

THE SECRET LIFE OF LEGAL DOCTRINE: THE DIVERGENT EVOLUTION OF SECONDARY LIABILITY IN TRADEMARK AND COPYRIGHT LAW

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I. INTRODUCTION

Today’s intellectual property owners face unprecedented rates of copyright and trademark infringement. The widespread availability of digital technology and broadband internet access has enabled individuals in the most remote regions of the world to violate intellectual property rights. To shield themselves from liability, infringers have exploited the shortcomings of the post-Westphalian international legal regime and have relied on shadowy shell corporations, anonymizing technologies, and the impracticality and high cost of litigation.

As a result, stakeholders have had to fine-tune their litigation tactics to enforce their rights. Instead of pursuing the direct infringers on peer-to-peer file sharing networks, the recording industry set its sights on “secondary” infringers—operators of the networks and the distributors of the software that enabled users to reproduce copyrighted materials without authorization.¹ As intellectual property owners have increasingly turned to secondary liability theories, the courts have responded by enunciating substantial reinterpretations of extant principles, thereby precipitating a veritable secondary liability revolution. Numerous commentators have be-

1. See, e.g., *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 125 S. Ct. 2764, 2770 (2005); *In re Aimster Copyright Litig.*, 334 F.3d 643, 651 (7th Cir. 2003); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011, 1027 (9th Cir. 2001).

moaned this trend, contending that judicial recasting of liability rules has dramatically expanded intellectual property rights beyond their intended scope, resulting in an overprotective regime that stifles innovation.

Yet one of the most striking aspects of the secondary liability revolution has been all but ignored in the literature. While recent years have witnessed a dramatic broadening of the scope of secondary liability principles with respect to copyright law, no such move has occurred in the trademark arena. This divergence between trademark and copyright law is unusual for two reasons. First, secondary theories of liability in both trademark and copyright law share the same origins—the common law of tort and agency. Second, digital technology appears to pose just as much of a threat to trademark holders as to copyright interests because digital technology eases the reproduction of marks and facilitates the global distribution of infringing products. Nevertheless, the courts continue to police vigorously the metes and bounds of secondary trademark liability, even narrowing it at times, while simultaneously broadening the ambit of secondary copyright liability. This flux has created tremendous legal uncertainty that threatens investment in new technologies.

This Article takes a critical first step in clearing the murky waters of secondary infringement by setting forth and analyzing the divergence between the secondary trademark and copyright liability regimes. Part II disaggregates the various theories of secondary liability by analyzing the current law of contributory and vicarious trademark and copyright infringement. Despite common origins, trademark and copyright law have diverged over the years. Although many courts have recognized this divergence, we argue that they have not carefully parsed out the differences, blindly accepting them without serious scrutiny or rationalization.

Part III attempts to explain why the courts have created a two-tier system of secondary liability. In so doing, it examines what the divergent path of secondary trademark and copyright liability principles says about the law-making process, the evolution of legal doctrine, and the choices being made between two complementary systems of intellectual property protection. Our analysis reveals that neither fundamental differences in the nature or origin of trademark and copyright, rational balancing of economic risk-bearing, nor notions of romantic authorship have precipitated this bifurcation. Rather, a panic over copyright infringement in the digital age has beset the courts, causing the injudicious and often uncritical expansion of secondary liability principles in the copyright arena.

Part IV assesses how the law of secondary trademark and copyright liability fails to lay a reasonable template for resolving complex issues of technological change. We conclude the Article by discussing how future

scholarship may shed light on appropriate reforms to the secondary liability regime.

II. THE DIVERGENCE OF SECONDARY LIABILITY THEORIES IN TRADEMARK AND COPYRIGHT LAW

A. Tracing the Origins of Secondary Liability

Secondary liability—the imposition of liability on a defendant who did not directly commit the violation at issue²—originates in tort law.³ A, for example, encourages direct participant B to throw rocks during a riot. B throws a rock that injures victim C. Even though A does not throw any rocks himself, A is still subject to liability to C as a contributory tortfeasor.⁴ Contributory liability springs from the principle that certain parties should be held responsible for harms even if they are not the direct cause of the harm. Courts often rationalize secondary liability on economic efficiency grounds, viewing it as a means to shift injury costs to those who are in a position to prevent future injuries.⁵ Others justify secondary liability on a moral basis: those who intentionally act to bring about tortious conduct should be held accountable, even if their actions are not the direct cause of harm to the victim.⁶

Secondary liability comes in two forms: vicarious liability and contributory liability. Vicarious liability does not require knowledge of the tortious act. Rather, the defendant is liable strictly because of his or her relationship with the direct tortfeasor. Unlike contributory liability, vicarious liability does not expand tort law to proscribe forms of conduct outside of the tort at issue. In fact, the conduct of the accused tortfeasor is not at issue in assessing vicarious liability. Instead, courts broaden liability for

2. WILLIAM L. PROSSER, *LAW OF TORTS* § 69 (5th ed. 1984).

3. See 4 J. THOMAS MCCARTHY, *MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION* § 25:23 (4th ed. 2005); Sverker K. Högberg, Note, *The Search for Intent-Based Doctrines of Secondary Liability in Copyright Law*, 106 COLUM. L. REV. 909, 914 (2006).

4. RESTATEMENT (SECOND) OF TORTS § 876, cmt. b, illus. 4 (1979).

5. THOMAS H. KOENIG & MICHAEL L. RUSTAD, *IN DEFENSE OF TORT LAW* 22 (2001) (explaining that at early common law, masters were strictly liable for their servants' torts because "the master was in the best position to prevent his servants' wrongdoing by proper supervision, training, and discipline"). See generally GUIDO CALABRESI, *THE COST OF ACCIDENTS: A LEGAL AND ECONOMIC ANALYSIS* (1970) (describing a theory of general deterrence, whereby potential tortfeasors factor in the cost of their accident-producing behavior when choosing which activities to undertake).

6. RESTATEMENT (SECOND) OF AGENCY § 212, cmt. a (1958) (stating the "general rule . . . that one causing and intending an act or result is as responsible as if he had personally performed the act or produced the result").

the original tort by imposing a penalty on an additional, albeit innocent, defendant.⁷

The most common test used to determine vicarious liability is control or the right to control the direct tortfeasor. The master-servant relationship is one example of a relationship between a principal and agent under the law of agency.⁸ The law typically holds the master liable for the tortious acts of her servant if the servant acted within the scope of his employment.⁹ Unlike individual employees, for whom one tort liability verdict might financially crush, employers can distribute tort losses by raising prices or by securing liability insurance.¹⁰

Under the doctrine of contributory liability, parties other than the direct tortfeasor may be held jointly and severally liable if they acted in concert with or provided assistance or encouragement to the direct tortfeasor.¹¹ The indirect participant's assistance must be "substantial." This means that there must be evidence that the contributory tortfeasor's actions helped cause the tortious act.¹² In addition, knowledge is required for contributory liability: the contributory tortfeasor must purposefully assist the performance of a tortious act.¹³ Thus, the contributory tortfeasor must recognize that the direct tortfeasor's conduct constituted a breach of duty.¹⁴

Courts have recognized the availability of both common law theories of secondary liability—contributory and vicarious—in assisting content creators and trademark holders in their legal battles against facilitators of intellectual property infringement.¹⁵ Both secondary liability theories re-

7. See PROSSER, *supra* note 2, § 69; AT&T Co. v. Winback & Conserve Program, Inc., 42 F.3d 1421, 1430-31 (3d Cir. 1994).

8. Lewis A. Kornhauser, *An Economic Analysis of the Choice Between Enterprise and Personal Liability for Accidents*, 70 CALIF. L. REV. 1345, 1346 (1982); RESTATEMENT (SECOND) OF AGENCY § 220(1) (1958).

9. 5 JAMES GRAY HARPER, THE LAW OF TORTS § 26.3 (2d ed. 1986).

10. *Id.* §§ 26.1, 26.5; *see also* Harris v. Trojan Fireworks Co., 120 Cal. App. 3d 157, 162 (1981).

11. Hilmes v. Stroebel, 17 N.W. 539, 539 (Wis. 1883) ("But any encouragement or aid given the principal actor, any concert of action in the execution of the unlawful design, will amount to a guilty participation in the trespass.").

12. PROSSER, *supra* note 2, § 41 at 240.

13. 3 HARPER, *supra* note 9, § 10.1.

14. 1 STUART M. SPEISER ET AL, THE AMERICAN LAW OF TORTS § 3:4, at 401 (1983).

15. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982), represents the seminal case in secondary trademark liability jurisprudence. In *Ives*, the Supreme Court confirmed the application of secondary liability principles to trademark law by holding that a trademark owner could hold the manufacturer of a generic drug contributorily liable for

quire an underlying act of direct infringement. Contributory liability then attaches where there also exists (1) the defendant's knowledge of the infringement; and (2) the defendant's material contribution to the infringement.¹⁶ Vicarious liability, as an outgrowth of the respondeat superior doctrine, requires (1) the right and ability of the defendant to control the actions of the infringer; and (2) a direct financial benefit to the defendant from the infringement.¹⁷

Despite their common genesis and shared language, copyright and trademark theories of secondary liability increasingly encompass divergent activities. The Supreme Court has explicitly refused to apply the standard it set for trademark contributory liability to cases of secondary copyright infringement,¹⁸ arguing that trademark law has "little or no analogy" to copyright,¹⁹ and that "fundamental differences" exist between the two bodies of law.²⁰ The lower courts have heeded these words, emphasizing the need to evaluate liability under two different standards depending on whether a copyright or trademark is at issue.²¹

the actions of pharmacists. *Id.* at 853-54. While not elaborating on the justification for importing tort principles into the federal trademark regime, the Court affirmed that liability for trademark infringement can extend past those who actually "use" a protected mark by imposing indirect liability on Inwood. *Id.* Similarly, in *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911), the Supreme Court affirmed the application of secondary liability doctrines to copyright infringement. *Id.* at 63. The Court held that the producer of an unauthorized film dramatization of the copyrighted book *Ben Hur* was liable for his sale of the film to middlemen who arranged for the film's commercial exhibition. The Court explained that although the producer did not take part in the final act of infringement—the exhibition of the infringing film to paying customers—his contribution was sufficient to make him secondarily liable. *Id.* Although *Ives* and *Kalem Co.* involved contributory liability claims, the decisions imply that both types of secondary liability theories—contributory and vicarious—are available to copyright and trademark plaintiffs.

16. *See Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

17. *See id.*

18. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984).

19. *Id.* (quoting *United Drug Co. v. Rectanus Co.*, 248 U.S. 90, 97 (1918)).

20. *Id.*

21. *E.g.*, *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) ("[T]he Supreme Court tells us that secondary liability for trademark infringement should, in any event, be more narrowly drawn than secondary liability for copyright infringement."); *United States v. Wash. Mint, L.L.C.*, 115 F. Supp. 2d 1089, 1107 (D. Minn. 2000) (referring to "the more narrow standards applicable to [indirect] trademark infringement claims"); *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 965 (C.D. Cal. 1997) ("Because the property right protected by trademark law is narrower than that protected by copyright law, liability for contributory infringement of a trademark is narrower than liability for contributory infringement of a copyright."); *Banff Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1111 (S.D.N.Y. 1994)

At the same time, however, the courts have failed to identify with any care the specific divergences between secondary trademark and copyright liability. They have repeatedly conflated the contributory and vicarious doctrines in general.²² Although concerned with the proper application of these doctrines, commentators have recognized the inconsistent standards for secondary liability in copyright and trademark law and have largely yielded to these doctrinal distinctions without qualm or scrutiny.²³ Moreover, neither the courts nor scholars have fully explored the underlying justifications for the bifurcation. As we will demonstrate, the legal standards for secondary trademark infringement differ markedly from those applied to vicarious and contributory copyright infringers. A careful disaggregation of the secondary liability doctrines suggests that, while the courts continue to ground trademark law in the traditional doctrine of common law secondary liability, they have abandoned copyright's common law moorings and reshaped copyright law to encompass a wider range of activities than those covered by traditional tort principles.

B. Comparing Vicarious Liability in Trademark and Copyright Law

To succeed in a claim for vicarious liability, a plaintiff must demonstrate that the defendant has the right and ability to control the direct infringer and that the infringement translated into a direct financial benefit for the defendant. As discussed below, courts have interpreted these standards in a relaxed manner in copyright cases, but not in trademark cases. Copyright plaintiffs have succeeded by merely alleging an ability to supervise the direct tortfeasor. For trademark plaintiffs, though, the courts

("While it might be tempting to apply the standard articulated for copyright infringement, the Supreme Court has made it clear that liability for non-direct infringers under trademark law is narrower than liability under the copyright laws.").

22. *E.g.*, *Monsanto Co. v. Campuzano*, 206 F. Supp. 2d 1271 (S.D. Fla. 2002) (conflating the contributory and vicarious liability doctrines in general); *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 846, 854 (1982) (using the terms "vicariously" and "contributorily" interchangeably).

23. *E.g.*, Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 812 (2004) (referring to the doctrines of contributory infringement in patent and copyright law as "distant cousins" of contributory trademark infringement); *id.* at 829 ("Unlike patent and copyright law, the doctrine of contributory trademark infringement is narrowly drawn."); Ian C. Ballon, *Pinning the Blame in Cyberspace: Towards a Coherent Theory for Imposing Vicarious Copyright, Trademark and Tort Liability for Conduct Occurring Over the Internet*, 18 HASTINGS COMM. & ENT. L.J. 729, 750 (1996) ("As under copyright law, online service providers may be held contributorily or vicariously liable for trademark, service mark, or trade dress infringement, although the grounds for imposing indirect trademark liability are more narrow.").

demand evidence of a specific principal-agent relationship for vicarious trademark liability. And while courts require proof of a direct financial benefit from the tortious conduct in trademark cases, courts in copyright cases have virtually read the word “direct” out of the “direct financial benefit” requirement, permitting liability based on hypothetical future returns to the defendant.

1. *The Nature of the Relationship*

a) Principal-Agent Requirements in Trademark Law

For vicarious liability under either copyright law or trademark law, a sufficient link between the defendant and the alleged infringer must exist. But courts have increasingly required a stronger connection for vicarious trademark liability. Vicarious trademark liability relies on traditional tort and agency law principles to determine if a defendant should be held responsible for someone else’s direct infringement of a mark.²⁴ Vicarious liability results only when an agent acts on a principal’s behalf in committing trademark infringement.²⁵ A principal-agent relationship exists only if “the defendant and the direct infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties, or exercise joint ownership or control over the infringing product.”²⁶

Vicarious trademark liability therefore has strict limits. Absent a principal-agent relationship between the defendant and the direct infringer, the defendant cannot face exposure to vicarious liability.²⁷ Other relationships will not give rise to a claim. Unlike in copyright, “courts do not recognize vicarious liability in the trademark context based on ability to supervise in combination with a financial interest.”²⁸

24. *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 684 (D. Md. 2001). According to some, vicarious liability can also involve joint tortfeasors, i.e., parties who act “in concert” to commit a tort and are held jointly liable for all harm caused to the victim. See John T. Cross, *Contributory and Vicarious Liability for Trademark Dilution*, 80 OR. L. REV. 625, 650, 660 (2001).

25. 3 JEROME GILSON, *TRADEMARK PROTECTION AND PRACTICE* § 11.02(2)(h) (1974).

26. *Hard Rock*, 955 F.2d at 1150. A principal will even risk liability for its agent’s misrepresentations “upon matters which the principal might reasonably expect would be the subject of representations, provided the other party has no notice that the representations are unauthorized.” RESTATEMENT (SECOND) OF AGENCY § 258 (1958).

27. *Fare Deals*, 180 F. Supp. 2d at 686.

28. *United States v. Wash. Mint, L.L.C.*, 115 F. Supp. 2d 1089, 1106 (D. Minn. 2000) (citing *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984)).

A recent case from the Tenth Circuit colorfully illustrates this point.²⁹ Randy L. Haugen, a distributor of Amway products, had widely disseminated defamatory statements on Amway's e-mail distribution list. According to the urban folklore recited by Haugen, Amway's competitor, consumer products manufacturer Procter & Gamble, was an agent of Satan. As Haugen asserted, Procter & Gamble diverted a large portion of its profits to the Church of Satan and the company's logo, a ram's horn, formed a 666—Satan's fabled digits. Haugen even claimed that Procter & Gamble's president had "come out of the closet"³⁰ about his association with the Church of Satan on an episode of the *Phil Donahue Show*. When asked if the revelations would hurt business, Haugen claimed that Procter & Gamble's president had nonchalantly demurred, opining that "there are not enough Christians in the United States to make a difference."³¹ Doubtlessly concerned with potential litigation, Amway asked Haugen to recant and he did. But Procter & Gamble still sued both Haugen and Amway, claiming that the alleged association with Lucifer violated, *inter alia*, the Lanham Act because it constituted a "false or misleading representation of fact which . . . in commercial advertising or promotion misrepresents the nature, characteristics, [or] qualities . . . of . . . another person's goods, services or commercial activities."³² In particular, Procter & Gamble wanted Amway held vicariously liable for the actions of its distributor.

The Tenth Circuit reinstated Procter & Gamble's Lanham Act claim against Haugen after the district court had dismissed it based on a narrow construction of the Lanham Act, but refused to reinstate a claim for vicarious liability against Amway.³³ Despite the fact that Amway supervised its distributors in a number of ways, including setting the parameters within which its distributors functioned and dedicating company resources to create uniform standards of behavior, the court found that the plaintiff had failed to demonstrate an employment or principal-agent relationship between Amway and Haugen.³⁴ Since Haugen's violating conduct was not

29. *Procter & Gamble Co. v. Haugen*, 317 F.3d 1121 (10th Cir. 2003). The summary of the facts in this and the following paragraph are drawn from the Tenth Circuit's previous opinion in the case, *Procter & Gamble Co. v. Haugen*, 222 F.3d 1262 (10th Cir. 2000), and the district court opinion on remand, *Procter & Gamble Co. v. Haugen*, 158 F. Supp. 2d 1286 (D. Utah 2001), *aff'd*, *Procter & Gamble Co. v. Haugen*, 317 F.3d 1121 (10th Cir. 2003).

30. *Procter & Gamble*, 222 F.3d at 1268 (10th Cir. 2000).

31. *Id.*

32. *See Procter & Gamble Co. v. Haugen*, 317 F.3d 1121, 1124 n.3 (10th Cir. 2003) (quoting 15 U.S.C. § 1125(a)(1)(B)).

33. *See Procter & Gamble*, 222 F.3d at 1276, 1278 (10th Cir. 2000).

34. *See id.* at 1278.

naturally and ordinarily incident to Amway's business, the court refused to find Amway vicariously liable for Haugen's actions.³⁵ Thus, contractual relationships such as that between licensor and licensee or franchisor and franchisee are not sufficient to give rise to vicarious liability in trademark law.³⁶

Of course, ambiguity exists in determining when a defendant has the necessary degree of control or authority over a direct infringer to establish a principal-agent relationship and to trigger vicarious liability. In *Haugen*, the court held that Amway was not liable for the acts of its distributors since there was no principal-agent relationship. Amway had not vested its distributors with the authority to act on its behalf.³⁷ However, in another recent case, a court found that an internet search engine could be vicariously liable for the infringing acts of its advertisers.³⁸ The advertisers purchased the marks of other companies as keyword search terms for their own products. The court denied the search engine's motion to dismiss, holding that an allegation that the search engine "exercise[d] significant control over the content of advertisements" was enough to state a claim for vicarious liability.³⁹ Thus, the amount of control necessary to make a defendant vicariously liable is imprecise, and subject to the interpretation of different courts. Nevertheless, the mere right and ability to supervise does not create vicarious liability in the trademark context.⁴⁰ More importantly, in trademark law, courts continue to couch the threshold relationship for vicarious liability as one of principal-agent. Consequently, they require proof of "significantly greater involvement with the infringement by the party against whom vicarious liability is sought than is required under the copyright laws."⁴¹

35. *Id.*

36. *See* *Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1519 (11th Cir. 1992) ("The law imposes no duty upon a franchisor to diligently prevent the independent acts of trademark infringement that may be committed by a single franchisee."); *Oberlin v. Marlin Am. Corp.*, 596 F.2d 1322, 1327 (7th Cir. 1979) (explaining that a licensor's duty to supervise its licensee's use of its trademark does not establish principal-agent relationship under state law). Such relationships may, however, make the defendant liable for *contributory* trademark infringement. *See infra* Section II.C.2.a.

37. *Procter & Gamble Co. v. Haugen*, 317 F.2d at 1127-28.

38. *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700, 705 (E.D. Va. 2004).

39. *Id.* at 704.

40. *See, e.g., Wesley v. Don Stein Buick, Inc.*, 996 F. Supp. 1312, 1316 (D. Kan. 1998) (holding that a car manufacturer's ability to supervise a car dealership was insufficient to support a finding of vicarious trademark liability).

41. *Banff Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1111 (S.D.N.Y. 1994).

b) The Right and Ability to Supervise in Copyright Law

Copyright law is markedly different. Courts do not require a principal-agent relationship to find vicarious liability.⁴² Instead, as courts have repeatedly held, “one may be vicariously liable [for copyright infringement] if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”⁴³ In copyright, courts do not require that the direct infringer be an agent of the defendant or that the defendant cause others to believe that the direct infringer is acting under his authority in order to expose a defendant to vicarious liability. A defendant may be guilty of vicarious copyright infringement even in the absence of an actual agency relationship.⁴⁴

Thus, a restaurant owner faced vicarious liability when his hired musician violated copyright law, even though the musician served as an independent contractor, rather than as an employee.⁴⁵ Similarly, the owner of a racetrack suffered vicarious liability when a company hired to supply music over the track’s public address system violated copyright law.⁴⁶ In the decision, the court appealed to public policy to rationalize rejection of the racetrack owner’s “independent contractor” defense. The court stated, “The proprietor of a public establishment operated for a profit could otherwise reap the benefits of countless violations by orchestras, itinerant or otherwise, by merely claiming ignorance that any violation would take

42. *Lowry’s Reports, Inc. v. Legg Mason, Inc.*, 271 F. Supp. 2d 737, 745 (D. Md. 2003) (“Vicarious copyright liability stems from the common law doctrine of respondeat superior. Unlike that doctrine, however, it does not depend on the existence of a master-servant or employer-employee relationship. Vicarious copyright liability extends more broadly.” (citations omitted)); Craig A. Grossman, *From Sony to Grokster: The Failure of the Copyright Doctrines of Contributory Infringement and Vicarious Liability to Resolve the War Between Content and Destructive Technologies*, 53 BUFF. L. REV. 141, 147 (2005).

43. *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); *see also* *Pinkham v. Sara Lee Corp.*, 983 F.2d 824, 834 (8th Cir. 1992); 3 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 12.04(A)(1) (2004) [hereinafter *NIMMER ON COPYRIGHT*].

44. *See AT&T v. Winback & Conserve Program, Inc.*, 42 F.3d 1421, 1439-40 (3d Cir. 1994).

45. *Warner Bros., Inc. v. Lobster Pot, Inc.*, 582 F. Supp. 478, 482 (N.D. Ohio 1984); *see also* *Realsongs v. Gulf Broad. Corp.*, 824 F. Supp. 89, 92 (M.D. La. 1993) (holding radio station owners vicariously liable for actions of minister disc jockeys who purchased airtime and played copyrighted songs over airwaves even though owners had instructed ministers not to play copyrighted materials).

46. *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass’n*, 554 F.2d 1213, 1214-15 (1st Cir. 1977).

place.”⁴⁷ Yet such a defense absolves a similarly situated defendant from vicarious trademark liability.⁴⁸

2. *The Notion of Financial Benefit*

At the same time that the courts have expanded the nature of the relationship necessary to trigger vicarious copyright liability, they have radically reworked the critical element of financial benefit, creating a divergence in its treatment between vicarious trademark and copyright doctrine. A comparison of two cases involving secondary liability claims against flea market owners for vendor infringements (trademark in the first case, copyright in the second) provides an ideal illustration of this point. Despite similar facts, the courts drew opposite conclusions on the issue of liability, largely due to unscrutinized differences between secondary trademark and copyright doctrine.

a) Direct Financial Benefit in Trademark Law

In *Hard Rock Café Licensing Corp. v. Concession Services*,⁴⁹ the owner of the Hard Rock trademark sued a flea market owner, CSI, for both contributory and vicarious liability, contending that the owner was responsible for trademark infringement committed by a t-shirt vendor, Parvez. Parvez sold counterfeit Hard Rock t-shirts on the premises. Although not foreclosing the possibility of vicarious liability, the Seventh Circuit issued guidance to the lower court, noting that it was “inclined to favor [defendant] CSI’s side of the dispute. CSI neither hired Parvez to entertain its customers . . . nor did it take a percentage of his sales.”⁵⁰ While one could argue that the sale of infringing t-shirts brought more customers to the flea market (thereby increasing parking and admission fee revenues), boosted Parvez’s profits (thereby enabling him to afford the

47. *Id.* at 1215.

48. For example, in *Oberlin v. Marlin American Corp.*, 596 F.2d 1322, 1326-27 (7th Cir. 1979), the court held that no agency relationship existed between the defendant and an independent contractor that used the defendant’s trademark. Plaintiff’s argument that the Lanham Act created an agency relationship between the mark owner and the contractor was rejected. The court wrote:

The purpose of the Lanham Act, however, is to ensure the integrity of registered trademarks, not to create a federal law of agency. Furthermore, the scope of the duty of supervision associated with a registered trademark is commensurate with this narrow purpose. . . . [This duty] does not automatically saddle the licensor with the responsibilities . . . of a principal for his agent.

Id. at 1327.

49. 955 F.2d 1143 (7th Cir. 1992).

50. *Id.* at 1150 n.4 (citations omitted).

vendor fee he paid to CSI), and ultimately inured to the financial benefit of the flea market owner, the court declined an opportunity to seize upon such an attenuated link between infringement and financial benefit for liability purposes. The court suggested that only an actual profit-sharing regime between the owner and the vendor or use of the direct infringer for customer/client entertainment purposes would create a sufficient nexus between acts of infringement and an owner's revenue stream to warrant vicarious liability.⁵¹ In short, courts require obvious and direct financial benefit before they impose vicarious liability for trademark infringement.

b) Expanding Notions of Financial Benefit in Copyright Law

By sharp contrast, in *Fonovisa, Inc. v. Cherry Auction, Inc.*,⁵² a copyright holder sued the operator of a flea market for the activities of one of its vendors who sold infringing recordings. The defendant flea market operator, Cherry Auctions, reaped substantial revenues from the concession stand fees it generated from third-party vendors and from the parking and admissions fees it collected from the public. The court found Cherry Auctions vicariously liable because the infringing activities of the record seller "enhance[d] the attractiveness of the venue to potential customers," luring them to the flea market grounds and driving up Cherry Auctions's revenues.⁵³

As Lemley and Reese point out, the *Fonovisa* decision represents a startling expansion in the definition of financial benefit since the flea market did not directly profit from the sales of infringing recordings and received no percentage of the vendor's business. As they observe, "the existence of infringing activity is assumed to draw customers in greater numbers than noninfringing activity, and any money those customers pay to the defendant appears to count as revenue 'directly' related to the infringing activity for purposes of vicarious liability."⁵⁴ This causal chain linking infringement and profit is not only unsubstantiated but starkly different than the established precedent in trademark cases such as *Hard Rock Café*.

Moreover, the schism between trademark and copyright law on this point is widening. *Fonovisa* and its progeny constitute a significant departure from prior copyright doctrine, as earlier cases embraced a much more demure definition of financial benefit. In 1938, for example, Judge Augustus Hand immunized a landlord from vicarious copyright liability claims

51. *See id.*

52. 76 F.3d 259 (9th Cir. 1996).

53. *Id.* at 263.

54. Mark Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1368 (2004).

based on a tenant's actions: "Something more than the mere relation of landlord and tenant must exist to give rise to a cause of action by plaintiffs against these defendants for infringement of their copyright on the demised premises."⁵⁵ The court also pronounced its circumspect vision of financial benefit: "[The landlords] received nothing, and were not entitled to receive anything through [the tenant's] acts of infringement."⁵⁶ A quarter-century later, the Second Circuit reiterated this concept, arguing that the defendant must enjoy "an obvious and direct financial interest in the exploitation of copyrighted materials" before courts will impose vicarious liability.⁵⁷

But in recent years, courts have significantly transformed the financial benefit component of the vicarious liability regime in copyright law. *Fonovisa* first subverted the constrained notion of financial benefit by imputing it from the mere draw of an audience to a site in which a defendant has an economic interest. In the wake of *Fonovisa*, the requirements for financial benefit in the copyright context have slackened even further. In *Napster*, the Ninth Circuit presented only a cursory analysis of the issue of financial benefit, arguing in a brief paragraph that Napster received financial benefit from the availability of infringing materials on its peer-to-peer file sharing network.⁵⁸ The court summarily concluded financial benefit based on its simple observation that the infringing materials served as a draw for customers: "Ample evidence supports the district court's finding that Napster's *future* revenue is directly dependent upon 'increases in user-base.' More users register with the Napster system as the 'quality and quantity of available music increases.'"⁵⁹ Remarkably, the Ninth Circuit failed to acknowledge that Napster had earned no revenue and had never charged its customers any fees.⁶⁰ Thus, on the purely hypothetical notion of profitability—including the eventual monetization of its user base through e-mail, advertising, linking, and direct marketing—the court

55. *Deustch v. Arnold*, 98 F.2d 686, 688 (2d Cir. 1938).

56. *Id.*

57. *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963) (imposing vicarious liability on an individual who received a share of the gross receipts from an infringer's sale of bootleg records).

58. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001). Peer-to-peer networks allow users—the direct infringers—to share copyrighted digital works from their home computers. *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 125 S. Ct. 2764, 2770 (2005).

59. *Id.* (emphasis added).

60. On motion for preliminary injunction, the lower court acknowledged that at the time of suit, Napster had not earned any revenue. See *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 902 (N.D. Cal. 2000).

found financial benefit.⁶¹ *Napster* therefore expands *Fonovisa*, imputing financial benefit from infringing activity that lures an audience to a virtual site, even one from which defendant does not draw revenue.

3. *Differences in Vicarious Liability Doctrine in Practice*

A recent case, *United States v. Washington Mint, L.L.C.*,⁶² illustrates how the different standards for secondary liability in copyright and trademark law work in practice. The United States government sued the Washington Mint, a private mint, for direct trademark and copyright infringement for manufacturing and selling replicas of the Sacagawea dollar.⁶³ The government also sued the company's marketing and advertising agency, Novus, as well as certain corporate officers, under theories of vicarious and contributory copyright and trademark infringement.

With respect to the vicarious liability claims, the court found that Novus exercised supervisory control over the Washington Mint and financially benefited from its infringing activities—the threshold requirements for vicarious copyright and trademark liability. Control existed because Novus employed a large number of the Mint's employees, including its Chief Executive Officer. The court inferred a financial benefit from the infringement because Novus served as the exclusive advertising space for the Mint's Sacagawea dollar.⁶⁴

More significantly, the court explicitly bifurcated the issue of vicarious liability against the corporate officers, finding sufficient evidence of vicarious copyright liability but not vicarious trademark liability.⁶⁵ The corporate officers held roles as co-CEOs and co-presidents of Novus and were limited partners in another company that was the Mint's controlling shareholder.⁶⁶ Based on this information, the court concluded that there was sufficient evidence to defeat a summary judgment motion filed by the co-CEOs on the issue of vicarious copyright infringement. Given their role as corporate officers, the court inferred that they had supervisory authority over the employees of the direct copyright infringer.⁶⁷ Given their status

61. *Napster*, 239 F.3d at 1023.

62. 115 F. Supp. 2d 1089 (D. Minn. 2000).

63. *Id.* at 1091.

64. *Id.* at 1107.

65. *Id.* at 1106. It should be noted that the court—like many others—conflated the issue of vicarious and contributory liability, thereby failing to carefully parse out the distinctions between the two doctrines. As a result, some interpolation of its decision was needed for this analysis.

66. *Id.* at 1107.

67. *Id.*

as limited partners in the controlling shareholder, they had a direct financial interest in any revenues the direct copyright infringer received.⁶⁸

However, the court found the same evidence insufficient to support a finding of vicarious trademark infringement because of “the more narrow standards applicable to trademark infringement claims.”⁶⁹ Vicarious trademark infringement requires greater proof of the defendant’s intent than vicarious copyright infringement, the court explained, and the government had produced no evidence demonstrating that the defendants knew or should have known about the manufacturer’s infringement.⁷⁰

Thus, a financial interest and limited supervisory authority over the direct infringer is not enough to establish vicarious trademark infringement but it is enough to support a finding of vicarious copyright infringement. Although it appeared that the corporate officers’ financial interests were intertwined with the infringing manufacturer, the court apparently felt that the government had not demonstrated the requisite principal-agent relationship to warrant the imposition of vicarious trademark liability.⁷¹

C. Comparing Contributory Liability in Trademark and Copyright Law

The divergence of trademark and copyright from a common source is even starker in the context of contributory liability. The basic contributory infringement doctrine—that both trademark and copyright law rhetorically share—finds liability where a defendant knows or should know of a third-party’s infringing activity and materially contributes to it. These common elements of knowledge and material contribution have taken on strikingly different meanings depending on whether trademark or copyright protection is at stake.

68. *Id.*

69. *Id.*

70. *Id.* at 1106-07. The court may have confused vicarious trademark infringement with contributory trademark infringement. Knowledge is not a requirement for vicarious trademark liability.

71. *See also* Banff Ltd. v. Limited, Inc., 869 F. Supp. 1103, 1111 (S.D.N.Y. 1994) (holding that because “the required showing of involvement with the [trademark] infringement would need to be the same or greater than the showing required by copyright law,” an analysis of the plaintiff’s vicarious trademark infringement claim was unnecessary once the court found in defendant’s favor regarding vicarious copyright infringement).

1. *Actual and Imputed Knowledge*

a) The Scope of Imputation in Trademark Law

As with vicarious liability, a defendant may be held liable as a contributory infringer even though the defendant has not taken any direct action to infringe on a trademark.⁷² The seminal *Coca-Cola Co. v. Snow Crest Beverages, Inc.* decision firmly establishes the parameters of contributory liability in trademark law.⁷³ In the case, both Snow Crest and Coca-Cola supplied cola-flavored soft drinks to bars. Coca-Cola sued Snow Crest for contributory infringement, contending that the court should hold Snow Crest indirectly liable for the infringing acts of the bars, who served drinks made with the defendant's "Polar Cola" when bar customers asked for "Coke."

In concluding that Snow Crest could not be held liable for the actions of the bar owners, the court tried to pinpoint the boundaries of contributory liability based on its scrutiny of both common law principles and the Lanham Act.⁷⁴ It cited the Restatement of Torts to explain that Snow Crest was under a duty to avoid intentionally inducing bars to market its Polar Cola product as "Coca Cola."⁷⁵ Snow Crest also had a duty to avoid knowingly aiding bars that purchased its products from engaging in infringing conduct.⁷⁶ Most importantly, Snow Crest was under an obligation to take precautionary measures if it knew or could reasonably be expected to know that the bars were using its product as a substitute when customers ordered Coca-Cola.⁷⁷ Thus, according to the *Snow Crest* court, knowledge—actual or constructive—of the direct infringer's infringing behavior is a required ingredient for contributory trademark infringement.

But the *Snow Crest* court also stressed that these obligations mark the outer limits of a manufacturer's duties with regard to policing the infringing acts of its customers: "There is no broader legal principle that always makes the defendant his brother's or his customer's keeper."⁷⁸ Instead, liability turns on whether "a reasonable person in the defendant's position" would realize that she had created a situation likely to result in infringe-

72. *Power Test Petroleum Distribs. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392, 395 (E.D.N.Y. 1982).

73. 64 F. Supp. 980 (D. Mass. 1946). *Snow Crest* was relied on by the Supreme Court in the *Ives* decision. See *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

74. *Snow Crest*, 64 F. Supp. at 985.

75. *Id.* at 989 (citing RESTATEMENT OF TORTS § 713 (1938)).

76. *Id.* (citing RESTATEMENT OF TORTS § 738 (1938)).

77. *Id.*

78. *Id.*

ment or was transacting with a customer that she should know would be particularly likely to use her product wrongfully.⁷⁹ After all, as Judge Wyzanski observed in the case, “any man of common sense knows that in any line of business . . . there are some unscrupulous persons, who, when it is to their financial advantage to do so, will palm off on customers a different product from that ordered by the customer.”⁸⁰ In other words, *Snow Crest* sets out a reasonable person standard for imputing the knowledge necessary for contributory infringement, only permitting liability when a defendant knew or reasonably should have known that her actions would result in infringement by another.

Since 1946, this firm limitation on knowledge imputation has dominated the law of contributory liability in trademark infringement cases, even receiving the Supreme Court’s blessing. As Justice White wrote in his concurring opinion in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, “The mere fact that a generic drug company can anticipate that some illegal substitution will occur to some unspecified extent, and by some unknown pharmacists, should not by itself be a predicate for contributory liability.”⁸¹ Thus, even a guarantee of trademark infringement somewhere down the stream of commerce is not enough to support a finding of contributory liability. Today, courts continue to follow the limitations of the *Snow Crest* decision, imposing no affirmative duty to investigate or take precautions against trademark infringement by a third party, barring some specialized knowledge of the infringement at issue.⁸²

The actual or constructive knowledge standard in *Snow Crest* is common in other branches of tort law.⁸³ In the typical intentional inducement case, knowledge of the direct infringement is readily apparent because there is evidence that the defendant specifically requested that the direct

79. *Id.* (citing RESTATEMENT OF TORTS § 302 (1938)).

80. *Id.* at 988-89.

81. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 (1982) (White, J., concurring); see also 2 MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 25:2, at 242 (1973) (“[T]he supplier’s duty does not go so far as to require him to refuse to sell to dealers who merely *might* pass off its goods.”).

82. See Dogan & Lemley, *supra* note 23, at 830; Cross, *supra* note 24, at 653. It is important to emphasize that contributory liability for trademark infringement is not a negligence standard. See 3 GILSON, *supra* note 25, § 11.02(2)(h)(i)(c). A mere failure to take reasonable precautions is not enough to make a defendant liable. *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992).

83. See, e.g., *Nitsche v. CEO of Osago Valley Elec. Co-op*, 446 F.3d 841, 844-45 (8th Cir. 2006) (hostile work environment sexual harassment); *In re Nokia Oyaj Sec. Litig.*, 423 F. Supp. 2d 364, 403 (S.D.N.Y. 2006) (securities fraud); *Valentine v. LaBow*, 897 A.2d 624, 633 (Conn. App. Ct. 2006) (intentional infliction of emotional distress).

infringer violate another's trademark.⁸⁴ For example, the finding of contributory liability was relatively routine in a case where a sales representative told others that he had received a "royal screwing" and that he was going to "even the score" with a manufacturer that used to supply him with the product.⁸⁵ The plaintiff in that case submitted proof that the sales representative contacted two other manufacturers and asked them to produce lamps nearly identical to those the plaintiff produced.⁸⁶

Cases that involve the supply of a product without actual evidence of a specific request to infringe are more difficult. In determining whether the defendant had sufficient knowledge of infringement to be contributorily liable, the standard is that the defendant "understand what a reasonably prudent person would understand."⁸⁷ This is a "high burden" for a plaintiff,⁸⁸ and the most difficult element for a plaintiff to prove.⁸⁹ Even a demand letter from the plaintiff trademark owner to the defendant is not sufficient to create the amount of knowledge needed for a contributory infringement claim.⁹⁰ It is only when the reasonably prudent person would expect wrongdoing that contributory liability may attach. A reasonably prudent person would not assume infringement without real evidence of same. Mere awareness of a potential for infringement is not enough.⁹¹

On the other hand, under the *Snow Crest* standard, a defendant cannot purposely avoid evidence of infringement in order to immunize itself from contributory liability. If a defendant expects wrongdoing yet fails to investigate, such "willful blindness" will subject the defendant to trademark infringement liability.⁹² For example, in the case involving allegations of a flea market vendor's direct infringement of the Hard Rock Café mark and the flea market owner's contributory infringement, the Seventh Circuit held that the owner could be contributorily liable even if he did not actu-

84. See, e.g., *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530 (1924); *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1382 (9th Cir. 1984); *Transdermal Prods., Inc. v. Performance Contract Packaging, Inc.*, 943 F. Supp. 551, 553-54 (E.D. Pa. 1996).

85. *Bauer Lamp Co. v. Shaffer*, 941 F.2d 1165 (11th Cir. 1991).

86. *Id.* at 1169, 1171.

87. *Hard Rock*, 955 F.2d at 1149 (citing RESTATEMENT (SECOND) OF TORTS § 12(1) cmt. a (1965)).

88. *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 420 (S.D.N.Y. 2001).

89. Cross, *supra* note 24, at 653.

90. See *Gucci*, 135 F. Supp. 2d at 420; *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 964 (C.D. Cal. 1997).

91. *Monsanto Co. v. Campuzano*, 206 F. Supp. 2d 1271, 1278 (S.D. Fla. 2002) (holding that a distributor's awareness of a similar scheme involving someone different than the direct infringer is not enough to find distributor contributorily liable).

92. *Hard Rock*, 955 F.2d at 1149.

ally know that the vendor was selling fake Hard Rock t-shirts on his property.⁹³ The court would impute knowledge to the owner if the owner suspected, or had reason to suspect, wrongdoing and did nothing about it.⁹⁴ The *Hard Rock* court cautioned, though, that it was not converting the knowledge requirement for contributory trademark liability into a negligence standard. Like the *Snow Crest* court, it stressed that the flea market owner had “no affirmative duty to take precautions against the sale of counterfeits.”⁹⁵ And like the *Snow Crest* court, it borrowed from the Restatement of Torts and traditional common law tort doctrine to explain that, although the knowledge requirement for contributory trademark liability requires an owner “to understand what a reasonably prudent person would understand, it does not impose any duty to seek out and prevent violations.”⁹⁶

b) Imputed Knowledge, Active Inducement, and the *Sony* Safe Harbor in Copyright Law

As with trademark infringement, a party “who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another” will be liable for contributory copyright infringement.⁹⁷ Similarly, knowledge can be either actual or constructive⁹⁸—the requisite knowledge exists if the defendant knew or had reason to know of the infringing activity.⁹⁹ As with trademark law, a defendant’s willful blindness of user infringement will satisfy the knowledge element in copyright.¹⁰⁰

However, several additional factors have radically altered the knowledge requirement in the copyright context. First, the Supreme Court created the *Sony* safe harbor in its seminal *Sony Corp. v. Universal City Stu-*

93. *Id.*

94. *Id.*

95. *Id.*

96. *Id.*

97. *Cable/Home Commc’n Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845 (11th Cir. 1990) (citations omitted).

98. *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003).

99. *Cable/Home*, 902 F.2d at 845. Although there is little guidance in the case law regarding the specificity of the knowledge required, a general understanding or belief that the infringement alleged is likely taking place usually suffices for a finding of contributory liability. Grossman, *supra* note 42, at 151; *see also* *UMG Recordings, Inc. v. Sinott*, 300 F. Supp. 2d 993, 998 (E.D. Cal. 2004) (stating that “actual knowledge of specific instances of infringement” is not required to satisfy the knowledge prong of contributory liability).

100. *Aimster*, 334 F.3d at 650.

dios, Inc. decision.¹⁰¹ In that case, the major motion picture studios filed suit against Sony for contributory and vicarious copyright infringement stemming from its development of the Betamax technology. Warning of the potential demise of Hollywood at the hands of video recording technology, the studios argued that the advent of the Betamax (and, ultimately, its more popular counterpart, the VHS) would dramatically reduce audiences for television programming. The studios argued that consumers would simply record programs and watch them at a later date.¹⁰² This would devastate both the television and motion picture industries by decreasing the film and broadcast television audiences. The studios also contended that the recording features of the Betamax would annihilate the potential market for film rentals because consumers could create their own libraries of recorded movies from television.¹⁰³ The Supreme Court, however, disagreed.

The Court found that the existence of potential infringing uses for a technology should not render that technology illegal per se. Specifically, the *Sony* Court barred contributory liability based on imputed intent to cause infringement where a “staple article of commerce” used in infringement possessed “substantial noninfringing uses.”¹⁰⁴ The Court concluded that the VCR possessed significant noninfringing uses. Consequently, Sony could not be held liable for acts that its Betamax technology facilitated.¹⁰⁵ Under the *Sony* decision, when a product is capable of both substantial infringing and noninfringing use, without more, defendant’s mere knowledge of the product’s infringing capabilities is insufficient for a finding of contributory copyright infringement.¹⁰⁶ The *Sony* safe harbor therefore prevents courts from imputing knowledge of infringement to manufacturers of technologies having “commercially significant” or “substantial noninfringing uses.”¹⁰⁷

Nonetheless, the *Sony* safe harbor is limited in two critical ways. First, it is riddled with ambiguity, making it difficult to rely on ex ante. This fact is especially problematic for developers of cutting-edge technologies with both infringing and noninfringing uses, as they risk millions of dollars in

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

102. *Universal City Studios, Inc. v. Sony Corp.*, 480 F. Supp. 429, 466 (C.D. Cal. 1979).

103. *Id.* at 467.

104. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

105. *Id.* at 456. The Court also held that consumers are entitled under the fair use doctrine to engage in time-shifting, i.e., the recording of a televised program for personal and private viewing at a different time. *Id.* at 455.

106. *See id.* at 442.

107. *See id.*

potential secondary infringement liability. Moreover, it is unclear whether noninfringing uses must be actual or probable to qualify for the defense. Similarly unknown is the amount of time courts should grant technologies to develop the substantiality of their noninfringing uses. The interplay of the respective magnitudes of infringing and noninfringing uses also remains in doubt.¹⁰⁸

Second, the Supreme Court's recent *Grokster* ruling explicitly and significantly limited the scope of the *Sony* safe harbor. In *Grokster*, movie and sound recording copyright holders brought suit against peer-to-peer software distributors for secondary copyright infringement.¹⁰⁹ The Court held that even though the software had substantial lawful uses, clear evidence that *Grokster* took steps to foster infringement obviated the *Sony* defense.¹¹⁰

In *Grokster*, the Ninth Circuit had construed *Sony* as immunizing from *all* contributory liability any technology capable of substantial or commercially viable noninfringing use, unless the distributor of that technology had actual knowledge of specific instances of infringement and failed to act upon that knowledge.¹¹¹ In a unanimous reversal, the Supreme Court disagreed with this broad interpretation of *Sony*. The Court clarified that while the *Sony* safe harbor prevents a court from imputing knowledge to a defendant distributing a product with substantial or commercially significant noninfringing uses, a finding that the defendant has "actively in-

108. On these points, *Grokster*'s two concurring opinions—the first written by Justice Ginsburg and joined by Chief Justice Rehnquist and Justice Kennedy, and the second written by Justice Breyer and joined by Justices Stevens and O'Connor—likely epitomize the locus of future litigation. To Justice Ginsburg, the sheer volume of infringing uses on peer-to-peer networks suggests no "reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time." *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 125 S. Ct. 2764, 2786 (2005). Thus, Justice Ginsburg implicitly rejects the applicability of a *Sony* defense for *Grokster* and *StreamCast* if they are somehow able to avert active inducement liability on remand. By contrast, Justice Breyer views the *Sony* holding as precluding liability against *Grokster* or *StreamCast* on any theory beyond active inducement. Specifically, Justice Breyer contends that the *Sony* safe harbor applies to a technology unless it was clear that it would "be used almost exclusively to infringe copyrights." *Id.* at 2791. Thus, under Justice Breyer's interpretation, since peer-to-peer networks invariably possess noninfringing uses, *Grokster* and *StreamCast* would qualify for the *Sony* defense so long as they were not guilty of active inducement.

109. *Id.* at 2771.

110. *Id.* at 2779-80.

111. *MGM Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 380 F.3d 1154, 1160 (9th Cir. 2004).

duced” infringement trumps the *Sony* defense.¹¹² Active inducement liability attaches if the defendant distributes that product “with the object of promoting its use to infringe copyright,” regardless of whether the product is capable of commercially significant noninfringing uses.¹¹³

Grokster therefore represents the holding that the affirmative *Sony* defense applies when the defendant has knowledge that its product can be used to infringe but the product is also capable of substantial lawful use.¹¹⁴ Yet evidence that goes beyond the product’s design and demonstrates intent to infringe will trump the *Sony* defense and satisfy the knowledge element for contributory liability.¹¹⁵ The Court emphasized that “direct evidence of unlawful purpose” was the key to overriding a *Sony* affirmative defense.¹¹⁶ The Court explained that what it was looking for was evidence of “clear expression or other affirmative steps taken to foster infringement.”¹¹⁷ The Court quoted Prosser and Keeton’s tort law treatise to justify placing this premium on direct evidence, indicating that higher penalties should apply to those with actual knowledge of illegal behavior.¹¹⁸ Thus, *Grokster* unequivocally deems intent critical to the contributory liability calculus. Regardless of the availability of substantial noninfringing uses, active inducement can warrant a finding of secondary infringement.

112. *Grokster II*, 125 S. Ct. at 2779-80. The Supreme Court did not clarify whether active inducement constituted a third, independent, form of secondary liability or a subspecies of contributory liability. *Id.* at 2783 (Ginsburg, J., concurring) (stating that “active inducement” and contributory liability “overlap” but “capture different culpable behavior”); Amicus Curiae Brief of the American Intellectual Property Law Ass’n in Support of Vacatur and Remand at 6, *Grokster II*, 125 S. Ct. 2764 (No. 04-480) (“[P]atent law . . . substantiates the idea that ‘active inducement’ is a form of ‘contributory infringement.’”). For the purposes of clarity, we assume that active inducement is one means of imputing knowledge to meet the required elements for contributory liability.

113. *Grokster II*, 125 S. Ct. at 2780.

114. *Id.* at 2777-78.

115. *Id.* at 2779-80.

116. *Id.* at 2779. The Court stated:

The rule on inducement of infringement as developed in the early cases is no different today. Evidence of “active steps . . . taken to encourage direct infringement,” such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law’s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.

Id. (citations omitted).

117. *Id.* at 2780.

118. *Id.* (“There is a definite tendency to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong.” (quoting W. KEETON ET AL., PROSSER AND KEETON ON LAW OF TORTS 37 (5th ed. 1984))).

In articulating this active inducement standard, the Supreme Court dramatically increased the types of evidence considered relevant for a court's assessment of the knowledge requirement in copyright law. As the scope of the possible evidence of contribution increases, so increases the likelihood of imposing liability for contributory infringement. Specifically, the court can look toward any manifestation of intent to foster infringement in order to meet the threshold state of knowledge for contributory liability. Three factual considerations evidenced the *Grokster* defendants' clear intent to promote their products for infringing uses, apparently forcing the Court to conclude that "the unlawful objective is unmistakable."¹¹⁹ These three factual considerations showcase types of evidence that, while relevant to the *Grokster* decision regarding liability for copyright infringement, have historically not been germane to assessing contributory trademark liability.

First, in their advertisements and solicitations, the creators of the peer-to-peer software at issue "voiced the objective that recipients use [their programs] to download copyrighted works, and each took active steps to encourage infringement."¹²⁰ Specifically, the defendants held themselves out as Napster substitutes, thereby trying to capture users of a known source of prior copyright infringement.

Second, albeit in language steeped in caution, the *Grokster* Court drew on the defendants' failure to develop filtering tools to bolster its finding of inducement.¹²¹ *Grokster* establishes the critical importance of network architecture decisions to the secondary liability inquiry, even if such decisions are not outcome determinative.¹²² The decision makes the failure to take affirmative precautions to prevent infringement a relevant factor for imputing knowledge of infringement for copyright contributory liability, but not for trademark contributory liability.

119. *Id.* at 2782.

120. *Id.* at 2772.

121. *Id.* at 2774, 2781.

122. The Court warned that "in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement." *Id.* at 2781 n.12. The Court therefore appeared to reject both the Ninth Circuit's position in *Grokster*—that an inability to control content on a network, even if that inability stems from a technology provider's willful desire to divest itself of such control, is entirely irrelevant to the liability calculus—and the Seventh Circuit's position in *Aimster*—that technology providers categorically cannot turn a blind eye towards infringing activities on their networks. See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 380 F.3d 1154, 1166 (9th Cir. 2004); *In re Aimster Copyright Litig. (Aimster)*, 334 F.3d 643, 649 (7th Cir. 2003).

Third, the Court highlighted the *Grokster* business model, importing the financial benefit calculus from *vicarious* infringement into its determination of *contributory* infringement. As the Court pointed out, defendants made money through advertising. As the number of users in their network increased, so would their advertising revenues.¹²³ Since close to ninety percent of volume on the network involved the unlawful exchange of copyrighted works, the Court concluded that the defendants' business model thrived on infringement.

The Court's emphasis on financial benefit as evidence of inducement and knowledge further transforms the contributory liability regime in copyright law. Specifically, it seizes upon the recent body of case law on financial benefit from the vicarious liability context in such cases as *Fonovisa* and *Napster* to broaden the scope of contributory liability through the inducement/knowledge factor. This trend further conflates vicarious and contributory liability which, as discussed earlier, courts have historically failed to parse out with deserved precision. Additionally, this trend introduces an imprecise financial metric to infer intent, thereby slackening contributory liability standards significantly. Traditional tort law and the law of contributory trademark infringement employ the standard of whether a reasonable person knew or should have known of the infringement. *Grokster*, on the other hand, allows a court assessing liability for contributory copyright infringement to impute knowledge based merely on financial motive.

All told, even when the *Sony* defense is taken into consideration, it does little to rectify the imbalance between trademark and copyright in imputing knowledge for contributory liability. The imprecise nature of the *Sony* defense together with the *Grokster* decision's emphasis on evidence of financial benefit and failure to take precautionary measures limit the utility of the *Sony* safe harbor for accused copyright infringers. As the law currently stands, the *Grokster* Court relied on inducement evidence that would not satisfy the standards for liability in a trademark infringement case. Neither a financial interest in the infringement nor a failure to take remedial measures would meet the "high burden" required to establish knowledge in a trademark case.¹²⁴ Instead, to warrant a finding of contributory trademark liability, courts only accept specific evidence of intentional inducement to infringe or proof that would lead a reasonably prudent person to conclude that infringement is taking place.

123. *Grokster II*, 125 S. Ct. at 2782.

124. *See, e.g.*, *Gucci Am., Inc. v. Hall & Assocs.*, 135 F. Supp. 2d 409, 419 (S.D.N.Y. 2001); *Coca-Cola Co. v. Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946).

Particularly in the wake of *Grokster*, the more relaxed knowledge standard for contributory copyright infringement could implicate a wider range of defendants than contributory trademark infringement principles do.¹²⁵ Trademark doctrine imposes liability only when the defendant should have known that her actions would result in infringement by another. Contributory trademark defendants have no duty to investigate or adopt precautionary measures against third party infringement. In contrast, the Supreme Court's new "active inducement" standard for contributory copyright infringement awards liability based on a watered-down concept of knowledge of infringement. Under *Grokster*, the court may infer knowledge of the infringing conduct based on a failure to take steps to prevent infringement (for example, neglecting to develop tools to filter out infringing content) or through evidence of a financial benefit to be gained from the infringement. Thus, *Grokster* permits courts to infer knowledge of the infringement from evidence that would not satisfy trademark law's reasonably prudent person standard.

2. *Material Contribution: Relationships Suitable for Contributory Liability*

As with vicarious liability, courts are more willing to infer a relationship sufficient to trigger contributory liability when the plaintiff is a copyright, rather than trademark, holder. Contributory liability does not attach to every party who has knowledge of infringing activity. In addition to determining whether a "reasonably prudent person" would have perceived infringement, a court must also assess the nature of the relationship between the defendant and the direct infringer.¹²⁶ These requirements are interrelated. Whether or not it is reasonable for a defendant to perceive infringement depends on the defendant's interaction with the direct infringer. Contributory trademark liability requires direct control and monitoring of the means of infringement. The broader concept of contributory copyright liability has been stretched to include situations where the de-

125. Cf. Deborah J. Peckham, *The Internet Auction House and Secondary Liability—Will eBay Have to Answer to Grokster?*, 95 TRADEMARK REP. 977, 1004-05 (2005) (discussing the relevance of *Grokster*'s inducement standard to secondary trademark liability); see also *United States v. Wash. Mint, L.L.C.*, 115 F. Supp. 2d 1089, 1107 (D. Minn. 2000) (referring to "the more narrow standards" applicable to trademark infringement claims to deny liability against corporate officers even though liability was found against officers for copyright infringement).

126. Dogan & Lemley, *supra* note 23, at 812 (explaining that contributory infringement requires "both an act of direct infringement . . . and a special, narrowly defined relationship between the defendant and that infringement").

defendant exercised no control over the direct infringer and merely helped produce an opportunity to infringe.

a) The Direct Control Requirement in Trademark Law

In trademark law, a court looking to assess contributory liability against a defendant that is not a manufacturer or distributor of the infringing product must sail into somewhat uncharted waters. “[I]t is not clear how the doctrine [set out in *Ives*] applies to people who do not actually manufacture or distribute the good that is ultimately palmed off as made by someone else.”¹²⁷ Relatively few cases have extended contributory trademark liability past manufacturers and distributors of products, as the courts have been hesitant to move past the relationship that was at issue in the *Ives* decision.¹²⁸ As one court explained, “[e]ach extension of contributory liability doctrine beyond defendants who manufacture or distribute a mislabeled product has required careful examination of the circumstances to determine whether knowledge of infringement should be imputed to the alleged contributory infringer.”¹²⁹ The courts encounter little difficulty in finding the knowledge required to support a finding of contributory infringement when the defendant has passed the product along the distributive chain. Imputing knowledge becomes trickier, though, when the defendant has not built or issued a misleading product.¹³⁰

Despite this judicial reluctance, contributory trademark liability has broadened in recent years to cover more than just manufacturers and distributors.¹³¹ For example, the Eleventh Circuit has opined that a franchisor could be held contributorily liable for its franchisee’s direct trademark in-

127. *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148 (7th Cir. 1992); *cf. Stabilisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distribs. Pty. Ltd.*, 647 F.2d 200, 207 (D.C. Cir. 1981) (“Courts have long held that in patent, trademark, literary property, and copyright infringement cases, any member of the distribution chain can be sued as an alleged joint tortfeasor.”).

128. *See, e.g., Acad. of Motion Picture Arts & Scis. v. Network Solutions, Inc.*, 989 F. Supp. 1276 (C.D. Cal. 1997); *see also Dogan & Lemley, supra* note 23, at 829 (“[C]ontributory liability for the provision of a service is extremely rare in trademark law . . .”).

129. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 961 (C.D. Cal. 1997), *aff’d*, 194 F.3d 980, 981 (9th Cir. 1999).

130. *Power Test Petroleum Distribs., Inc. v. Manhattan & Queens Fuel Corp.*, 556 F. Supp. 392, 394 (E.D.N.Y. 1982).

131. *See, e.g., Procter & Gamble Co. v. Haugen*, 317 F.3d 1121, 1128 (10th Cir. 2003) (stating that action may extend to “licensors, franchisors, or similarly situated third parties”).

fringement.¹³² Additionally, the Seventh Circuit held that a flea market owner could face contributory liability for the infringing actions of vendors on its property if it responded with “willful blindness” to the vendors’ infringement.¹³³

Nevertheless, in contrast to the unprecedented expansion of contributory copyright liability in recent years, courts have resisted reconsideration of the standards for contributory trademark infringement, even in cases that involve new technologies and provide no easily applicable precedent in common law tort. For example, in *Lockheed Martin Corp. v. Network Solutions, Inc.*, a domain name registrar was sued for contributory infringement.¹³⁴ The plaintiff contended that the registrar committed contributory infringement by registering third-party domain names that contained the plaintiff’s mark.¹³⁵

Lacking a clear analogy to prior trademark or common law, the *Lockheed Martin* court had to take a stand on the boundaries of contributory liability. It did so in a way that set a definite limit on the material contribution requirement. The court characterized the previous contributory infringement cases as relying on an assessment of the amount of control the defendant exercised.¹³⁶ The court held that if the defendant is not supplying a product as in *Ives*, then contributory liability is possible only if there is “direct control and monitoring of the instrumentality used by a third party to infringe the plaintiff’s mark.”¹³⁷ Because the domain name registrar engaged in rote translation and did not conduct any real oversight of its registrants, the court concluded that there was not sufficient “direct control and monitoring.” Consequently, there was no contributory in-

132. *Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1521 (11th Cir. 1992). The court cautioned, however, that a franchisor may not be held liable for a single franchisee’s infringement solely because the franchisor failed to exercise reasonable diligence to prevent the violation. *Id.*

133. *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-49 (7th Cir. 1992). The court analogized the flea market owner to a landlord, a frequent subject of common law secondary liability actions. A landlord is responsible “for the torts of those it permits on its premises ‘knowing or having reason to know that [they are] acting or will act tortiously.’” *Id.* at 1148-49 (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) (1979)). According to the court, a flea market operator is like a landlord in that it controls the area where the infringement takes place. As a result, the flea market operator has a duty to prevent infringement of which it has constructive knowledge. *Id.* at 1149.

134. 194 F.3d 980, 981 (9th Cir. 1999).

135. *Id.* at 983-85.

136. *Id.* at 984.

137. *Id.*

fringement.¹³⁸ Thus, according to the *Lockheed Martin* court, a sufficient relationship will exist between the defendant and the direct infringer to assess liability only when the defendant exerts or can reasonably be expected to exert direct control over the means of infringement.

Other courts have widely adopted the standard articulated in *Lockheed Martin*.¹³⁹ Thus, the absence of direct control and monitoring of the means of infringement may preclude contributory trademark liability. When the defendant does not exercise direct control, contributory liability will not attach. For example, a shoe company that sponsored a basketball exhibition was not contributorily liable for an infringing t-shirt its sponsored promotion company distributed.¹⁴⁰ The court emphasized that, despite the shoe company's sponsorship of the exhibition and its endorsement deal with the alleged t-shirt disseminator and direct infringer, there was insufficient evidence to find that the company directly controlled or monitored the promotional materials related to the exhibition.¹⁴¹

b) The Attenuated Notion of Control in Copyright Law

As with trademark law, in addition to knowledge of the infringement, a contributory copyright infringer must act in a way that materially contributes to the infringement. To make a material contribution, the defendant must either (1) contribute machinery or goods that provide the means to infringe, or (2) engage in personal conduct that furthers the infringement.¹⁴² For example, a radio station that allows its equipment to be used to broadcast advertisements for infringing records may be held liable for contributory copyright infringement.¹⁴³

In determining whether the defendant made a material contribution to the infringement, courts ask whether the defendant had the ability to con-

138. *Id.* at 985.

139. *See, e.g.,* *Habeeba's Dance of the Arts, Ltd. v. Knoblauch*, 430 F. Supp. 2d 709, 714 (S.D. Ohio 2006); *SB Designs v. Reebok Int'l, Ltd.*, 338 F. Supp. 2d 904, 913-14 (N.D. Ill. 2004); *Size, Inc. v. Network Solutions, Inc.*, 255 F. Supp. 2d 568, 572-73 (E.D. Va. 2003); *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 688-90 (D. Md. 2001).

140. *SB Designs*, 338 F. Supp. 2d at 914.

141. *Id.* at 912.

142. 3 NIMMER ON COPYRIGHT, *supra* note 43, § 12.04(A)(2); *see also* *Demetriades v. Kaufmann*, 690 F. Supp. 289, 294 (S.D.N.Y. 1988) (stating that "substantial involvement" with the infringing activity is required (citing to RESTATEMENT (SECOND) OF TORTS § 876(b) (1977))).

143. *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399 (S.D.N.Y. 1966) (denying summary judgment).

trol the use of the copyrighted work.¹⁴⁴ For some courts, the amount of control is the key issue in determining contributory liability.¹⁴⁵ But, formal control over the direct infringer is not necessary for contributory liability in copyright.¹⁴⁶ “The fact that the infringing activity is not done under the direction or supervision of the person furnishing facilities, nor for the person’s benefit . . . does not necessarily immunize him from liability as a contributory [copyright] infringer.”¹⁴⁷ Instead, merely providing the means for infringing activity may suffice under a theory of contributory liability even if not under a theory of direct liability.¹⁴⁸ For example, a commercial operator of sound recording or video duplication facilities may be held liable for the infringing acts of its customers even if the customers bring in the copyrighted materials that they illegally copy.¹⁴⁹ In fact, the mere provision of “the site and facilities for known infringing activity is sufficient to establish contributory liability.”¹⁵⁰ Thus, a swap meet landlord was held contributorily liable for the infringing actions of vendors on its property.¹⁵¹

The courts have stretched the definition of control even further, suggesting that any ability to regulate customer conduct constitutes the control necessary for a *material contribution*. For example, one court found that an operator of a computer bulletin board service that automatically distributed all bulletin board postings, infringing or not, to service subscribers could be held contributorily liable for a subscriber’s posting of

144. *See Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 437 (1984) (stating that a contributory infringer must be “in a position to control the use of copyrighted works by others”).

145. *See Tim Wu, When Code Isn’t Law*, 89 VA. L. REV. 679, 738 (2003) (stating that, in the *Napster* and *Grokster* cases, the Ninth Circuit “took the issue of control as the sine qua non of contributory liability”).

146. *Sony*, 464 U.S. at 487 (Blackmun, J., dissenting) (“I agree with the Gershwin court that contributory liability may be imposed even when the defendant has no formal control over the infringer.”); *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1163 (2d Cir. 1971) (stating that “although CAMI had no formal power to control either the local association or the artists for whom it served as agent,” relevant factors for the analysis included “that the local association depended upon CAMI for direction in matters such as this, that CAMI 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”).

147. 3 NIMMER ON COPYRIGHT, *supra* note 43, § 12.04(A)(3)(b).

148. *See, e.g., Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

149. *See, e.g., RCA Records v. All-Fast Sys., Inc.*, 594 F. Supp. 335 (S.D.N.Y. 1984).

150. *Fonovisa*, 76 F.3d at 264.

151. *Id.*

infringing work.¹⁵² The court explained that running a bulletin board service constitutes “substantial” participation that went beyond simply renting premises to an infringer because the bulletin board service “does not completely relinquish control over how its system is used, unlike a landlord.”¹⁵³ Thus for copyright, parties may be liable for contributory infringement even if they have no real ability to control the acts of the direct infringer.¹⁵⁴

By contrast, under the trademark standard articulated in *Lockheed Martin*, contributory trademark liability requires direct control and monitoring of the means of infringement. When the defendant does not exercise direct control, contributory liability will not attach. Thus, while the bulletin board service and recording studios were held to have made a material contribution sufficient for contributory copyright infringement, such a passive role would be insufficient for contributory trademark infringement. Real oversight and control of the tools of infringement is necessary in the trademark realm.

In addition, though a somewhat nebulous concept, it appears that the easier something is to control, the more likely a court will recognize contributory trademark infringement. Thus, a court held that a common carrier of gasoline provided a material contribution to infringement by its “physical possession” and delivery of unbranded gasoline to a filling station that was passing off its gasoline as GETTY brand gasoline.¹⁵⁵ Courts expect suppliers to have some control over the products they manufacture and distribute; hence, the material contribution requirement may fade when the alleged contributory infringer is a manufacturer or distributor of the infringing product.¹⁵⁶ Courts also expect real property owners to be able to

152. *See* Religious Tech. Ctr. v. Netcom On-line Commc’n Servs., Inc., 907 F. Supp. 1361, 1375 (N.D. Cal. 1995).

153. *Id.*

154. As the court held, if the defendant, Netcom, had knowledge of the infringing activity, “failure to simply cancel [the direct infringer’s] infringing message and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation in [the direct infringer’s] public distribution of the message.” *Id.* at 1374.

155. *Getty Petroleum Corp. v. Aris Getty, Inc.*, 55 F.3d 718, 720 (1st Cir. 1995) (noting that although defendant did not have title, “it had, and supplied, an essential factor—physical possession of the property to which the trademark was to be attached”).

156. *Cf. Lockheed Martin Corp. v. Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (explaining that in cases not involving the distribution or manufacture of a product, proof of direct control and monitoring “permits the expansion of *Inwood Lab.*’s ‘supplies a product’ requirement for contributory infringement”); *H-D Mich., Inc. v. Biker’s Dream, Inc.*, 48 U.S.P.Q.2d 1108, 1116 (C.D. Cal. 1998) (holding manufacturer of infringing motorcycles liable for contributory infringement even though it did not sell motorcycles directly to the public).

control what happens on their land or in their buildings.¹⁵⁷ By contrast, courts have found owners of more abstract property, such as trademark licenses, to lack the requisite control under *Lockheed Martin*.¹⁵⁸ Thus, in deciding that there was no contributory liability for a travel agency that licensed its mark to an affiliate who infringed on another party's mark, the court emphasized that the travel agency "licensed no real estate," but "merely licensed its own mark to the alleged direct infringer."¹⁵⁹ In another case, a court granted summary judgment in favor of a domain name registrar accused of contributory infringement on the grounds that the constantly changing nature of the internet made it impossible for the registrar to directly control and monitor the means of infringement.¹⁶⁰

Thus, the circumstances enabling contributory trademark liability are dramatically limited compared to copyright law. In cases that do not involve manufacturing or distribution, the defendant must directly control and supervise the direct infringer. Moreover, the case law suggests that sufficient control for contributory trademark infringement will only be found when the means of infringement is relatively simple and tangible, such as real property. When the means of infringement are more abstract, contributory liability is less likely. Contributory copyright does not require this direct control. Instead, it is sufficient to merely produce an opportunity to infringe.

III. UNDERSTANDING THE DIVERGENT EVOLUTION OF SECONDARY TRADEMARK AND COPYRIGHT LIABILITY

As the previous Part and Table 1 below illustrate, an alleged secondary trademark infringer is more likely to escape liability than an alleged secondary copyright infringer. For both copyright and trademark law, vicarious liability requires control over the direct infringer and a financial benefit from infringement. But, while vicarious trademark liability uses tradi-

157. See *Lockheed Martin*, 194 F.3d at 985 (contrasting the case at hand where no contributory liability was found with other cases where "defendants licensed real estate, with the consequent direct control over the activity that the third-party alleged infringers engaged in on the premises").

158. See *Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1520 (11th Cir. 1992) (holding that a licensor of a mark does not ordinarily have a duty to prevent a licensee's misuse of another party's mark).

159. *Fare Deals, Ltd. v. World Choice Travel.com, Inc.*, 180 F. Supp. 2d 678, 689 (D. Md. 2001).

160. See *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 962 (C.D. Cal. 1997).

tional tort principles of agency to determine whether sufficient control exists, copyright infringement does not require a formal agency relationship. Thus, a defendant may be held vicariously liable for its independent contractors' and licensees' direct copyright infringement, but not for the same parties' trademark infringement. Moreover, the notion of financial benefit for copyright has been stretched to include the potential draw and hypothetical revenue to the vicarious infringer while trademark law continues to demand a direct financial stake in infringement revenue, not projections of future income.

Table 1
Comparison of Vicarious Trademark and Copyright Liability

	Trademark Law	Copyright Law
Control over Infringer (Actual or Apparent)	<ul style="list-style-type: none"> • Test: the direct infringer must act on behalf of the defendant or as defendant's alter ego for the control element to be met • Traditional tort principles of agency apply requiring actual or apparent agency • Ability to supervise (e.g., contractual relationships such as licensor/licensee or franchisor/franchisee) is insufficient 	<ul style="list-style-type: none"> • Test: "right and ability to supervise" • No requirement of actual or apparent agency • Can be held liable for actions of an independent contractor
Financial Benefit from Infringement	<ul style="list-style-type: none"> • Direct financial stake in infringement revenue required • Hallmarks of direct financial benefit include using infringement for entertaining of customers/clients or profit-sharing regime with infringer 	<ul style="list-style-type: none"> • Indirect financial benefit sufficient, including attraction of customers/users to site because of infringement • Hypothetical future revenue from infringement enough

For both trademark and copyright law, contributory liability requires knowledge of the direct infringement and a material contribution to that infringement. For the knowledge element, as illustrated in Table 2 below, trademark law necessitates that the defendant knew or should have known that he was transacting with a customer who was likely to infringe; mere

awareness of the potential for infringement is insufficient. In contrast, especially post-*Grokster*, knowledge may be imputed to a contributory copyright infringement defendant if the defendant received indirect financial benefit from the infringement or failed to take affirmative precautions against third-party infringers. Meanwhile, proving a sufficient material contribution for contributory trademark infringement requires direct control and monitoring of the means of infringement. On the other hand, the notion of control has become so attenuated in copyright that the mere production of an opportunity to infringe or provision of the means for infringement, even in the absence of meaningful control, is sufficient for liability.

Table 2
Comparison of Contributory Trademark and Copyright Liability

	Trademark Law	Copyright Law
Contributory Liability	<ul style="list-style-type: none"> • Test: Would reasonable person in defendant's position realize that she had created a situation likely to result in infringement or was transacting with a customer that she should know would be particularly likely to engage in infringement? • No general affirmative duty to investigate or take precautions against trademark infringement by third parties, barring specialized knowledge of infringement. • Mere awareness of potential infringement not enough for liability. 	<ul style="list-style-type: none"> • Test: Actual knowledge or imputed knowledge if: <ul style="list-style-type: none"> ○ Manufacture or distribute product that is incapable of "commercially significant" or "substantial noninfringing uses;" or ○ Actively induce infringement by the defendant manufacturing or distributing the product "with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement" as evidenced through advertisements, failure to take affirmative precautions against third-party infringements, and direct and indirect financial benefits from infringement.
Material Contribution to Infringement	<ul style="list-style-type: none"> • Requires direct control and monitoring of means of infringement. 	<ul style="list-style-type: none"> • Merely producing opportunity to infringe or providing the means for infringement may be enough for liability.

The remainder of this Article explores potential reasons for this schism between trademark and copyright law and suggests a more principled and consistent way to evaluate both types of indirect infringement claims. Although Part II demonstrated that the secondary liability doctrines for copyright and trademark have branched out in different directions, these doctrines originate from the same root. Judicial opinions identify the basis of contributory copyright infringement as “the basic common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor.”¹⁶¹ This is the same doctrinal basis often identified as the foundation of contributory liability in trademark law.¹⁶² Moreover, well-established tort law principles of respondeat superior supply the bases for the vicarious liability doctrines in both copyright and trademark law.¹⁶³ Yet as the previous Part demonstrated, in practice, the law of secondary liability differs depending on whether infringement of a trademark or a copyright is at issue. Below we analyze some potential reasons for this divergence. We argue that neither the separate lines of original legal authority, variances in the overall scope of protection of the two types of intellectual property, nor a greater concern with chilling the behavior of indirect trademark participants explains the difference. Instead, the contrast in the two secondary liability regimes stems from a less rational and, ultimately, unsatisfactory source: panic over the mass infringement of copyright on the internet.

A. Differences in the Trademark and Copyright Property Bundles

1. Sources of Origin

One potential explanation for the difference between copyright and trademark secondary liability is the separate origin of their underlying rights. Copyright and trademark protection are borne from two distinct sources. In American law, copyrights (and patents) are a product of the Progress Clause of the Constitution, which specifically authorizes Congress to enact laws “To promote the Progress of Science and useful Arts, by securing for limited Times, to Authors and Inventors, the exclusive

161. *Demetriades v. Kaufmann*, 690 F. Supp. 289, 293 (S.D.N.Y. 1988) (quoting *Screen Gems-Columbia Music, Inc. v. Marki-Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966)).

162. See *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1148-49 (7th Cir. 1992); *Transdermal Prods., Inc. v. Performance Contract Packaging, Inc.*, 943 F. Supp. 551, 553 (E.D. Pa. 1996).

163. *Demetriades*, 690 F. Supp. at 292 (describing vicarious and contributory liability as “well established precepts of tort liability”).

Right to their respective Writings and Discoveries.”¹⁶⁴ By contrast, federal trademark protection is a strictly statutory creation. There is no Constitutional provision providing for trademark protection. Instead, pursuant to its inherent power under the Commerce Clause,¹⁶⁵ Congress passed the Lanham Act, which provides federal rights and remedies for trademark holders.¹⁶⁶

However, the constitutional origin of copyright law does not account for the doctrine’s broader secondary liability reach. Both the Constitution and the Lanham Act are silent as to the liability of non-infringers. The Lanham Act merely states that “[a]ny person” who uses a mark in a way that is likely to deceive consumers as to the association of that mark with its owner shall be liable.¹⁶⁷ The Lanham Act does not explicitly mention contributory infringement or vicarious infringement.¹⁶⁸ Similarly, the Constitution is silent as to liability for indirect copyright infringers, and current copyright law states only that “[a]nyone who violates any of the exclusive rights of the copyright owner” will be an infringer.¹⁶⁹

Despite this silence as to third-party infringers, courts have freely imported secondary liability principles into both trademark and copyright law. Whether or not common law doctrines are applicable in litigation under a federal statute depends on whether those principles advance the goals of the statute.¹⁷⁰ Courts argue that they should import secondary liability principles into federal trademark law because the Lanham Act is derived “generally and purposefully from the common law tort of unfair competition.”¹⁷¹ In his concurrence to the *Ives* decision, Justice White remarked that “the purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark protection.”¹⁷² Accord-

164. U.S. CONST. art. I, § 8, cl. 8.

165. U.S. CONST. art. I, § 8, cl. 3.

166. Trademark Act of 1946 (Lanham Act), Pub. L. No. 79-489, 60 Stat. 427 (1946) (codified at 15 U.S.C. §§ 1051-1127 (2006)).

167. 15 U.S.C. § 1125(a)(1) (2006).

168. One scholar maintains that, given the Lanham Act’s silence, it would be an error for a court to imply contributory liability from the Lanham Act, although such liability is available under the courts’ common law powers. See John T. Cross, *Contributory Infringement and Related Theories of Secondary Liability for Trademark Infringement*, 80 IOWA L. REV. 101, 119 (1994).

169. See 17 U.S.C. § 501 (2006).

170. *Am. Soc’y of Mechanical Eng’rs v. Hydrolevel Corp.*, 456 U.S. 556, 570 (1982).

171. *AT&T v. Winback & Conserve Program*, 42 F.3d 1421, 1433 (3d Cir. 1994).

172. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 (White, J., concurring); see also *SmithKline Beckman Corp. v. Pennex Products Co.*, 103 F.R.D. 539, 540 (E.D. Pa. 1984) (holding third parties liable as joint tortfeasors for trademark infringement and

ing to the Third Circuit, common law vicarious liability is consonant with the goals of the Lanham Act because the doctrine merely allocates liability for conduct the statute already proscribed rather than expanding the scope of proscribed conduct.¹⁷³ In fact, courts have freely imported secondary liability to trademark law since the inception of federal protection.¹⁷⁴

Similarly, courts have unreservedly read secondary tort liability principles into copyright law, despite the absence of any explicit authority in either the Constitution or in the Copyright Act.¹⁷⁵ As with trademark, courts have justified this importation of third-party liability on the grounds that “copyright is analogous to a species of tort” and vicarious and contributory liability in tort are “well-established” precepts.¹⁷⁶ In determining whether to extend liability to third parties, the Supreme Court has dictated that broader principles of desert and deterrence, not the presence of explicit statutory authorization, should guide jurists:

The Copyright Act does not expressly render anyone liable for infringement committed by another. . . . The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in infringing activity. For vicarious 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.¹⁷⁷

Thus, because courts generally accept secondary liability in numerous legal realms analogous to trademark and copyright law, it is appropriate to

stating that “since trademark infringement and unfair competition are tortious, the doctrine of joint tortfeasors is applicable”) (citations omitted); *Transdermal Prods., Inc. v. Performance Contract Packaging, Inc.*, 943 F. Supp. 551, 553 (E.D. Pa. 1996) (explaining that contributory infringement theory grew out of the common law underpinnings of trademark law).

173. *AT&T*, 42 F.3d at 1430-31.

174. *See William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 530-31 (1924) (finding defendant guilty because “[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury”).

175. *See, e.g., Gross v. Van Dyk Gravure Co.*, 230 F. 412, 414 (2d Cir. 1916) (“Why all who unite in an infringement [of copyright] are not, under the statute liable for damages sustained by plaintiff, we are unable to see . . . [A]s all united in infringing, all are responsible for the damages resulting from infringement.”).

176. *Demetriades v. Kaufmann*, 690 F. Supp. 289, 292 (S.D.N.Y. 1988); *see also Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984); *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966).

177. *Sony*, 464 U.S. at 434-35.

import secondary liability into trademark and copyright. Since this justification applies equally to both of these types of intellectual property, the different legal origins of copyright and trademark do not adequately explain the dramatic variances in secondary liability principles.

2. *Differences in Scopes of Protection*

Another possible explanation for the divergence between secondary liability in trademark and copyright law stems from the difference in the underlying rights these laws protect. On the few occasions when courts have rationalized the secondary liability divergence, they have appealed to the distinction between rights granted to copyright holders and rights granted to trademark holders. As the courts have frequently posited, the scope of the trademark privilege pales by comparison to the copyright monopoly. Trademark, therefore, warrants a more restrictive secondary liability regime. As a federal district court recently explained:

Because the property right protected by trademark law is narrower than that protected by copyright law, liability for contributory infringement of a trademark is narrower than liability for contributory infringement of a copyright. Unlike trademark law, copyright law gives owners a generalized right to prohibit all copying, provided that the owner's rights are valid and the material copied is original. Trademark law, on the other hand, tolerates a broad range of non-infringing uses of words that are identical or similar to trademarks.¹⁷⁸

The courts' logic, though, is flawed. Admittedly, trademark rights differ in scope from those granted by copyright. Trademarks have traditionally only provided their owners with the ability to prevent uses that are likely to confuse consumers. Thus, until recently, any use of another's trademark was allowed under federal law so long as it did not result in public misperception. By contrast, copyrights seemingly provide their owners with a wholesale ability to prevent any copying or improper appropriation, regardless of public perception.¹⁷⁹

However, even a cursory examination of the two regimes reveals that, in many ways, trademark law is more expansive than copyright. Trademarks, unlike copyrights, are potentially infinite in duration, lasting so long as their owners can and do use them to distinguish a particular good

178. *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 965 (C.D. Cal. 1997) (citations omitted).

179. The exclusive rights of copyright owners are, of course, subject to fair use and the first sale doctrine.

or service. Moreover, there has been a significant expansion in the rights granted to trademark owners in recent years—a trend makes the continuing limits on trademark secondary liability all the more puzzling. Trademarking no longer confers solely the right to prevent uses of a mark that result in a likelihood of confusion at the point of sale. As courts have grown increasingly concerned with protecting the goodwill and investment of mark holders, they have expanded trademark protection to cover confusion that occurs both before¹⁸⁰ and after¹⁸¹ the point of sale. The Federal Trademark Anti-Dilution Act¹⁸² now provides potential remedies for both the blurring and tarnishment of a famous mark, regardless of the potential for consumer confusion.¹⁸³

Furthermore, trademark law is not subject to certain limitations found in copyright. Copyright plaintiffs must show illicit copying to prove infringement. Independent creation is an absolute defense to a copyright infringement suit, and the burden lies with the plaintiff to prove that an alleged infringing work was not independently created. In trademark law, by contrast, access and illicit copying are largely irrelevant to the issue of liability¹⁸⁴ and are generally reserved for determining the scope of damages.¹⁸⁵ Further, copyright and trademark protection derive from different sources. Copyright lies almost exclusively in the domain of federal law. Any vindication of rights equivalent to those guaranteed or denied under the Copyright Act is properly preempted.¹⁸⁶ By contrast, trademark is not exclusively federal, and states are permitted to apply their own independent trademark systems. State trademark protection frequently expands upon the rights provided under the Lanham Act.¹⁸⁷ Thus, while the scope of trademark rights differs from copyright in important respects, copyright

180. *E.g.*, *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1061 (9th Cir. 1999).

181. *E.g.*, *United States v. Torkington*, 812 F.2d 1347, 1352-53 (11th Cir. 1987).

182. 15 U.S.C. § 1125(c) (2006).

183. 15 U.S.C. § 1125(c)(1) (providing relief for use of a famous mark “that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion”).

184. Intent is used to help determine whether consumers are likely to be confused by a defendant's use of a mark, but the defendant's intent in adopting the mark is only one of a multitude of factors used by the courts to assess likelihood of confusion. *See, e.g.*, *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1290 (9th Cir. 1992); *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 497 (2d Cir. 1961).

185. The provisions of the Lanham Act providing for attorneys' fees and treble damages are illustrative in this regard. *See* 15 U.S.C. § 1115(a) (2006).

186. 17 U.S.C. § 301 (2006).

187. CRAIG JOYCE ET AL., *COPYRIGHT LAW* 9 (1998).

does not appear so broad in reach as to justify the application of a more expansive secondary infringement regime.

B. Concerns with Chilling Behavior of Indirect Participants

Since neither the scope nor origins of copyright and trademark law explain the divergence in their respective secondary liability regimes, one might search for a justification based on public policy. One possible basis for narrowing the definition of secondary trademark liability may lie in the potential danger inherent in cracking down on “indirect” infringers. A narrow definition of secondary liability protects intermediaries who interact with direct infringers. By holding the line on trademark secondary liability, courts’ rulings may reflect a concern that broad secondary trademark liability could chill legitimate behavior, particularly if expansion of liability would leave intermediaries uncertain as to what actions constitute infringement.¹⁸⁸ A judge may decide that preserving the status quo makes sense given the beneficial output of intermediaries, or potential “indirect” infringers, particularly on the internet. For example, Google’s ability to lower consumer search costs through targeted internet searches has been cited as one reason for shielding it from contributory trademark liability for its keyword search advertising program.¹⁸⁹

Yet a desire to protect intermediaries does not explain why the law should hold an intermediate catalyst of trademark infringement to a lower standard of liability than a facilitator of copyright infringement. Both the Lanham Act and federal copyright law already account for the dangers of overzealous enforcement of contributory liability by providing safe harbors and limited remedies for defendants in industries at risk of excessive liability for legitimate activity.¹⁹⁰ The case law offers no policy justification for treading more lightly on indirect trademark infringers than on indirect copyright infringers. Indeed, there are a multitude of public policy grounds that courts could have drawn upon (though they did not) to rationalize the narrowing of secondary copyright liability. In the cases involving peer-to-peer technologies, for example, judges could easily have pointed to the social benefits of such technologies as a basis for shielding facilitators from civil liability. After all, peer-to-peer platforms enable internet users to transfer information more efficiently, thereby promoting resource conservation. Peer-to-peer technologies also facilitate the dis-

188. Dogan & Lemley, *supra* note 23, at 832.

189. *Id.* at 831-37.

190. The Lanham Act’s exception for trademark uses “otherwise than as a mark,” 15 U.S.C. § 1115(b)(4) (2006), and the safe harbor for liability of internet service providers in the Digital Millennium Copyright Act, 17 U.S.C. § 512 (2006), are examples.

semination of works in the public domain, advancing critical First Amendment and educational interests.¹⁹¹ Yet the peer-to-peer cases significantly expanded the breadth of secondary liability in copyright. And while manufacturers and distributors of branded products are surely integral to the functioning of the American economy, so are the publishers, software developers, and technologists who face potential indirect liability when third parties use their services and products to violate copyright law.

C. Copyright Panic

All told, there appears to be no unifying or rational theoretical basis to explain the divergent courses of the secondary copyright and trademark liability regimes. In fact, further examination suggests a somewhat less salutary and deliberate mechanism at work: copyright panic.

In recent years, the ease of digital reproduction and distribution and the availability of broadband internet access have enabled mass infringement of copyrighted works on an unprecedented scale. The fear of infringement has induced widespread copyright panic within the content-creation industries—a fear widely broadcast throughout the mainstream media. The panic has led to the passage of such ill-conceived legislation as the Digital Millennium Copyright Act and has led to calls for heightened legal protection for content creators.

In part, this wave of copyright protectionism has appealed to the notion of romantic authorship. Most prominently articulated by Peter Jaszi¹⁹² and James Boyle,¹⁹³ this theory postulates that the notion of romantic authorship has tacitly served as a central driving force behind the expansion of the modern copyright regime. Specifically, copyright laws gain legitimacy by protecting the vision of authors as mythic, solitary geniuses whose individual efforts result in original works created *ex nihilo*. The sympathetic figure of the romantic author has enabled legislators and courts to rationalize copyright protectionism by elevating the mental labors of the author to “a privileged category of human enterprise.”¹⁹⁴

191. See, e.g., Rebecca Tushnet, *Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It*, 114 YALE L.J. 535, 568–81 (2004) (arguing that the pure reproduction of creative works can advance First Amendment interests in self-expression, persuasion and affirmation).

192. Peter Jaszi, *Toward a Theory of Copyright: The Metamorphoses of “Authorship”*, 1991 DUKE L.J. 455, 455–63 (1991).

193. JAMES BOYLE, SHAMANS, SOFTWARE AND SPLEENS: LAW AND THE CONSTITUTION OF THE INFORMATION SOCIETY 51–60 (1996); James Boyle, *The Search for an Author: Shakespeare and the Framers*, 37 AM. U. L. REV. 625, 629 (1988).

194. Jaszi, *supra* note 192, at 455.

The individual consumer generally associates a copyright with an identifiable figure: a movie with the director, music with the singer or band members, and books with the author. Even when these figures—directors, authors, musicians—assign their copyrights to a recording label, a publisher, or a motion picture distributor, they still benefit from the exclusive rights guaranteed by Section 106 of the Copyright Act. As a result, in testimony before Congress and in advertisements pleading with consumers not to engage in piracy, the face of copyright—the sympathetic artist or creator—breeds the perception among consumers that copyright infringement is a personal, violative act.

By contrast, trademark development has traditionally been viewed as a strictly economic enterprise lacking in creativity or aesthetic value and, therefore, undeserving of the special protections reserved for authors and artists.¹⁹⁵ In an early American trademark case, the Supreme Court commented that a trademark, unlike a patent or copyright, does not “depend upon novelty, invention, discovery, or any work of the brain.”¹⁹⁶ More recently, a court observed that “a man of ordinary intelligence could easily devise a score of valid trade-marks in a short period of time.”¹⁹⁷ Moreover, trademark holders present a rather corporate visage unlikely to elicit public sympathy. After all, trademarks indicate the source or origin of products or services, items that typically enter the stream of commerce via corporate structures, not individual artists.

However, the appeal to romantic authorship cannot completely explain the recent revolution in copyright secondary liability.¹⁹⁸ The technological

195. See Mark Bartholomew, *Making a Mark in the Internet Economy: A Trademark Analysis of Search Engine Advertising*, 58 OKLA. L. REV. 179, 202-03 (2005).

196. *In re Trade-Mark Cases*, 100 U.S. 82, 94 (1879).

197. *Ambrosia Chocolate Co. v. Ambrosia Cake Bakery, Inc.*, 165 F.2d 693, 697 (4th Cir. 1947).

198. There are limitations to the explanatory power of the romantic authorship theory that lead us to conclude that the notion of romantic authorship cannot, by itself, explain the divergence between secondary trademark and copyright law. See Mark Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 TEX. L. REV. 873, 879 (1997); Pamela Samuelson, *The Quest for Enabling Metaphors for Law and Lawyering in the Information Age*, 94 MICH. L. REV. 2029, 2039 (1996). First, a high percentage of valuable copyrighted works are in the hands of corporations (often as works made for hire), rather than authors or individuals. See *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 737 n.4 (1989); Dogan & Lemley, *supra* note 23, at 883. As a result, it is difficult to implicate romantic authorship concerns in the divergent evolution of trademark and copyright secondary liability, especially when the cases most noted for expanding the scope of secondary liability have consistently involved plaintiffs who were corporate rights holders, not individual creators. See, e.g., *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 125 S. Ct. 2764, 2769 (2005); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1010-

changes precipitated by the internet are equally responsible for the courts' embrace of novel indirect liability theories. The late 1990s saw increasing levels of copyright infringement spawned by a surge in internet use, the development of file compression technology such as the mp3 music format, and the creation and dissemination of peer-to-peer file-sharing technology. Beset by declining album sales, the music industry saw the peer-to-peer revolution as a direct threat to its continued survival and quickly engaged in a no-holds-barred litigation against the developers of peer-to-peer networks. The remarkable infringing potential of new technologies helped convince the courts to expand secondary copyright liability. Meanwhile, trademark owners, who seemingly lacked a highly-publicized technological threat of their own, remained stuck with traditional secondary liability rules. Thus, mass awareness over the digital revolution and its threat to copyright holders, made all the more sympathetic by the appeal to romantic authorship, has undoubtedly contributed to the expansion of the secondary liability regime in copyright law and the resulting gap between copyright and trademark.

1. *Early Judicial Responses to the Digital Era: Copyright vs. Trademark*

Consider the sharp contrast in judicial responses to the advent of secondary liability issues on the internet in trademark versus copyright cases. The first significant internet challenge to the secondary trademark liability regime arose in the context of cybersquatting. Individuals rushed to purchase domain names containing the trademarks of large multinational corporations, hoping to sell the domains to the corporations at a premium. When asking prices surpassed the cost of litigation, corporations began to

11 (9th Cir. 2001); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996); *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59, 60 (3d Cir. 1986); *RCA Records v. All-Fast Sys., Inc.*, 594 F. Supp. 335, 336 (S.D.N.Y. 1984). Second, while the notion of romantic authorship has existed for decades, the explosion in secondary copyright liability cases, and the resulting gap between copyright and trademark law, has taken place over the last few years. If the romantic authorship myth legitimizes an expansive secondary liability regime in copyright law, but not in trademark law, it is difficult to understand why it has not done so all along. Indeed, an exegesis of the secondary copyright liability jurisprudence fails to reveal any betrayal, either explicit or implicit, of such authorial romanticism. We mention romantic authorship here only as a contributing factor to the divergence between copyright and trademark. While by itself, the romantic view of copyright creation was insufficient to reset the boundaries of indirect liability, we submit that romanticism for authors helped create the foundation necessary for the recent panic over digital copyright infringement, which, in turn, has led to a dramatic expansion in secondary copyright liability and the growing divide between indirect liability for copyright and trademark.

sue these domain-holders for trademark infringement. However, when the judgment-proof status of many of the cybersquatters became clear, companies turned their attention to the domain name registrars. The companies' attempts failed as courts squarely rejected theories holding domain name registrars liable for secondary trademark infringement. In the seminal case on domain-name liability, *Lockheed Martin Corp. v. Network Solutions, Inc.*,¹⁹⁹ the Ninth Circuit affirmed a lower court's grant of summary judgment for Network Solutions ("NSI"). The courts determined that NSI could not be held contributorily liable for trademark infringement by allowing a cybersquatter to obtain multiple top-level domain names containing derivations of Lockheed's trademark "SKUNK WORKS." The Ninth Circuit explained that because domain name registration only involves "rote translation" of a registrant's IP address into a domain name, NSI lacked the direct control necessary for contributory trademark infringement.²⁰⁰

NSI's registration system was far from completely automated, though. In fact, NSI admitted that it intervened in ten percent of domain-name applications, either to correct clerical errors or to reject applications containing certain pre-designated "prohibited" character strings, such as Olympic, Red Cross, NASA or certain obscenities.²⁰¹ Nevertheless, even though NSI supplied the means of infringement and could police the registration of domain names rather than leave it to rote mechanisms, the court found no liability.²⁰²

The judicial response to the analogous issue of online copyright infringement was strikingly different. Faced with the prospect of mass infringement on the precursor to websites—bulletin board services—and judgment-proof direct defendants, copyright holders went after secondary defendants with significantly greater success than trademark owners. In the influential *Religious Technology Center v. Netcom On-line Communication Services, Inc.* decision, a federal district court found that a bulletin board service that automatically distributed all user postings (with less oversight than NSI in its domain-name registering capacity) could potentially face contributory liability for the infringing actions of a posting

199. 194 F.3d 980 (9th Cir. 1999).

200. *Id.* at 985.

201. *Id.* at 982.

202. *Id.* at 985. Previously, another federal court had denied a claim of contributory infringement against NSI for registering domain names containing derivations of the "AVERY DENNISON" trademark. *See Avery Dennison Corp. v. Supton*, 189 F.3d 868, 873 (9th Cir. 1999).

user.²⁰³ Earlier, in *Playboy Enterprises v. Frena*,²⁰⁴ a federal district court had taken an expansive view of direct copyright liability, finding the operator of a bulletin board service liable for the distribution of unauthorized Playboy photos. The operator in *Playboy* had merely stored the photos on his servers, and users of his service had copied them.²⁰⁵

Thus, while courts immunized automated third parties from secondary trademark liability, they allowed secondary (and even direct) liability against similarly situated third parties in the copyright context. In the context of trademarks, the lack of adequate remedies for cybersquatting led to the passage of ICANN's Uniform Domain Name Resolution Policy and congressional amendment of the Lanham Act with the Anti-Cybersquatting Consumer Protection Act to create an explicit federal civil action for cybersquatting.²⁰⁶ By sharp contrast, the courts' willingness to expand the reach of contributory and vicarious liability in copyright law has led to congressional involvement to *limit* secondary liability. Witness, for example, the passage of the safe harbor provisions of the Digital Millennium Copyright Act, which Congress promulgated to overrule *Frena* and to shield internet service providers from liability for the activities of their users.²⁰⁷ In short, the courts have reacted cautiously to digital trademark issues, holding to the traditional bounds of vicarious and contributory liability. By contrast, courts have responded more actively to digital copyright issues by diluting existing requirements of direct financial benefit, control, knowledge and material contribution or even by establishing entirely new theories of infringement.

2. *"The Unlawful Objective Was Unmistakable": Peer-to-Peer File Sharing, Grokster, and the Fundamental Transformation of the Secondary Copyright Regime*

The judicial response to the peer-to-peer file-sharing revolution, as epitomized by the *Napster* decision and the Supreme Court's unanimous ruling in *Grokster*, provides another vivid illustration of copyright panic and its attendant consequences on the reshaping of secondary liability doctrine. An examination of the legal and technological background of these cases helps to illuminate the courts' jurisprudence.

203. *Religious Tech. Ctr. v. Netcom On-line Commc'n Servs., Inc.*, 907 F. Supp. 1361, 1375 (N.D. Cal. 1995) (holding that the online service was not liable for direct or vicarious infringement, but that a triable issue existed as to whether it faced liability for contributory infringement).

204. *Playboy Enters. v. Frena, Inc.*, 839 F. Supp. 1552 (M.D. Fla. 1993).

205. *Id.* at 1554.

206. 15 U.S.C. § 1125(d) (Supp. 2000); S. REP. NO. 106-140, at 11-18 (1999).

207. 17 U.S.C. § 512 (2006); H.R. REP. NO. 105-551, pt. 1, at 24 (1998).

The entertainment industry won its high profile battle against the leading first-generation file-sharing system, Napster, when a federal district court issued—and the Ninth Circuit affirmed—a preliminary injunction that effectively terminated Napster's operations. Despite this victory, the industry's success was ephemeral; users quickly turned to new and more sophisticated peer-to-peer technologies. Second-generation systems such as gnutella, Grokster, and KaZaa dramatically expanded infringement both in scope and in type. While Napster enabled the exchange of audio files, new systems and wider broadband access allowed users to swap commercial software, movies, and graphics. The networks also adopted superior file organization and retrieval techniques, enabling users to access copyrighted materials with greater agility.

Most significantly, second-generation networks structured their systems to evade liability. The Ninth Circuit affirmed the preliminary injunction against Napster on the grounds that, "the record supports the district court's finding that Napster has *actual* knowledge that *specific* infringing material is available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material."²⁰⁸ Central to the court's holding was its observation that "Napster has both the ability to use its search function to identify infringing musical recordings and the right to bar participation of users who engage in the transmission of infringing files."²⁰⁹ But unlike Napster, second-generation networks utilized a decentralized architecture. Napster housed a centralized index of available files on servers that it owned and operated. As a result, it was able to filter the types of files traded on its network. By contrast, the indices of second-generation networks were maintained on servers that were not owned or operated by the network provider. Thus, second-generation systems could shield themselves from liability by precluding their ability to control or monitor infringing activities on their networks.²¹⁰

208. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2002) (emphasis in original).

209. *Id.* at 1027.

210. The networks also sought refuge in international legal arbitrage. Shell corporations now operate many second-generation networks. These entities can easily relocate their systems and operations to jurisdictions with more favorable laws. The story of KaZaa, the world's most popular peer-to-peer software, epitomizes the viability of such legal arbitrage. Facing an adverse judgment in the Netherlands, the Dutch owners of KaZaa sold their software and service to the nebulous Sharman Networks Ltd. Sharman Networks is a notoriously secret corporation officially incorporated in the South Pacific tax haven of Vanuatu. Vanuatu recognizes no copyright laws. Thus, the enforceability of judgments against KaZaa is very much in doubt. The transnational characteristics of cy-

Confronted with the new peer-to-peer technology and reports of unprecedented infringement, the *Grokster* Court reconstructed secondary liability doctrine to impose liability. Starting from the premise that something terrible—mass copyright infringement—was occurring, the Supreme Court fashioned custom-made relief for the plaintiffs against the developers of peer-to-peer networks:

The argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day using StreamCast's and Grokster's software. When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.²¹¹

The Court therefore viewed mass infringement as a robust basis for inflicting secondary liability on technology developers. A careful analysis reveals the spurious nature of this logic.

First, the simple existence of mass infringement says little about whether secondary liability should attach. The continued vitality of the *Sony* safe harbor, reaffirmed by *Grokster*, makes this point plain. *Sony* shields technology developers from contributory liability if the technology is capable of substantial noninfringing uses and there is no evidence of active inducement by the developer. Nothing in the *Sony* decision suggests that the defense erodes in the face of mass infringement. After all, even the VCR was capable of promoting large-scale infringement by facilitating the long-term cataloging of movies and other copyrighted telecasts and by enabling video-to-video duplication of copyrighted works.

Second, the Court's argument about the impracticality of pursuing direct infringers is similarly unavailing. Challenges posed in recovery from direct infringers might concern copyright plaintiffs, especially the recording and movie industries. But it is not a proper basis for wholesale alteration of secondary liability law. The difficulty of pursuing direct in-

berspace combined with the nature of internet piracy have rendered legal action against peer-to-peer networks increasingly difficult. Ultimately, however, KaZaa settled with the RIAA in the summer of 2006. See Thomas Mennecke, *Kazaa Settles with Entertainment Industry*, SLYCK, July 27, 2003, <http://www.slyck.com/news.php?story=1250> (noting also that "this may be a Pyrrhic victory" for the entertainment industry, as peer-to-peer users "have long left Kazaa and FastTrack behind").

211. *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 125 S. Ct. 2764, 2776 (2005).

fringers has never served as a doctrinal basis for the imposition of secondary liability. Such reasoning undermines the stability of legal guidelines, rendering them unreliable to technologists shaping the digital revolution, and erodes the principled bases for secondary liability, transforming copyright's vicarious and contributory liability regimes into amorphous traps to catch perceived bad actors.

Indeed, this dangerous vision of secondary liability is evident in the *Grokster* decision's most memorable line and resounding refrain: "The unlawful objective is unmistakable."²¹² The Court predicated its expansion of secondary liability law on this manta. Fatally, however, the Court's manta presupposes the very question the Court was supposed to answer. Indeed, the unlawfulness of *Grokster*'s actions was anything but certain: the case went through several rounds of reversal and spurred a wave of amici briefs on all sides. But in a striking move, the Court molded a novel theory of secondary liability to remedy a perceived injustice. Copyright panic so seized the Court that it assumed an unlawful objective before it even made that determination on the merits.

The Court's reverse engineering is particularly salient in light of its general reluctance to fashion new forms of relief for a litany of plaintiffs suffering from injustices every bit as significant as the threat to copyright holders.²¹³ Even in the copyright and technology arena, the Supreme Court has consistently hesitated to carve out new theories of liability. One commentator recognized this hesitance in cases such as *White-Smith Music Publishing Co. v. Apollo Co.*,²¹⁴ *Fortnightly Corp. v. United Artists*,²¹⁵ and *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*²¹⁶

212. *Id.* at 2782.

213. *See, e.g.*, *United States v. Morrison*, 529 U.S. 598, 627 (2000) (striking down the Violence Against Women Act and its creation of a federal civil cause of action for victims of gender-motivated violence for exceeding congressional authority under the Commerce Clause); *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 576 (1992) ("Vindicating the public interest (including the public interest in Government observance of the Constitution and laws) is the function of Congress and the Chief Executive.").

214. 209 U.S. 1, 18 (1908) (holding that perforated player piano music rolls did not constitute unauthorized copies within the meaning of existing copyright law).

215. 392 U.S. 390, 400-02 (1968) (finding the unauthorized broadcasting of plaintiff's copyrighted works by defendant's community antenna television systems did not constitute a public performance of the copyrighted work proscribed under existing copyright law).

216. 415 U.S. 394, 409-10 (1974) (finding no liability for infringement for the unauthorized retransmission of copyrighted work on defendant's community antenna television systems).

[T]he [C]ourt confronted the same problem it had in *Grokster* and *Sony*—a new technological industry (the record and piano player, and various kinds of cable television) facing off against an incumbent industry. The Court in those cases said, in essence, we don't have a clue, found no copyright liability, and left things for Congress to fix. The Court in those cases made it clear that the Copyright Act, as written, had no answers to the problem presented, and that the Court did not trust itself to fashion one.²¹⁷

Yet the *Grokster* Court did not hesitate to unanimously provide a new theory of liability to the plaintiffs, thereby providing a salient demonstration of the impact that the popular zeitgeist—here, copyright panic—can have on an area of jurisprudence.

The secondary liability regime's own malleability makes it particularly susceptible to such a panic-driven judicial response to the propagation of digital technology. The doctrines of indirect liability in both copyright and trademark are especially prone to mutation because of the dearth of statutory strictures delimiting them. Unlike patent law, which formulates its secondary liability regime explicitly in the Patent Act,²¹⁸ there is no explicit provision for secondary liability in either the Copyright Act or the Lanham Act. In fact, there is almost no legislative acknowledgment of such causes of action,²¹⁹ save a backdoor reference in the Digital Millennium Copyright Act²²⁰ and an oblique reference to “authorizing” infringement in a House Report for the 1976 Copyright Act.²²¹

217. Tim Wu, *The Copyright Paradox: Understanding Grokster*, 2005 SUP. CT. REV. 229, 254 (2005).

218. The Patent Act explicitly lays out causes of action for both inducing and contributory infringement. See 35 U.S.C. § 271(b), (d) (2006).

219. See Jay Dratler, Jr., *Common-Sense (Federal) Common Law Adrift in a Statutory Sea, or Why Grokster was a Unanimous Decision*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 413, 419 (2006).

220. See 17 U.S.C. § 1201(c)(2) (2006) (“Nothing in this section shall enlarge or diminish vicarious or contributory liability for copyright infringement in connection with any technology, product, service, device, component, or part thereof.”).

221. The House Report read:

The exclusive rights accorded to a copyright owner under Section 106 are “to do and to authorize” any of the activities specified in the five numbered clauses. Use of the phrase “to authorize” is intended to avoid any questions as to the liability of contributory infringers. For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.

See H.R. REP. NO. 1476 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674.

As a result, common law has served as the sole vehicle for change in the secondary liability regime, enabling it in a rapid and fact-responsive fashion. As Jay Dratler has observed:

Common law decision making is inevitably *ad hoc*. It relies on general principles of justice and common sense. Its tools are analogy and distinction based on facts. By using these tools, courts mimic—on a much smaller scale and for a much smaller subset of factual contingencies—the comprehensive factual inquiries that legislatures are supposed to undertake before prescribing more comprehensive and general rules in statutes.²²²

One significant risk, therefore, is that cases with tough facts can easily result in flawed, and even dangerous, legal precedent. Certainly, one is left to wonder what happened to the *Sony* Court's admonition—handed down from *White-Smith* to *Fortnightly* and *Teleprompter*—in declining to outlaw the Betamax: “Sound policy, as well as history, supports our consistent deference to Congress when technological innovations alter the market for copyrighted materials.”²²³

3. *The Dangers of Panic*

a) The Problematic Implications of *Grokster*

Although *Grokster* differed from most copyright cases in that it involved a new technology, the case sets legal precedent for any court weighing the evidence in a contributory infringement claim. The *Sony* safe harbor creates an additional evidentiary hurdle for a plaintiff challenging use of a new technology: a plaintiff must provide evidence of an intent to infringe when the technology at issue is capable of both infringing and noninfringing uses. However, with the guidance provided by *Grokster*, it is clear that evidence of financial motivation—broadly construed—or a failure to develop preventative measures, while not quite enough by itself to refute a *Sony* affirmative defense,²²⁴ becomes a powerful weapon for any plaintiff trying to satisfy the knowledge requirement. Indeed, the *Grokster* decision's sloppiness threatens to wreak havoc on technology developers in emerging fields.

In announcing the inducement theory of copyright liability, the Court pointed to several factual considerations that evidenced the *Grokster* defendants' clear intent to promote their products for infringing uses. These

222. Dratler, *supra* note 219, at 420.

223. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984).

224. *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 125 S. Ct. 2781, 2782 n.125 (2004).

factors form the basis for application of the inducement doctrine in future infringement suits, but each suffers from analytical uncertainties and could create liability for unwitting parties.²²⁵ First, Grokster's unabashed vision of itself as a Napster-substitute provided the most salient evidence of inducement to the Court. Specifically, the Court focused on Grokster's targeted efforts to capture former Napster users in its advertisements and solicitations, thereby corroborating its illicit motives.²²⁶ Remarkably, however, as Tim Wu points out, these advertisements were never actually released.²²⁷ Counsel had wisely advised the companies against taking them public. Yet the Supreme Court still used the existence of an internal debate over such advertisements as a factor against the defendants—hazardous precedent for future developers of cutting-edge technologies with both infringing and noninfringing applications.

The expansive language in *Grokster* regarding evidence of intent implicates a wide range of previously unscrutinized activities that may now serve as predicates for the imposition of contributory liability. For example, *Grokster* calls into question the continued viability of a number of recent advertising campaigns including, as Rebecca Tushnet has pointed out, Apple Computer's "Rip. Burn. Mix." shibboleth.²²⁸ Additionally, a company might market a product that it believes facilitates fair use of copyrighted works by its consumers. But if that use is ultimately deemed unfair, it is unclear whether that company's statements amount to inducement or whether a good faith belief in a product's fair use capacity shields the product's creator from contributory liability. Given the notoriously imprecise boundaries of copyright's fair use doctrine and the rapid pace of technological change,²²⁹ these unresolved issues remain critical to technology developers.²³⁰

225. See *supra* Section II.C.1.

226. *Grokster II*, 125 S. Ct. at 2773.

227. Wu, *supra* note 217, at 243.

228. See Rebecca Tushnet, June 27, 2005, SCOTUSBLOG, <http://www.scotusblog.com/discussion/archives/grokster/>. Sophisticated technology companies, both in the mainstream and at the legal margins, will likely respond to *Grokster* by assiduously avoiding public and private statements that courts might read as inducing infringement.

229. See John Tehranian, *Et Tu, Fair Use? The Triumph of Natural-Law Copyright*, 38 U.C. DAVIS L. REV. 465, 496-504 (2005).

230. Ironically, *Grokster* expands contributory liability to address a specific problem—the threat of mass internet piracy—but it may well fail at addressing it. The realities of technological development make continued legal struggle potentially futile. The mainstream press touted *Grokster* as a significant victory for the entertainment industry, yet the technology at issue in the case is already antiquated. A third generation of peer-to-peer networks has already emerged, posing new challenges to the legal regime. For example, BitTorrent has supplanted KaZaa as the world's leading peer-to-peer network.

However, the most significant long-term impact of *Grokster* may not involve the inducement theory of infringement it announced, but the strong willingness it signaled to expand the secondary liability regime to meet the perceived needs of immediate justice in the copyright arena. As Tim Wu argues, *Grokster* provides us with “the first test in copyright history that asks a court to look at a defendant’s business model and decide whether its motives are crooked.”²³¹ The implications of the Court’s transformation of secondary liability in *Grokster* are therefore dramatic. As new technologies emerge, it is likely that secondary copyright liability law will be subject to further distortions. In fact, *Grokster* does little to dissuade future courts from creating new forms of secondary liability. As Jay Dratler notes, future jurists might “suspect that infinitely fertile human imagination and the advance of technology may create other situations in which it would be just and proper to impose secondary liability.”²³²

b) The Potential Expansion of Secondary Trademark Liability:
Panic or Sound Policy?

As described above, widespread panic over emergent digital technologies has spurred tremendous expansion of secondary copyright liability in recent years. Since no similar trademark panic has afflicted the popular imagination, we have witnessed only small alterations in the secondary trademark liability regime. Piracy, especially in the wake of the digital revolution, is most frequently construed as a threat to copyright, not trademark, holders. Ironically, however, the internet, globalization and new technologies enable as much mass trademark infringement as copyright infringement. Aided by technologies that allow easy replication,

Unlike many prior peer-to-peer iterations, BitTorrent was developed for the express purpose of facilitating noninfringing information transfers, and it operates on a non-commercial basis. Moreover, it possesses a far more decentralized architecture than prior networks. In light of these facts, the creators of BitTorrent appear insulated from liability under the standards promulgated by *Grokster*. Also, the *Grokster* ruling may be distinguished from future actions for contributory copyright infringement because the evidence of the defendant’s knowledge of the unlawful activity was unusually stark. The peer-to-peer software companies associated themselves with “the notorious file-sharing service, Napster” by targeting their advertisements to former Napster users. *Grokster II*, 125 S. Ct at 2772-73. Internal e-mails revealed that the companies sought to include more copyrighted songs on their networks than other file-sharing services. *Id.* at 2773. Not every contributory infringement defendant is likely to get caught so red-handed. *See* Grossman, *supra* note 42, at 201-02 (2005) (criticizing the Ninth Circuit for holding that actual knowledge can prevent a defense of substantial noninfringing use under *Sony*).

231. Wu, *supra* note 217, at 241.

232. Dratler, *supra* note 219, at 425.

counterfeiting has become a global issue.²³³ The internet has spurred a host of complex trademark infringement issues, including the use of trademarks in metatags, search engines, and advertising services. All told, the U.S. Chamber of Commerce estimates that counterfeiting or piracy costs the U.S. economy between \$200 and \$250 billion each year.²³⁴ Indeed, the problem has grown so serious that lawyers filing counterfeit and trademark infringement lawsuits are working with federal prosecutors, customs officials, and local law enforcement to combat the problem.²³⁵ When signing recent legislation authorizing criminal penalties for trafficking in counterfeit trademarks, the President described significant injuries resulting from trademark infringement: billions of dollars in domestic economic losses, health and safety risks from exposure to untested products, and the use of counterfeit sales to fund terrorist operations.²³⁶ While we do not advocate trademark panic or a more expansive secondary trademark liability regime, the seriousness of real-world effects of trademark infringement in the digital age (and the absence of any morphing of trademark principles to address these issues) highlights just how striking and unusually cavalier the courts' responses to digital copyright infringement have been.

Despite the evidence of a pressing problem in the trademark arena, the copyright quandary has simply captured our collective attention. However, the secondary liability revolution may soon break in favor of trademark holders. The voices of complaint are rising, contending that the special nature of business transactions on the internet makes it easier to infringe on trademarks than ever before.²³⁷ According to some, increased liability against indirect trademark infringers is justified in the internet context because new technology makes it easier for intermediaries to monitor the conduct of end users.²³⁸ Of course, this is the same argument that the *Grokster* court seized to justify secondary copyright liability against the

233. See Amanda Bronstad, *Countering the Counterfeits*, NAT'L L.J., July 13, 2006.

234. *Id.*

235. *Id.*

236. See Press Release, The White House, Fact Sheet: President Bush Signs the Stop Counterfeiting in Manufactured Goods Act (Mar. 16, 2006), available at <http://www.whitehouse.gov/news/releases/2006/03/20060316-6.html> (last visited Dec. 3, 2006).

237. See, e.g., SALLY M. ABEL ET AL., *TRADEMARK LAW & THE INTERNET* 142 (Lisa E. Cristal & Neal S. Greenfield eds., 2001); Adam S. Chinnock, Note, *Meta Tags: Another Whittle from the Stick of Trademark Protection?*, 32 U.C. DAVIS L. REV. 255, 276 (1998).

238. Ronald J. Mann & Seth R. Belzley, *The Promise of Internet Intermediary Liability*, 47 WM. & MARY L. REV. 239, 240 (2005).

peer-to-peer software distributor.²³⁹ Yet trademark infringement may have just begun to capture the public's attention. Just this year, President Bush signed into law the Stop Counterfeiting in Manufactured Goods Act, providing criminal penalties against those who trade in counterfeit marks.²⁴⁰

On the other hand, Google, one of the most prominent online brands, is fighting expansion of secondary trademark liability. Google's AdWords and AdSense program permits advertisers to bid on keywords that will generate an advertising link when consumers search using that keyword or websites contain content using a keyword.²⁴¹ Mark holders have sued Google, contending that the unlicensed use of trademarked keywords for AdWords and AdSense constitutes infringement. So far, Google has been successful in preventing an adverse secondary liability verdict,²⁴² a result that would threaten to decimate the advertising program that represents its main source of revenue.²⁴³ Part of Google's strategy rides on maintaining a positive public image—something the peer-to-peer software distributors failed to do—as epitomized by Google's good works²⁴⁴ and appealing, happy-go-lucky mantra “Don't Be Evil.” Google's Library Project, a plan to digitize the works held by the United States' finest research universities, has been lauded by most of the public, receiving only limited criticism (and a matching lawsuit) from publishers concerned about devaluation of their copyrights. The Chronicle of Higher Education described the project as “providing researchers and students with an unprecedented tool for finding information.”²⁴⁵ Google has also endeared itself to privacy rights advocates when it refused to turn over information in response to a Justice

239. See *supra* notes 224-230 and accompanying text.

240. H.R. 32, 109th Cong. (2005).

241. *Gov't Employees Ins. Co. v. Google, Inc.*, 330 F. Supp. 2d 700, 701-02 (E.D. Va. 2004).

242. Google recently succeeded in defeating lawsuits in the Northern District of New York and the Central District of California. See *Rescuecom Corp. v. Google, Inc.*, No. 5:04-CV-1055, 2006 WL 2811711 (N.D.N.Y. Sept. 28, 2006); *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006).

243. See Nicholas Carlson, *Internet Ads Up 30%*, INTERNETNEWS.COM, Apr. 21, 2006, http://www.internet_news.com/ec-news/article.php/3600946.

244. See, e.g., Ryan Kim, *Google Gives City Free Wi-Fi: Mountain View Service Could Give S.F. Project a Push*, SF CHRONICLE, Aug. 16, 2006, at C1 (noting Google's “hospitable gesture” of offering a free high speed wireless network to its hometown of Mountain View, California).

245. Scott Carlson & Jeffrey R. Young, *Google Will Digitize and Search Millions of Books from 5 Leading Research Universities*, CHRON. HIGHER EDUC., Jan. 7, 2005, at A37.

Department subpoena for data on public search habits.²⁴⁶ The strategy has worked:²⁴⁷ “Google enjoys an unsullied image that sparkles cleaner than Coca Cola, Pepsi, Ford, Gap and AT&T combined.”²⁴⁸ If Google succeeds in capturing public and judicial sympathies, it may be able to prevent the expansion of secondary trademark liability and avoid the fate of software developers who have felt the brunt of such cases as *Napster* and *Grokster*.

IV. TOWARDS A BETTER SECONDARY LIABILITY REGIME

Ideally, any reform of the trademark secondary liability regime should stem from a cost-benefit analysis of indirect liability as well as obeisance to traditional common law principles, not from a battle for public opinion. Yet a gap continues to grow in intellectual property jurisprudence because of courts’ irrational response to panic over the pace of technological change in the copyright realm.

Despite ostensibly common origins and similar policy justifications, the vicarious and contributory liability regimes in trademark vary markedly from those in copyright law. For vicarious liability, trademark law has generally mandated a principal-agent relationship and direct financial benefit to the defendant from the infringement. Despite its shared rhetoric, copyright law has increasingly come to require neither characteristic. Courts have found third-party copyright defendants vicariously liable in the absence of a principal-agent relationship, and they have vastly expanded the notion of financial benefit to include hypothetical sources of revenue, such as the monetization of internet traffic. For contributory liability, trademark law requires direct control and monitoring of the means of infringement. Meanwhile, courts have loosely defined the control element in contributory copyright law by imposing liability based merely on the defendant’s ability to regulate infringing conduct or provision of the facilities for infringing conduct. And while trademark law hews to traditional common law principles to infer knowledge of infringement, courts

246. Arshad Mohammed, *Google Refuses Demand for Search Information*, WASH. POST, Jan. 20, 2006, at A1.

247. Of course, Google’s public image is not entirely pristine. The company’s censorship of certain news stories on the Chinese version of Google has resulted in condemnation from free-speech and human-rights activists. See Loren Baker, *Google Responds to Google News China Controversy*, SEARCH ENGINE JOURNAL, Sept. 29, 2004, <http://www.searchenginejournal.com/index.php?p=910>.

248. The V7 Network Web Development Community, *Google Brand Strategy: Moral Superiority*, <http://www.v7n.com/google-branding-strategy.php> (last visited Aug. 17, 2006) (commenting further on Google users’ brand loyalty that “[o]ne can only imagine if given the choice between GoogleGuy and Jesus Christ today, we would most likely be mourning the loss of The Nazarene again”).

may impute knowledge to a copyright defendant based on a wide array of evidence irrelevant to the contributory trademark calculus.

No rational explanation exists in the case law for the copyright-trademark infringement dichotomy. Despite the shared common law origins of both secondary liability regimes, the Supreme Court has failed to provide an explanation for the divergent evolution of the two doctrines. With no intellectual grounding for the distinction, the courts have allowed irrational and unexplained fears to shape their jurisprudence. As epitomized by the *Grokster* decision, the courts have stretched secondary copyright liability almost beyond recognition because of panic over technological change and its impact on digital piracy.

The unexplained nature of the dichotomy leaves the law in an ambiguous state, and this uncertainty threatens to stifle a wide range of legitimate business activity. The absence of legible justification for the difference in the two secondary liability regimes leaves those who would conduct economic activity that indirectly touches on copyright and trademark with few markers to guide their activity. Owners of sites and technology implicating use of copyrighted works may feel the need to restrict access or limit functionality given the wide range of unanswered questions after the *Sony* and *Grokster* decisions. Indirect trademark participants cannot entirely rely on trademark law's narrow interpretation of secondary liability, especially in light of the vast unprincipled expansion of secondary liability doctrine in copyright law. Technologists shaping the digital revolution need rational and clear legal guidelines, not hazy doctrine untethered to historical or prudential argument.

The gap between the two secondary liability regimes is also problematic because it creates improper incentives. Copyright stakeholders have vigorously prosecuted their claims, using massive high-profile litigation to push the boundaries of secondary liability law. Meanwhile, secondary trademark liability has remained largely static, even while the same technology that has alarmed copyright holders and the courts is being used to infringe trademarks on a widespread basis. The courts have rewarded copyright holders for their aggressive litigation, justifying an expansion of secondary liability on the impracticality of pursuing direct infringers rather than on bedrock legal principles. The result is not merely a precarious and unprincipled definition of secondary copyright liability but also a dangerous precedent for future intellectual property suits. Cases such as *Grokster* can only encourage trademark stakeholders to take the same aggressive approach, flooding the courts with litigation and threatening to expand trademark doctrine beyond its current ambit without careful consideration and rationalization.

This Article lays the groundwork for further study on the imbalance between the trademark and copyright secondary liability. In particular, the divergent evolution of the two doctrines suggests a need to reevaluate secondary liability from a more deliberate, policy-oriented perspective. Specifically, jurists and legislators must consider how far modern copyright secondary liability principles have deviated from their common law origins and whether this divergence is reasoned or warranted. Similarly, we must ask ourselves whether it makes sense to bring secondary trademark liability doctrine into line with its analog in copyright law, or if other reforms are needed to address trademark concerns in the digital age. Secondary liability principles in other areas of the law provide another potential avenue for exploration. A comparative analysis could provide important lessons for intellectual property law. For example, criminal law examines in minute detail the mental states and level of intentionality that justify punishment for the acts of others.²⁴⁹ And tort law doctrines outside of intellectual property, such as the learned intermediary doctrine, recalibrate secondary liability principles to more accurately target those who are best capable of preventing tortious conduct.²⁵⁰ Perhaps insights are to be gleaned from these and other legal subject areas that have already profited from years of hard thinking about when liability is appropriate for indirect participants.

Finally, the divergence between secondary trademark and copyright principles reflects a key tension found throughout intellectual property law. Secondary liability principles reflect two different, and sometimes inconsistent, goals. First, secondary liability serves a fundamentally economic purpose by shifting risks from direct to indirect infringers. Second, secondary liability law serves a moral end by placing fault on a party deserving of punishment even though that party did not commit the underlying infringing act. The relative significance of these two goals can help determine the boundaries of secondary liability rules. For example, if moral desert dominates the rationale for liability imposition, courts should limit the ability to impute knowledge to a defendant in order to punish only truly bad actors for indirect infringement. On the other hand, if economic risk-shifting concerns animate secondary doctrine, courts may not choose to be so circumspect in their definitions of intent. Further analysis of the philosophical justifications for indirect liability would enable more rigorous evaluation of today's secondary liability rules and could help formulate a reasonable blueprint for future reform.

249. SANFORD H. KADISH & STEPHEN J. SCHULHOFER, *CRIMINAL LAW AND ITS PROCESSES* 204-05, 644-65 (6th ed. 1995).

250. *See* *Walls v. Alpharma USPD, Inc.*, 887 So. 2d 881, 882-86 (Ala. 2004).

