Tertiary Copyright Liability

Benjamin H. Glatstein†

Napster, a computer program that allowed users to freely trade copyrighted music, at one point enabled more than 165 million unauthorized song transfers a day.¹ Various copyright holders sought, and were granted, an injunction against Napster, Inc., for contributory infringement.² Following Napster’s legal battles, unsatisfied copyright holders have turned again to the courts, seeking copyright infringement damages against tertiary parties that helped finance Napster.³ This attempt to impose liability on tertiary parties has been described by some as commonplace, and by others as unprecedented.⁴

Direct liability for copyright infringement occurs when one violates a right vested in the copyright owner.⁵ Secondary liability arises when another party either helps or is responsible for the directly infringing act or the directly infringing actor. Tertiary liability reaches parties that assist a secondary party, but maintain no relationship with the primary party. This Comment examines the viability of a theory of tertiary copyright liability—an action against those who help the helper—under the Copyright Act.⁶ In this Comment, I argue that tertiary copyright liability is permissible under current indirect copyright liability doctrines. There is little explicit statutory basis for tertiary liability, or for indirect liability generally. However, a system of tertiary liability grounded in knowledge of direct infringement and assistance

† B.A. 2002, Pomona College; J.D. Candidate 2005, The University of Chicago.
¹ Roger Parloff, Killer App, Fortune 111, 112 (Sept 1, 2003). For a general introduction to the history of Napster, Inc., and its legal woes, see id.
² See A&M Records, Inc v Napster, Inc, 114 F Supp 2d 896 (ND Cal 2000) (granting a preliminary injunction to copyright holders), affd in part and revd in part, 239 F3d 1004 (9th Cir 2001) (affirming the lower court injunction with limited modifications). Hereinafter, except where necessary to differentiate between the two, I will use “Napster” to refer to both Napster, Inc., the corporation, and Napster, the computer program that facilitates song transfers.
³ See Part I.C.
⁴ See Joseph Menn, Defunct Napster’s Saga Back in Court, LA Times C1 (Apr 28, 2004) (reporting that Universal Music Group, suing Napster’s financial backers, alleged that they should be held liable on the basis that they effectively controlled Napster’s activities). A press release from defendant Bertelsmann AG said that the tertiary liability suit was a “groundless and cynical effort” to recover from Bertelsmann’s “deep pockets,” and that U.S. copyright law does not extend to third-party lenders. Bertelsmann Seeks Dismissal of Copyright Infringement Lawsuits (July 17, 2003), online at http://www.bertelsmann.de/documents/en/Motion_to_dismiss.pdf (visited July 24, 2004).
⁵ 17 USC § 501(a) (2000) (“Anyone who violates any of the exclusive rights of the copyright owner . . . is an infringer of the copyright or right of the author, as the case may be.”).
⁶ The Copyright Act is codified at 17 USC § 101 et seq (2000).
to any infringer, or in a financial interest in the direct infringement and control over any infringer, is both economically efficient and in line with established precedent. Though the concept of tertiary liability may increase the risk of liability for parties far removed from the actual infringement, limiting principles exist to isolate nominally tertiary parties for whom the extension of liability would cause inefficient monitoring or undesirable decreases in investment.

Part I of this Comment provides a basic overview of indirect copyright liability, including tertiary liability. Part II provides the theoretical basis for extending or contracting liability as a general matter, with guidance from the Copyright Act. Part III argues that various principles supporting indirect liability are compelling when applied to tertiary infringers. Part III concludes by recommending tertiary liability rules that minimize the harms from, and maximize the benefits of, the imposition of liability on tertiary infringers. Finally, Part IV discusses how parties would behave in a world where tertiary liability is in effect.

I. INDIRECT LIABILITY

Current copyright infringement law extends liability beyond the direct infringer. The doctrines of contributory and vicarious liability, discussed in Part I.A, are the two primary theories by which secondary infringers are held accountable. After examining how copyright liability can extend to some indirect parties, this Comment then assesses the breadth of these theories. First, Part I.B discusses the definition for a theoretical cause of action against tertiary parties. Next, Parts I.C and I.D examine cases in which tertiary liability has been rejected and accepted, respectively.

A. Contributory and Vicarious Liability

The Copyright Act vests copyright owners with the exclusive right to reproduce, distribute, perform, display, and prepare derivative works of their copyrighted materials, but no specific statutory basis exists for the extension of copyright liability beyond a direct infringer.  

7 17 USC § 106.

The Supreme Court has emphasized that the ultimate goal of copyright law is to serve the public interest; the creator's moral rights do not factor into the legal calculus. Compensation, in turn, is the principal means of stimulating the creation of works for the eventual enrichment of the public domain; interpretation of ambiguous statutory passages must remain true to this goal.

Only the copyright holder may authorize another to exercise any of the exclusive rights provided by the Copyright Act, and any person who violates any of the exclusive rights is infringing the copyright. In contrast, patent law, which has been considered a scientific analog to copyright, explicitly provides for indirect liability. Nevertheless, copyright law has long extended to "indirect" or "secondary" copyright infringers, who may be liable for copyright violations even though another party is directly violating the copyright. Indirect liability under copyright law is broken down into contributory and vicarious liability.

(Matthew Bender 2003) ("[T]o authorize' is simply a convenient peg on which Congress chose to hang the antecedent jurisprudence of third party liability.").

9 See Fox Film Corp v Doyal, 286 US 123, 127 (1932) ("The sole interest of the United States and the private object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors."). See also US Const Art I, § 8, cl 8 (authorizing Congress to create patent and copyright protection for limited times to "promote the Progress of Science and useful Arts").

10 See Feist Publications v Rural Telephone Service Co, Inc, 499 US 340, 349 (1991) ("The primary objective of copyright is not to reward the labor of authors, but 'to promote the Progress of Science and useful Arts'"), quoting US Const Art I, § 8, cl 8. See also Twentieth Century Music Corp v Aiken, 422 US 151, 156 (1975) ("When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.").

11 17 USC § 106.

12 See Sony, 464 US at 439 ("The closest analogy [to vicarious liability for copyright infringement] is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law.").

13 35 USC § 271(b) (2000) ("Whoever actively induces infringement of a patent shall be liable as an infringer.").

14 For the most part, the terms "indirect" and "secondary" are interchangeable. However, when considering that there are potentially different types of indirect infringers, such as secondary, tertiary, or quaternary, the vocabulary must be refined. In this Comment, "indirect infringer" refers to any infringer that is not a direct infringer, including a secondary or tertiary offender.


16 Although the doctrines of contributory and vicarious liability have different tests and rationales, no strict dichotomy exists between them; the doctrines have significant overlap, as a secondary infringer could often conceivably be either vicarious or contributory in its infringement. See Sony, 464 US at 435 n 17 ("The lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn."), quoting Universal City Studios, Inc v Sony Corp of America, 480 F Supp 429, 457-58 (CD Cal 1979).

Contributory liability focuses on the relationship between a secondary party and an infringer, and similar to the patent analog, is premised on the concept that courts must at times look behind actual duplication or infringement and attach liability "to the products or activities that make such duplication possible." Contributory liability may attach where a party knowingly induces, causes, or materially contributes to another's infringing conduct. Thus, the two-part test for contributory copyright liability looks to knowledge and then to action. The action could consist of providing means to infringe, engaging in conduct that furthers the infringement, or encouraging an infringer's activity.

Contributory liability originates in the tort law concept that one who materially contributes to another's tort should be held accountable. Simply, this is the copyright analog to the familiar concept of joint and several liability for those who further tortious acts, and it is also sometimes described as an "outgrowth of enterprise liability."
Even if a plaintiff demonstrates both knowledge and action by the defendant, there are affirmative defenses to contributory liability, principally the substantial noninfringing use test.\(^2\) That defense, similar to the “staple article of commerce” element of indirect patent infringement, limits liability for potentially infringing products.\(^7\) The operation of tertiary liability, as advocated in this Comment, should not undermine these defenses.

2. Vicarious liability.

Vicarious copyright infringement hinges on the relationship between direct and indirect infringers.\(^2\) Vicarious liability, a concept also found elsewhere in the law,\(^7\) involves holding one person accountable for the actions of another.\(^3\) Courts impose vicarious liability when a party has a “right and ability to supervise” the directly liable party as

\(^{26}\) See Sony, 464 US at 442 (“Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.”). Other doctrines, such as the fair use doctrine, excuse direct infringements and will not apply to indirect infringements. See 17 USC § 107 (listing factors for courts to consider when determining fair use). There are other statutory defenses that are less commonly asserted, including an agricultural fair exception, 17 USC § 110(6), a passive carrier exception, 17 USC § 111(a), and a library exemption, 17 USC § 108. Copyright liability defenses generally may be explained by the distinction between economic substitutes, which lower demand for the copyrighted work, and complements, which increase demand for the work. See Richard A. Posner, Economic Analysis of Law § 3.3 at 43 (Aspen 6th ed 2003) (“A favorable book review is a complement of the book reviewed . . . ; the video recorder and the public performance are both complements and substitutes. Which effect is dominant will determine whether copyright holders will gain or lose from the invocation of the fair use privilege.”).

\(^{27}\) See Sony, 464 US at 440–42 (comparing the substantial noninfringing test to the staple article of commerce doctrine in patent law).

\(^{28}\) See generally Goldstein, 2 Copyright § 6.0 at 6:4-1 (cited in note 17):

[Whereas] a defendant will be liable for contributory infringement if it knew of, and contributed to, the direct infringement even though it could not control and had no financial interest in the acts of infringement . . . [a] defendant will be vicariously liable if it could control and had a financial interest in the infringement even though it did not know of it or contribute directly to it.

\(^{29}\) See, for example, W. Page Keeton, et al, Prosser and Keeton on the Law of Torts § 72 at 516 (West 5th ed 1984) (“In a partnership, there is a more or less permanent business arrangement, creating a mutual agency between the partners for the purpose of carrying on some general business, so that the acts of one are to be charged against another.”); Heick v Bacon, 561 NW2d 45, 50–51 (Iowa 1997) (limiting joint enterprise liability between driver and passenger to situations where the passenger and driver have a joint right of control over the car, which requires that they share a common pecuniary interest in the objective of the journey).

\(^{30}\) See Sony, 464 US at 435 (“[V]icarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.”).
well as an "obvious and direct financial interest" in permitting ongoing acts of infringement.\textsuperscript{31}

Vicarious liability is concerned with penalizing those who reap the benefits of another's illegal behavior,\textsuperscript{32} with or without actual knowledge that the other is engaging in unlawful conduct.\textsuperscript{33} This functions to shift liability from individuals to enterprises,\textsuperscript{34} thereby capturing situations in which one party benefits from the infringing actions of another, internalizing the costs of the entire operation.\textsuperscript{35}

B. What Is Tertiary Liability?

Tertiary copyright liability captures situations in which a party has a relationship with a secondary infringer or with an act of secondary infringement. In secondary copyright liability, the courts examine the relationship of the secondary party with the direct infringer (vicarious liability) or with the act of direct infringement (contributory liability). Tertiary liability operates in much the same way. A tertiary vicarious infringer is one who maintains a relationship with a secondary infringer (tertiary vicarious liability) or a secondary act of infringement (tertiary contributory liability), but \textit{not} with the direct infringer.

Tertiary liability's distinguishing feature is that while the tertiary party interacts with the secondary party, the tertiary party has no relationship with the direct infringer. If there is a relationship between the tertiary party and the directly infringing party (or infringing act), then the "tertiary party" is simply a secondary infringer. Thus, there may be ten secondary infringers, but no tertiary infringers. For example, each

\begin{itemize}
\item \textsuperscript{31} The original articulation of this test is found in \textit{Shapiro, Bernstein & Co, Inc v H.L. Green Co, Inc}, 316 F2d 304, 307 (2d Cir 1963). See also, for example, \textit{Pinkham v Sara Lee Corp}, 983 F2d 824, 834 (8th Cir 1992) (articulating the same test). The meaning of "right and ability to supervise" and "financial interest" is discussed in greater depth in Part III.D.
\item \textsuperscript{32} See \textit{Artists Music, Inc v Reed Publishing (USA), Inc}, 31 USPQ2d 1623, 1626 (SD NY 1994) ("The purpose of imposing vicarious liability is to punish one who unfairly reaps the benefits of another's infringing behavior.").
\item \textsuperscript{33} See \textit{Fonovisa, Inc v Cherry Auction, Inc}, 76 F3d 259, 265 (9th Cir 1996) (stating that actual knowledge is not required).
\item \textsuperscript{34} Keeton, et al, \textit{Prosser and Keeton on Torts} § 69 at 500 (cited in note 29):

The losses caused by the torts of employees . . . are placed upon that enterprise itself, as a required cost of doing business. They are placed upon the employer because, having engaged in an enterprise, . . . it is just that [the employer], rather than the innocent injured plaintiff, should bear [the costs].

\item \textsuperscript{35} Alfred C. Yen, \textit{Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment}, 88 Georgetown L J 1833, 1858 (2000) ("Vicarious liability in tort, like its namesake in copyright, constitutes a form of enterprise liability that holds the defendant liable for the behavior of another.").
\end{itemize}
of ten secondary infringers can give a key piece of recording equipment to a direct infringer, thereby enabling the direct infringement.  

Likewise, tertiary liability does not turn on the proximity in an institution's hierarchy between a direct infringer and an indirect infringer. Vicarious liability has the potential to trace all the way up the chain of management. The chief executive officer of a company may be vicariously liable for the direct infringement of a low-level employee, even if there are many levels of middle management between them. The CEO is not a tertiary infringer even though the liability traces through a variety of intermediaries. A tertiary vicarious infringer is liable through the acts of a secondary infringer rather than a direct infringer, whereas the liability of the CEO is based on her relationship with a direct infringer. It is worth noting that parties need not pierce the corporate veil under a theory of tertiary vicarious liability to reach management or certain shareholders, giving vicarious liability a potentially broad reach.  

An action based on an indirect liability claim requires an alleged act of direct infringement. Courts require an alleged act of direct infringement to ensure that there is actually some harm to the copyright holder. Put another way, tertiary liability, like secondary liability, is not an inchoate crime, but requires some consummating act that harms the copyright holder.  

C. Opinions Rejecting Tertiary Liability—The Napster Decision

In 1999, Napster created a computer program that allowed users to trade copyrighted music over the internet without permission from, or compensation for, copyright owners. Following the music indus-
try's successful suit against Napster, some copyright holders brought suit against Napster's financial backers, including the venture capital firm Hummer Winblad and some of Napster's more outspoken supporters. The suit did not allege that Napster was a direct infringer, nor did it explicitly allege that Napster itself was in direct violation of the Copyright Act.

Resolving the case on a motion for judgment on the pleadings, the court found no merit in either the contributory or the vicarious liability theories offered by the plaintiffs. First, the court found "no support" for the legal proposition that those who aid a contributory offender may be liable as contributory or vicarious infringers themselves. Specifically, the court dismissed the claim for lack of alleged "substantial participation in a specific act of direct infringement." The court then turned to the allegations of vicarious copyright infringement and found dispositive the lack of an allegation of a right and ability to supervise the directly infringing activity. The court refused to establish liability without a connection to a direct act. It further concluded that intent to profit from the investment in the contributory infringer was insufficient to satisfy the direct financial interest requirement.

D. Opinions Extending Liability to Tertiary Parties

While the Napster court rejected the tertiary theory of liability, other copyright cases provide support for the extension of copyright liability to tertiary parties, if only by implication. Indeed, the seminal contributory copyright liability case, Gershwin Publishing Corp v Columbia Artists Management, Inc, implies that the degree of separation

Copyright's Highway: From Gutenberg to the Celestial Jukebox 165–69 (Stanford 2003).
41 See A&M Records, Inc v Napster, Inc, 284 F3d 1091 (9th Cir 2001) (affirming the modified injunction issued against Napster).
42 See In re Napster, Inc Copyright Litigation, No C 00-1369 (MHP), No C 00-4725 (MHP), slip op at 4–7 (ND Cal July 9, 2001) (listing defendants and the claims brought against them).
43 Id at 3 (stating that, according to the plaintiff's allegations, "Napster users are the direct infringers, Napster is the secondary infringer and the individual defendants are tertiary infringers").
44 Napster, No C 00-4725 (MHP), slip op at 3.
45 Id at 3–4. Read carefully, however, the legal authority adduced for this proposition does not support it. For example, the court cites Cable/Home Communication Corp, 902 F2d at 845, for the statement that "[c]ontributory infringement must follow a finding of direct or primary infringement." That is accurate; however, it does not follow that third-order parties cannot also be contributory infringers following a finding of direct infringement.
46 Id at 6 (“[P]laintiff does not allege that any of these defendants have the right or ability to supervise or control the infringing activity.”).
47 Id (“Although the complaint alleges that these defendants 'intend to profit' from use of the Napster system, [plaintiff] does not assert that they have a direct financial interest in the infringing activity.”).
48 443 F2d 1159 (2d Cir 1971). This case is seminal in that its language and reasoning have been widely adopted. It is cited by major treatises and hundreds of cases, including Supreme
between primary infringers and liable parties is not a material factor in the analysis.\textsuperscript{49}

In \textit{Gershwin}, Columbia Artists Management operated a division dedicated to establishing and nurturing local nonprofit organizations.\textsuperscript{50} Those organizations, in turn, organized concerts, the proceeds of which were used to reimburse Columbia for advertising and other expenses, and to pay the artist a performance fee, from which Columbia deducted its commission.\textsuperscript{51} In this situation, the musical performers were direct infringers (violating the copyright holder's exclusive right to perform publicly), and the local nonprofit groups were contributory infringers because they helped organize the infringing performances. The court concluded that Columbia's "pervasive participation in the formation and direction of \{the local nonprofit groups\} and its programming of compositions" was sufficient to sustain liability.\textsuperscript{52} The court applied the common law doctrine that one who knowingly "furthers a tortious act is jointly and severally liable with the prime tortfeasor."\textsuperscript{53} Without explicitly noting so, the court endorsed a theory of tertiary liability: liability extended (1) on the basis of a relationship with a secondary infringer, and (2) while lacking a relationship with the direct infringer.\textsuperscript{54}

More recent cases provide similar support for tertiary liability. In \textit{Religious Technology Center v Netcom On-Line Communication Services, Inc},\textsuperscript{55} Netcom, an internet service provider (ISP), provided internet access to a bulletin board system (BBS). The BBS, in turn, allowed

Court cases. See, for example, \textit{Sony}, 464 US at 438 n 18.

\textsuperscript{49} \textit{Gershwin}, 443 F2d at 1163 (emphasis added):

\begin{quote}
Although [Columbia Artists Management] had no formal power to control either the local association [that is, the secondary infringer] or the artists for whom it served as agents [that is, the direct infringers] it is clear that the local association depended on [Columbia] for direction in matters such as this, that [Columbia] was in a position to police the infringing conduct of its artists, and that it derived substantial financial benefit from the actions of the primary infringers.
\end{quote}

The language here relies on Columbia's relationship with the artists, the direct infringers, and the local organization, the secondary infringer.

\textsuperscript{50} Id at 1160–61.

\textsuperscript{51} Id at 1161. For a more detailed explanation of the facts, see \textit{Gershwin Publishing Corp v Columbia Artists Management, Inc}, 312 F Supp 581, 581–82 (SD NY 1970), affd, 443 F2d 1159.

\textsuperscript{52} \textit{Gershwin}, 443 F2d at 1163 ("[Columbia] knew that copyrighted works were being performed ... and that neither the local association [contributory infringer as well] nor the performing artists [primary infringers] would secure a copyright license. It was, therefore, responsible for [and vicariously liable for] the infringement of those primary infringers.").

\textsuperscript{53} Id at 1162.

\textsuperscript{54} It is possible to distinguish \textit{Gershwin} from "pure" tertiary liability because Columbia received money directly from the artists (and therefore benefited from the direct infringement as well as from the secondary infringement). Nevertheless, it appears that the court was willing to extend liability to Columbia because of its control over the local nonprofits. See id at 1163.

\textsuperscript{55} 907 F Supp 1361 (ND Cal 1995).
one of its subscribers to post material that infringed the plaintiff's copyright. In this scenario, an individual BBS user was the direct infringer. The BBS was a contributory infringer since it provided the means for publishing the copyrighted material. Netcom was a tertiary offender because it aided the BBS, the secondary offender. In considering the issue of Netcom's liability for contributory infringement, the court held that there was a genuine issue of material fact as to both Netcom's knowledge of and participation in the direct infringement. In sum, it appears that copyright liability can extend to tertiary parties on the basis of their relationship with a secondary rather than a direct infringer. None of the examples of tertiary liability offered here is as clean cut as that of Napster's backers, where there was no possibility that the tertiary parties could have interacted with the direct infringers; however, at least some courts have recast tertiary infringement as second-order infringement, avoiding the nomenclature but not the substantive result.

II. SHOULD COURTS RECOGNIZE TERTIARY COPYRIGHT INFRINGEMENT?

The mere potential for recognizing a theory of tertiary liability gives courts little guidance when determining whether the doctrine should exist and when liability should be extended beyond direct or secondary infringers. Part II.A concludes that the text of the Copyright Act does not explicitly preclude, and may implicitly endorse, tertiary liability. Part II.B finds that a number of other considerations support the extension of copyright liability to tertiary parties. Part II.C then discusses the strong concerns militating against extending liability too broadly.

56 The court concluded that the facts would not sustain a claim of vicarious liability. The court noted that Netcom still had the right to control, despite the fact that the direct infringer only had a relationship with the BBS, not with Netcom:

In this case Netcom is even further removed from [the direct infringer's] activities. . . . However, it is not crucial that [the direct infringer] does not obtain access directly through Netcom. The issue is Netcom's right and ability to control the use of its system, which it can do indirectly by controlling [the secondary infringer's] use.

Id at 1375 n 22. However, the court found that Netcom reaped no financial benefit despite the plaintiffs' contention that Netcom's policy of allowing infringing material on its network attracted infringers, resulting in an indirect financial benefit. Id at 1377. Although the financial interest test was not satisfied here, given the breadth of the test, it is not inconceivable that other courts could have reached differing conclusions on this point. With respect to ISPs, this discussion is largely mooted by the passage of the Digital Millennium Copyright Act. See Part II.A.2.

57 There are several possible reasons for this. First, adopting a vocabulary which includes "tertiary" or "third-order" offenders may seem to broaden the tort too far. Tertiary language is difficult to pare back; it may be easier to maintain that all liability is "secondary" while still holding tertiary parties accountable in order to decrease uncertainty and potential litigation. Second, tertiary liability is not explicitly endorsed by the Copyright Act or by any court.
A. The Copyright Act’s Infringement Provisions

1. Plain text of the Copyright Act.

Section 106 of the Copyright Act vests certain rights exclusively in the copyright holder. This section also gives the copyright holder the exclusive right “to authorize” the exercise of any of these vested rights. Thus, only the copyright holder can authorize the public staging of a play she has written. Section 501(a) is the statutory basis for an infringement action. This clause indicates that a person who authorizes another party to violate an exclusive right—for example, by authorizing a public performance—is an infringer. No distinction is made as to the manner in which the right is violated.

Since § 106 vests in the copyright holder the exclusive right of authorization, this seems to indicate that secondary infringement would be a type of infringement contemplated by the Act. Moreover, § 106 does not differentiate between liability for violating a “to do” right, such as publicly performing or reproducing the work, which would create direct liability, versus a “to authorize” right; hence it too offers support for indirect liability. Finally, § 501(b) provides that the copyright owner may “institute an action for any infringement of that particular right committed while he or she is the owner of it.” This reference to “any infringement” again indicates that direct and indirect acts of infringement must be treated identically; thus, an “authorizer” is an infringer. Therefore, the party authorizing the authorizer is also an infringer, and so on. To some extent, this approach is reinforced by the interpretation the Supreme Court has given the statute, also equating “authorizers” with standard infringers.

With this reading, the text of the Copyright Act supports third-, fourth-, and fifth-order copyright liability if one authorizes an infringement. The Napster court, however, rejected this theory as lacking a legal basis. As far as the Copyright Act is concerned, this reading

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58 17 USC § 106(1)-(6).
59 17 USC § 106.
60 17 USC § 501(a) (“Anyone who violates any of the exclusive rights of the copyright owner as provided in sections 106 through 122 . . . is an infringer of copyright or the right of the author, as the case may be.”).
61 17 USC § 501(b) (emphasis added).
62 The Supreme Court seems to embrace the more expansive definition of infringement, stating that “anyone who trespasses into [the copyright holder’s] exclusive domain by using or authorizing the use of the copyrighted work . . . is an infringer of the copyright.” Sony Corp of America v Universal City Studios, Inc, 464 US 417, 433 (1984) (internal quotation marks omitted) (emphasis added). Again, the fact that the Court considered both Sony (the manufacturer) and its advertising agency collectively indicates that degrees of liability are not material. See id at 422.
63 In re Napster, Inc Copyright Litigation, No C 00-1369 (MHP), No C 00-4725 (MHP), slip op at 3 (ND Cal July 9, 2001) (“[L]iability for contributory infringement requires substantial par-
seems unduly narrow; the plain language of the statute can certainly be read to permit liability for tertiary parties whose actions "authorize" infringement. On the other hand, it is clear that the Copyright Act does not mandate tertiary liability; one might conclude that the textual support for even secondary liability is lukewarm at best. Still, if one accepts the conclusion that the Copyright Act authorizes secondary liability, the same textual reading should support tertiary liability as well.


Following *Netcom*, Congress passed the Digital Millennium Copyright Act (DMCA), portions of which include a safe harbor provision for ISPs. Essentially, this section of the DMCA was designed to prevent tertiary liability from extending to unintentionally infringing ISPs. The fact that Congress did not simply amend the Copyright Act itself to remove all possibility of tertiary liability may, by negative inference, indicate implicit authorization for courts to continue extending tertiary liability, except in areas explicitly removed from their jurisdiction.

On the other hand, it is not clear that Congress, when amending the Copyright Act, thought that it was acknowledging a limitation to tertiary liability, rather than secondary liability. Further, the *exclusio unius* argument relies on congressional silence—not a strong foundation for extending liability. Nevertheless, even if Congress did not intend to create, recognize, or limit a new category of liability, by recog-

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64 On the other hand, the Supreme Court's *Sony* decision gave little guidance to courts struggling to define the limits of indirect liability. In *Sony*, the Court stated that the judiciary is "reluctant[t] to expand the protections afforded by the copyright without explicit legislative guidance," and that "Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations" that new technology allows. 464 US at 431. Nevertheless, the Court stated that "the absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements." Id.


66 See 17 USC § 512 ("Limitations on liability relating to material online"); WIPO Copyright Treaties Implementation and On-Line Copyright Infringement Liability Limitation, HR Rep No 105-551(1), 105th Cong, 2d Sess 11 (1998) (identifying the provision as codifying the result in *Netcom*, describing it as "the leading and most thoughtful judicial decision to date").

67 This would be an example of *exclusio unius est inclusio alterius*—the exception made for one implies applicability to all others. See, for example, *New York v 11 Cornwall Co*, 718 F2d 22, 24 n 1 (2d Cir 1983) (discussing the *exclusio unius* canon of construction).

nizing an exception to this category it arguably gave implicit en-
dorsement to the doctrine.

B. Reasons to Extend Copyright Liability to Tertiary Parties

A variety of efficiency justifications exist for further extension of liability, as discussed in Part II.B.1. Tertiary liability gives the lowest-cost avoider an incentive to monitor and deter infringing activity. It also helps solve a collective action problem inherent in direct and secondary infringement actions. Part II.B.2 argues that if courts are extending tertiary liability already (and it appears that they are), it would be best for them to admit doing so and begin to draw clear boundaries to reduce uncertainty and risk.

1. Extending liability to tertiary parties yields efficiency gains.

Extending liability to tertiary parties is efficient for several rea-
sons. Principally, tertiary liability encourages efficient precautions by placing the burden to monitor and prevent infringement on the lowest-cost avoider. Indirect liability also aids copyright owners seeking appropriate compensation for infringing activity, and thereby helps prevent a public goods problem.

a) Incentives for efficient precautions. If the gains to the copy-
right holder from marginal avoidance of copyright infringement out-
weigh the costs to the third party—as measured by the costs of addi-
tional monitoring and deterrence measures—it makes sense to give the third party incentives to act. The legal rule should ideally mini-
mize the sum of the costs of accidents and precautions as if all parties were under common control. In turn, this prevention will be efficient

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69 A variety of efficiency justifications for indirect liability generally also apply to tertiary liability, although with less force. I focus here on those rationales that present a stronger case for extending liability beyond secondary parties. For example, actions against indirect parties are often preferable for copyright holders because they allow the copyright holder to reduce total infringement in just one legal action. Randal C. Picker, Copyright as Entry Policy: The Case of Digital Distribution, 47 Antitrust Bull 423, 442 (2002) ("Chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem."). This same result may hold for ter-
tary liability, but it is not clear that the gain to copyright holders over that which secondary li-
ability already offers would be substantial.

70 The outcome described above is an application of Judge Learned Hand's famous formula: extend liability when $B$, the cost of the precaution, is less than $P$, the probability of the occurrence, multiplied by $L$, the magnitude of the injury. United States v Carroll Towing Co, 159 F2d 169, 173 (2d Cir 1947). Technically, Hand's formula did not rely on marginal costs and benefits, but nevertheless it is close to the negligence rule that encourages efficient levels of precaution.

71 Id. See also John Prather Brown, "Learned Hand rule," in Peter Newman, ed, 2 The New Palgrave Dictionary of Economics and the Law 514, 515 (Macmillan 1998) ("Efficient levels of precaution are those levels of precautions by both injurer and victim which would be taken if both the injurer and the victim were under common control and the level of precautions were
if the lowest-cost avoider is given incentives to act (or not act), and the benefits of acting outweigh the costs.\textsuperscript{72} Simply put, if massive infringement is inexpensive to prevent by extending liability to indirect parties, it makes sense to extend liability.

From this perspective, extending liability to tertiary parties will often encourage cost-effective precautions. Active investors, such as venture capital firms, or those who license key technologies, are often the lowest-cost avoiders for preventing contributory infringement. Rather than attempt to shut down every contributory infringer—of which there may be many,\textsuperscript{73} each requiring an expensive legal battle—it may be better to place liability on those who enable the contributory infringers, thereby discouraging the infringement in the first place. The tertiary party is in the lowest-cost position to ensure that small, seedling secondary infringers do not grow into large infringers because of capital investments or technological acquisitions. With tertiary liability, investors have an incentive not to make an investment that would greatly increase overall infringement.

In many situations, the most cost-effective option for avoiding infringement will be one of design: could Sony have shipped VCRs that were incapable of recording?\textsuperscript{74} In the context of tertiary liability, the question becomes whether a tertiary party was in the best position to effect cost-justified changes. Napster’s active investors might have ensured that steps were taken to protect against the transmission of copyrighted works; ISPs might have denied Napster service unless it developed technologies to slow copying; an inventor with a certain technology may be in a good position to effect some product design changes that quickly and cheaply decrease infringement, or to withhold the technology until such changes are made. Tertiary parties that act as enablers are especially good candidates to incentivize. If the secondary infringers would not exist without the tertiary parties—or

\textsuperscript{72} Normative law and economics literature encourages legal results that place the burden of preventing harm on the party able to prevent the result at the lowest cost. Menachem Mautner, “The Eternal Triangles of the Law”: Toward a Theory of Priorities in Conflicts Involving Remote Parties, 90 Mich L Rev 95, 101 (1991) (noting that legal economists agree that tort rules, to be efficient, should impose liability on a party “if his avoidance costs would have been lower than the accident’s expected losses”).

\textsuperscript{73} There are a variety of computer programs that are arguably contributory infringers. For a discussion of some of the different systems, see Lior Jacob Strahilevitz, Charismatic Code, Social Norms, and the Emergence of Cooperation on the File-Swapping Networks, 89 Va L Rev 505, 511–22 (2003) (describing different file-swapping programs).

\textsuperscript{74} Some have argued that in a negligence regime indirect liability would be preferable to the Sony test. See, for example, Douglas Lichtman and William Landes, Indirect Liability for Copyright Infringement: An Economic Perspective, 16 Harv J L & Tech 395, 405 (2003) (“[A]n efficient approach to indirect liability might start by applying a negligence rule to any activity that can lead to copyright infringement.”).
would not exist on the same scale—it makes sense to give the tertiary parties incentives either to encourage noninfringing design or not to invest at all. Exposing more parties to the costs of infringing will encourage those parties to take cost-justified measures to prevent infringement or to internalize the costs of their operation. That is, limited liability makes many secondary infringers judgment-proof, and thus they will not internalize the cost of their operations. Constraining liability to secondary infringers alone leaves nonconsensual creditors—that is, the copyright holders—holding the bag. Better to extend liability to tertiary parties who, as contract creditors, can evaluate risk and expected return ex ante, and therefore encourage cost-effective deterrence.

Changes in technology and responses to the current legal rules will likely strengthen this argument. For example, secondary infringers, reacting to the extension of liability in domestic courts, may choose to move overseas. In situations like this, the lowest-cost avoider over whom a plaintiff can obtain jurisdiction and encourage to prevent the infringing may be the tertiary infringer.

b) Preventing a collective action problem. Legislatures may want to encourage actions against indirect infringers because such actions produce what economists term "public goods." Although a downloader may be illegally acquiring works by a variety of musicians, any single musician who brings suit against the downloader will bear the entire cost of the legal action and will not be able to internalize the benefits flowing to all musicians. From the musician's perspective, therefore, the private benefits may not outweigh the private costs, while the public benefits do outweigh the private costs. Therefore, the suit is a type of "public good" that will be underproduced if not encouraged.

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75 See Alan O. Sykes, The Economics of Vicarious Liability, 93 Yale L J 1231, 1244 (1984), noting that employee insolvency leads to several inefficiencies:

First, potentially insolvent agents are likely to invest inefficiently little of their own resources in the avoidance of wrongs...[S]econd[...], the possibility of agent insolvency increases the expected profitability of the principal-agent enterprise...Finally, when agents are potentially insolvent, the perceived costs of production for each principal-agent enterprise understate the true economic costs of production.


77 See Anthony De Jasay, "Prisoners' Dilemma and the Theory of the State," in Peter Newman, ed, 3 The New Palgrave Dictionary of Economics and the Law, 95, 99–101 (Macmillan 1998) (defining and distinguishing collective action problems from public goods). A public good is one whose use is nonrivalrous and nonexclusive. A suit against an infringer is nonrivalrous because the benefits accruing to one artist whose copyrights are protected do not diminish the benefits accruing to another artist. It is nonexclusive because the benefits of the lawsuit cannot be internalized by one party.

78 See Lichtman and Landes, 16 Harv J L & Tech at 408 (cited in note 74) ("[I]t might well
At first blush it is not obvious why tertiary liability would alleviate the problem, rather than just provide another type of suit that would also be hampered by free riding. Note, however, that if all lawsuits are negative value suits, it will clearly not be in the interest of the copyright holder to bring suit, even if it would be in the interest of all musicians generally to prevent the infringement. Most suits against secondary infringers will be negative value simply because these parties are likely judgment-proof start-up companies or otherwise incapable of compensating the copyright holder. In these situations, secondary liability does not address the lack of incentive to go after secondary parties.

But, suits against tertiary parties may be more likely to seek—and to obtain—damages. The further liability extends, the more likely the copyright holder is to obtain compensation, that is, to have a positive value suit, and therefore overcome the collective action problem. Indeed, theoretically, rather than a collective action problem, tertiary liability may create a race to sue the tertiary party and collect whatever damages are available before resources are exhausted. Tertiary liability, like any form of indirect liability that reaches "deep pockets," would encourage lawsuits. This same feature of tertiary liability would alleviate the undercompensation problem that exists with respect to other means of excluding the copyright holders from effective remedies, such as jurisdictional limitations or judgment-proof finances as well.

2. Courts are already extending copyright liability to tertiary parties.

Courts are already imposing tertiary copyright liability, at least in substantive result. It is preferable that courts also adopt the vocabulary of tertiary infringement liability for several reasons. First, there

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improve efficiency to require that copyright holders go after services, not individuals, even if the opposite strategy would be in the private interest of a given copyright holder.

79 It is possible to argue, however, that indirect liability creates a free rider problem. Artist X may choose to let Artist Y sue the indirect infringer. Artist X will benefit from the suit, but will bear none of the costs. Artist Y, therefore, has created a positive externality that it cannot efficiently internalize. While this is a free rider problem, it is not substantively different from the problem that existed with only direct liability. The question is whether indirect liability exacerbates the free rider problem. Because it makes some recovery possible—versus no potential for recovery with direct liability alone—it will, on balance, be efficient.

80 See Goldstein, 2 Copyright § 6.0 at 6:5 (cited in note 17) ("If the direct infringer is outside the court's jurisdiction or venue, an action against a related infringer may represent the copyright owner's most effective avenue for relief.").

81 See Lichtman and Landes, 16 Harv J L & Tech at 398 (cited in note 74) (A "rationale [for vicarious copyright liability] is that liability helps to minimize the implications of bankrupt infringers. . . . Indirect liability solves this problem by putting the employer's resources on the line, thereby increasing the odds that the harm from infringement will be internalized.").
are already several disagreements between courts as to when and how to extend copyright liability. Further, the tests themselves are not well defined. This is a worst-of-both-worlds problem: some actors may suspect that tertiary liability exists, but because no court has explicitly articulated the test through which it should operate, risk and uncertainty abound.

The existence of tertiary liability raises the larger question of why courts are adopting broader copyright infringement tests than have been explicitly endorsed. This may be part of a larger trend toward broadening intellectual property rights in general. It could also be a reaction to legislative inaction. Faced with rampant copyright infringement, courts may be taking it upon themselves to devise rules within the existing copyright law framework to efficiently curb copyright abuses. Changes in intellectual property rights may be explained by examining societal changes that in turn alter the value of those property rights. That is, standard secondary copyright liability rules may be too weak to adequately protect intellectual property rights given the near-zero cost of copying, the ease of avoiding jurisdictional limitations, and the oft-judgment-proof status of many technologically adept infringers. In response to these trends, perhaps it is not surprising that courts have acted independently of legislatures to strengthen property rights.

C. Arguments against Tertiary Liability

Although tertiary liability has some efficiency justifications, it is necessary to explore the countervailing problems it may cause. Principally, increases in liability create greater investment risk, encourage potentially wasteful behavior, raise risk premiums, and raise questions about whether courts are capable of designing optimal liability regimes appropriate for fast-changing technologies.

1. Increased risk and attendant investment chill.

Investors are concerned not so much about rates of return as about risk-adjusted rates of return. If increases in the breadth of li-


\[84\] See Frank H. Easterbrook and Daniel R. Fischel, *Limited Liability and the Corporation*,
ability mean that investors are at risk for the contributory infringement of their investment vehicle, they may be less likely to invest.\footnote{The protection of the corporate veil would do little to reduce the risk of copyright liability for those who satisfy either indirect liability test. Although traditional principles relating to the piercing of the corporate veil shield investors, a copyright holder would not need to pierce the corporate veil to reach tertiary parties. Copyright infringement is a statutory violation itself, so liability attaches without piercing, even if piercing would not otherwise have been possible. Under tertiary liability theory, therefore, an investor faces potentially limitless downside risk, while absent tertiary liability the investor risks only what is invested. The further liability reaches, the more likely that there will be wealthy investors who want to scrutinize their investments to avoid those that create liability. Therefore, the prospect of copyright infringement liability will create the need for an extra layer of monitoring-related transaction costs, which investors will have to bear.} This is not necessarily a bad thing: investment is not desirable if it results in products not capable of substantial noninfringing uses. The problem, however, is that investors may not know ex ante which investments will later turn out to be socially harmful.\footnote{Conceptually, this is similar to United States v Bestfoods, 524 US 51, 55 (1998), where the Supreme Court found that a corporate parent could be liable for violating an environmental statute as an "operator"—even under circumstances in which the corporate veil could not be pierced. In this sense, "aiding" is a Copyright Act violation in and of itself—the aiding relationship is sufficient for liability and does not require piercing.}

The further liability reaches, the more likely that there will be wealthy investors who want to scrutinize their investments to avoid those that create liability. Therefore, the prospect of copyright infringement liability will create the need for an extra layer of monitoring-related transaction costs, which investors will have to bear.\footnote{See Easterbrook and Fischel, 52 U Chi L Rev at 89-90 (cited in note 84) ("The rule of limited liability means that the investors in the corporation are not liable for more than the amount they invest."). With tertiary liability, just as with piercing, more assets are at risk than just those invested.}
bear. Some investments on the margin, which might have been socially beneficial, will not be funded because of the additional transaction costs and risk. However, this additional monitoring and pre-investment research may help deter secondary infringement.

Further, there is the general risk that tertiary liability puts the burden of monitoring on the wrong party. If tertiary parties, by virtue of the fact that they do not interact with direct infringers, are not in a position to monitor cheaply, then the deterrent value of this liability is low. Meanwhile, the costs, both monitoring and litigation, may be substantial. On balance, it is not obvious that we would be better off with tertiary liability if the tertiary party is not able cheaply to detect and deter infringement.

2. Inefficient behavior to avoid liability.

The possibility exists that monitoring costs may add little in terms of deterrence but impose substantial costs—that is, they are not cost justified. Tertiary parties are likely to include investors, suppliers of technology, or other deep-pocket parties that may be wary of investing if, in order to avoid the risk of liability, they are forced to choose between potential copyright liability or contractual absolution of any oversight. This is not a question of risk aversion but of the effect of imposing substantial monitoring costs to which parties will react in inefficient ways. For example, an investor who knows copyright law may forgo a management role because any showing of involvement may in turn show that there is control. Investors choosing between very passive roles or potential liability may not invest at all.

Corporate law tries to avoid this result. Limited liability serves to decrease monitoring costs on the part of investors by insulating them, thereby decreasing their incentive to monitor. Tertiary liability, on the other hand, would increase incentives to monitor. Tertiary liability’s impact on investors, however, would remain localized: simple monetary investments without a right of control (or some other additional act) are not enough to create liability for passive investors. To the

89 Some scholars arguing for unlimited liability for shareholders have posited that while “a rule of joint unlimited liability would significantly increase shareholder incentives to monitor,” this may not be an inefficient result. David W. Leebron, Limited Liability, Tort Victims, and Creditors, 91 Colum L Rev 1565, 1605–06 (1991). While the incentive to monitor may sometimes be socially beneficial, the point still remains that a monitoring burden imposed in just one sector of the economy would skew investors away from that otherwise attractive investment opportunity. 90 See Easterbrook and Fischel, 52 U Chi L Rev at 94 (cited in note 84):

All investors risk losing wealth because of the actions of agents. They could monitor these agents more closely. The more risk they bear, the more they will monitor. But beyond a point more monitoring is not worth the cost. Moreover, specialized risk bearing implies that many investors will have diversified holdings.
extent that active investing is desirable, however, this result is clearly inefficient.

3. Delay, risk, and caution.

Increases in indirect liability may slow technological deployment if companies must analyze how their products may implicate them as indirect infringers. The test for secondary copyright infringement is a standard, not a rule, and consequently it is more difficult for individuals to predict their liability.91 If the law expands to include another layer of potential infringers, it becomes more difficult to predict one's liability under the contributory copyright standard.

It is important here to avoid conflating two uncertainties. There is one layer of uncertainty because standards, such as the substantial noninfringing use test, have little predictive ability. This affects secondary and tertiary parties in different manners.

Under secondary liability, before an inventor rolls out a new program she will have to factor in the risk that the program will be found not to be capable of substantial noninfringing uses. Under a regime of tertiary liability, this same uncertainty is borne by tertiary parties as well. This is arguably even more inefficient, however, because the tertiary party may not be in an ideal position to evaluate the product or service in question. It will take greater resources for a tertiary investor to evaluate the risk inherent before investing. Some of this uncertainty could be resolved with a more predictable test for infringement. Absent such a test, the uncertainty inherent in copyright law will affect tertiary parties to a greater extent than secondary parties. Even given such a test, it will still be more difficult for tertiary parties to evaluate their potential investments before committing.

4. Institutional competency.

Tertiary copyright liability, if extended by courts, would be based on little legislative guidance. Meanwhile, the impact of tertiary liability may be far-reaching, with potentially chilling effects on investment throughout the economy, especially in high-technology, content-based sectors. Perhaps courts are not the best institutions to evaluate the necessity and limits of tertiary liability. Congress's reaction to Netcom92 shows the difficulty in managing the breadth of tertiary liability laws

91 See Louis Kaplow, Rules versus Standards: An Economic Analysis, 42 Duke L J 557 (1992) (noting that individuals will find it easier to apply rules than standards because learning rules requires learning the content of the rule, while standards require predicting the content that a decisionmaker will later provide).

92 See Part II.A.2.
and the desirability of nuanced, industry-textured rules—a task better suited to legislatures than courts.

III. A PROPOSED SYSTEM OF TERTIARY LIABILITY

Tertiary liability has some desirable features but may also have undesirable consequences. The tests for tertiary liability should therefore attempt to minimize the potential costs in terms of chilled investment, monitoring costs, delayed deployment of technology, and risk. Ideally, however, the test will not exclude cases in which tertiary liability will aid in cost-justified deterrence and compensation for copyright holders. Any suggested test should be clear in demarcating the boundaries of liability, to help tertiary parties avoid unnecessary uncertainty.

In this Part, I attempt to clarify the tests that courts should use when imposing liability on tertiary actors. Part III.A argues that the case for tertiary liability, on balance, is stronger than that against it, and therefore the doctrine should be explicitly adopted. Part III.B explains why courts will likely rely increasingly on theories of tertiary liability in response to changing technologies. Parts III.C and III.D flesh out suggested tests for extending copyright liability to tertiary parties and explain why they are efficient. Part III.C argues that for contributory liability to extend to tertiary parties, courts should require knowledge of the direct act of infringement and an action that furthers any type of infringement—direct or secondary. Part III.D continues the analysis for vicarious liability, and argues that the most efficient test would look to a direct financial interest in the directly infringing activity and control over any infringer.

A. Tertiary Liability Creates Efficiency Gains

Tertiary liability places a burden to monitor and prevent infringing activity on parties able to monitor and prevent infringement at the lowest cost. Therefore, the doctrine should encourage cost-effective deterrence and prevent a public goods problem, leading to efficient and effective copyright enforcement. While the arguments against tertiary liability are forceful, the doctrine can be limited such that these concerns are rendered relatively insignificant.93 As discussed below and in Part IV, it will be relatively easy for parties to reduce the risk of tertiary liability, for example, through the use of declaratory judgment proceedings. The tertiary liability tests themselves will ensure that parties for whom the extension of liability would lead to inefficient results are immune.

93 See Parts III.C–D.
B. Tertiary Liability Will Be Necessary

The target of indirect copyright law, perhaps inevitably, has changed dramatically over the years from fly-by-night phonograph manufacturers to peer-to-peer software programs. Further changes in technology may make indirect copyright liability generally, and tertiary liability specifically, attractive to copyright holders. These same technological changes and developing technologies may force courts to grapple with issues of appropriate deterrence and compensation. For example, new technologies that mask the identity of direct infringers may make recovery and deterrence against direct infringers impossible, or at least extremely difficult and costly. In the arena of digital copyright infringement, many users are judgment-proof, effectively limiting the ability of standard copyright law to deter their behavior. Further, many infringers will respond to the jurisdictional limitations of U.S. courts by moving their infringing activity—or just enough of their infringing activity to avoid liability—overseas. Faced with new technologies and challenges posed by digital copyright infringement, courts and copyright holders may increasingly rely on indirect infringement actions to protect intellectual property.

The specter of judgment-proof direct infringers and jurisdictionally immune secondary infringers militates in favor of tertiary liability.

94 Historically, fly-by-night phonograph producers sold bootlegged albums at submarket prices before disappearing with their ill-gotten gains. See, for example, Screen Gems-Columbia Music, Inc v Mark-Fi Records, Inc, 256 F Supp 399, 401 (SD NY 1966), noting that [the defendants’] acts were typical of a practice which has plagued the music publishing industry and has posed a serious threat to the interests of music publishers, songwriters and legitimate record companies—the unauthorized manufacture of phonograph records by fly-by-night companies organized by unscrupulous individuals who, because of nonpayment of royalties to the copyright owners, can sell the bootlegged product [for less].

95 See, for example, Jennifer Arend, Microsoft Accuses Arlington Man of Software Piracy, Dallas Morning News 1A (Aug 2, 2000) (noting that fly-by-night operators selling illegal software on the internet are “a huge problem for Microsoft”). This problem exists in other contexts as well. See, for example, John Pomfret, Chinese Pirates Rob ‘Harry’ of Magic, and Fees, Washington Post A1 (Nov 1, 2002) (noting that fake Harry Potter novels showed up “in at least 10 cities around China”). Particularly apposite here, see John Alderman, Free for All, Guardian (London) 50 (Aug 4, 2001) (stating that after the MP3 craze began, “[t]raffic on college networks swelled as students began sharing every bit of music they could get their hands on” and that “[m]any amateur sites sprang up, fly-by-night gathering places for traders of copied songs”). See also Randal C. Picker, From Edison to the Broadcast Flag: Mechanisms of Consent and Refusal and the Propertization of Copyright, 70 U Chi L Rev 281 (2003) (discussing changes in technology in response to copyright infringement).

96 See Dominic Timms, Can the New Napster Cut It?, Guardian (London) 42 (Oct 20, 2003) (discussing peer-to-peer networks’ attempt “to make tracking users’ downloads more difficult”).

97 See Assaf Hamdani, Who’s Liable for Cyberwrongs?, 87 Cornell L Rev 901, 910–11 (2002) (“Even when the identity of infringers is uncovered, they often turn out to be judgment-proof teenagers or college students, who lack the means to pay damages. Thus, in many cases it would be impossible to impose upon copyright-infringing Internet users the full optimal penalties dictated by deterrence considerations.”).
Even in other circumstances, however, tertiary liability will foster more efficient monitoring, compensation, and deterrence by increasing the breadth of copyright infringement liability to include more parties. Further, because those who "enable the enablers" are often the lowest-cost avoiders of the direct infringement, tertiary liability has the potential to prevent widespread direct infringement before its incipiency.

C. Contributory Liability: Knowledge and Act Requirements

Contributory liability can be analogized to aiding and abetting. Those who help criminals should bear some of the costs the criminals' actions create. By the same token, criminal law is concerned with excluding parties who are genuinely innocent. Contributory copyright liability that reaches tertiary parties should function similarly to aiding and abetting: the knowledge test, described in Part III.C.1, should look to knowledge of the direct infringement, thereby capturing only parties who know that their assistance will aid in infringement. The act requirement, discussed in Part III.C.2, however, should be broader, allowing liability to attach to anyone who, with knowledge that her action would aid an act of direct infringement, helps any type of infringer. This test should exclude innocent parties who have neither actual nor constructive knowledge of the direct act but still include those who knowingly enable an act of direct infringement, even if they do so through a convoluted channel.

1. The knowledge requirement calls for knowledge of direct infringement.

Contributory liability rests on the relationship between the contributory infringer and the infringing activity. Generally, the closer the relationship between the contributory infringer and the direct infringement, the easier it will be to establish knowledge. Therefore, the knowledge requirement is, and should be, directed at knowledge of the direct infringement.

An easy analogy is to aiding-and-abetting law: if I give you a baseball bat with the purpose of facilitating some violent act, I may be liable for assisting you. However, if I had no knowledge that your in-
tention was malicious, no liability will attach, even though the action itself is identical. The idea is to attach liability only for bad faith actions. Knowledge of the direct infringement cleaves out cases in which the tertiary party aids a secondary infringer in total innocence of the secondary infringer’s ultimate purpose. This, therefore, excludes parties whose behavior would not be affected by liability, but whose risk would be.

*Netcom* demonstrates how this test would actually function. The court found a genuine issue of material fact as to knowledge because “*Netcom ha[d] knowledge of [the direct infringer’s] infringing post-ings yet continue[d] to aid.*”\(^{100}\) The *Netcom* court concluded that knowledge of the direct infringement, not knowledge of the BBS’s contributory actions, was the proper requirement.\(^{100}\)

If the knowledge requirement is aimed at the direct infringement, the test becomes a more substantial obstacle for pegging tertiary infringers. Knowledge of direct infringement is a proxy for how close the indirect party is to the direct infringement. If courts simply look at whether the tertiary party has constructive knowledge of the direct infringement, they will likely capture most cases in which the indirect infringer and the direct infringer are part of the same enterprise. Thus, knowledge of the direct infringement, as adopted in *Netcom*, effectuates the purpose of the knowledge requirement and helps limit the scope of tertiary liability.

In the copyright context, of course, the knowledge need not be actual knowledge but may rather be constructive knowledge.\(^{102}\) This may be a concern if courts assume the third-order infringer’s knowledge. Often, there will not be a clear dichotomy between the tertiary party’s constructive knowledge of first- and second-order infringing activities. For example, an investor in a company that makes software allowing users to trade copyrighted music will likely have constructive knowledge that distribution of the software is an act of contributory infringement and that the software’s use will be a direct infringement of copyright law. The constructive knowledge requirement is useful

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\(^{100}\) *Netcom*, 907 F Supp at 1375 (emphasis added).

\(^{101}\) Id at 1383 (denying an injunction because there was little evidence that Netcom knew of the direct infringement).

\(^{102}\) See *Sony Corp of America v Universal City Studios, Inc*, 464 US 417, 439 (1984) (stating that liability for contributory infringement “must rest on the fact that [Sony] has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material”). See also A. Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technological Tensions*, 64 Notre Dame L Rev 47, 72 (1989) (noting that the *Sony* knowledge requirement of “constructive knowledge of general infringement is broader than the general tort theory under [Restatement (Second) of Torts] section 876(b), which requires actual knowledge”).

an instrumentality to commit an offense is sufficient. See *Hensel v State*, 604 P2d 222 (Alaska 1979) (holding that furnishing fuses for use in a burglary was sufficient for accomplice liability).
because it disables "ostrich" defenses,\textsuperscript{103} ensuring that tertiary parties cannot circumvent copyright law by refusing to acquire information about the use of their products.\textsuperscript{104}

2. The act requirement calls for an action that assists any act of infringement.

To establish the second prong of the contributory liability test, it should be sufficient for a copyright holder to show that a tertiary party materially assisted any act of infringement. If the tertiary party's action through another party aids or assists the direct infringer, then the tertiary party is acting as part of the same enterprise (assuming, again, that it has knowledge of the direct infringement).

The act requirement looks for an act that enables or assists the direct infringer, but the enabling does not need to be direct. Realistically, the broader assistance test will mean that copyright holders can get at those who allow an act of direct infringement to take place, but who are artificially immunized from liability simply because their assistance was to a secondary rather than a direct infringer. Between the knowledge and act requirements, the first directed at the direct infringement and the second directed more generally, the test is likely to exclude situations in which benefits are oblique or where the action was undertaken without knowledge of an infringement. A stricter test looking for aid only to the direct infringer would exclude parties that enable the direct infringer by helping a helper and therefore operate in the same enterprise.

The \textit{Netcom} court strove to avoid this result. The court, in assessing the ISP's liability, noted that Netcom may be liable if, with knowledge, it "continue[d] to aid in the accomplishment of [the direct infringer's] purpose of publicly distributing the postings."\textsuperscript{106} This differs from the knowledge requirement, where the court looked for knowledge of the direct infringer's actions. Thus, a tertiary contributory infringer is liable if, with knowledge of the \textit{direct} infringement, it aids or assists \textit{any} infringement.

\textsuperscript{103} See, for example, \textit{United States v Inglese}, 282 F3d 528, 537 (7th Cir 2002) (stating that "[a]n ostrich instruction informs the jury that actual knowledge and the deliberate avoidance of knowledge are the same thing").

\textsuperscript{104} Nevertheless, broadly imputed knowledge may extend liability too widely. Thus, if courts begin extending liability to tertiary parties, they should do so using the knowledge test reservedly.

\textsuperscript{105} \textit{Netcom}, 907 F Supp at 1375 (emphasis added).
D. Vicarious Liability: Financial Interest and Control Requirements

Vicarious liability exists in copyright law to keep one party from benefiting from the infringing acts of another party. In extending vicarious liability to tertiary parties, the legal test should stay true to this basic theme. As Part III.D.1 shows, the financial interest requirement should look for a benefit from the direct infringement. The control requirement is broader, as argued in Part III.D.2, and focuses on control over any infringer.

1. Vicarious liability requires a financial interest in the direct infringement.

The House Report for the 1976 Copyright Act states that “[t]o be held a related or vicarious infringer in the case of performing rights, a defendant must . . . expect commercial gain from the operation and either direct or indirect benefit from the infringing performance.” Because courts will assume a “commercial gain from the operation” when there is a benefit from the infringing performance, in effect, the only thing that matters is whether there is a direct or indirect benefit. If the infringing activity creates additional value for another party, that party has the requisite financial interest.

The financial interest requirement originally focused on the nature of the financial structure, determining whether there was an increase in income due to infringements. Shapiro, Bernstein & Co v H.L. Green Co, the case which articulated the requirements for vicarious liability, found an “obvious and direct financial interest” based on the fact that the defendant department store took a fraction of the gross receipts from a bootlegged record seller. Similarly, the dance hall cases demonstrate that businesses may be vicariously liable for copyright infringement committed by performing bands because performances of infringing works draw more patrons. Courts contrast the

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107 The specific financial arrangement is not as important as the effect of the arrangement. See Goldstein, 2 Copyright § 6.2.2 at 6:22 (cited in note 17) (noting that practical, not strictly legal, ability to control governs). Therefore, a dance hall owner may not be liable if the financial arrangement does not allow for a payment of a percentage of gross ticket sales. See, for example, Freemont v Aeolian Co, 254 F 592, 593 (SD NY 1918) (finding no liability where the defendant received no profits from performances other than hall rental fees).
108 316 F2d 304 (2d Cir 1963). As with Gershwin for contributory infringement, Shapiro is the seminal case for vicarious infringement. See, for example, Sony, 464 US at 437–38 n 18.
109 Shapiro, 316 F2d at 307.
110 See, for example, Famous Music Corp v Bay State Harness Horse Racing & Breeding Association, Inc, 554 F2d 1213, 1215 (1st Cir 1977) (finding that proprietors of public establishments operated for profit cannot disclaim liability by simply claiming ignorance); KECA Music, Inc v Dingus McGee's Co, 432 F Supp 72, 75 (WD Mo 1977) (stating that actual knowledge is not nec-
dance hall cases against their foil: the landlord-tenant cases. Generally, infringing activities engaged in by a tenant will not create liability for a landlord simply by virtue of this relationship, because the landlord does not earn more money when the tenant infringes—that is, they are not part of the same economic enterprise.\textsuperscript{111}

The financial interest requirement, however, has broadened over time. In *Fonovisa, Inc v Cherry Auction, Inc.*,\textsuperscript{112} the Ninth Circuit found a financial interest where the defendant operated a flea market at which infringing recordings were sold.\textsuperscript{113} Other courts have used an even more liberal test to find liability.\textsuperscript{114}

As a practical matter, therefore, the structure of the financial interest requirement obviates the need to distinguish between primary and secondary infringers. The requirement is broad, even allowing a hope of future profits to serve as a financial incentive. Thus, whenever a secondary infringer stands to benefit from an infringement, the tertiary party will as well because the benefits are inextricably intertwined. The route through which the tertiary party benefits is more convoluted, but the enterprise functions to pass profits along to another party.\textsuperscript{115} The breadth of the requirement means that a tertiary infringer will satisfy the financial interest requirement whenever there is a benefit from the direct infringement—even if this benefit is gained through a secondary infringer.

As discussed above, one reason for vicarious copyright liability is to internalize the costs of unlawful activities. From a policy perspective, therefore, it makes sense for courts to hold tertiary parties liable when they are part of the same infringing enterprise. The broad financial interest test accomplishes this end.

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\textsuperscript{111} Of course this is not entirely true. A policy of noninterference in a tenant's activities may create some financial benefit for the landlord, but it will be limited and not directly tied to the infringing activity. See *Netcom*, 907 F Supp at 1376–77 (discussing an argument for this attenuated form of financial interest).

\textsuperscript{112} 76 F3d 259 (9th Cir 1996).

\textsuperscript{113} Id at 263–64 (noting that "the sale of pirated recordings at the Cherry Auction swap meet is a 'draw' for customers, as was the performance of pirated music in the dance hall cases and their progeny").

\textsuperscript{114} See, for example, *A&M Records, Inc v Napster, Inc*, 114 F Supp 2d 896, 921 (ND Cal 2000) (holding that a future hope to "monetize" may suffice to establish a financial interest).

\textsuperscript{115} This may be why courts seem less reluctant to hold majority shareholders liable for the infringing activities of their closely held corporations. See *Rodgers v Quests, Inc*, 213 USPQ 212, 214 (ND Ohio 1981) (enjoining a radio station from playing copyrighted "musical compositions" without consent); *Boz Scaggs Music v KND Corp*, 491 F Supp 908, 913 (D Conn 1980) (finding KND corporation liable on twenty-three causes of action); *Famous Music Corp v Bay State Harness Horse Racing and Breeding Association, Inc*, 423 F Supp 341, 344–45 (D Mass 1976) (enjoining defendant corporation from playing unlicensed material), affd, 554 F2d 1213 (1st Cir 1977).
When liability extends on the basis of financial interest, however, investment may decrease. Nevertheless, the control requirement helps eliminate situations where there is a financial interest but no real ability to control the infringing behavior. This protects certain types of passive investors and decreases monitoring costs. This test, therefore, would encourage only active investors to monitor their investments.

2. The control requirement looks for control over any infringer.

There are two approaches to control as a requirement for vicarious infringement: legal right of control and actual right of control. Generally, a contractual right to supervise may not itself be sufficient to support liability, but if that right to supervise is exercised, the control requirement may be satisfied. Situations where there is meaningful control, even if only contractual, are those where the parties are acting as one enterprise. Similarly, the enterprise liability concepts inherent in vicarious liability attach liability to parties that are part of the same economic enterprise, such as dance hall operators, but not landlords.

116 See Part II.C.1.
117 For further discussion, see Charles S. Wright, Actual versus Legal Control: Reading Vicarious Liability for Copyright Infringement into the Digital Millennium Copyright Act of 1998, 75 Wash. L. Rev 1005, 1012-20 (2000) (discussing the benefits and detriments of each approach and analyzing state law).
118 See, for example, Bevan v Columbia Broadcasting System, 329 F Supp 601, 610 (SD NY 1971) (noting that "since neither access nor participation was established in respect to the two sponsors, they may not be cast in damages unless they had at least the 'power to supervise and control the content of the infringing program'").
119 See, for example, Davis v Dupont de Nemours & Co, 240 F Supp 612, 632 (SD NY 1965) (noting that "Dupont was not merely an advertiser buying time on a program produced by a station over whom it had no control"). So a landlord may have a legal right of control, but because this right is never exercised, the landlord would not have actual control over an infringing tenant. However, if the landlord typically entered the tenant's rental unit to check for infringement, a court might find that the landlord exercised sufficient control to garner liability.
120 See, for example, Polygram International Publishing, Inc v Nevada/TIG, Inc, 855 F Supp 1314, 1325 (D Mass 1994) ("When an individual seeks to profit from an enterprise in which identifiable types of losses are expected to occur, it is ordinarily fair and reasonable to place responsibility for those losses on the person who profits.").
121 This may in part explain why vicarious copyright liability extends to shareholders. See, for example, United States Media Corp v Edde Entertainment Corp, 1998 US Dist LEXIS 10985, *23 (SD NY) (stating that "[a] corporate officer or principal shareholder may be held responsible for the corporation's copyright infringement" as either a contributory or vicarious infringer); Greaver v National Association of Corporate Directors, 1995 US Dist LEXIS 21816, *14 n 11 (D DC) (stating that "company officials and shareholders can be held liable for copyright infringement if they are in a position to police the 'primary infringer' and had a direct financial interest") (internal citations omitted); Jobete Music Co v Media Broadcasting Corp, 713 F Supp 174, 178 (MD NC 1988) (noting that "cases have also determined that shareholders may be held jointly and severally liable for copyright infringement under the right and ability/interest test") (internal citations omitted).
Copyright law tries to prevent both direct and indirect acts of infringement. Vicarious liability furthers this goal by forcing parties to monitor and internalize costs. Therefore, it seems consistent with copyright law's goals that we would want tertiary parties, to the extent that they are part of the same operation as secondary parties, to internalize the costs of the secondary infringing as well. If the tertiary party has control and a financial interest, it is very likely that it is part of the same enterprise, and extending liability will encourage cost internalization for both direct and secondary infringing acts.\(^2\)

Thus, control over any infringer, coupled with a financial interest, is the proper test for effectuating the goals of vicarious liability for tertiary infringers. These two requirements in tandem seem likely to restrict liability to those whose behavior the law should impact—those who benefit from the infringing and who can do something about it.

**IV. THE POST–TERTIARY COPYRIGHT LIABILITY WORLD**

What will the world look like if tertiary liability is endorsed regularly by courts? First, of course, the affected parties will react to the legal rule. As discussed in Part IV.A, it is likely that a declaratory judgment will be required before venture capitalists extend capital. Alternatively, it may be that peer-to-peer networks will continue to exist, but on a smaller scale because they cannot obtain from tertiary parties the support necessary for growth. Part IV.B argues that Congress may respond to tertiary liability, perhaps by limiting the remedies available for use against tertiary parties, similar to the approach taken in trademark law.

**A. Responses by Secondary and Tertiary Parties**

If venture capitalists, inventors, and others recognize the risk of tertiary liability, they will likely require that those seeking capital obtain a declaratory judgment stating that their product does not infringe. For example, Hummer Winblad might have conditioned its investment on Napster receiving a declaratory judgment that its service was not infringing (or more likely, that it satisfied the substantial non-infringing use test).\(^1\) This would be an ideal response from an efficiency point of view: it limits infringing uses as a condition to greater growth. This limits investment to those products that are not harmful, and consequently creates an incentive to design and develop products.

\(^1\) See Polygram International, 855 F Supp at 1325 ("[P]lacing responsibility for the loss on the enterprise has the added benefit of creating a greater incentive for the enterprise to police its operations carefully to avoid unnecessary losses.").

\(^2\) See notes 26–27 and accompanying text.
that are noninfringing (since only these will receive capital investments later).

On the other hand, it may be that the risk of liability will keep tertiary parties out of the game entirely. The result would be secondary infringement on a smaller scale, as investors and inventors may not assist the secondary parties. Paradoxically, this may actually make it harder to stop secondary infringers: additional smaller networks with no assistance from tertiary parties means that secondary infringement will be costly and difficult to squelch.

B. Response from Congress

One important conceptual difference between tertiary and secondary copyright liability is remedies. Copyright holders pursuing secondary parties, such as Napster or other facilitators, will often seek injunctive relief. Meanwhile, these copyright holders will often turn to tertiary parties for compensatory purposes.\(^{124}\) Of course, nothing prevents the copyright holder from seeking compensation against secondary infringers, or seeking injunctive relief against tertiary parties, but the converses seem more likely. For example, in the context of Napster and widespread infringement enabled by cash-poor start-up companies, tertiary parties are more likely to have deep pockets, and are therefore more likely to be pursued for compensatory damages.

That said, many of the concerns with respect to tertiary liability are founded on the risk of imposition of crushing damage awards. This seems less worrisome if, as noted in Part IV.A, potential secondary infringers seek declaratory judgments in advance. Even so, if Congress were to restrict courts to injunctive relief against tertiary parties, this legislative intervention would mitigate the risk even further. This would be especially appropriate if Congress is concerned about over-deterring “good faith” tertiary parties. Because such a response would lessen the monetary penalties for infringing, however, some of the benefits of tertiary liability, such as increased deterrence and compensation, would be lessened. Ultimately, this might be a reasonable balance to strike; but again, because of the competing interests and difficult policy issues implicated, it is perhaps best resolved by Congress.

If injunctive relief alone were available, however, it might still be profitable for tertiary infringers to invest in secondary infringers. For example, an inventor might license his technology to another party, knowing that that party would engage in contributory infringement. This might still be profitable because with only injunctive relief the inventor would be—at worst—in the same position as before. There is

\(^{124}\) Or at least that has been the prevalent pattern thus far. See notes 1–4 and accompanying text.
no incentive *not* to license the technology because the law provides no downside. Thus, if Congress were to limit the remedies for tertiary liability to injunctive relief, it should also include a damage provision for intentional—that is, bad faith—tertiary infringement, similar to provisions adopted in other intellectual property statutes.\textsuperscript{125}

**CONCLUSION**

Liability for copyright infringement extends to tertiary parties under existing law. As long as the test for infringement does not cast too wide or uncertain a net, tertiary liability encourages efficient monitoring and deterrence. A contributory liability test that looks for knowledge of direct infringement and assistance to any infringer, and a vicarious liability test that looks for a financial interest in the direct infringement and control over any infringer, are supported by current case law for tertiary as well as secondary liability. These tests have inherent limiting principles that keep liability from extending beyond situations where extension would be socially beneficial. On net, therefore, tertiary liability would encourage cost-effective deterrence and monitoring, which would lower overall infringing activity.

\textsuperscript{125} This would be analogous to the remedies available under the Lanham Act for dilution of a famous trademark. See 15 USC § 1125(c)(2) (2000) ("[T]he owner of the famous mark shall be entitled only to injunctive relief as set forth in section 1116 of this title unless the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark.").