service provider transmits, routs and provides connections for storing the material in the course of the above.⁶¹ The service provider can avoid liability if a third party creates the transmission, an automatic process controls the transmission, routing or connection, and a third party selects the recipients of the requested materials.⁶² The provision also exempts service providers from liability if no copy remains in the provider’s storage for an unreasonable time, and if the work is not modified during the transmission or storage.⁶³

The second safe harbor provision deals with “System Caching.”⁶⁴ Under 17 U.S.C. § 512(b), a service provider is exempt from monetary, injunctive and equitable relief for infringement of information temporarily stored on its system if a third person supplies the material, transmits the material, and an automatic process carries out the transmission of the material.⁶⁵ In order to limit liability for infringement, however, a service provider must meet certain conditions.⁶⁶ For example, the service provider must transmit the material without modification and conform to “industry standard data communications protocol.”⁶⁷ In addition, the service provider cannot interfere with the technology related to the return of material to its recipient (with certain conditions in itself) and must permit access to stored information, if another individual requires such access.⁶⁸ Finally, if the service provider receives sufficient notice of infringement, it must respond quickly and provide a

58. 17 U.S.C. § 512(k)(1)(A) (2000) (providing definition for service provider).

59. 17 U.S.C. § 512(k)(1)(B) (2000).

60. *Id.* The distinction is important in that a “service provider” must fall within the statutory definition in order to qualify for the safe harbor provisions. 17 U.S.C. § 512(k)(1)(A) (2000); *see also supra* note 58.

61. 17 U.S.C. § 512(a) (2000).

62. 17 U.S.C. §§ 512(a)(1)-(3) (2000) (listing exemptions falling under category of transitory digital network Comm.s). The language in §§ 512(a)(1)-(3) is very similar to the language in the 1976 Copyright Act. The main difference, however, is that the DMCA provides relief from liability relating to digital network Comm.s, where as the 1976 Copyright Act applies to television broadcast and satellite systems. *See generally* 17 U.S.C. §§ 101-105 (2000); 17 U.S.C. §§ 501(c)-(e) (2000); *see also infra* note 105.

63. 17 U.S.C. §§ 512(a)(4)-(5) (2000).

64. *See generally* 17 U.S.C. § 512(b) (2000) (setting out system catching requirements as described in body).

65. 17 U.S.C. §§ 512 (b)(1)(A)-(C) (2000).

66. *See generally* 17 U.S.C. § 512 (b)(2) (2000).

67. 17 U.S.C. §§ 512 (b)(2)(A), (B) (2000).

68. 17 U.S.C. §§ 512 (b)(2)(C), (D) (2000). Section (C) only applies if the other individual’s technology does not interfere with the service providers system, is consistent with industry standards and does not remove unauthorized information from the service providers system or network. 17 U.S.C. § 512 (b)(2)(C) (2000).

remedy.⁶⁹

The third safe harbor provision, pursuant to 17 U.S.C. § 512(c), addresses knowledge of the infringement and the service provider's response to such knowledge.⁷⁰ Generally, under this provision a service provider avoids liability if it does not have actual knowledge that its system or network contains infringing material, is not aware of infringing activity, or reacts expeditiously when knowledge of such material or activity becomes clear.⁷¹ Protection from liability also applies if the provider does not directly benefit from the infringing material or activity.⁷² The statute does not specify, however, what a "direct benefit" from infringing activity entails.⁷³

This provision requires the copyright holder to take affirmative steps to cure the copyright infringement.⁷⁴ Although the copyright owner must initiate the process, the service provider must designate an agent to which it will send notification of the alleged copyright infringement.⁷⁵ The designated agent must be easily accessible to the public and can be made available, for example, through its website.⁷⁶

To effect proper notification, the purported owner must substantially include certain information.⁷⁷ First, the copyright holder, or an authorized person acting on its behalf, must submit a physical or electronic signature.⁷⁸ Second, the supposed owner must sufficiently identify the allegedly infringed material, allowing the service provider to locate the material and contact the complaining party.⁷⁹ Third, the alleged owner must provide a statement that it has a good

69. 17 U.S.C. §§ 512 (b)(2)(E)(i), (ii) (2000); *see also generally* 17 U.S.C. § 512 (c)(3) (2000) (detailing notification requirements for alleged copyright owner).

70. *See generally* 17 U.S.C. § 512 (c) (2000).

71. 17 U.S.C. §§ 512 (c)(1)(A)(i)-(iii) (2000). Section 512(c)(1)(B) also includes a provision requiring prompt action from a service provider upon notification of a copyright infringement, similar to § 512(c)(1)(A)(iii). 17 U.S.C. § 512 (c)(1)(B) (2000).

72. 17 U.S.C. § 512 (c)(1)(B) (2000).

73. *Id.*; *see also infra* discussion sections IV(B) and accompanying text (discussing case law interpreting direct financial benefit regarding vicarious liability under DMCA application). According to traditional copyright law (pre-DMCA), obtaining a direct benefit from the infringement activity more often than not results in secondary copyright liability. *See A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001) (stating direct financial benefit exists when potential future benefit); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263 (9th Cir. 1996) (finding direct financial benefit from charging fees for daily rental, admission, parking, and concession); *Shapiro, Bernstein & Co., v. H. L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963) (finding percentage of sales from infringing activity constitutes direct financial benefit). *But see Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1376 (N.D. Cal. 1995) (holding fixed fee does not constitute a direct financial benefit).

74. *See generally* 17 U.S.C. §§ 512 (c)(2), (3) (2000) (outlining notification requirements for copyright owner).

75. 17 U.S.C. §§ 512 (c)(2)(A), (B) (2000).

76. 17 U.S.C. § 512 (c)(2) (2000). Such information, which is maintained by the Register of Copyrights, should include the agent's name, number and e-mail address and other information deemed necessary. 17 U.S.C. §§ 512 (c)(2)(A), (B) (2000).

77. *See generally* 17 U.S.C. §§ 512 (c)(3)(A)(i)-(vi) (2000).

78. 17 U.S.C. § 512 (c)(3)(A)(i) (2000).

79. 17 U.S.C. §§ 512 (c)(3)(A)(i)-(iv) (2000).

faith belief that the defendant infringed its copyrighted work.⁸⁰ Finally, the owner must submit a statement under the pains and penalties of perjury that the notification is accurate and truthful.⁸¹

This notification requirement is a crucial provision because the service provider can escape liability if it lacks actual or constructive knowledge of the infringing activity.⁸² Nonetheless, even if the service provider possesses knowledge, it remains exempt from liability if it acts promptly to remedy the situation.⁸³ This provision not only illustrates the copyright owner's burden of correcting the infringing activity, but also the minimal responsibility placed on the service provider.⁸⁴

The fourth safe harbor provision, 17 U.S.C. § 512(d), shields a service provider from liability for infringement if it refers or links its users to other locations that contain infringed copyrighted materials.⁸⁵ For this protection to apply, the copyright infringement must occur through the use of information location tools, such as directories, hyperlinks or references.⁸⁶ This provision, similar to §§ 512(b) and (c), also requires knowledge, lack of direct financial benefit related to the infringing activity and swift action after notification of infringement.⁸⁷

Although the safe harbor provisions of the DMCA do not grant service providers absolute immunity from secondary liability, the provisions do significantly limit liability if the providers meet certain criteria.⁸⁸ The rationale for absolute liability clearly resulted from Congress' desire to protect copyright owners' materials.⁸⁹ Yet, the extent of the limitations strongly reflects Congress' intent to "facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development and education."⁹⁰

80. 17 U.S.C. § 512 (c)(3)(A)(v) (2000).

81. 17 U.S.C. § 512 (c)(3)(A)(vi) (2000).

82. 17 U.S.C. § 512 (c)(1)(A)(iii) (2000); *see also* 17 U.S.C. § 512 (c)(1)(A)(i)-(iii) (2000).

83. 17 U.S.C. § 512 (c)(1)(C) (2000).

84. *See* 17 U.S.C. § 512 (c)(3)(A)(i)-(vi) (2000); *see also supra* notes 77-81 and accompanying text (outlining notification requirements for alleged copyright holder). *Contra infra* notes 116, 132, 146, 173-75 and accompanying text (analyzing evolving standard of service provider's responsibility to police infringing activity).

85. 17 U.S.C. § 512(d) (2000).

86. *Id.*

87. 17 U.S.C. §§ 512(d)(1)-(3) (2000).

88. *Infra* notes 167-71 and accompanying text (discussing application of notification provisions of DMCA to eBay).

89. *Supra* notes 47-49 and accompanying text (indicating importance of protecting copyrighted material on Internet).

90. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001) (citing S. REP. NO. 105-190, at 1 (2000)).

IV. DEVELOPMENT OF LIABILITY FOR COPYRIGHT INFRINGEMENT LEADING UP TO HENDRICKSON V. EBAY, INC.

Both the 1976 Copyright Act and the DMCA address the standards for direct and indirect copyright infringement.⁹¹ Over the years, courts have interpreted the statutory language and created common law standards of liability for traditional and digital forms of copyright infringement.⁹² Specifically, the courts established different criteria for direct and indirect liability, including vicarious and contributory forms.⁹³ This note, however, will only substantively address direct and secondary or vicarious liability of online service providers.

A. Copyright Infringement Liability Generally

Copyright infringement liability can manifest itself in three ways: (1) direct or primary liability; (2) vicarious liability; and (3) contributory liability.⁹⁴ To prove copyright infringement for each form of liability, a copyright holder must confirm ownership and demonstrate that the defendant copied the copyrighted work.⁹⁵ A work is deemed copied if it “derive[s] from the copyrighted work, directly or indirectly, and [is] substantially similar in expression to the copyrighted work.”⁹⁶

Direct liability occurs when an individual violates a copyright owner’s exclusive copyright.⁹⁷ Under this sort of liability, the infringer could face civil liability and perhaps pay, for example, actual damages and profits gained.⁹⁸ The infringer may also be required to pay the copyright holder’s attorney’s fees

91. See *infra* notes 97-108 and accompanying text (discussing direct and indirect liability standards for copyright infringement under 1976 Act); see also *supra* discussion section III(B)(2) and accompanying text (describing safe harbor provisions and standards for copyright infringement for qualifying service providers).

92. See generally *infra* discussion section IV(A) and accompanying text (analyzing development of copyright infringement standards applying to traditional and digital mediums); see also *infra* discussion section IV(B) and accompanying text (detailing evolution of case law regarding copyright infringement liability leading up to *Hendrickson*).

93. *Infra* discussion section IV(B) and accompanying text (analyzing evolution of case law dealing with vicarious liability).

94. Jonathan Band & Matthew Schruers, *Copyright Law as Communications Policy: Convergence of Paradigms and Cultures: Safe Harbors Against the Liability Hurricane: The Communications Decency Act and the Digital Millennium Copyright Act*, 20 CARDOZO ARTS & ENT. L.J. 295, 302 (2002).

95. David L. Hitchcock & Kathy E. Needleman, Symposium: *Exploring Emerging Issues: New Intellectual Property, Information Technology, and Security in Borderless Commerce: Current Status of Copyright Protection in the Digital Age and Related Topics*, 8 TEX. WESLEYAN L. REV. 539, 550 (2002).

96. *Id.* at 549 (quoting Donald S. Chisum & Michael A. Jacobs, *Understanding Intellectual Property Law* 4F (1992)).

97. 17 U.S.C. § 501 (2000).

98. 17 U.S.C. § 504(a)(1) (2000) (describing possible penalties for copyright infringers). An individual who infringes on another’s exclusive copyrighted work may be forced to pay the owner’s actual damages and account for any profits made from the copyrighted work. *Id.* The individual may also be liable for statutory damages. 17 U.S.C. § 504(a)(2) (2000); see also 17 U.S.C. § 504(b) (2000); 17 U.S.C. § 504(c) (2000) (explaining circumstances where statutory damages shall be granted). In some cases, a copyright owner may be awarded double damages. 17 U.S.C. § 504(d) (2000).

and court costs.⁹⁹ Such an individual can face criminal charges if he or she willfully infringes upon another's work, or reproduces or distributes copyrighted work above a certain value.¹⁰⁰ Although the civil liability provisions do not make any reference to the infringement of electronically or digitally copyrighted work, the criminal section provides such language.¹⁰¹

Secondary liability, which encompasses vicarious and contributory liability, attaches when the responsible party is not the "actual" infringer.¹⁰² For vicarious liability to apply, an individual must have "the right and ability to supervise the infringing activity . . . and [have] an obvious and direct financial interest in the exploitation of copyrighted materials."¹⁰³ Conversely, contributory liability occurs when an individual actually causes or contributes to the infringing activity.¹⁰⁴

Under the 1976 Act, secondary liability primarily dealt with television broadcast systems.¹⁰⁵ Exceptions to this form of liability applied in only two occasions: first to satellite, cable or broadcast systems; and second to providers who lacked control over content transmitted over their cables or wires.¹⁰⁶ Although the DMCA provided new guidelines to include digital and electronic copyright infringement on the Internet, it did not rewrite traditional copyright law.¹⁰⁷ The most significant change in the standard of liability, however, was the secondary liability protection available to service providers who fall within the DMCA's safe harbor provisions.¹⁰⁸ Thus, the remainder of this note will

99. 17 U.S.C. § 505 (2000); *see also* 17 U.S.C. § 501 (2000). *Supra* note 40 and accompanying text (discussing registration requirement for award of attorney's fees).

100. 17 U.S.C. §§ 506(a)(1)-(2) (2000) (setting forth standard for criminal prosecution of copyright infringement).

101. *See generally* 17 U.S.C. § 501 (2000).

102. *See generally id.* (discussing application of vicarious liability standard); *see also* David L. Hitchcock & Kathy E. Needleman, Symposium: *Exploring Emerging Issue: New Intellectual Property, Information Technology, and Security in Borderless Commerce: Current Status of Copyright Protection in the Digital Age and Related Topics*, 8 TEX. WESLEYAN L. REV. 539, 550 (2002).

103. Jonathan Band & Matthew Schruers, *Copyright Law as Communications Policy: Convergence of Paradigms and Cultures: Safe Harbors Against the Liability Hurricane: The Communications Decency Act and the Digital Millennium Copyright Act*, CARDOZO ARTS & ENT. L.J. 295, 302 (2002) (citing 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.01[A] (2001)).

104. *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). The key difference in distinguishing contributory liability with vicarious liability is that the former requires knowledge whereas the latter does not. 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][1], 12-70 (cited in *Ellison v. Roberston*, 189 F. Supp. 2d 1051, 1060 (C.D. Cal. 2002)).

105. 17 U.S.C. §§ 501(c)-(e) (2000) (finding only those involved in satellite, cable or broadcast systems secondarily liable). In situations where copyrighted material was transmitted without the owner's consent, the operator of the cable or satellite system was treated as the "legal or beneficial owner of the material transmitted." *Id.*

106. *See generally* 17 U.S.C. § 111(a) (2000); *see also* 17 U.S.C. § 111(a)(3) (2000).

107. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1061 (C.D. Cal. 2002) (explaining DMCA provisions' applicability to vicarious liability).

108. *See supra* discussion section III(B)(2) and accompanying text (explaining DMCA safe harbor provisions). *Compare* 17 U.S.C. §§ 501(c)-(e) (2000) (applying liability to only those engaged in satellite, cable or broadcast); 17 U.S.C. § 111(a) (2000), *see also supra* note 106 and accompanying text (allowing only

discuss the evolution of the standards that determine direct, and more importantly, vicarious liability for copyright infringement.

B. Case Law Illustrating the Evolution of Copyright Infringement Liability

1. Liability For Traditional Copyright Infringement

As stated above, direct liability for copyright infringement applied generally to a violation of the copyright owner's exclusive right.¹⁰⁹ The doctrine of vicarious liability, however, initially applied to landlord-tenant and proprietor-performer scenarios.¹¹⁰ The distinction between the two scenarios turned on whether the landlord or proprietor received some kind of benefit from the infringing activity.¹¹¹ The courts then expanded the doctrine of secondary liability from the proprietor-performer context to include occasions when one possesses the "right and ability to supervise the infringing activity and receives a direct financial interest in such activities."¹¹²

*Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*¹¹³ followed suit and relied on the above "*Shapiro*" test.¹¹⁴ The court found the defendant vicariously liable because it participated in the programming of the infringing activity and benefited substantially from said activity.¹¹⁵ Although the defendant had no "formal control," it possessed the ability to police, which satisfied the *Shapiro* test.¹¹⁶

two exceptions to secondary liability).

109. 17 U.S.C. § 501 (2000).

110. *Shapiro, Bernstein, & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963) (discussing precedent for application of vicarious liability). The landlord-tenant scenario dealt with a landlord leasing his or her property at a fixed rate to an individual who engages in copyright infringement, while the manager-performer scenario dealt with a manager renting space to a performer who performed copyrighted music without authorization. *Id.*

111. *Id.* (relying on *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191, 198-199 (1931); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929) (finding dance hall owner liable for performance of copyrighted music played); *M. Witmark & Sons v. Tremont Social & Athletic Club*, 188 F. Supp. 787, 790 (D. Mass. 1960) (finding proprietor liable for copyrighted music played by independent contractor)).

112. *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963). The Defendant in *Shapiro* actually supervised the infringer's conduct and received a percentage of gross sales from the sale of pirated records. *Id.* In its reasoning, the Court stated "the imposition of vicarious liability in the case before us cannot be deemed unduly harsh or unfair. [The Defendant] has the power to police carefully the conduct of its concessionaire . . . our own judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised." *Id.* at 308.

113. 443 F.2d 1159 (2d Cir. 1971).

114. *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1160 (2d Cir. 1971) (determining vicarious liability of association sponsoring act performing copyrighted work without authorization); *see also supra* note 112 and accompanying text (stating *Shapiro* vicarious liability test includes right and ability to control infringing activity).

115. *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1163 (2d Cir. 1971).

116. *Id.* The holding in *Gershwin* essentially lowered the bar for control in finding that "constructive" control satisfied the *Shapiro* test. *See id.*

2. Liability for Digital and Electronic Copyright Infringement

The 1976 Copyright Act further clarified the standard for direct liability.¹¹⁷ Although the standard remained the same, the statutory language only applied to the traditional forms of copyright infringement.¹¹⁸ As a result, the decision rested with the courts as to when digital and electronic service providers fell within the traditional direct liability standard.¹¹⁹

In *Religious Tech. Ctr. v. Netcom On-Line Communication Servs, Inc.*,¹²⁰ the court determined the direct liability of an Internet access provider and Internet bulletin board service involved in automatically and temporarily storing copyrighted information posted by users.¹²¹ The court held that an operating system that temporarily housed information did not directly result in copyright infringement.¹²² Nonetheless, the court characterized service providers as more than mere “passive conduits for information.”¹²³ The court carefully distinguished service providers from basic carriers, such as phone companies, because basic carriers enjoyed an exemption from liability if they did not possess direct or indirect control over the infringing material.¹²⁴

Despite the change in the various forms of copyright infringement, the courts were slow to catch up and followed the same judicial reasoning in cases decided before the 1976 Copyright Act.¹²⁵ In determining the secondary liability issue in *Religious Technology Center*, the court applied the standard used in *Shapiro* and *Gershwin*.¹²⁶ The court found that the right to suspend and delete potentially infringing activity illustrated the right and ability to control, thus satisfying the first prong of the test.¹²⁷ The second prong, however, did not

117. See generally 17 U.S.C. § 501 (2000).

118. 17 U.S.C. § 106A (2000); 17 U.S.C. § 501 (2000).

119. *Infra* notes 120-24 and accompanying text (examining development of direct liability of copyright infringement regarding service providers).

120. 907 F. Supp. 1361 (N.D. Cal. 1995).

121. *Id.* at 1367-68. In reference to the storage of information, once it is stored, other users can download the information via the Internet. *Id.*

122. *Id.* at 1368.

123. *Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1370 (Cal. N.D. 1995) (finding defendants not within common carrier exemption); see also *infra* note 124 and accompanying text (providing definition for service providers).

124. *Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995) (stating service providers offer more than just “wire[s] and conduits”). At the time the court decided *Religious Technology Center*, common carriers were exempt from liability under 17 U.S.C. § 111(a)(3) if there was no direct or indirect control over the infringed content. *Id.* (citing 17 U.S.C. § 111(a)(3) (2000)). The court, however, left the decision for the legislatures as to whether online service providers should also be exempt from liability. *Id.*

125. *Supra* notes 102-08 and accompanying text (discussing standards for secondary liability for copyright infringement).

126. *Supra* discussion section IV(B)(1) and accompanying text (setting out standard for secondary liability in *Shapiro*, and followed in *Gershwin*).

127. *Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1370 (N. D. Cal. 1995). The court rejected the defendant’s claim that it could not screen all of the messages posted by its 500 subscribers. *Id.*

pass muster because the receipt of a fixed fee did not constitute a direct financial benefit.¹²⁸

One of the most recent and influential cases interpreting the application of the secondary liability doctrine for service providers stems from a non-Internet copyright infringement case.¹²⁹ In *Fonovisa, Inc. v. Cherry Auction, Inc.*,¹³⁰ the issue involved whether secondary liability attached to an operator of a swap meet or flea market for copyright infringement perpetrated by its customers.¹³¹ The court found the swap meet operator liable because it acquired the right and ability to supervise (by promoting the event), controlled its access, and attained the ability to terminate any vendor.¹³² The operator also satisfied the direct financial benefit test, since it “substantially benefit[ed]” from charging a daily rental fee, an admission fee, and other fees, including parking and concession fees.¹³³

The *Fonovisa* Court did not address the issue of whether or not fees imposed by the swap meet operators constituted fixed fees.¹³⁴ Nevertheless, the fees in *Fonovisa* arguably served different purposes than the fees in *Religious Technology Center*.¹³⁵ In one sense, the rental and admission fees charged in *Fonovisa* were similar to the membership fee charged in *Religious Technology Center* in that they both provided access to the service.¹³⁶ In another sense, however, the fees imposed in *Fonovisa* aimed at increasing the number of participants at the swap meet.¹³⁷ The key difference in the analysis of direct financial benefit test was that the operators in *Fonovisa* had knowledge of the activity, whereas the providers in *Religious Technology Center* did not.¹³⁸ Even though a provider may be vicariously liable in the absence of knowledge,

128. *Id.* The court argues that a fixed fee did not in any way improve the defendants’ services or appeal to new subscribers. *Id.* at 1377.

129. *Supra* discussion section IV(B)(2) and accompanying text (explaining holding in *Fonovisa*).

130. 76 F.3d 259 (9th Cir. 1996).

131. *Id.* at 261.

132. *Id.* at 262 (discussing similarity of present facts to *Shapiro* and *Gershwin*). The *Fonovisa* Court’s reasoning is similar to that used in *Religious Technology Center v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1370 (N. D. Cal. 1995) (stating right to suspend or delete demonstrates right to control).

133. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263 (9th Cir. 1996). The court rejected the argument that a direct benefit must be “tied to the sale of particular infringing items.” *Id.* Rather, the fact that “all of [the fees] flow directly from customers who want to buy the counterfeit recordings at bargain basement prices” to the operators constitutes direct benefit. *Id.*

134. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263 (9th Cir. 1996) (lacking analysis of fixed rate).

135. *Supra* notes 128 and 133 and accompanying text (describing what constitutes fixed fee in *Fonovisa* and *Religious Technology Center*).

136. *Id.*

137. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263-64 (9th Cir. 1996); *see also supra* note 133 and accompanying text (discussing court’s rationale in finding economic benefit).

138. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 260 (9th Cir. 1996) (stating operators aware of infringing activity). *But see Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1374 (N.D. Cal. 1995) (finding no knowledge of infringing activity prior to notification).

Fonovisa implicitly considers the defendant's knowledge in determining whether a direct financial benefit exists.¹³⁹

After the enactment of the DMCA, the courts not only interpreted the new statutory treatment given to online service providers, but also incorporated the established precedents that applied to traditional forms of copyright infringement.¹⁴⁰ In the case of *A&M Records, Inc. v. Napster, Inc.*,¹⁴¹ the court decided the first major post-DMCA case regarding Internet copyright infringement.¹⁴² In *Napster*, the defendant operated a system of "peer-to-peer" sharing of MP3's.¹⁴³ The system allowed its users to store MP3's on their computers making them available to other users, search for MP3's on other users' computers, and transfer copies over the Internet.¹⁴⁴

In analyzing the first prong of the vicarious liability test, the court found *Napster's* ability to decline service and right to terminate accounts equivalent to having the right and ability to supervise the infringer's conduct.¹⁴⁵ The court stated that in order to avoid liability, the "reserved right to police must be exercised to its fullest extent."¹⁴⁶ In terms of the second prong, the court relied on the interpretation from *Fonovisa* that a direct financial benefit arises if the infringing activity increases the number of users.¹⁴⁷ Considering the fact that

139. *Supra* notes 134-38 and accompanying text (discussing link between knowledge of infringing activity and economic benefit); *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1163 (2d Cir. 1971) (stating failure to police infringing activity may lead to liability); *see also supra* note 116 and accompanying text (finding constructive knowledge sufficient to meet *Shapiro* test) This proposition arguably infers that knowledge may cause the courts more to likely to find the provider or operator liable. *Id.*; *see also* 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][1], 12-70 (cited in *Ellison v. Robertson*, 189 F. Supp. 1051, 1060 (D. Mar. 2002)); *see also supra* note 104 and accompanying text (distinguishing contributory liability from vicarious liability in that former requires knowledge and latter does not).

140. *Supra* discussion section IV(B)(2) and accompanying text (analyzing inclusion of case law under 1976 Act and provisions under DMCA); *see also generally infra* discussion section VI and accompanying text (explaining holding in post DMCA cases applying precedent and statutory provisions).

141. 239 F.3d 1004 (9th Cir. 2001).

142. *See generally id.*

143. *Id.* at 1011 (discussing peer-to-peer sharing of audio formatted files, or MP3). Peer-to-peer sharing allows users to store MP3's on their hard drive, making it available to others for copying. *Id.* This sharing also allows users to search for files and transfer then transfer them from one computer to another by way of the Internet. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001).

144. *Id.* at 1011-12 (describing in detail process of storing, transferring and searching for MP3's). Napster provided this service free of charge, but provided technical support, a chat room and a directory for its users. *Id.* at 1011.

145. *Id.* at 1023 (discussing Napster's expressed reserved rights cancel or terminate access at its discretion).

146. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001). The court relies on the propositions asserted in *Fonovisa* and *Shapiro* regarding knowledge of the infringing activity. *Id.* (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996), and *Shapiro, Bernstein & Co., Inc., v. H. L. Green Co.*, 316 F.2d 304, 306 (2d Cir. 1963)). The court, however, goes beyond the standard set forth in *Shapiro*, by requiring that providers police at the "fullest extent." *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001).

147. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001) (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263-64 (9th Cir. 1996); *see also supra* note 133 and accompanying text

Napster did not impose a fee to access its system, the court focused on the connection between the infringing activity and future revenue.¹⁴⁸ Indeed, the thrust behind this argument appears to be the enormous revenues lost to illegal swapping and copying of copyrighted music.¹⁴⁹

Even if the court found *Napster* vicariously liable, *Napster* could still escape liability if it fell within the safe harbor provisions of § 512 of the DMCA.¹⁵⁰ Yet, the court preserved this issue for trial and refused to address the substantive matter.¹⁵¹ Nonetheless, the court did not accept the proposition that the safe harbor provisions will never provide protection from vicarious liability.¹⁵²

The development of vicarious liability for copyright infringement follows a certain trend.¹⁵³ The same rational of preserving and advancing e-commerce motivated Congress to enact the DMCA, as well as the courts to decide whether service providers are vicariously liable.¹⁵⁴ As forums for copyright infringement grew in size, and as the exact financial benefit became less clear, the court placed more stringent requirements on the providers to ensure against infringement.¹⁵⁵

V. HENDRICKSON V. EBAY: CHANGE IN INTERNET COPYRIGHT LAW

Despite the existence of other case law regarding the liability of online service providers, *Hendrickson v. eBay, Inc.*¹⁵⁶ was the first case to determine whether the safe harbor provisions of the DMCA applied to Internet auction

(stating *Fonovisa* Court's reason for finding economic benefit).

148. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001) (stating *Napster* benefits from improved system of providing music by attracting more members).

149. See *supra* notes 45 and 51 and accompanying text (noting Congress' concern for effect of Internet piracy and extent of monetary loss resulting from piracy); see also *supra* notes 52-53 and accompanying text (illustrating response to concern of piracy).

150. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1024 (9th Cir. 2001) (discussing *Napster*'s affirmative defense of falling within safe harbor provisions as Internet service provider).

151. *Id.* at 1025 (expressing doubt regarding application of safe harbor provisions to *Napster*). The court also weighed in the hardship factor on the Plaintiffs if an injunction was lifted. *Id.*

152. *Id.*; *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001) (citing Charles S. Wright, Notes & Comments: *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement into the Digital Millennium Copyright Act of 1998*, 75 WASH. L. REV. 1005, 1028-31 (2000) (stating Congressional intent to provide limited liability relief)).

153. See *supra* discussion sections IV(B) and accompanying text (discussing development of vicarious liability for copyright infringement). Arguably, the trend indicates imposition of liability for providers who injure the economy. See *id.*

154. See *supra* notes 45-48 and accompanying text (discussing legislative history, which indicates economics as reason for passing DMCA).

155. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001) (noting right to police amounts to right and ability to control); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263 (9th Cir. 1996) (finding ability to control when able to supervise and control vendors); *Religious Tech. Ctr. v. Netcom On-Line Comm. Servs., Inc.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995). But see *supra* note 128 and accompanying text (finding fixed fee not direct financial benefit in *Religious Technology Center*).

156. 165 F. Supp. 2d 1082 (C.D. Cal. 2001).

sites.¹⁵⁷ *Hendrickson* combined an analysis of existing law regarding vicarious liability with an interpretation of the application of the safe harbor provisions.¹⁵⁸ In finding eBay exempt from secondary liability, it is apparent that the court showed a readiness to protect e-commerce at the expense of intellectual property right holders.¹⁵⁹

In *Hendrickson*, the Plaintiff alleged that an individual sold copies of his copyrighted digital video disk (DVD) on eBay.¹⁶⁰ In response to Hendrickson's cease and demand letter, eBay requested additional information identical to the requirements in the Notification section of the DMCA.¹⁶¹ Hendrickson, however, refused to complete the notification form and did not notify eBay of any specifics of the alleged copyright infringement.¹⁶²

The court began its vicarious liability analysis by first determining whether eBay constituted an Internet service provider under the definition in the DMCA.¹⁶³ Although this issue in itself presented a matter of first impression, the court stated simply "there is no dispute over whether eBay is an Internet service provider."¹⁶⁴ The only support given for this conclusion was the broad nature of the statutory definition.¹⁶⁵ This decision by the court not only opened the door to other "online service providers," but also allowed eBay to qualify for the safe harbor provisions.¹⁶⁶

The court's analysis of the safe harbor provisions dealt solely with 17 U.S.C. § 512(c), concerning the service provider's knowledge of the alleged infringement and its response to such infringement.¹⁶⁷ The main thrust of the

157. *Id.* at 1083; *supra* notes 150-51 and accompanying text (explaining *Napster* Court's refusal to consider application of safe harbor provisions). *But see supra* note 152 and accompanying text (showing *Napster* Court's unwillingness to find no service providers could fall within provision).

158. *See generally* *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001) (determining vicarious liability of eBay under existing case law in light of safe harbor provisions in DMCA).

159. Eric J. Sinrod, *E-Legal: E-Bay not Secondarily Liable for Copyright Infringement*, SPECIAL TO LAW.COM (Sept. 11, 2001).

160. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1084 (C.D. Cal. 2001).

161. *Id.* at 1095 (discussing eBay's Notice of Infringement form sent to Hendrickson); 17 U.S.C. § 512(c) (2000) (setting forth DMCA notification requirements for copyright owner).

162. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1085 (C.D. Cal. 2001). Hendrickson eventually complied with the notification requirements, but only after legal action began. *Id.*

163. *Id.* at 1088.

164. *Id.* The court stated that eBay constitutes a "provider of online services or network access, or the operator of facilities therefore." *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001). This conclusion leaves the door open to other service providers who offer more than mere access or facilities, as eBay clearly does. In fact, the court in its opinion stated that eBay overstates its classification as merely an "online venue that publishes 'electronic classified ads.'" *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1084 (C.D. Cal. 2001). Although this statement does not in itself mean that eBay does not fall within the DMCA definition of online service provider, it does seem to warrant more analysis than simply stating the definition is broad. *Id.*

165. *Id.*

166. *Supra* notes 163-64 and accompanying text (interpreting DMCA service provider provision as broad leaves definition open-ended).

167. *See generally* *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088-94 (C.D. Cal. 2001) (discussing application of 17 U.S.C. § 512(c) to eBay); 17 U.S.C. § 512(c) (2000); *supra* discussion section III(B)(2) and

court's argument is that Hendrickson failed to meet any of the notification requirements set forth in the statute, and therefore could not establish that eBay had actual or constructive knowledge of the infringing activity.¹⁶⁸ The court did not accept Hendrickson's cease and desist letter as an attested statement of the accuracy of the alleged infringing activity.¹⁶⁹ Similarly, the court did not find Hendrickson's identification of the infringing individual's user names sufficient to allow eBay to locate the infringing materials.¹⁷⁰ Due to the failure to comply with the notification requirements, Hendrickson's notification was not a factor for determining whether eBay had actual or constructive knowledge.¹⁷¹

The court then considered whether eBay possessed the right and ability to control the infringing activity.¹⁷² It held that eBay's ability to "remove or block access" to allegedly infringing materials did not constitute having the ability to control.¹⁷³ The court reasoned that an online provider could not be excluded from the safe harbor provisions while at the same time acting in accordance with DMCA provisions.¹⁷⁴ In addition, eBay did not play an affirmative role in the listing, selling or bidding of items, and did not directly participate in the consummation of the sale.¹⁷⁵

Since eBay did not have the right or ability to control the infringing material,

accompanying text (explaining requirements of 17 U.S.C. § 512(c)).

168. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1089-94 (C.D. Cal. 2001) (explaining why Hendrickson did not meet notification requirements).

169. *Id.* at 1089-90 (explaining why Hendrickson's letter proved insufficient).

170. *Id.* at 1090-92 (holding user identification insufficient to describe infringing act). The court determined that only specific numbers would provide eBay with sufficient information to find the infringing material. *Id.* at 1091. The court did, however, state that some cases may not require the copyright holder to provide specific item numbers in order to satisfy the notification provision. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1090 (C.D. Cal. 2001).

171. *Id.* at 1092-93; 17 U.S.C. §§ 512(c)(3)(B)(i), (ii) (2000).

172. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1093-94 (C.D. Cal. 2001); *see also* 17 U.S.C. § 512(c)(1)(B) (2000). This safe harbor provision is similar to the test for secondary liability discussed above in *Fonvisa* and *Napster*. *Supra* discussion section IV(B)(2) (discussing vicarious liability of swap meet operator and peer-to-peer music sharing liability, respectively). The court, however, does not even get the question of the vicarious liability under those tests because it finds that eBay falls within the safe harbor provisions. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1087-88 (C.D. Cal. 2001) (discussing vicarious liability issues arising in *Fonvisa* and its extension in *Napster*). Nonetheless, the analysis is similar.

173. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1093-94 (C.D. Cal. 2001) (stating congressional intention to not punish providers' efforts in preventing copyright infringement). *But see* *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001); *see also supra* notes 145 and 148 and accompanying text (stating express right to cancel or terminate equivalent to ability to control in *Napster*).

174. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001). "This legislation is not intended to discourage the service provider from monitoring its service for infringing material. Courts should not conclude that the service provider loses eligibility for limitations on liability under § 512 solely because it engaged in a monitoring program." *Id.* (quoting H. R. Rep. No. 105-796 at 73 (Oct. 8, 1998)).

Although this seems contradictory to the holding in *Napster*, the *Napster* court did not decide the liability issue in terms of the DMCA, but rather on traditional vicarious liability case law. *Supra* notes 151 and 157 and accompanying text (discussing *Napster* Court's refusal to consider DMCA).

175. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001) (discussing reasons why eBay did not have right or ability to control infringing material).

the court did not discuss whether eBay received a direct financial benefit.¹⁷⁶ Had the court discussed the matter, it could have relied on previous case law interpreting the second prong of the vicarious liability test.¹⁷⁷ For example, much like the operator in *Shapiro*, who earned a percentage of gross sales from the infringing activity, eBay received a percentage of the final fee based on the highest bid.¹⁷⁸ Following the *Shapiro* court, eBay's compensation constitutes a direct financial benefit.¹⁷⁹

If the court, however, followed the holding in *Religious Technology Center*, the fee eBay imposes for listing items on its website would not constitute a direct financial benefit.¹⁸⁰ In addition, the court could look to the slightly different direct benefit analysis in *Fonovisa* and *Napster*, relating to the increase in customers.¹⁸¹ Yet, the court's opinion does not provide guidance as to whether the availability of infringing materials would lead to increase in users.¹⁸² Regardless of which precedent would apply, eBay would have qualified for the safe harbor provisions if it in fact received a direct financial benefit.¹⁸³

VI. POST HENDRICKSON V. EBAY, INC. – CONTINUED PROTECTION FOR INTERNET SERVICE PROVIDERS?

For the most part, recent cases adhere to the *Hendrickson* decision in their vicarious liability analysis. In *Costar Group, Inc., and Costar Realty Information, Inc. v. Loopnet, Inc.*,¹⁸⁴ the court followed the eBay line of reasoning.¹⁸⁵ In finding the service provider free from liability, the court held

176. *Id.* at 1093 (stating failure to prove right and ability to control prevented review of direct financial benefit).

177. See generally *supra* discussion sections IV(B) and accompanying text (discussing various courts' interpretations of what constitutes direct financial benefit).

178. *Supra* note 112 and accompanying text (finding percentage of sales from infringing activity amounts to direct financial benefit in *Shapiro*); *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001) (stating eBay receives percentage of final fee).

179. *Supra* note 112.

180. *Supra* note 128 and accompanying text (stating fixed fee not financial benefit); *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001) (describing how eBay charges "insertion fee" for listing items on website).

181. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263-4 (9th Cir. 1996) (finding direct financial benefit where infringing activity increases number of participants); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001) (relying on test in *Fonovisa*).

182. See generally *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082 (C.D. Cal. 2001) (providing no information regarding increase in user participation based on accessibility of copyrighted materials).

183. See *Costar Group, Inc. and Costar Realty Information, Inc. v. Loopnet, Inc.*, 164 F. Supp. 2d 688, 699 (D. Md. 2001) (stating safe harbor provisions do not require direct financial benefit showing if no right or ability to control).

184. 164 F. Supp. 2d 688 (D. Md. 2001).

185. *Costar Group, Inc. and Costar Realty Information, Inc. v. Loopnet, Inc.*, 164 F. Supp. 2d 688, 691-92 (D. Md. 2001). The service provider in this case posted photographs of commercial real estate on its site for the Plaintiff. *Id.*

that it neither had the right and ability to control nor a direct financial benefit.¹⁸⁶

In *Ellison v. Robertson*,¹⁸⁷ the court somewhat clarified *Hendrickson*'s analysis of the right and ability to control portion of the vicarious liability test by stating that "the DMCA requires more than the mere ability to delete and block access to infringing material after that material has been posted in order for the ISP to be said to have 'the right and ability to control such activity.'"¹⁸⁸ AOL did not have the right or ability to control the illegal activity, more or less the ability to block access, because it could not control the infringing activity at the "root level."¹⁸⁹ In terms of a direct financial benefit, the court relied on the *Fonovisa* and *Napster* interpretation, finding the infringing materials did not draw in customers.¹⁹⁰ Although *Costar* and *Ellison* somewhat clarify the *Hendrickson* decision, the application of the DMCA in regard to vicarious liability remains uncertain.

The holding in *Hendrickson v. eBay, Inc.* proves significant because it is the first case to determine the application of the safe harbor provisions to Internet auction sites.¹⁹¹ Indeed, the holding is perhaps even more significant for the fact that it shows the court's willingness to shield online service providers from indirect liability.¹⁹² This protection, however, comes at the cost of copyright infringement.¹⁹³

Although *Hendrickson* is a case of first impression, it follows a natural progression from previous case law.¹⁹⁴ Despite the fact that the courts in *Fonovisa* and *Napster* did not protect the providers from indirect liability, there

186. *Id.* at 704. In regard to the "right and ability to control," the court held that Loopnet did not have any powers beyond being able to block or control access. *Id.* Further, since Loopnet did not charge a fee for the real estate listing, it did not obtain a direct financial benefit from the real estate listings. *Costar Group, Inc. and Costar Realty Information, Inc. v. Loopnet, Inc.*, 164 F. Supp. 2d 688, 704 (D. Md. 2001).

187. 189 F. Supp. 2d 1051 (D. Md. 2002). In *Ellison*, the defendant copied and uploaded plaintiff's copyrighted works onto a USENET, which allowed other peers to access the work. *Id.* at 1054. The information on one USENET can be viewed by USENET peers, of which AOL belonged. *Id.*

188. *Id.* at 1061. The *Ellison* court felt that *Hendrickson* overstated the right and ability to control issue, and thusly clarified it. *Ellison v. Robertson*, 189 F. Supp. 1051, 1061 (D. Md. 2002); *see also* *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1094 (C.D. Cal. 2001) (discussing how right to block should not prevent application of safe harbor provisions).

189. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1062 (D. Md. 2002). The facts in this case are even more favorable to AOL than eBay. *See* *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1093-94 (C.D. Cal. 2001) (having ability to block access insufficient for right and ability control infringing activity); *compare* *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1061 (D. Md. 2002) (finding DMCA requires more than right to block access).

190. *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1062 (D. Md. 2002) (finding .25% USENET membership on AOL insufficient to suggest infringing activity "draws" customers).

191. *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1083 (C.D. Cal. 2001) (stating application of safe harbor clause first impression for courts).

192. *See generally supra* discussion section V and accompanying text (discussing *Hendrickson* holding shielding eBay from secondary liability.)

193. *Id.* and accompanying text (stating reasons why *Hendrickson* lost copyright infringement argument).

194. *Supra* notes 172-78 and accompanying text (analyzing evolution of case law and application of precedent to *Hendrickson* decision).

still exists a common theme.¹⁹⁵ In both *Fonovisa* and *Napster*, the courts found providers liable for creating or hosting services where copyright infringement took money out of the economy.¹⁹⁶ Also, in both cases, the court moved away from the traditional direct financial benefit analysis and moved toward an analysis directed at whether the service providers “lured” the users.¹⁹⁷ The *Napster* court pushed the test even further by stating that *Napster* received a future financial benefit.¹⁹⁸

Yet, in *Hendrickson* the infringing activity boosted the economy on a global and international scale.¹⁹⁹ Indeed, the *Hendrickson* Court did not even reach the financial benefit analysis because it held that eBay did not have control over its activities.²⁰⁰ It does, nonetheless, reiterate the importance of preserving and encouraging electronic commerce on the Internet.²⁰¹ The same can be said about *Costar* and *Ellison*.²⁰² In both cases, the court shielded the service providers from liability.²⁰³ More importantly, in both cases the service providers were engaged in activities promoting e-commerce and use of the Internet in general.²⁰⁴

VII. CONCLUSION

Hendrickson v. eBay, Inc. shows a court’s readiness to protect the rights of an e-commerce provider over the rights of a copyright owner. It is evident that the standards for determining secondary liability involve inconsistencies. The central theme with regard to financial benefit, however, illustrates the importance of protecting Internet generated revenues.

The decision in *Hendrickson* creates an opportunity for other service providers to seek protection from copyright infringement liability. Virtually any Internet service provider now falls within the online service provider

195. *Id.*

196. See generally *supra* discussion section IV(B)(2) and accompanying text (discussing liability of providers in *Fonovisa* and *Napster*).

197. *Supra* note 133 and accompanying text (stating financial benefit in *Fonovisa* exists if user base increases); *supra* notes 147-48 and accompanying text (stating financial benefit in *Napster* exists if infringement provides incentive to become member).

198. *Supra* note 148 and accompanying text (finding direct benefit for production of future income).

199. *Supra* note 3 and accompanying text (discussing how eBay offers thousands of categories); *supra* note 15 and accompanying text (discussing eBay’s wide user base both nationally and globally).

200. *Supra* note 176; see also *supra* notes 176-83 and accompanying text (discussing possible treatment of direct financial benefit analysis based on previous case law).

201. *Supra* notes 45, 47 and 51 and accompanying text (discussing congressional intent for passing DMCA); *supra* note 176 and accompanying text (stating refusal to discuss direct financial benefit).

202. *Supra* note 186 and the accompanying text (finding neither right and ability to control nor direct financial benefit in *Costar Group*); *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1061-62 (D. Md. 2002) (stating right to block access to illegal activity does not constitute right and ability to control such activity); see also *supra* notes 188-89.

203. *Id.*

204. *Id.*; see also *supra* discussion section VI and accompanying text (arguing imposition of liability depends on benefit or detriment to economy).

definition provided in the DMCA. As a result, more service providers will seek shelter under the safe harbor provisions. Therefore, with the protection offered by the DMCA coupled with the court's willingness to protect economic activity, the future seems glum for copyright holders.

Still, the favorable facts to eBay's case ought to be taken into account. eBay attempted to remedy the problem and Hendrickson continuously failed to comply with eBay's notification requirements. That said, post-*Hendrickson* case law illustrates that facts in favor of the service provider are not necessary to preclude liability.

It is likely that courts in the future will protect and promote e-commerce, regardless of whether it protects against copyright infringement. Although Congress and the courts attempt to seek a balance between encouraging economic activity and copyright protection, the emphasis clearly lies on economic benefit. Only time will tell the fate of the copyright holder in a world dominated by e-commerce.

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