

# RELIGIOUS TECH. CTR. v. NETCOM ON-LINE COMMUN. SERVS.

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United States District Court for the Northern District of California,  
1995  
907 F. Supp. 1361

RONALD M. WHYTE, United States District Judge.

ORDER DENYING DEFENDANT NETCOM'S MOTION FOR SUMMARY  
JUDGMENT; DENYING DEFENDANT KLEMESRUD'S MOTION FOR  
JUDGMENT ON THE PLEADINGS; AND DENYING PLAINTIFFS' MOTION  
FOR PRELIMINARY INJUNCTION AGAINST NETCOM AND KLEMESRUD

This case concerns an issue of first impression regarding intellectual property rights in cyberspace.<sup>1</sup> Specifically, this order addresses whether the operator of a computer bulletin board service ("BBS"), and the large Internet<sup>2</sup> access provider that allows that BBS to reach the Internet, should be liable for copyright infringement committed by a subscriber of the BBS.

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<sup>1</sup> Cyberspace is a popular term for the world of electronic communications over computer networks. See Trotter Hardy, *The Proper Legal Regime for "Cyberspace,"* 55 U. Pitt. L. Rev. 993, 994 (1994).

<sup>2</sup> "The Internet today is a worldwide entity whose nature cannot be easily or simply defined. From a technical definition, the Internet is the 'set of all interconnected IP networks'--the collection of several thousand local, regional, and global computer networks interconnected in real time via the TCP/IP Internetworking Protocol suite. . . ." Daniel P. Dern, *The Internet Guide For New Users* 16 (1994).

One article described the Internet as a collection of thousands of local, regional, and global Internet Protocol networks. What it means in practical terms is that millions of computers in schools, universities, corporations, and other organizations are tied together via telephone lines. The Internet enables users to share files, search for information, send electronic mail, and log onto remote computers. But it isn't a program or even a particular computer resource. It remains only a means to link computer users together.

Unlike on-line computer services such as CompuServe and America On Line, no one runs the Internet. . . .

No one pays for the Internet because the network itself doesn't exist as a separate entity. Instead various universities and organizations pay for the dedicated lines linking their computers. Individual users may pay an Internet provider for access to the Internet via its server.

David Bruning, *Along the InfoBahn*, *Astronomy*, Vol. 23, No. 6, p. 76 (June 1995).

Plaintiffs Religious Technology Center ("RTC") and Bridge Publications, Inc. ("BPI") hold copyrights in the unpublished and published works of L. Ron Hubbard, the late founder of the Church of Scientology ("the Church"). Defendant Dennis Erlich ("Erlich")<sup>3</sup> is a former minister of Scientology turned vocal critic of the Church, whose pulpit is now the Usenet newsgroup<sup>4</sup> alt.religion.scientology ("a.r.s."), an on-line forum for discussion and criticism of Scientology. Plaintiffs maintain that Erlich infringed their copyrights when he posted portions of their works on a.r.s. Erlich gained his access to the Internet through defendant Thomas Klemesrud's ("Klemesrud's") BBS "support.com." Klemesrud is the operator of the BBS, which is run out of his home and has approximately 500 paying users. Klemesrud's BBS is not directly linked to the Internet, but gains its connection through the facilities of defendant Netcom On-Line Communications, Inc. ("Netcom"), one of the largest providers of Internet access in the United States.

After failing to convince Erlich to stop his postings, plaintiffs contacted defendants Klemesrud and Netcom. Klemesrud responded to plaintiffs' demands that Erlich be kept off his system by asking plaintiffs to prove that they owned the copyrights to the works posted by Erlich. However, plaintiffs refused Klemesrud's request as unreasonable. Netcom similarly refused plaintiffs' request that Erlich not be allowed to gain access to the Internet through its system. Netcom contended that it would be impossible to prescreen Erlich's postings and that to kick Erlich

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<sup>3</sup> Issues of Erlich's liability were addressed in this court's order of September 22, 1995. That order concludes in part that a preliminary injunction against Erlich is warranted because plaintiffs have shown a likelihood of success on their copyright infringement claims against him. Plaintiffs likely own valid copyrights in Hubbard's published and unpublished works and Erlich's near-verbatim copying of substantial portions of plaintiffs' works was not likely a fair use. To the extent that Netcom and Klemesrud argue that plaintiffs' copyrights are invalid and that Netcom and Klemesrud are not liable because Erlich had a valid fair use defense, the court previously rejected these arguments and will not reconsider them here.

<sup>4</sup> The Usenet has been described as

a worldwide community of electronic BBSs that is closely associated with the Internet and with the Internet community. ¶ The messages in Usenet are organized into thousands of topical groups, or "Newsgroups" .... ¶ As a Usenet user, you read and contribute ("post") to your local Usenet site. Each Usenet site distributes its users' postings to other Usenet sites based on various implicit and explicit configuration settings, and in turn receives postings from other sites. Usenet traffic typically consists of as much as 30 to 50 Mbytes of messages per day. ¶ Usenet is read and contributed to on a daily basis by a total population of millions of people... ¶ There is no specific network that is the Usenet. Usenet traffic flows over a wide range of networks, including the Internet and dial-up phone links.

Dern, supra, at 196-97.

off the Internet meant kicking off the hundreds of users of Klemesrud's BBS. Consequently, plaintiffs named Klemesrud and Netcom in their suit against Erlich, although only on the copyright infringement claims.<sup>5</sup>

On June 23, 1995, this court heard the parties' arguments on eight motions, three of which relate to Netcom and Klemesrud and are discussed in this order: (1) Netcom's motion for summary judgment; (2) Klemesrud's motion for judgment on the pleadings;<sup>6</sup> and (3) plaintiffs' motion for a preliminary injunction against Netcom and Klemesrud. For the reasons set forth below, the court grants in part and denies in part Netcom's motion for summary judgment and Klemesrud's motion for judgment on the pleadings and denies plaintiffs' motion for a preliminary injunction.

## I. NETCOM'S MOTION FOR SUMMARY JUDGMENT OF NONINFRINGEMENT

### A. Summary Judgment Standards

Because the court is looking beyond the pleadings in examining this motion, it will be treated as a motion for summary judgment rather than a motion to dismiss. Grove v. Mead School District, 753 F.2d 1528, 1532 (9th Cir. 1985). Summary judgment is proper when "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). There is a "genuine" issue of material fact only when there is sufficient evidence such that a reasonable juror could find for the party opposing the motion. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 251-52, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986). Entry of summary judgment is mandated against a party if, after adequate time for discovery and upon motion, the party fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial. Celotex Corp. v. Catrett, 477 U.S. 317, 322, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986). The court, however, must draw all justifiable inferences in favor of the nonmoving parties, including questions of credibility and

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<sup>5</sup> The First Amended Complaint ("FAC") contains three claims: (1) copyright infringement of BPI's published literary works against all defendants; (2) copyright infringement of RTC's unpublished confidential works against all defendants; and (3) misappropriation of RTC's trade secrets against defendant Erlich only.

<sup>6</sup> Klemesrud alternatively filed a motion for summary judgment, which will not be considered at this time because Klemesrud was unavailable to be deposed to time for plaintiffs' opposition. In a previous order, the court struck those portions of the motion that referred to matters outside of the pleadings.

of the weight to be accorded particular evidence. Masson v. New Yorker Magazine, Inc., 501 U.S. 496, 520, 115 L. Ed. 2d 447, 111 S. Ct. 2419 (1991).

## B. Copyright Infringement

To establish a claim of copyright infringement, a plaintiff must demonstrate (1) ownership of a valid copyright and (2) "copying"<sup>7</sup> of protectable expression by the defendant. Baxter v. MCA, Inc., 812 F.2d 421, 423 (9th Cir.), cert. denied, 484 U.S. 954, 108 S. Ct. 346, 98 L. Ed. 2d 372 (1987). Infringement occurs when a defendant violates one of the exclusive rights of the copyright holder. 17 U.S.C. § 501(a). These rights include the right to reproduce the copyrighted work, the right to prepare derivative works, the right to distribute copies to the public, and the right to publicly display the work. 17 U.S.C. §§ 106(1)-(3) & (5). The court has already determined that plaintiffs have established that they own the copyrights to all of the Exhibit A and B works, except item 4 of Exhibit A.<sup>8</sup> The court also found plaintiffs likely to succeed on their claim that defendant Erlich copied the Exhibit A and B works and was not entitled to a fair use defense. Plaintiffs argue that, although Netcom was not itself the source of any of the infringing materials on its system, it nonetheless should be liable for infringement, either directly, contributorily, or vicariously.<sup>9</sup> Netcom disputes these theories of infringement and further argues that it is entitled to its own fair use defense.

### 1. Direct Infringement

Infringement consists of the unauthorized exercise of one of the exclusive rights of the copyright holder delineated in section 106. 17 U.S.C. § 501. Direct infringement does not require intent or any particular state of mind,<sup>10</sup> although willfulness is relevant to the award of statutory damages. 17 U.S.C. § 504(c).

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<sup>7</sup> In this context, "copying" is "shorthand for the infringing of any of the copyright owner's five exclusive rights." S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1085 n.3 (9th Cir. 1989).

<sup>8</sup> The court has under submission plaintiffs' request to expand the preliminary injunction against Erlich.

<sup>9</sup> Plaintiffs have argued at times during this litigation that Netcom should only be required to respond after being given notice, which is only relevant to contributory infringement. Nevertheless, the court will address all three theories of infringement liability.

<sup>10</sup> The strict liability for copyright infringement is in contrast to another area of liability affecting online service providers: defamation. Recent decisions have held that where a BBS exercised little control over the content of the material on its service, it was more like a "distributor" than a "republisher" and was thus only liable for defamation on its system where it knew or should have known of the defamatory statements. Cubby, Inc. v. CompuServe, Inc., 776 F. Supp. 135 (S.D.N.Y. 1991). By contrast, a New York state court judge found that Prodigy was a publisher because it held itself out to be controlling the content of its services and because it used software to automatically prescreen messages that were offensive or in bad taste. Stratton Oakmont, Inc. v. Prodigy Services Co., The

Many of the facts pertaining to this motion are undisputed. The court will address the relevant facts to determine whether a theory of direct infringement can be supported based on Netcom's alleged reproduction of plaintiffs' works. The court will look at one controlling Ninth Circuit decision addressing copying in the context of computers and two district court opinions addressing the liability of BBS operators for the infringing activities of subscribers. The court will additionally examine whether Netcom is liable for infringing plaintiffs' exclusive rights to publicly distribute and display their works.

a. Undisputed Facts

The parties do not dispute the basic processes that occur when Erlich posts his allegedly infringing messages to a.r.s. Erlich connects to Klemesrud's BBS using a telephone and a modem. Erlich then transmits his messages to Klemesrud's computer, where they are automatically briefly stored. According to a prearranged pattern established by Netcom's software, Erlich's initial act of posting a message to the Usenet results in the automatic copying of Erlich's message from Klemesrud's computer onto Netcom's computer and onto other computers on the Usenet. In order to ease transmission and for the convenience of Usenet users, Usenet servers maintain postings from newsgroups for a short period of time--eleven days for Netcom's system and three days for Klemesrud's system. Once on Netcom's computers, messages are available to Netcom's customers and Usenet neighbors, who may then download the messages to their own computers. Netcom's local server makes available its postings to a group of Usenet servers, which do the same for other servers until all Usenet sites worldwide have obtained access to the postings, which takes a matter of hours. Francis Decl. P 5.

Unlike some other large on-line service providers, such as CompuServe, America Online, and Prodigy, Netcom does not create or control the content of the information available to its subscribers. It also does not monitor messages as they are posted. It has, however, suspended the accounts of subscribers who violated its terms and conditions, such as where they had commercial software in their posted files. Netcom admits that, although not currently configured to do this, it may be possible to reprogram its system to screen postings containing particular words or coming from particular individuals. Netcom, however, took no action after it was told by plaintiffs that Erlich had posted messages through Netcom's system that violated plaintiffs' copyrights, instead claiming that it could not shut out Erlich without shutting out all of the users of Klemesrud's BBS.

b. Creation of Fixed Copies

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Recorder, June 1, 1995, at 7 (excerpting May 24, 1995 Order Granting Partial Summary Judgment to Plaintiffs).

The Ninth Circuit addressed the question of what constitutes infringement in the context of storage of digital information in a computer's random access memory ("RAM"). MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d 511, 518 (9th Cir. 1993). In MAI, the Ninth Circuit upheld a finding of copyright infringement where a repair person, who was not authorized to use the computer owner's licensed operating system software, turned on the computer, thus loading the operating system into RAM for long enough to check an "error log." Id. at 518-19. Copyright protection subsists in original works of authorship "fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 102 (emphasis added). A work is "fixed" when its "embodiment in a copy . . . is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." Id. § 101. MAI established that the loading of data from a storage device into RAM constitutes copying because that data stays in RAM long enough for it to be perceived. MAI Systems, 991 F.2d at 518.

In the present case, there is no question after MAI that "copies" were created, as Erlich's act of sending a message to a.r.s. caused reproductions of portions of plaintiffs' works on both Klemesrud's and Netcom's storage devices. Even though the messages remained on their systems for at most eleven days, they were sufficiently "fixed" to constitute recognizable copies under the Copyright Act. See Information Infrastructure Task Force, Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights 66 (1995) ("IITF Report").

c. Is Netcom Directly Liable for Making the Copies?

Accepting that copies were made, Netcom argues that Erlich, and not Netcom, is directly liable for the copying. MAI did not address the question raised in this case: whether possessors of computers are liable for incidental copies automatically made on their computers using their software as part of a process initiated by a third party. Netcom correctly distinguishes MAI on the ground that Netcom did not take any affirmative action that directly resulted in copying plaintiffs' works other than by installing and maintaining a system whereby software automatically forwards messages received from subscribers onto the Usenet, and temporarily stores copies on its system. Netcom's actions, to the extent that they created a copy of plaintiffs' works, were necessary to having a working system for transmitting Usenet postings to and from the Internet. Unlike the defendants in MAI, neither Netcom nor Klemesrud initiated the copying. The defendants in MAI turned on their customers' computers thereby creating temporary copies of the operating system, whereas Netcom's and Klemesrud's systems can operate without any human intervention. Thus, unlike MAI, the mere fact that Netcom's system incidentally makes temporary copies of plaintiffs' works

does not mean Netcom has caused the copying.<sup>11</sup> The court believes that Netcom's act of designing or implementing a system that automatically and uniformly creates temporary copies of all data sent through it is not unlike that of the owner of a copying machine who lets the public make copies with it.<sup>12</sup> Although some of

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<sup>11</sup> "One commentator addressed the difficulty in translating copyright concepts, including the public/private dichotomy, to the digitized environment. See Niva Elkin-Koren, *Copyright Law and Social Dialogue on the Information Superhighway: The Case Against Copyright Liability of Bulletin Board Operators*, 13 *Cardozo Arts & Ent. L.J.* 346, 390 (1993). This commentator noted that one way to characterize a BBS operation is that it "provides subscribers with access and services. As such, BBS operators do not create copies, and do not transfer them in any way. Users post the copies on the BBS, which other users can then read or download." *Id.* at 356.

<sup>12</sup> Netcom compares itself to a common carrier that merely acts as a passive conduit for information. In a sense, a Usenet server that forwards all messages acts like a common carrier, passively retransmitting every message that gets sent through it. Netcom would seem no more liable than the phone company for carrying an infringing facsimile transmission or storing an infringing audio recording on its voice mail. As Netcom's counsel argued, holding such a server liable would be like holding the owner of the highway, or at least the operator of a toll booth, liable for the criminal activities that occur on its roads. Since other similar carriers of information are not liable for infringement, there is some basis for exempting Internet access providers from liability for infringement by their users. The IITF Report concluded that "if an entity provided only the wires and conduit--such as the telephone company, it would have a good argument for an exemption if it was truly in the same position as a common carrier and could not control who or what was on its system." IITF Report at 122. Here, perhaps, the analogy is not completely appropriate as Netcom does more than just "provide the wire and conduits." Further, Internet providers are not natural monopolies that are bound to carry all the traffic that one wishes to pass through them, as with the usual common carrier. See id. at 122 n.392 (citing Federal Communications Commission v. Midwest Video Corp., 440 U.S. 689, 701, 59 L. Ed. 2d 692, 99 S. Ct. 1435 (1979)). Section 111 of the Copyright Act codifies the exemption for passive carriers who are otherwise liable for a secondary transmission. 3 Melville B. Nimmer & David Nimmer, *NIMMER ON COPYRIGHT* § 12.04[B][3], at 12-99 (1995). However, the carrier must not have any direct or indirect control over the content or selection of the primary transmission. Id.; 17 U.S.C. § 111(a)(3). Cf. infra part I.B.3.a. In any event, common carriers are granted statutory exemptions for liability that might otherwise exist. Here, Netcom does not fall under this statutory exemption, and thus faces the usual strict liability scheme that exists for copyright. Whether a new exemption should be carved out for online service providers is to be resolved by Congress, not the courts. Compare Comment, "Online Service Providers and Copyright Law: The Need for Change," 1 *SYRACUSE J. LEGIS. & POL'Y* 197, 202 (1995) (citing recommendations of online service providers for amending the Copyright Act to create liability only where a "provider has actual knowledge that a work that is being or has been transmitted onto, or stored on, its system is infringing,' and has the 'ability and authority' to stop the transmission, and has, after a reasonable amount of time, allowed the infringing activity to continue") with IITF Report at 122 (recommending that Congress not exempt service providers from strict liability for direct infringements).

the people using the machine may directly infringe copyrights, courts analyze the machine owner's liability under the rubric of contributory infringement, not direct infringement. See, e.g., *RCA Records v. All-Fast Systems, Inc.*, 594 F. Supp. 335 (S.D.N.Y. 1984); 3 Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 12.04[A][2][b], at 12-78 to -79 (1995) ("NIMMER ON COPYRIGHT"); Elkin-Koren, *supra*, at 363 (arguing that "contributory infringement is more appropriate for dealing with BBS liability, first, because it focuses attention on the BBS-users relationship and the way imposing liability on BBS operators may shape this relationship, and second because it better addresses the complexity of the relationship between BBS operators and subscribers"). Plaintiffs' theory would create many separate acts of infringement and, carried to its natural extreme, would lead to unreasonable liability. It is not difficult to conclude that Erlich infringes by copying a protected work onto his computer and by posting a message to a newsgroup. However, plaintiffs' theory further implicates a Usenet server that carries Erlich's message to other servers regardless of whether that server acts without any human intervention beyond the initial setting up of the system. It would also result in liability for every single Usenet server in the worldwide link of computers transmitting Erlich's message to every other computer. These parties, who are liable under plaintiffs' theory, do no more than operate or implement a system that is essential if Usenet messages are to be widely distributed. There is no need to construe the Act to make all of these parties infringers. Although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party.

Plaintiffs point out that the infringing copies resided for eleven days on Netcom's computer and were sent out from it onto the "Information Superhighway." However, under plaintiffs theory, any storage of a copy that occurs in the process of sending a message to the Usenet is an infringement. While it is possible that less "damage" would have been done if Netcom had heeded plaintiffs' warnings and acted to prevent Erlich's message from being forwarded,<sup>13</sup> this is not relevant to its direct liability for copying. The same argument is true of Klemesrud and any Usenet server. Whether a defendant makes a direct copy that constitutes infringement cannot depend on whether it received a warning to delete the message. See *D.C. Comics, Inc. v. Mini Gift*, 912 F.2d 29, 35 (2d Cir. 1990). This distinction may be relevant to contributory infringement, however, where knowledge is an element. See *infra* part I.B.2.a.

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<sup>13</sup> The court notes however, that stopping the distribution of information once it is on the Internet is not easy. The decentralized network was designed so that if one link in the chain be closed off, the information will be dynamically rerouted through another link. This was meant to allow the system to be used for communication after a catastrophic event that shuts down part of it. Francis Decl. P. 4.

The court will now consider two district court opinions that have addressed the liability of BBS operators for infringing files uploaded by subscribers.

d. Playboy Case

Playboy Enterprises, Inc. v. Frena involved a suit against the operator of a small BBS whose system contained files of erotic pictures. 839 F. Supp. 1552, 1554 (M.D. Fla. 1993). A subscriber of the defendant's BBS had uploaded files containing digitized pictures copied from the plaintiff's copyrighted magazine, which files remained on the BBS for other subscribers to download. Id. The court did not conclude, as plaintiffs suggest in this case, that the BBS is itself liable for the unauthorized reproduction of plaintiffs' work; instead, the court concluded that the BBS operator was liable for violating the plaintiff's right to publicly distribute and display copies of its work. Id. at 1556-57.

In support of their argument that Netcom is directly liable for copying plaintiffs' works, plaintiffs cite to the court's conclusion that "there is no dispute that [the BBS operator] supplied a product containing unauthorized copies of a copyrighted work. It does not matter that [the BBS operator] claims he did not make the copies himself." Id. at 1556. It is clear from the context of this discussion<sup>14</sup> that the Playboy court was looking only at the exclusive right to distribute copies to the public, where liability exists regardless of whether the defendant makes copies. Here, however, plaintiffs do not argue that Netcom is liable for its public distribution of copies. Instead, they claim that Netcom is liable because its computers in fact made copies. Therefore, the above-quoted language has no bearing on the issue of direct liability for unauthorized reproductions. Notwithstanding Playboy's holding that a BBS operator may be directly liable for distributing or displaying to the public copies of protected works,<sup>15</sup> this court holds that the storage on a defendant's system of infringing copies and retransmission to other servers is not a direct infringement by the BBS operator of the exclusive right

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<sup>14</sup> The paragraph in Playboy containing the quotation begins with a description of the right of public distribution. Id. Further, the above quoted language is followed by a citation to a discussion of the right of public distribution in Jay Dratler, Jr., INTELLECTUAL PROPERTY LAW: COMMERCIAL, CREATIVE AND INDUSTRIAL PROPERTY § 6.01[3], at 6-15 (1991). This treatise states that "the distribution right may be decisive, if, for example, a distributor supplies products containing unauthorized copies of a copyrighted work but has not made the copies itself." Id. (citing to Williams Electronics, Inc. v. Artic International, Inc., 685 F.2d 870, 876 (3d Cir. 1982)). In any event, the Williams holding regarding public distribution was dicta, as the court found that the defendant had also made copies. Id.

<sup>15</sup> Given the ambiguity in plaintiffs' reference to a violation of the right to "publish" and to Playboy, it is possible that plaintiffs are also claiming that Netcom infringed their exclusive right to publicly distribute their works. The court will address this argument infra.

to reproduce the work where such copies are uploaded by an infringing user. Playboy does not hold otherwise.<sup>16</sup>

e. Sega Case

A court in this district addressed the issue of whether a BBS operator is liable for copyright infringement where it solicited subscribers to upload files containing copyrighted materials to the BBS that were available for others to download. Sega Enterprises Ltd. v. MAPHIA, 857 F. Supp. 679, 683 (N.D. Cal. 1994). The defendant's "MAPHIA" BBS contained copies of plaintiff Sega's video game programs that were uploaded by users. Id. at 683. The defendant solicited the uploading of such programs and received consideration for the right to download files. Id. Access was given for a fee or to those purchasing the defendant's hardware device that allowed Sega video game cartridges to be copied. Id. at 683-84. The court granted a preliminary injunction against the defendant, finding that plaintiffs had shown a prima facie case of direct and contributory infringement. Id. at 687. The court found that copies were made by unknown users of the BBS when files were uploaded and downloaded. Id. Further, the court found that the defendant's knowledge of the infringing activities, encouragement, direction and provision of the facilities through his operation of the BBS constituted contributory infringement, even though the defendant did not know exactly when files were uploaded or downloaded. Id. at 686-87.

This court is not convinced that Sega provides support for a finding of direct infringement where copies are made on a defendant's BBS by users who upload files. Although there is some language in Sega regarding direct infringement, it is entirely conclusory:

Sega has established a *prima facie* case of direct copyright infringement under 17 U.S.C. § 501. Sega has established that unauthorized copies of its games are made when such games are uploaded to the MAPHIA bulletin board, here with the knowledge of Defendant Scherman. These games are thereby placed on the storage media of the electronic bulletin board by unknown users.

Id. at 686 (emphasis added). The court's reference to the "knowledge of Defendant" indicates that the court was focusing on contributory infringement, as knowledge is not an element of direct infringement. Perhaps, Sega's references to direct infringement and that "copies...are made" are to the direct liability of the

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<sup>16</sup> The court further notes that Playboy has been much criticized. See, e.g., L. Rose, NETLAW 91-92 (1995). The finding of direct infringement was perhaps influenced by the fact that there was some evidence that defendants in fact knew of the infringing nature of the works, which were digitized photographs labeled "Playboy" and "Playmate."

"unknown users," as there can be no contributory infringement by a defendant without direct infringement by another. See 3 NIMMER ON COPYRIGHT § 12.04[A][3][a], at 12-89. Thus, the court finds that neither Playboy nor Sega requires finding Netcom liable for direct infringement of plaintiffs' exclusive right to reproduce their works.<sup>17</sup>

f. Public Distribution and Display?

Plaintiffs allege that Netcom is directly liable for making copies of their works. See FAC P 25. They also allege that Netcom violated their exclusive rights to publicly display copies of their works. FAC PP 44, 51. There are no allegations that Netcom violated plaintiffs' exclusive right to publicly distribute their works. However, in their discussion of direct infringement, plaintiffs insist that Netcom is liable for "maintaining copies of [Erich's] messages on its server for eleven days for access by its subscribers and 'USENET neighbors'" and they compare this case to the Playboy case, which discussed the right of public distribution. Opp'n at 7. Plaintiffs also argued this theory of infringement at oral argument. Tr.<sup>18</sup> 5:22. Because this could be an attempt to argue that Netcom has infringed plaintiffs' rights of public distribution and display, the court will address these arguments.

Playboy concluded that the defendant infringed the plaintiff's exclusive rights to publicly distribute and display copies of its works. 839 F. Supp. at 1556-57. The court is not entirely convinced that the mere possession of a digital copy on a BBS that is accessible to some members of the public constitutes direct infringement by the BBS operator. Such a holding suffers from the same problem of causation as the reproduction argument. Only the subscriber should be liable for causing the distribution of plaintiffs' work, as the contributing actions of the BBS provider are automatic and indiscriminate. Erlich could have posted his messages through countless access providers and the outcome would be the same: anyone with access to Usenet newsgroups would be able to read his messages. There is no logical reason to draw a line around Netcom and Klemesrud and say that they are uniquely responsible for distributing Erlich's messages. Netcom is not even the first link in the chain of distribution--Erich had no direct relationship with Netcom but dealt solely with Klemesrud's BBS, which used Netcom to gain its Internet access. Every Usenet server has a role in the distribution, so plaintiffs' argument would create unreasonable liability. Where the BBS merely stores and

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<sup>17</sup> To the extent that Sega holds that BBS operators are directly liable for copyright infringement when users upload infringing works to their systems, this court respectfully disagrees with the court's holding for the reasons discussed above. Further, such a holding was dicta, as there was evidence that the defendant knew of the infringing uploads by users and, in fact, actively encouraged such activity, thus supporting the contributory infringement theory. Id. at 683.

<sup>18</sup> References to "Tr." are to the reporter's transcript of the June 23, 1995 hearing on these motions.

passes along all messages sent by its subscribers and others, the BBS should not be seen as causing these works to be publicly distributed or displayed.

Even accepting the Playboy court's holding, the case is factually distinguishable. Unlike the BBS in that case, Netcom does not maintain an archive of files for its users. Thus, it cannot be said to be "supplying a product." In contrast to some of its larger competitors, Netcom does not create or control the content of the information available to its subscribers; it merely provides access to the Internet, whose content is controlled by no single entity. Although the Internet consists of many different computers networked together, some of which may contain infringing files, it does not make sense to hold the operator of each computer liable as an infringer merely because his or her computer is linked to a computer with an infringing file. It would be especially inappropriate to hold liable a service that acts more like a conduit, in other words, one that does not itself keep an archive of files for more than a short duration. Finding such a service liable would involve an unreasonably broad construction of public distribution and display rights. No purpose would be served by holding liable those who have no ability to control the information to which their subscribers have access, even though they might be in some sense helping to achieve the Internet's automatic "public distribution" and the users' "public" display of files.

#### g. Conclusion

The court is not persuaded by plaintiffs' argument that Netcom is directly liable for the copies that are made and stored on its computer. Where the infringing subscriber is clearly directly liable for the same act, it does not make sense to adopt a rule that could lead to the liability of countless parties whose role in the infringement is nothing more than setting up and operating a system that is necessary for the functioning of the Internet. Such a result is unnecessary as there is already a party directly liable for causing the copies to be made. Plaintiffs occasionally claim that they only seek to hold liable a party that refuses to delete infringing files after they have been warned. However, such liability cannot be based on a theory of direct infringement, where knowledge is irrelevant. The court does not find workable a theory of infringement that would hold the entire Internet liable for activities that cannot reasonably be deterred. Billions of bits of data flow through the Internet and are necessarily stored on servers throughout the network and it is thus practically impossible to screen out infringing bits from noninfringing bits. Because the court cannot see any meaningful distinction (without regard to knowledge) between what Netcom did and what every other Usenet server does, the court finds that Netcom cannot be held liable for direct infringement. Cf. IITF Report at 69 (noting uncertainty regarding whether BBS

operator should be directly liable for reproduction or distribution of files uploaded by a subscriber).<sup>19</sup>

## 2. Contributory Infringement

Netcom is not free from liability just because it did not directly infringe plaintiffs' works; it may still be liable as a contributory infringer. Although there is no statutory rule of liability for infringement committed by others,

the absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringement on certain parties who have not themselves engaged in the 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.

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 435, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984) (footnote omitted). Liability for participation in the infringement will be established where the defendant, "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another." Gershwin Publishing Corp. v. Columbia Artists Management, Inc., 443 F.2d 1159, 1162 (2d Cir. 1971).

### a. Knowledge of Infringing Activity

Plaintiffs insist that Netcom knew that Erlich was infringing their copyrights at least after receiving notice from plaintiffs' counsel indicating that Erlich had posted copies of their works onto a.r.s. through Netcom's system. Despite this knowledge, Netcom continued to allow Erlich to post messages to a.r.s. and left the allegedly infringing messages on its system so that Netcom's subscribers and other Usenet servers could access them. Netcom argues that it did not possess the necessary type of knowledge because (1) it did not know of Erlich's

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<sup>19</sup> Despite that uncertainty, the IITF Report recommends a strict liability paradigm for BBS operators. See IITF Report at 122-24. It recommends that Congress not exempt on-line service providers from strict liability because this would prematurely deprive the system of an incentive to get providers to reduce the damage to copyright holders by reducing the chances that users will infringe by educating them, requiring indemnification, purchasing insurance, and, where efficient, developing technological solutions to screening out infringement. Denying strict liability in many cases would leave copyright owners without an adequate remedy since direct infringers may act anonymously or pseudonymously or may not have the resources to pay a judgment. Id.; see also Hardy, supra.

planned infringing activities when it agreed to lease its facilities to Klemesrud, (2) it did not know that Erlich would infringe prior to any of his postings, (3) it is unable to screen out infringing postings before they are made, and (4) its knowledge of the infringing nature of Erlich's postings was too equivocal given the difficulty in assessing whether the registrations were valid and whether Erlich's use was fair. The court will address these arguments in turn.

Netcom cites cases holding that there is no contributory infringement by the lessors of premises that are later used for infringement unless the lessor had knowledge of the intended use at the time of the signing of the lease. See, e.g., Deutsch v. Arnold, 98 F.2d 686, 688 (2d Cir. 1938).<sup>20</sup> The contribution to the infringement by the defendant in Deutsch was merely to lease use of the premises to the infringer. Here, Netcom not only leases space but also serves as an access provider, which includes the storage and transmission of information necessary to facilitate Erlich's postings to a.r.s. Unlike a landlord, Netcom retains some control over, the use of its system. See infra part I.B.3.a. Thus, the relevant time frame for knowledge is not when Netcom entered into an agreement with Klemesrud. It should be when Netcom provided its services to allow Erlich to infringe plaintiffs' copyrights. Cf. Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc., 256 F. Supp. 399, 403 (S.D.N.Y. 1966) (analyzing knowledge at time that defendant rendered its particular service). It is undisputed that Netcom did not know that Erlich was infringing before it received notice from plaintiffs. Netcom points out that the alleged instances of infringement occurring on Netcom's system all happened prior to December 29, 1994, the date on which Netcom first received notice of plaintiffs' infringement claim against Erlich. See Pisani Feb. 8, 1995 Decl., P 6 & Exs. (showing latest posting made on December 29, 1994); McShane Feb. 8, 1995 Decl.; FAC PP 36-38 & Ex. I. Thus, there is no question of fact as to whether Netcom knew or should have known of Erlich's infringing activities that occurred more than 11 days before receipt of the December 28, 1994 letter.

However, the evidence reveals a question of fact as to whether Netcom knew or should have known that Erlich had infringed plaintiffs' copyrights following receipt of plaintiffs' letter. Because Netcom was arguably participating in Erlich's public distribution of plaintiffs' works, there is a genuine issue as to whether Netcom knew of any infringement by Erlich before it was too late to do anything about it. If plaintiffs can prove the knowledge element, Netcom will be liable for contributory infringement since its failure to simply cancel Erlich's infringing message and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation in Erlich's public distribution of

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<sup>20</sup> Adopting such a rule would relieve a BBS of liability for failing to take steps to remove infringing works from its system even after being handed a court's order finding infringement. This would be undesirable and is inconsistent with Netcom's counsel's admission that Netcom would have an obligation to act in such circumstances. Tr. 35:25; see also Tr. 42:18-42:20.

the message. Cf. R.T. Nimmer, THE LAW OF COMPUTER TECHNOLOGY P 15.11B, at S15-42 (2d ed. 1994) (opining that "where information service is less directly involved in the enterprise of creating unauthorized copies a finding of contributory infringement is not likely").

Netcom argues that its knowledge after receiving notice of Erlich's alleged infringing activities was too equivocal given the difficulty in assessing whether registrations are valid and whether use is fair. Although a mere unsupported allegation of infringement by a copyright owner may not automatically put a defendant on notice of infringing activity, Netcom's position that liability must be unequivocal is unsupportable. While perhaps the typical infringing activities of BBSs will involve copying software, where BBS operators are better equipped to judge infringement, the fact that this involves written works should not distinguish it. Where works contain copyright notices within them, as here, it is difficult to argue that a defendant did not know that the works were copyrighted. To require proof of valid registrations would be impractical and would perhaps take too long to verify, making it impossible for a copyright holder to protect his or her works in some cases, as works are automatically deleted less than two weeks after they are posted. The court is more persuaded by the argument that it is beyond the ability of a BBS operator to quickly and fairly determine when a use is not infringement where there is at least a colorable claim of fair use. Where a BBS operator cannot reasonably verify a claim of infringement, either because of a possible fair use defense, the lack of copyright notices on the copies, or the copyright holder's failure to provide the necessary documentation to show that there is a likely infringement, the operator's lack of knowledge will be found reasonable and there will be no liability for contributory infringement for allowing the continued distribution of the works on its system.

Since Netcom was given notice of an infringement claim before Erlich had completed his infringing activity, there may be a question of fact as to whether Netcom knew or should have known that such activities were infringing. Given the context of a dispute between a former minister and a church he is criticizing, Netcom may be able to show that its lack of knowledge that Erlich was infringing was reasonable. However, Netcom admits that it did not even look at the postings once given notice and that had it looked at the copyright notice and statements regarding authorship it would have triggered an investigation into whether there was infringement. Kobrin June 7, 1995 Decl., Ex. H, Hoffman Depo. At 125-128. These facts are sufficient to raise a question as to Netcom's knowledge once it received a letter from plaintiffs on December 29, 1994.<sup>21</sup>

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<sup>21</sup> The court does not see the relevance of plaintiffs' argument that Netcom's failure to investigate their claims of infringement or take actions against Erlich was a departure from Netcom's normal procedure. A policy and practice of acting to stop postings where there is inadequate knowledge of infringement in no way creates a higher standard of care under the Copyright Act as to subsequent claims of user infringement.

### b. Substantial Participation

Where a defendant has knowledge of the primary infringer's infringing activities, it will be liable if it "induces, causes or materially contributes to the infringing conduct of" the primary infringer. Gershwin Publishing, 443 F.2d at 1162. Such participation must be substantial. Apple Computer, Inc. v. Microsoft Corp., 821 F. Supp. 616, 625 (N.D. Cal. 1993), aff'd, 35 F.3d 1435 (9th Cir. 1994); Demetriades v. Kaufmann, 690 F. Supp. 289, 294 (S.D.N.Y. 1988).

Providing a service that allows for the automatic distribution of all Usenet postings, infringing and noninfringing, goes well beyond renting a premises to an infringer. See Fonovisa, Inc. v. Cherry Auction, Inc., 847 F. Supp. 1492, 1496 (E.D. Cal. 1994) (finding that renting space at swap meet to known bootleggers not "substantial participation" in the infringers' activities). It is more akin to the radio stations that were found liable for rebroadcasting an infringing broadcast. See, e.g., Select Theatres Corp. v. Ronzoni Macaroni Corp., 59 U.S.P.Q. 288, 291 (S.D.N.Y. 1943). Netcom allows Erlich's infringing messages to remain on its system and be further distributed to other Usenet servers worldwide. It does not completely relinquish control over how its system is used, unlike a landlord. Thus, it is fair, assuming Netcom is able to take simple measures to prevent further damage to plaintiffs' copyrighted works, to hold Netcom liable for contributory infringement where Netcom has knowledge of Erlich's infringing postings yet continues to aid in the accomplishment of Erlich's purpose of publicly distributing the postings. Accordingly, plaintiffs do raise a genuine issue of material fact as to their theory of contributory infringement as to the postings made after Netcom was on notice of plaintiffs' infringement claim.

### 3. Vicarious Liability

Even if plaintiffs cannot prove that Netcom is contributorily liable for its participation in the infringing activity, it may still seek to prove vicarious infringement based on Netcom's relationship to Erlich. A defendant is liable for vicarious liability for the actions of a primary infringer where the defendant (1) has the right and ability to control the infringer's acts and (2) receives a direct financial benefit from the infringement. See Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 306 (2d Cir. 1963). Unlike contributory infringement, knowledge is not an element of vicarious liability. 3 NIMMER ON COPYRIGHT § 12.04[A][1], at 12-70.

#### a. Right and Ability To Control

The first element of vicarious liability will be met if plaintiffs can show that Netcom has the right and ability to supervise the conduct of its subscribers. Netcom argues that it does not have the right to control its users' postings before they occur. Plaintiffs dispute this and argue that Netcom's terms and conditions,

to which its subscribers<sup>22</sup> must agree, specify that Netcom reserves the right to take remedial action against subscribers. See, e.g., Francis Depo. at 124-126. Plaintiffs argue that under "netiquette," the informal rules and customs that have developed on the Internet, violation of copyrights by a user is unacceptable and the access provider has a duty take measures to prevent this; where the immediate service provider fails, the next service provider up the transmission stream must act. See Castleman Decl. PP 32-43. Further evidence of Netcom's right to restrict infringing activity is its prohibition of copyright infringement and its requirement that its subscribers indemnify it for any damage to third parties. See Kobrin May 5, 1995 Decl., Ex. G. Plaintiffs have thus raised a question of fact as to Netcom's right to control Erlich's use of its services.

Netcom argues that it could not possibly screen messages before they are posted given the speed and volume of the data that goes through its system. Netcom further argues that it has never exercised control over the content of its users' postings. Plaintiffs' expert opines otherwise, stating that with an easy software modification Netcom could identify postings that contain particular words or come from particular individuals. Castleman Decl. PP 39-43; see also Francis Depo. at 262-63; Hoffman Depo. at 173-74, 178.<sup>23</sup> Plaintiffs further dispute Netcom's claim that it could not limit Erlich's access to Usenet without kicking off all 500 subscribers of Klemesrud's BBS. As evidence that Netcom has in fact exercised its ability to police its users' conduct, plaintiffs cite evidence that Netcom has acted to suspend subscribers' accounts on over one thousand occasions. See Ex. J (listing suspensions of subscribers by Netcom for commercial advertising, posting obscene materials, and off-topic postings). Further evidence shows that Netcom can delete specific postings. See Tr. 9:16. Whether such sanctions occurred before or after the abusive conduct is not material to whether Netcom can exercise control. The court thus finds that plaintiffs have raised a genuine issue of fact as to whether Netcom has the right and ability to exercise control over the activities of its subscribers, and of Erlich in particular.

#### b. Direct Financial Benefit

Plaintiffs must further prove that Netcom receives a direct financial benefit from the infringing activities of its users. For example, a landlord who has the right and ability to supervise the tenant's activities is vicariously liable for the infringements of the tenant where the rental amount is proportional to the

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<sup>22</sup> In this case, Netcom is even further removed from Erlich's activities. Erlich was in a contractual relationship only with Klemesrud. Netcom thus dealt directly only with Klemesrud. However, it is not crucial that Erlich does not obtain access directly through Netcom. The issue is Netcom's right and ability to control the use of its system, which it can do indirectly by controlling Klemesrud's use.

<sup>23</sup> However, plaintiffs submit no evidence indicating Netcom, or anyone, could design software that could determine whether a posting is infringing.

proceeds of the tenant's sales. Shapiro, Bernstein, 316 F.2d at 306. However, where a defendant rents space or services on a fixed rental fee that does not depend on the nature of the activity of the lessee, courts usually find no vicarious liability because there is no direct financial benefit from the infringement. See, e.g., Roy Export Co. v. Trustees of Columbia University, 344 F. Supp. 1350, 1353 (S.D.N.Y. 1972) (finding no vicarious liability of university because no financial benefit from allowing screening of bootlegged films); Fonovisa, 847 F. Supp. at 1496 (finding swap meet operators did not financially benefit from fixed fee); see also Kelly Tickle, Comment, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L. REV. 391, 415 (1995) (arguing that BBS operators "lease cyberspace" and should thus be treated like landlords, who are not liable for infringement that occurs on their premises).

Plaintiffs argue that courts will find a financial benefit despite fixed fees. In Polygram International Publishing, Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1330-33 (D. Mass. 1994), the court found a trade show organizer vicariously liable for the infringing performance of an exhibitor because, although the infringement did not affect the fixed rental fee received by the organizers, the organizers benefitted from the performances, which helped make the show a financial success. But see Artists Music, Inc. v. Reed Publishing, Inc., 1994 U.S. Dist. LEXIS 6395, 31 U.S.P.Q.2D (BNA) 1623, 1994 WL 191643, at \*6 (S.D.N.Y. 1994) (finding no vicarious liability for trade show organizers where revenues not increased because of infringing music performed by exhibitors). Plaintiffs cite two other cases where, despite fixed fees, defendants received financial benefits from allowing groups to perform infringing works over the radio without having to get an ASCAP license, which minimized the defendants' expenses. See Boz Scaggs Music v. KND Corp., 491 F. Supp. 908, 913 (D. Conn. 1980); Realsongs v. Gulf Broadcasting Corp., 824 F. Supp. 89, 92 (M.D. La. 1993). Plaintiffs' cases are factually distinguishable. Plaintiffs cannot provide any evidence of a direct financial benefit received by Netcom from Erlich's infringing postings. Unlike Shapiro, Bernstein, and like Fonovisa, Netcom receives a fixed fee. There is no evidence that infringement by Erlich, or any other user of Netcom's services, in any way enhances the value of Netcom's services to subscribers or attracts new subscribers. Plaintiffs argue, however, that Netcom somehow derives a benefit from its purported "policy of refusing to take enforcement actions against its subscribers and others who transmit infringing messages over its computer networks." Opp'n at 18. Plaintiffs point to Netcom's advertisements that, compared to competitors like CompuServe and America Online, Netcom provides easy, regulation-free Internet access. Plaintiffs assert that Netcom's policy attracts copyright infringers to its system, resulting in a direct financial benefit. The court is not convinced that such an argument, if true, would constitute a direct financial benefit to Netcom from Erlich's infringing activities. See Fonovisa, 847 F. Supp. at 1496 (finding no direct financial benefit despite argument that lessees included many vendors selling counterfeit goods and that clientele sought "bargain basement prices"). Further, plaintiffs' argument is not supported by probative

evidence. The only "evidence" plaintiffs cite for their supposition is the declaration of their counsel, Elliot Abelson, who states that

on April 7, 1995, in a conversation regarding Netcom's position related to this case, Randolph Rice, attorney for Netcom, informed me that Netcom's executives are happy about the publicity it is receiving in the press as a result of this case. Mr. Rice also told me that Netcom was concerned that it would lose business if it took action against Erlich or Klemesrud in connection with Erlich's infringements.

Abelson Decl. P 2. Netcom objects to this declaration as hearsay and as inadmissible evidence of statements made in compromise negotiations. Fed. R. Ev. 801, 408. Whether or not this declaration is admissible, it does not support plaintiffs' argument that Netcom either has a policy of not enforcing violations of copyright laws by its subscribers or, assuming such a policy exists, that Netcom's policy directly financially benefits Netcom, such as by attracting new subscribers. Because plaintiffs have failed to raise a question of fact on this vital element, their claim of vicarious liability fails. See Roy Export, 344 F. Supp. at 1353. . . .

### C. Conclusion

The court finds that plaintiffs have raised a genuine issue of fact regarding whether Netcom should have known that Erlich was infringing their copyrights after receiving a letter from plaintiffs, whether Netcom substantially participated in the infringement, and whether Netcom has a valid fair use defense. Accordingly, Netcom is not entitled to summary judgment on plaintiffs' claim of contributory copyright infringement. However, plaintiffs' claims of direct and vicarious infringement fail.