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P2P File Sharing: Direct and Indirect Copyright Infringement by Elliot M. Zimmerman

Page 40

Some view the Internet as an abandoned warehouse filled with free pictures, music, video, and text files fixed on a hard disk somewhere out there in cyberspace. Granted, some files are not protected by copyright law because the material contained in them has entered the public domain. In some instances, the use of certain files may constitute a fair use.¹ On the other hand, the use and sharing of other files may lead to severe civil and criminal penalties.²

This article sets forth the current status of the law regarding peer-to-peer ("P2P") file sharing over the Internet after reviewing the general historical principles of direct and indirect copyright infringement.³ The scope is limited to the copyright laws of the United States. Wherever possible, Florida citations have been used to illustrate the general principles of copyright law.

The Copyright Act

Pursuant to 17 U.S.C. §102:

(a) Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

- (1) literary works;
- (2) musical works, including any accompanying words;
- (3) dramatic works, including any accompanying music;
- (4) pantomimes and choreographic works;
- (5) pictorial, graphic, and sculptural works;
- (6) motion pictures and other audiovisual works;
- (7) sound recordings; and
- (8) architectural works.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

Pursuant to 17 U.S.C. §106, and subject to the exceptions set forth in §§107 through 121, the owner of copyright has the "exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

Direct Copyright Infringement and Potential Defenses

There is little doubt that capturing copyrighted videos, CDs, works of art, and/or books to digital files constitutes the fixing of those works in a tangible medium of expression which can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. There is equally little doubt that P2P sharing of these files over the Internet, without the owner's consent or otherwise permitted under copyright law, constitutes copyright infringement by those directly involved.

In *Playboy Enterprises, Inc. v. George Frena, d/b/a/ Techs Warehouse BBS Systems and Consulting, and Mark Dyess*, 839 F. Supp.1552 (M.D. Fla. 1993), the court granted summary judgment for direct copyright infringement against a bulletin board service ("BBS") which allegedly did not have any prior knowledge that its users uploaded and downloaded files to its server containing Playboy Enterprises, Inc.'s pictures without plaintiff's consent or other justification. Defendant BBS allegedly removed all infringing files when it was notified and subsequently monitored the server, but the court held lack of knowledge was not a defense. The court also found no merit to the defendant's affirmative defenses of fair use.

Generally, to prevail on a claim of direct copyright infringement, a plaintiff must establish ownership of a valid copyright in the work and copying by the defendant.⁴ Since direct evidence of copying is rarely available in a copyright infringement action, copying may be inferentially proven by showing that the defendant had access to the allegedly infringed work, that the allegedly infringing work is substantially similar to the copyrighted work,⁵ and that one of the rights statutorily guaranteed to copyright owners is implicated by the defendant's actions.⁶

Intent or knowledge is not an element of infringement and even an innocent infringer is liable. Innocence is significant to a trial court only when it assesses statutory damages.⁷

A potential affirmative defense to a claim of direct copyright infringement is fair use (e.g., a noncommercial educational use involving a teacher making a single copy of a poem from a large collection for critique in class). Pursuant to 17 U.S.C. §107 *et seq.*, the relevant factors to be considered are: 1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; 2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and 4) the effect of the use upon the potential market for or value of the copyrighted work.

Another potential affirmative defense to a claim of direct copyright infringement is the safe harbor provided by the Digital Millennium Copyright Act (DMCA).⁸ In 1998, responding in part to the concerns of online service providers (OSPs) regarding their potential liability for the copyright infringement of their users, Congress enacted a number of narrow "safe harbors" for copyright liability. These safe harbors apply only to OSPs and only to the extent that the infringement involves four functions: transitory network transmissions, caching, storage of materials on behalf of users (e.g., web hosting, remote file storage), and the provision of information location tools (e.g., providing links, directories, search engines). Each of these functions, however, is narrowly defined by the statute.

In addition to being limited to certain narrowly circumscribed functions, the safe harbors are only available to entities that comply with a number of complex, interlocking statutory requirements including:

- The OSP must 1) adopt, reasonably implement, and notify its users of a policy of terminating the accounts of subscribers who are repeat infringers; and 2) accommodate and not interfere with "standard technical measures" that have been widely adopted on the basis of industry-wide consensus.
- The OSP must designate a "copyright agent" to receive notices of alleged copyright infringement, register the agent with

the Copyright Office, and place relevant contact information for the agent on its Web site.

- The OSP must, upon receiving a notification of infringement from a copyright owner, expeditiously remove or disable access to the infringing material ("notice and takedown").
- The OSP must not have known about the infringement, or been aware of facts from which such activity was apparent (*i.e.*, a "blind eye" approach misses the safe harbor).
- The OSP must not receive a direct financial benefit from infringing activity, in a situation where the OSP controls such activity.

The aforementioned *Playboy* case was decided prior to the passage of these safe harbor provisions. Defendant BBS, in the *Playboy* case, may have qualified for a safe harbor had the act been in effect at the time the case was decided.⁹

Liability pursuant to the United States copyright laws can in some circumstances extend to those who were indirectly involved in the infringing activity.

Contributory Copyright Infringement

In *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F. 2d 829 (11th Cir. 1990), defendants committed contributory copyright infringement by helping to create, promote, distribute, and import for financial gain various pirate computer software chips and devices, which enabled display of plaintiffs' programming intended for their paying subscribers by disrupting the functioning of their copyrighted computer program designed to scramble satellite transmissions. The court defined the elements of contributory copyright infringement as follows: "Contributory infringement necessarily must follow a finding of direct or primary infringement. This court has stated the well-settled test for a contributory infringer as 'one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.' . . . Furthermore, our court explicated that the standard of knowledge is objective: 'Know, or have reason to know.' (citations omitted)"¹⁰

Vicarious Copyright Infringement

A person will be liable for vicarious infringement if he has the right and ability to supervise infringing activity and also has a direct financial interest in same. In order to prove a vicarious infringement claim, a copyright owner must establish the following elements: 1) some act of direct infringement (by end-users, for example); 2) that the defendant had the right or ability to control the direct infringer; and 3) that the defendant derived a direct financial benefit from the direct infringement.¹¹

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

The *Shapiro* court looked at the two lines of cases it perceived as most clearly relevant. In one line of cases, the landlord-tenant cases, the courts had held that a landlord who lacked knowledge of the infringing acts of its tenant and who exercised no control over the leased premises was not liable for infringing sales by its tenant.¹²

In the other line of cases, the so-called "dance hall cases," the operator of an entertainment venue was held liable for infringing performances when the operator (1) could control the premises and 2) obtained a direct financial benefit from the audience who paid to enjoy the infringing performance.¹³

From those two lines of cases, the *Shapiro* court determined that the relationship between the store owner and the concessionaire in the case before it was closer to the dance-hall model than to the landlord-tenant model. It imposed liability even though the defendant was unaware of the infringement. *Shapiro* deemed the imposition of vicarious liability neither unduly harsh nor unfair because the store proprietor had the power to cease the conduct of the concessionaire, and because the proprietor derived an obvious and direct financial benefit from the infringement.¹⁴

The test was more clearly articulated in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159 (2d Cir.), a later Second Circuit case, as follows: "[E]ven in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities."¹⁵

- *The Betamax Defense*

In *Universal City Studios v. Sony*, 464 U.S. 417 (1984) (a.k.a. the "Betamax case"), a case brought by the movie industry to ban the Sony Betamax VCR, the Supreme Court found that contributory infringement liability could not reach the manufacturer of a device that is "capable of substantial noninfringing use." In that case, the Supreme Court found that the VCR was capable of several noninfringing uses, including the time-shifting of television broadcasts by home viewers. In the Betamax case, the Supreme Court adopted a standard that asks whether the technology is "merely capable" of substantial noninfringing uses.

Indirect Liability and Software Developers

- The *Napster* Case

In *A&M Records v. Napster*, 239 F.3d 1004 (9th Cir. 2001), the music industry plaintiffs admitted that Napster did not, itself, make or distribute any of their copyrighted works. Instead, they argued that Napster was liable for contributory and vicarious infringement. Based on these theories, the plaintiffs convinced a federal district court to grant a preliminary injunction against Napster. That ruling was appealed and affirmed by the Ninth Circuit Court of Appeals. In its February 12, 2001, opinion, the Ninth Circuit rejected each of Napster's proposed defenses.

Turning first to contributory infringement, the Ninth Circuit upheld the lower court's findings:

- Direct Infringement: At least some Napster users are direct infringers, because they distributed and reproduced copyrighted music without authorization.
- Knowledge: Napster had actual knowledge of infringing activity, based on internal company emails and the list of 12,000 infringing files provided by the RIAA. Moreover, Napster should have known of the infringing activity, based on the recording industry experience and downloading habits of its executives and the appearance of well-known song titles in certain promotional screen shots used by Napster.
- Material Contribution: Napster provided the "site and facilities" for the directly infringing conduct of its users.

The Ninth Circuit also endorsed the lower court's vicarious infringement analysis:

- Direct Infringement: At least some Napster users are direct infringers, because they distributed and reproduced copyrighted music without authorization.
- Right and Ability to Control: Napster has the ability to control the infringing activity of its users because it retains the right to block a user's ability to access its system.
- Financial Benefit: Napster derived a financial benefit from the infringing activities of its users because this activity acted as a "draw" for customers, and a portion of Napster's value is derived from the size of its user base.

The Ninth Circuit concluded, however, that the lower court had not adequately considered the technological limits of the Napster system when crafting the preliminary injunction. In ordering the district court to revise its injunction, the Ninth Circuit enunciated some guiding principles.

First, in order to prevent contributory infringement, Napster was required to take reasonable steps to prevent further sharing of music *after receiving notice* from a copyright owner that a particular recording is being shared on its system without authorization. Ultimately, Napster voluntarily implemented a number of filtering mechanisms (including file name filters and acoustic fingerprinting filters) intended to filter out works that were not approved for sharing. These filters were never accurate enough to satisfy the district court judge, and Napster filed for bankruptcy before a trial could be held.

Second, in order to prevent vicarious infringement, the Ninth Circuit declared that Napster should bear the burden of policing its system within the limits of the system. During the period prior to its bankruptcy, Napster and the plaintiffs bitterly disagreed about what these monitoring obligations entailed. At a minimum, Napster had the duty to terminate users who were identified as infringers. Beyond that, there was little agreement. The disagreement was never fully resolved by the court, since Napster ceased doing business while it worked on improving its filtering technologies.

- The *Aimster* Case

In *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003), the music industry plaintiffs asserted the same vicarious and contributory infringement claims that they did in the *Napster* case. They succeeded in obtaining a preliminary injunction that ultimately shut Aimster down pending a trial on the merits (like Napster, Aimster went bankrupt before a trial could occur). In June 2003, the Seventh Circuit Court of Appeals upheld the preliminary injunction ruling and certiorari was denied by the U.S. Supreme Court on January 12, 2004.¹⁶

In upholding the preliminary injunction, the appeals court relied solely on the contributory infringement claim. The court did not engage in the traditional contributory infringement analysis, instead engaging in a more general discussion of several relevant concepts, including the Betamax defense. In the end, the court upheld the injunction because Aimster had 1) failed to introduce *any* evidence of noninfringing uses and 2) had engaged in activities that demonstrated clear knowledge

of infringing activities.

With respect to the issue of knowledge, the court focused on "tutorials" that specifically encouraged Aimster users to download popular copyrighted music. The court also was not impressed by the fact that Aimster network traffic was encrypted, allegedly making it impossible for Aimster to know exactly what files were being shared by individual end-users. In the eyes of the court, the steps taken by Aimster to avoid knowledge supported an inference of "willful blindness."

Turning to the Betamax defense, the court concluded that Aimster had failed to introduce any evidence that the Aimster software had ever been used for anything other than infringing activity. This finding alone was enough to disqualify Aimster from relying on the *Betamax* defense (which requires a showing that the technology in question is at least capable of a substantial noninfringing use).

- The *Grokster* Case

MGM v. Grokster, 259 F. Supp. 2d 1029 (C.D. Cal. 2003), involves three defendants: the makers of Kazaa, Morpheus, and Grokster. In April 2003, the district court ruled that two of the defendants, StreamCast (maker of Morpheus) and Grokster, could not be held liable for contributory or vicarious copyright infringement. This represents the first victory by P2P developers in a copyright action brought by the entertainment industry. The case has been appealed by the entertainment industry plaintiffs. The appeal was heard in early February 2004, but no decision has yet been rendered.

Contributory Infringement: With respect to contributory infringement, the court found that Grokster and Morpheus are both capable of substantial noninfringing uses, including the distribution of public domain (such as Project Gutenberg e-books) and authorized materials (such as promotional music videos and video game demos). Accordingly, the court found that the *Betamax* defense applied.

On the question of knowledge, the court concluded that the defendants were generally aware that some end-users were engaged in infringing activities. This, however, made them no different from Xerox, Sony, or AOL, all of whom know that their products and services are used for infringement. The court concluded that the plaintiffs had to show more than general knowledge of infringing uses: "The question is whether actual knowledge of specific infringement accrues at a time when either Defendant materially contributes to the alleged infringement, and can therefore do something about it."¹⁷

The critical factor was the decentralized architecture of the Grokster and Morpheus software. The software gave the defendants no ability to block access to the network, or to control what end-users searched for, shared, or downloaded. Accordingly, by the time the defendants were notified of infringing activity, they were unable to do anything about it (just as Xerox is not able to stop infringing activities after a photocopier has been sold). In the words of the court: "Users connect to the respective networks, select which files to share, send and receive searches, and download files, all with no material involvement of Defendants. If either Defendant closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption."¹⁸

Vicarious Liability: The court also concluded that the defendants could not be held vicariously liable. After reviewing the decentralized architecture of the Gnutella and Fasttrack networks created by Grokster and Morpheus users, the court found that the defendants had no ability to supervise or control what users were searching for, sharing, or downloading.

The plaintiffs argued that Grokster and Morpheus could have been designed to include advanced filtering technologies, so as to enable more control over end-user activities. The court found that whether or not such filtering was possible, the defendants had no obligation to redesign their technologies to suit the desires of the entertainment industries.

Conclusion

The application of copyright law to individuals who are using file-sharing software to download music in an effort to avoid paying for CDs is relatively clear. Unless the activity falls within one of the exceptions to the exclusive rights set forth in 17 U.S.C. §106, such activity infringes the reproduction right (and perhaps the distribution and/or performance right, as well). The law as applied to intermediaries and software vendors, in contrast, is anything but clear. Cases are pending that will test the outer limits of both the DMCA "safe harbors" for OSPs, and the doctrine announced by the Supreme Court 20 years ago in the *Betamax* case. When the dust settles, the outcome may reshape not just the experiences of today's digital music fans, but also tomorrow's consumer electronics and information technology industries. q

¹ 17 U.S.C. §107 *et seq.*

² 17 U.S.C. §501 *et seq.*

³ *What Peer-to-Peer Developers Need to Know about Copyright Law*, www.eff.org/IP/P2P/p2p_copyright_wp.php, by Fred von Lohmann.

⁴ *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821 (11th Cir. 1982); *Miller v. Universal City Studios, Inc.*, 650 F.2d 1365 (11th Cir. 1981).

⁵ *Howard v. Sterchi*, 974 F.2d 1272 (11th Cir. 1992).

⁶ *Ford Motor Co. v. Summit Motor Products, Inc.*, 930 F.2d 277, 291 (3d Cir. 1991), *cert. denied*, 116 L. Ed. 2d 324, 112 S. Ct. 373.

⁷ See *Playboy*, 839 F. Supp. 1552, 1559 (M.D. Fla. 1993), citing *D.C. Comics Inc. v. Mini-Gift Shop*, 912 F.2d 29 (2d Cir. 1990).

- ⁸ 17 U.S.C. §512 et seq.
- ⁹ *ALS Scan, Incorporated v. Remarkcommunities, Incorporated*, 239 F.3d 619 (4th Cir. 2001).
- ¹⁰ *Cable*, 902 F.2d 829, 845 (11th Cir. 1990).
- ¹¹ *A&M Records v. Napster*, 239 F.3d 1004 (9th Cir. 2001).
- ¹² See, e.g., *Deutsch v. Arnold*, 98 F.2d 686 (2d Cir. 1938); c.f. *Fromont v. Aeolian Co.*, 254 F. 592 (S.D.N.Y. 1918).
- ¹³ See, e.g., *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 (7th Cir. 1929).
- ¹⁴ *Shapiro*, 316 F.2d 304, 307 (2d Cir. 1963).
- ¹⁵ *Gershwin*, 443 F.2d 1159, 1162 (2d Cir. 1971).
- ¹⁶ *Aimster*, cert. denied, U.S. Supreme Court, Order 03-658 (January 12, 2004).
- ¹⁷ *Grokster*, 259 F. Supp.2d 1029, 1038 (C.D. Cal. 2003).
- ¹⁸ *Id.*

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