

March 2016

# The Sony Legacy: Secondary Liability Perspectives

Robert I. Reis

Please take a moment to share how this work helps you [through this survey](#). Your feedback will be important as we plan further development of our repository.

Follow this and additional works at: <https://ideaexchange.uakron.edu/akronintellectualproperty>



Part of the [Intellectual Property Law Commons](#)

---

## Recommended Citation

Reis, Robert I. (2009) "The Sony Legacy: Secondary Liability Perspectives," *Akron Intellectual Property Journal*: Vol. 3 : Iss. 2 , Article 2.

Available at: <https://ideaexchange.uakron.edu/akronintellectualproperty/vol3/iss2/2>

This Article is brought to you for free and open access by Akron Law Journals at IdeaExchange@UAkron, the institutional repository of The University of Akron in Akron, Ohio, USA. It has been accepted for inclusion in Akron Intellectual Property Journal by an authorized administrator of IdeaExchange@UAkron. For more information, please contact [mjon@uakron.edu](mailto:mjon@uakron.edu), [uapress@uakron.edu](mailto:uapress@uakron.edu).

## THE SONY LEGACY: SECONDARY LIABILITY PERSPECTIVES

*Robert I. Reis\**

Abstract.....	224
I. Introduction and Overview.....	225
II. The Sony Legacy: A Mystical Mix of Issues and Choices .....	228
A. Setting the Stage for Sony .....	228
B. Infringement - The Foundation of Secondary Liability.....	231
C. Active Inducement.....	235
D. Inference: “A Staple Article of Commerce”.....	236
E. What is a Staple Article of Commerce? Objective Standards and Technology Assessment.....	238
F. The Illusion of Safe Harbors.....	239
III. <i>Napster, Aimster, and Grokster</i> : the Digital Transition - Intent, Inducement, Facilitation of Infringement.....	240
A. <i>Napster</i> .....	241
B. <i>Aimster</i> : Intent, Inducement, and Facilitation: Avoidance Schemes.....	243
C. <i>Grokster</i> : Composed, Refocused on Behavior - Bon Voyage Safe Harbor.....	247
D. <i>StreamCast</i> on Remand: An Exercise in Comprehensive Litigation.....	248
IV. Post- <i>Grokster</i> : <i>Perfect 10</i> to <i>Tiffany</i> : Externalizing Risk and Searching for Deep Pockets.....	249
A. <i>Perfect 10 v. Google (Amazon)</i> .....	250
B. <i>Perfect 10 v. Visa</i> .....	256
C. <i>Tiffany v. eBay</i> .....	259
V. The Future of Secondary Liability.....	262

---

\* Robert I. Reis, Professor of Law State University New York Buffalo School of Law.

## ABSTRACT

*Sony* seeded the ongoing conundrum of balancing protected intellectual property rights with the potential of technologies that enhance the use of intellectual content.<sup>1</sup> New technologies that enable use also remove many copy limitations. Traditional remedies against individual infringers served their purpose of compensation and deterrence. These forms of action have been weakened where the jurisdictional, monetary and administrative underpinnings of legal administration are compromised. This complex of factors is further exacerbated by the clash between conflicting ends of protecting intellectual property rights while at the same time ensuring appropriate public beneficial use. Most enabling technologies have the potential for fundamental public benefit. The very power of these technologies facilitates unlawful activity. The traditional function of law has been to compensate those who have been injured by imposing liability on the wrongdoer who, by intention or through a failure of duty or negligence, occasions the harm.<sup>2</sup> The unprecedented growth in value of intellectual property rights have shifted the primary focus of “promot[ing] the progress of science and [the] useful arts” to the protection of exclusive rights for limited times as an end unto themselves.<sup>3</sup> The use of secondary liability doctrine to overcome diminished functionality of law is appropriate when it is premised on actual infringement based on demonstrable evidence of intent, inducement, and facilitating others to infringe. Secondary liability, however, is compromised where it is used to reduce the level of care required of the right holder, or permits the right holder to externalize costs and risks of doing business. Recent secondary liability cases have raised questions as to whether the judicial process is being used as a means of enhancing market returns otherwise unjustifiable.<sup>4</sup> There have been occasions where direct evidence of intent was not available and inferences were based on use of the underlying technology.<sup>5</sup> The adoption of the patent law staple article of commerce is inapposite to inferences from the use of technology for copyright infringement. It diverted utilization and development of common law tort doctrine and obscured the need for transparent means

---

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

2. *See MacPherson v. Buick Motor Co.*, 111 N.E. 1050, 1053 (N.Y. 1916).

3. U.S. CONST. art. I, § 8, cl. 8.

4. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1167 (9th Cir. 2004); *vacated by Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

5. *See A&M Records, Inc. v. Napster, Inc.*, 114 F.Supp.2d 896 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001).

of technology readiness, utility and risk assessment in the determination of present and potential uses of technology. Recent cases have not bound themselves to the limitations of this doctrine and have adopted transparent rules regarding intentional behavior and reasonable standards of care recognizing the obligation of the right holder to remain vigilant as well the technology provider to minimize infringement and maximize the public good.<sup>6</sup>

## I. INTRODUCTION AND OVERVIEW

Sony Betamax<sup>7</sup> was a first in a growing line of technologies that enabled the general population to access, view, copy, utilize, and distribute copyrighted works.<sup>8</sup> It was an awakening of the difficulties enabling technologies posed for the protection of intellectual property by legal action against direct infringers.<sup>9</sup> Therein resides the quandary and choice to bring the action against the provider of the technology based on secondary liability. The issue was framed by the fact that the very technology that threatened control over the content right provided an enhancement of beneficial access and use consistent with the purpose of intellectual property.<sup>10</sup> This represents the perennial dilemma of balancing the means of privatization with the ends of benefit to society.<sup>11</sup>

6. See *Tiffany and Company v. eBay, Inc.*, 576 F.Supp.2d 463, 2008 WL 2755787 (S.D.N.Y.), 2008-1.

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

8. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 419-20 (1984).

9. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

10. *Sony*, 464 U.S. at 420.

11. While somewhat questionable, current value estimates have recently been reported as in the trillions of dollars per year. One report states the "total value of intellectual property is estimated at \$5 Trillion a year in the United States, 45% of GDP." Estimated intellectual content values were in the billions of dollars at the time of the introduction of the video recorder and are well into the trillions of dollars by the end of the 20th Century. [www.ikblaw.com/docs/733/U.S.\\_Intellectual\\_Property\\_Law\\_Presentation\\_2008-02-06.ppt](http://www.ikblaw.com/docs/733/U.S._Intellectual_Property_Law_Presentation_2008-02-06.ppt) (last visited Jan. 14, 2009). Another report from the Department of Justice task force noted that

[I]n 2002, American copyright industries accounted for an estimated 6% of the nation's Gross Domestic Product ("GDP"). Their \$626.6 billion contribution to the United States economy exceeded the total GDP of such countries as Australia, Argentina, The Netherlands, and Taiwan. Copyright industries employed 5.48 million workers, or 4% of America's work force. Between 1997 and 2002, copyright industries added workers at an annual rate of 1.33%, exceeding that of the national economy as a whole (1.05%) by 27%. Copyright industries in the United States sold and exported an estimated \$89.26 billion in 2002 to foreign nations.

In the two and a half decades since the decision in the Universal City Studios action against Sony and the “Betamax” further technological development spawned the digital revolution and unprecedented changes in the forms and use of copyrightable materials.<sup>12</sup> The rapid evolution of technology during this period includes the maturation of the internet, the introduction of compression technologies, the dazzling functionality of search engines, and qualitative improvements in the essential function of intellectual processes. Despite these advances and attempts to revisit the premises and function of intellectual property,<sup>13</sup> a number of issues in the balance between private rights and public interests in emerging technologies remain unresolved. *Sony* left us with doctrine and dicta that obscured the need for rigorous methods of evaluation and assessment of new technologies that ensure reasonable standards and transparency.<sup>14</sup> Nascent technologies do not always reflect their potential use or value.<sup>15</sup> One’s view of them often becomes mired in limitations of the present and attempts to perpetuate the status quo.<sup>16</sup> The task of protecting

---

Statistics on the aggregate value of intellectual property confirm the breadth of trade and jobs relative to the copyright industries. Report of the Department of Justice’s Task Force on Intellectual Property (Oct. 2004) <http://www.usdoj.gov/criminal/cybercrime/IPTaskForceReport.pdf>.

12. See *A&M Records, Inc.*, 114 F.Supp. 2d 896; *Aimster*, 334 F.3d 643; *Grokster*, 545 U.S. 913.

13. This paper once started with a focus on “fear” of losing intellectual property values based on the postulation that intellectual property played a role in recovery of the nation from the 20th Century depression. Whether this is correct or not, “fear of the unknown” does play a role in policy and decision making. It is difficult for those whose lives began well after the Depression to realize the lasting anguish and the hope for a better future. It was once said in this context that “the only thing we have to fear is fear itself.” Franklin D. Roosevelt (FDR), First Inaugural Address 1933, available at <http://www.bartleby.com/124/pres49.html>. The full quotation was: “[T]he only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.” It is appropriate at this time to recognize his proclamation represented the wisdom of a president whose vision recognized the limitations imposed on a nation that had lost a significant part of its capital and manufacturing preeminence to other industrialized nations. The United States had been reduced to a nation whose industrial production diminished to approximately ten percent of the world’s industrial output. It was a time of reduced liquidity, reduced credit, and limited capital growth. The investment cost of a revitalized industrial infrastructure was prohibitive. FDR’s vision was that the most significant asset of the American people was ingenuity, creativity, and resourcefulness. FDR’s plan simply focused on maximizing the potential of growth and value of intellectual property rights. The plan required relatively minimal capital investment to achieve the goals of employment and opportunity in the revitalization of the nation’s economic recovery. Steven Wilf, *The Making of the Post-War Paradigm in American Intellectual Property Law*, 31 COLUM. J.L. & ARTS 139 (2008).

14. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

15. James Lardner, *FAST FORWARD: HOLLYWOOD, THE JAPANESE, AND THE ONSLAUGHT OF THE VCR*, 11 (W.W.Norton & Company, New York, London) (1st ed. 1987).

16. *Id.*

existing property interests and lack of assessment paradigms directly affects acceptance of new technologies.<sup>17</sup>

The purpose of this article is to identify a few of the issues in the evolving function and implications of secondary liability in balancing the multiple intellectual property interests affected by enabling technologies. That balance must be tempered by restraint when evaluating technologies that enhance public beneficial use and diminish the protective measures necessary for intellectual property rights.

There are subtle distinctions applicable to direct and secondary liability, and differences within secondary liability constructs of actual or vicarious based on behavior, coupled with intent and inferences of intent to be presumed from third party use of technology. The issues before the courts in the 21<sup>st</sup> century present even further changing perspectives and mature paradigms. The changes have been incremental, yet fundamental, and through their constant reference to Sony, are best understood in that context.<sup>18</sup>

---

17. James Lardner's observations reflect the struggle of competing technologies and technologies that affect existing property rights:

Technological history is a constant struggle between pioneers and protectionists – between those who are trying to introduce new devices and those who are trying to guard and exploit existing ones. With every technology there arises a community of interest, which sooner or later finds itself threatened by some other technology. . . It takes continued devotion to iron out the bugs in that technology, to teach people how to live with it, and to spread its benefits to points remote from the scene of discovery. . . . [P]ioneering depends on protection.

*Id.* at 10. This book is out of print, although there are numerous authorized reprintings, often under altered titles such as Mentor publication 1968 substituting “AND THE VCR WARS” at the end, or FAST FORWARD: A MACHINE AND THE COMMOTION IT CAUSED (Paperback) (2002).

18. The papers presented and published in this issue have but one thing in common; on the surface they appear to be the same topic. In fact, each represents a unique perspective and they blend a sum greater than the parts. Jay Dratler, Jr., *Palsgraf, Principles of Tort Law, and the Persistent Need for Common-Law Judgment in IP Infringement Cases*, 3 AKRON INTELL. PROP. J. 23 (2009); Thomas C. Folsom, *Towards Non-Neutral Principles of Private Law: Designing Secondary Liability Rules for New Technological Uses*, 3 AKRON INTELL. PROP. J. 43 (2009); Mark Bartholomew, *Contributory Infringers and Good Samaritans*, 3 AKRON INTELL. PROP. J. 1 (2009); Liam O'Melinn, *Making Others do the Work: Secondary Liability as a Departure from the Traditional Contours of Copyright*, 3 AKRON INTELL. PROP. J. 171 (2009); Ira S. Nathenson, *Looking for Fair Use in the DMCA's Safety Dance*, 3 AKRON INTELL. PROP. J. 121 (2009); Jacqueline D. Lipton, *Secondary Liability and the Fragmentation of Digital Copyright Law*, 3 AKRON INTELL. PROP. J. 105 (2009); Connie Davis Powell, *The Saga Continues: Secondary Liability for Copyright Infringement: Theory, Practice and Predictions*, 3 AKRON INTELL. PROP. J. 189 (2009).

## II. THE SONY LEGACY: A MYSTICAL MIX OF ISSUES AND CHOICES

### A. *Setting the Stage for Sony*

Sony Betamax is “legendary” in the annals of copyright infringement actions.<sup>19</sup> Subsequent actions have addressed many of the direct liability issues before the court, but have not fully accounted for the reasoning behind application of the fair use defense.<sup>20</sup> Contributory liability standards involving intentional inducement and behavior have been refined by the decisions of the court in *Napster*, *Aimster*, and *Grokster*.<sup>21</sup> Yet, there remains mysticism about the case and its resolution that is akin to a light fog in the early dawn. Nagging, and likely of little relevance, is the question why, when there was a finding of non-infringement, the court continued their analysis of secondary liability, particularly since when almost every decision says there can be no secondary liability without infringement.<sup>22</sup>

19. The case and surrounding factors have been reviewed, analyzed, augmented by generations of jurists, scholars, and the public. The work of journalists such as James Lardner, *supra* note 17 provides context for the position of Universal City Studios and other content right holders. The ontogeny of the decision making process as revealed in the publication of the papers of the retired justices as methodically analyzed by Professor Jessica Litman gives unusual insight into the judicial process, *see generally, infra* 22. *See also*, Peter S. Minell & David Nimmer, *Unwinding Sony*, 95 CAL. L. REV. 941 (2007); Peter S. Minell & David Nimmer, *Legal Realism In Action: Indirect Copyright Liability's Continuing Tort Framework And Sony's De Facto Demise*, 55 UCLA L. REV. 143 (2007); Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats: Reckoning the Future Business Plans of Copyright-Dependent Technology Entrepreneurs*, 50 ARIZ L REV 577 (2008); Pamela Samuelson, *The Generativity Of Sony v. Universal: The Intellectual Property Legacy Of Justice Stevens*, 74 FORDHAM L. REV. 1831 (2005); Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917(2005). An early scholarly work by Professor A. Samuel Oddi, *Contributory Copyright Infringement: The Tort and Technological Tensions*, 64 NOTRE DAME L. REV. 47 (1989), sets an early stage for contemporary analysis.

20. *See A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

21. *Id.*

22. There are anecdotal tidbits of wisdom applicable to understanding the elements of conflict resolution. This becomes apparent when simple questions are asked as to the needs and goals of the parties. Some of these inhere with the public interest presence in judicial processes. Decisions often evidence resolution of conflicting pragmatic and philosophical penchants of the justices. We are reminded of the need to understand the perspective of each of the participants in the process of final resolution by Professor Litman, these factors can be appreciated in the resolution of the disparate interests of the parties and the justices themselves.

It's worth taking some time to examine the historical materials that have become available in the 21 years since the *Sony* decision, to see what persuaded the Court to resolve the case the way it did. The Supreme Court files of Justice William Brennan, Justice Thurgood Marshall, and Justice Harry Blackmun (who wrote the first draft of a majority opinion and ended up turning it into a dissent) are available for review in the

Universal City Studio and other content right holders needed protection for their vast stores of copyright materials.<sup>23</sup> The ability to control copying is the sine qua non of the copyright.<sup>24</sup> The introduction of technology that reduces this control by enabling unauthorized copying presents a significant judicial dilemma.<sup>25</sup> If the number of infringers exceeds the practical ability of the right holder and the courts to effectively exercise control, judicial relief is an impaired remedy.<sup>26</sup> An action to enjoin the use of the technology, or hold the purveyor of the technology secondarily liable for damages, represented an obvious and “reasonable” choice of action.

Sony understood the value of the underlying technology of video recording devices. They used their experience to transfer the technology of their professional recorders to serve as consumer recording devices.<sup>27</sup> Current technology transfer paradigms likely replicate Sony’s internal understanding of their technology. They include market and manufacturing readiness assessments and consider risk assessment involving potential legal issues, including infringement. Whether Sony assessed these issues systematically, or not, it is clear that Sony understood copyright rules and the potential liability users of the Betamax might have if they record protected materials. This was evidenced by both their behavior and the included warning to this effect in their advertising and user manual.<sup>28</sup> They also anticipated action by the studios to block the manufacture, import and use of the Betamax by political or judicial action.<sup>29</sup> While they may have anticipated legal action against individual parties that used the device for copying

Library of Congress, and they provide some insight into the Court’s deliberations. Litman, *supra* note 19, at 920.

23. “Plaintiffs allege that they will suffer great monetary damage if this infringement is allowed to continue.” *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F.Supp. 429, 432 (D.C. Cal 1979).

24. 17 U.S.C. § 106 (West 2009).

25. John O. Hayward, *Grokster Unplugged: It’s Time to Legalize P2P File Sharing*, 12 INTELL. PROP. L. BULL. 1, 1 (Fall 2007).

26. Reis, Paper Presented: “Technology Enablement: Normative Behavior and Rules of Law,” Annual Meeting Law and Society, 2005 (on file with author); *see also*, Mark Bartholomew, *Contributory Infringers and Good Samaritans*, 3 AKRON INTELL. PROP. J. 1 (2009).

27. *Sony*, 464 U.S. at 420.

28. *Universal City Studios*, 480 F.Supp. at 436 (The court noting that The Betamax operating instructions, . . . include a warning about possible copyright infringement. On page 17 of the instruction booklet, the following language appears: ‘Television programs, films, videotapes and other materials may be copyrighted. Unauthorized recording of such material may be contrary to the provisions of the United States copyright laws.’ *Id.*)

29. *Sony Corp. of Am. V. Universal City Studios, Inc.*, 464 U.S. 417, 422-24.



broadcast materials, it is unclear that they anticipated an action against them for contributory liability based on either their intent, or solely on their manufacture or distribution of the Betamax.<sup>30</sup> It is even less likely that they expected an action against them based on inference derived simply from the use of the device for infringing purposes or a balance between permissible and infringing uses.

The public perspective applied to intellectual property rights cases focuses on the public benefit from copyright and the quid pro quo of privatization.<sup>31</sup> The question is one of balance and a reasonable relationship between the means (privatization) and the end (progress in the sciences and useful arts).<sup>32</sup> These rights are subject to provisions addressing “fair use.”<sup>33</sup> They are likewise subject to the exercise of discretion in the judicial process to ensure that remedies secure both rights granted and the interests of the intended public beneficiaries. The wisdom of balance is required to keep both property rights and public benefit in proper perspective. The issues are not only between the parties, but the beneficiary without standing before the court.<sup>34</sup>

30. Defendants contend that home copying for home use is not an infringement and, even if it were, defendants could not be held responsible under any theory of infringement or vicarious liability. *Id.* at 436-37.

31. *See, e.g.* Universal Studios, Inc., v. Sony Corp. of Am., 480 F. Supp. 429, 431 (D.C. Cal. 1979) (stating that:

The resolution of these issues first requires a determination of whether Congress gave authors monopoly power over this use and, if so, whether the corporate defendants are in any way liable. As will be discussed, these determinations are not easily made. Protection of the public interest requires balancing the need for wide availability of audiovisual works against the need for monetary reward to authors to assure production of these works. *Id.*)

32. *Id.*

33. 17 U.S.C.A. § 107 (West 2009). [This is] Interesting, but fair use has an impact on the market construct. Does secondary liability play a role in this since the impact on the market can be altered by the business model selection of the content right holder. In the Sony case could this have been restructured in their charges to the broadcaster to take into account losses, if any, that would have been occasioned by copying. See an early article presenting this thought in the context of News Broadcasts. This may raise a question of market failure as the market seems to work through compensation for the initial broadcast. *See, e.g.*, David H. Kramer, *Who Can Use Yesterday's News? Video Monitoring and the Fair Use Doctrine*, 81 GEO. L.J. 2345, 2346-47, (July, 1993). Compare to other licensing arrangements and the new DRM issues with iTunes. Apple's new business model takes into account the potential for file sharing and prices their product accordingly for DRM-protected and files with DRM removed. They also price new and older releases on a sliding scale. Brad Stone, *Want to Copy iTunes Music? Go Ahead, Apple Says, APPLE DROPS ANTICOPYING MEASURES IN iTUNES*, <http://www.nytimes.com/2009/01/07/technology/companies/07apple.html?em> (last visited Jan. 14, 2009).

34. Robert Reis, *The Public Beneficial Interest in the Intellectual Commons, The Implications of the Public Trust Doctrine and Necessary Standing to Represent the Public Interest*, 6th Annual IPSC Conference, August 10-11, 2006, available at <http://www.law.berkeley.edu/institutes/bclt/ipsc/papers2/Reis.pdf>.

### B. *Infringement - The Foundation of Secondary Liability*

In order to establish liability the copyright holder must first prove ownership of a valid copyright and then infringement by the defendant.<sup>35</sup> The parties to the action tell yet another tale. In addition to Sony, Universal sued one individual and several retail establishments that sold and demonstrated the Betamax.<sup>36</sup> Justice Stevens makes the point that the action was not brought to seek relief from individuals that may have infringed.<sup>37</sup>

The question whether the broadcast materials were copyrighted, or whether they were copied without the permission of the right holder was not an issue before the court.<sup>38</sup> Unauthorized copying constitutes infringement.<sup>39</sup> The exclusive rights granted the copyright holder are set forth in section 106 and provide that they are held subject to the provisions of section 107 which codified the common law rules of “fair use.”<sup>40</sup> The *Sony* Court cites and appears to accept the findings of the district court which found that the effect of copying on the potential market was minimal; the offered proof of harm from time shifting was speculative, that this was not copying for commercial purposes and preventing copying of these broadcasts would “inhibit access to ideas without any countervailing benefit.”<sup>41</sup> On the basis of these factors and the balance required under the “equitable rule of reason” the court upheld the district court’s finding of fair use.<sup>42</sup>

35. “[T]he sine qua non of contributory infringement is direct infringement just as the commission of a tort by one person is the sine qua non for imposing liability on another person for contributing to the commission of that tort.” Oddi, *supra* note 19 (citing RESTATEMENT (SECOND) OF TORTS § 875 (1979)). See also *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1169 (9th Cir. 2007) (citing *Napster*, 239 F.3d at 1013, for the proposition that “[a]s a threshold matter, before we examine Perfect 10’s claims that Google is secondarily liable, Perfect 10 must establish that there has been direct infringement by third parties.” *Id.* See *Napster*, 239 F.3d at 1013, n2 (“Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party.” *Id.*).

36. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 422 (1984) (The individual was Mr. William Griffiths. “Griffiths is a client of plaintiffs’ law firm and consented to being a defendant in the lawsuit. Plaintiffs have waived any claim for damages or costs against Griffiths for his activities alleged in the complaint. Plaintiffs never expected Griffiths to be represented by counsel and he has not been.” *Id.*)

37. *Sony*, 464 U.S. at 419 (stating, “Respondents sought no relief against any Betamax consumer. Instead, they sought money damages and an equitable accounting of profits from petitioners, as well as an injunction against the manufacture and marketing of Betamax VTR’s.” *Id.*)

38. *Sony*, 464 U.S. at 420.

39. 17 U.S.C. § 106 (West 2009).

40. *Id.*; 17 U.S.C. § 107 (West 2009).

41. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 450-56 (1984).

42. *Sony*, 464 U.S. at 456.

At this point, the question becomes, what was meant when the court indicated that “copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers?”<sup>43</sup> Why wouldn’t they object if they perceived a problem? Or, why would they object if they were compensated for broadcast rights by the television stations? In current contexts, this question may be applied to a resolution of the respective duties of the content holder and those sought to be held secondarily liable in balancing the respective duties of the parties. In either instance, why is this pursued as an infringement issue rather than a failure of the right holder resulting in a market malfunction based on incorrectly setting broadcast pricing with the station? If the content right holder correctly prices the broadcast license, it would account for copying undertaken for personal use. If so, is this really a “fair use” or “permitted use” issue, or an issue affecting the duty of the right holder under secondary liability constructs, or does it matter?<sup>44</sup> Professor Wendy Gordon aptly noted:

The legal system acts in diverse ways to increase the probability that these and other conditions for perfect competition will be present . . . . When the market does not work perfectly, a decision will often have to be made on whether market transactions or collective fiat is most likely to bring us closer to the . . . result the ‘perfect’ market would reach.<sup>45</sup>

If the quintessential element of secondary liability is infringement, then a finding of fair use means the critical element of infringement necessary to support secondary liability is missing.<sup>46</sup> We can only speculate why a

43. *Id.*

44. See generally Kramer, *supra* note 333, at 2345.

45. Wendy Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1608-09 (1982). Market failures continue to be an issue in other contexts. See the concurring opinion of Justice Stevens in *eBay v. Mercexchange* regarding the threat of injunction as a means of altering market-based negotiations. *eBay v. Mercexchange*, 547 U.S. 388, 396-97, 126 S.Ct. 1837 (2006). In a larger context, the concurring opinion noted: “the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” *Id.* Consider the actions brought by *Perfect 10 v. Google (Amazon.com, Inc.)*, 508 F.3d 1146 (9th Cir. 2006) and *Perfect 10 v. Visa*, 494 F.3d 788 (9th Cir. 2007). It certainly looks like a new business model to supplement the sales of their magazine. Cf *Field v. Google*, 412 F.Supp.2d 1106 (where defendant deliberately did not opt out of Google’s search engine indexing web contents and then sued for infringement for damages).

46. Gordon, *supra* note 45, at 1613-14.

finding of fair use didn't end the case in *Sony*<sup>47</sup> as it has in later cases.<sup>48</sup> Is the rest history as the Court engaged in an extended analysis of contributory and vicarious liability, based both on intentional behavior and inferences that might be drawn using the patent law "Staple Articles of Commerce" analogy? Is this dictum? Is this out of context with the tradition of the Court not to engage in rule making beyond the case before it? Is this indicative of the reconciliation of differences among the Justices with all sides receiving something to peg their positions on? Why did the court continue with what appears to be a Staple Articles of Commerce commentary and note that: "[t]he Betamax is capable of substantial non-infringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondent's copyrights?"<sup>49</sup> Some of this speculation that the reason lies in the internal compromises of the court is evidenced in the records of the justices and the need to appease residual concerns of right holders and industry.<sup>50</sup> In any event, the analogy to the Staple Article of Commerce provision in the Patent Act was unfortunate and inapposite to copyright and may be a factor that retarded the development of technology readiness assessments and other analytical processes that hold the promise of objectivity and transparency in the evaluation of use and intent inferences in new technologies.

### 1. The Many Faces of Secondary Liability

Secondary liability has been subdivided to include both contributory liability and vicarious liability.<sup>51</sup> Contributory liability has been further divided into at least two more parts. First, liability is premised on intentional behavior inducing and facilitating infringement.<sup>52</sup> Second, liability is premised on inferences derived from the actual use of the technology when no intention or behavior is evident.<sup>53</sup> Secondary liability based on inference is a part of the Patent Act "Staple Article of Commerce" equation which presented two problems in application.<sup>54</sup> First, there were no objective standards for

---

47. 464 U.S. 417 (1984). Clues to these questions may be enlightened by a careful reading of the deliberations of the Justices recounted in Professor Litman's article. Litman, *supra* note 19.

48. See, e.g., *Perfect 10 v. Visa*, 494 F.3d 788 (9th Cir. 2007).

49. *Sony*, 464 U.S. at 456.

50. Litman, *supra* note 19, at 928-944.

51. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 929-30 (2005).

52. *Id.*

53. *Id.*

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

what constituted a Staple Article of Commerce that would prevent an inference of intent to result in infringement by the end user.<sup>55</sup> Second, there were implications that if the article were a Staple Article of Commerce, it would be a safe harbor for “any” infringement that later occurred, whether intentional or not.<sup>56</sup> While the doctrine does not appear to have been applied in but one case after *Sony* until addressed in *Grokster*, it is raised here to help understand the implications this anomaly might have had in retarding the development of technology assessment paradigms.<sup>57</sup>

## 2. Contributory Liability: Intentional Inducement

The *Sony* Court noted a series of factors indicating what they believed would constitute intentional behavior, such as the business model, advertising, and refusal to utilize protections against infringement, performing, or enabling essential elements in the link to infringement.<sup>58</sup> The rationale for liability is that one should be held liable for the ordinary consequences of one’s acts. As a separate basis of its decision, the District Court also indicated that Sony was not liable as a contributory infringer even if they found that the use of the Betamax constituted an infringing use, thus establishing the proposition that mere use of the technology would not render Sony liable without direct involvement or inducement of the infringement.<sup>59</sup> Refuting the notion of intent to induce infringement, the court noted the warning placed by Sony in its instruction booklet on copyrights and infringement: “Television programs, films, videotapes and other materials may be copyrighted. Unauthorized recording of such material may be contrary to the provisions of the United States copyright laws.”<sup>60</sup>

Likewise, the Court observed Sony’s awareness of the copyright issues and the potential that some users might record copyrighted works did not taint a product that could be used for lawful purposes: “The

---

55. *Id.*

56. *Id.*

57. See Peter S. Menell, *Indirect Copyright Liability: A Re-examination of Sony’s Staple Article of Commerce Doctrine*, BERKELEY CTR. FOR LAW & TECH. 10 (Law & Tech. Scholarship Paper No. 6, Mar. 10, 2005), available at <http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1007&context=bclt>. See also, Matthew Helton, *Secondary Liability For Copyright Infringement: BitTorrent As A Vehicle For Establishing A New Copyright Definition For Staple Articles of Commerce*, 40 COLUM. J.L. & SOC. PROBS. 1 (Fall 2006).

58. *Sony*, 464 U.S. at 448.

59. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 426 (1984).

60. *Id.*

District Court assumed that Sony had constructive knowledge of the probability that the Betamax machine would be used to record copyrighted programs, but found that Sony merely sold a “product capable of a variety of uses, some of them allegedly infringing.”<sup>61</sup>

The warning and Sony’s disclosure of their market plan to Universal City, coupled with a request for permission to market the device may have been taken as evidence of “good faith” in the secondary liability analysis which influenced the later finding of “fair use.”<sup>62</sup>

### 3. Contributory Liability: Active Inducement and Inference from Infringing Uses

#### C. *Active Inducement*

As Justice Stevens noted at the outset of the majority opinion:

The Copyright Act does not expressly render anyone liable for infringement committed by another. In contrast, the Patent Act expressly brands anyone who ‘actively induces infringement of a patent’ as an infringer, 35 U.S.C. § 271(b) other than a knowledge that it could absent any indication of intent that it be used.<sup>63</sup>

Rather than apply common law tort rules, the Court recognized that Congress addressed secondary liability in the Patent Act.<sup>64</sup> The analogy of patent law to copyright ameliorated concerns of congressional countenance of secondary liability based on “active inducement” or intent coupled with behavior.<sup>65</sup> Justice Stevens further observed:

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 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

---

61. *Id.*

62. *Id.* at 456. It is interesting to see good faith cited as an express factor. See generally, Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1164 (9th Cir. 2007).

63. “Whoever actively induces infringement of a patent shall be liable as an infringer.” *Sony*, 464 U.S. at 434-35.

64. 35 U.S.C. § 271(c) (West 2009); *Sony*, 464 U.S. at 434-35.

65. See *Sony*, 464 U.S. at 442, 448-50.

problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.<sup>66</sup>

As a practical matter, this should be a non-issue since the creation of a right presumes a remedy unless otherwise limited by Congress.<sup>67</sup> After Sony, the courts appear to seamlessly mix common law tort doctrine with citation to provisions under the Patent Act.<sup>68</sup>

#### D. Inference: “A Staple Article of Commerce”

Perhaps the more enduring legacy of Sony has been the function of inference in secondary liability, when it comes into play and what problems have been created outside of patent applications by its use.<sup>69</sup> The inference in tort law served the purpose of holding one responsible for the ordinary and necessary consequences of their actions.<sup>70</sup>

In the context of secondary liability with enabling technologies, the question implicitly raised by the district court was whether liability can be premised simply on the fact of infringing use, or whether the provider of the enabling technology could be held liable knowing it could be used to infringe absent any overt indication of intent to distribute, market or induce it to be used for wrongful purpose.<sup>71</sup> Section 107 (b), previously noted, uses the term “actively induces infringement” as the basis for liability.<sup>72</sup>

Section 107 (c) addresses the use of:

. . . a component of a patented . . . process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or

66. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 434-35 (1984). See generally, Litman, *supra* note 19. It would appear this is the basis of digital age liability as indicated in *Napster*, *Aimster*, and *Grokster*. Consider the application of “active” inducement in the remand and trial of *Streamcast. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 454 F.Supp.2d 966 (C.D. Cal. 2006).

67. See generally *eBay*, 547 U.S. at 390.

68. 35 U.S.C. § 271 (West 2009). See generally, *Perfect 10, Inc. v. Google, Inc.*, 416 F.Supp.2d 828 (2006) and the case on remand to the district court, *Perfect 10, Inc. v. Google, Inc.*, 2008 WL 4217837 (C.D. Cal. 2008). See also *Oddi*, *supra* note 19.

69. See *Sony*, 464 U.S. at 488-92 (Blackmun, J., dissenting).

70. *Id.*

71. *Sony Corp. of Am. v. United City Studios, Inc.*, 464 U.S. 417, 426 (1984).

72. 17 U.S.C. § 107 (West 2009).

commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.<sup>73</sup>

This section specifically provides for “knowing” the use will be to infringe the patent right.<sup>74</sup> It also identifies the infringement as applying to the use of a component of the patented invention the use of which has no other purpose than the protected use to which it is put under the patent.<sup>75</sup> The inference regarding intent to infringe appears to be directly related to the use of the protected component of the patent interest.<sup>76</sup> To permit use of the operative element outside of the patent would destroy the patent right itself.<sup>77</sup> The objective of the provision addressing “Staple Article of Commerce” was to ensure that the patent right did not exclude other lawful uses of a non-infringing element of the patent, not to create an inference of intent to infringe.<sup>78</sup> Nor was it intended to create a safe harbor for “knowing” infringement.<sup>79</sup> In the relatively circumspect context of patent infringement, the claims identify the component or element, the use of which can be only to infringe, if not a Staple Article of Commerce.<sup>80</sup> This section does not appear consistent with the use of enabling technologies as a means of infringing copyright interests. The inclusion of this rule in *Sony* serves more as a cliché than a guide in resolving issues of secondary liability.<sup>81</sup>

Another residual of this ambiguity occurs when an attempt is made to address an enabling technology, not a “component,” and apply a test of whether it meets designation as “a Staple Article of Commerce suitable for non-infringing use.”<sup>82</sup> Analogizing the component of a

73. *Id.*

74. *Id.*

75. *Id.*

76. *See Sony*, 464 U.S. at 441.

77. Janice M. Mueller, AN INTRODUCTION TO PATENT LAW 315 (Aspen Publishers) (2nd ed. 2006).

78. *See Sony*, 464 U.S. at 441 (“[A] sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer.” *Id.*).

79. *See id.* at 491-92 (Blackmun, J., dissenting).

80. 17 U.S.C. § 107(c) (West 2009).

81. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 440-41 (1984). This being said, the treatment of *Perfect 10 v. Visa* of the use and function of credit cards may be considered somewhat of an analogy to representing an element of the transaction which was treated as a Staple Article of Commerce. In fact, Google argued in *Perfect 10 v. Google*, that its search engine was a Staple Article of Commerce, despite the implications of search use as a means to identify the location of infringing full size images. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1171 (9th Cir. 2007). *Tiffany v. eBay* stands on a different set of propositions: eBay functions as (no pun intended) a “Staple Article (Method) of Commerce.”

82. *Sony*, 464 U.S. at 440.



patent right to the functionality of technology used for copyright infringement is somewhat inapposite. The examples used in Sony are as follows: “Selling a staple article of commerce *e.g.*, a typewriter, a recorder, a camera, a photocopying machine technically contributes to any infringing use subsequently made thereof, but this kind of ‘contribution,’ if deemed sufficient as a basis for liability, would expand the theory beyond precedent and arguably beyond judicial management.”<sup>83</sup>

Are any of the above examples or analogies similar to those addressed in the Patent Act? If these were applied by the court to copyright, the result as thus inapposite, would be imperfect when it comes to treating the technology or enabling product itself as constituting the element in “Staple Articles of Commerce.”<sup>84</sup>

#### *E. What is a Staple Article of Commerce? Objective Standards and Technology Assessment*

There are few standards set forth for determination of what constitutes a Staple Article of Commerce.<sup>85</sup> How is a Staple Article of Commerce identified? What constitutes non-infringing use? Is there a qualitative evaluation or a quantitative measure? What time frame is necessary for the measurement of function? And, can the determination change over time depending on the uses being made when reviewed? These are but a few of the questions left open.<sup>86</sup> These and innumerable sub issues arise as a basis for criticism of the Staple Article of Commerce “doctrine,” the use of which may also have been a factor that inhibited technology transfer and other assessment models from being adopted for evaluative purposes. Technology transfer assessments measure user demand, as well as market, manufacturing, and risk assessments.<sup>87</sup> Technology assessments can identify early users based on user driven needs and later users based on potential adoption of the technology to fulfill needs at a future date.<sup>88</sup> What today might be misunderstood as infringing, because of early adoption, may well be

83. *Id.* at 426.

84. This may explain in part why Justice Blackmun verbalized the need for inferences from the ordinary consequences of one’s actions under general tort law. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 487 (1984) (Blackmun, J., dissenting).

85. *See generally supra* note 19.

86. *Id.*

87. *See generally*, Phyllis L. Speser, *THE ART AND SCIENCE OF TECHNOLOGY TRANSFER* (John Wiley & Sons) (2006).

88. *Id.* at 105.

tomorrow's potential for future public benefit, designated a Staple Article of Commerce.<sup>89</sup>

Without the transparency of objective standards, the Staple Articles of Commerce analysis appears to be a rationalization for decisions without standards for risk assessment. This creates fears of uncertain futures for innovators of new technologies.<sup>90</sup>

#### F. *The Illusion of Safe Harbors*

The discussion of secondary liability resulted in a “mistaken” sense of “safe harbor.” Section 107(c) specifically notes liability is premised on “knowing” and that the safe harbor provision relates solely to inferences from the use of the technology.<sup>91</sup> The courts in *Napster* and *Aimster* both focused on actual behavior and intentional inducement consistent with this interpretation of the safe harbor provision as applied in the articulation of the Staple Articles of Commerce.<sup>92</sup> If there were any latent ambiguity that the statutory provision for “Staple Article of Commerce” provided protection against intentional acts of inducement that resulted in actual infringement it was unequivocally resolved by the

89. 35 U.S.C. § 271(c) (West 2009). Consider the P2P cases and think of what might have happened to Google, the search engine, and eBay if the more recent cases were brought before the relevant technologies matured and the use was heavily imbued with the public interest.

90. See Fred von Lohmann, *Remedying Grokster*, <http://www.eff.org/deeplinks/2005/07/remedying-i-grokster-i> (last visited Jan. 14, 2009).

Don't you hate it when you ask someone a question and, rather than answering it, they choose to answer a different one? Then you understand the frustration that technology lawyers feel in the wake of the Supreme Court's opinion in *Metro-Goldwyn-Mayer, Inc. v. Grokster Ltd.* The question asked by the parties and dozens of amici was direct and critically important: when will a technology vendor be held liable for the copyright infringements committed by third parties with its products? Asked to clarify the reach of copyright law's existing secondary liability doctrines, however, the Court instead announced a new doctrine for copyright: inducement.

The Court's ruling leaves technology companies and their attorneys to pick their way through a dangerous minefield of legal uncertainties. The trouble is not principally with the new doctrine of inducement announced by the Court: “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.” Rather, the trouble is the continued uncertainty surrounding the traditional copyright doctrines of contributory infringement and vicarious liability. In other words, it's not so much what the Court said, as what it didn't say, that ought to worry innovators and their attorneys. *Id.*

91. 17 U.S.C. § 107 (West 2009).

92. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003).

*Grokster* Court.<sup>93</sup> The detail necessary to meet the standards of proof regarding the specific behavior required for a finding of contributory secondary liability was set to rest on remand in the trial of the remaining defendant Streamcast.<sup>94</sup>

The legacy of *Sony* continues despite resolution of the ambiguity of safe harbor in *Grokster*.<sup>95</sup> There remain other lingering issues smoldering in the background. The potential negative inference based on actual infringing usage still casts a large shadow over technology development. The lack of transparency has not helped ameliorate the problem. The resolution of inference-based issues of this nature requires a commitment to fact finding proceedings in the court based on mature technology analysis. These should be conducted with due respect for limitations that inhere in the adversarial process. Recent cases in addressing technologies essential to the information structures of intellectual and commercial function reflect the benefit of maturing paradigms of assessment in weighting private and public values of technology and allocating duties and risks of management and loss to effectuate balanced and sustainable public policies.<sup>96</sup>

### III. *NAPSTER*, *AIMSTER*, AND *GROKSTER*: THE DIGITAL TRANSITION - INTENT, INDUCEMENT, FACILITATION OF INFRINGEMENT

This trilogy of cases following *Sony* opened a new period of digital secondary liability.<sup>97</sup> Each case evidences the common objective of facilitating and enabling unlawful appropriation of copyrighted content.<sup>98</sup> The cases after *Napster* also reflect continuing attempts to alter the behavioral basis identified for contributory liability and shelter behavior in the assumed safe harbor of *Sony*. *Napster* and *Aimster* built their distribution model on a direct pipeline of peer to peer (P2P) file

93. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936-937 (2005).

94. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 518 F.Supp. 2d 1197, 1228 (C.D. Cal. 2007).

95. *Grokster*, 545 U.S. at 936-937.

96. *See generally*, *Perfect 10 v. Google*, 416 F.Supp.2d 828 (C.D. Cal. 2006); *Perfect 10 v. Visa Int'l Serv. Ass'n*, 494 F.3d 788 (9th Cir. 2007); *Tiffany & Co. v. eBay, Inc.*, 576 F.Supp.2d 463, 2008 WL 2755787 (S.D.N.Y.), 2008-1, and the decision of the court on remand to allow an amended complaint in *Perfect 10 v. Google*, not reported F.Supp.2d, 2008 WL 4217837 ( U.S.D.C. C.D Cal. 2008).

97. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

98. *Id.*

sharing involving a central server they operated and controlled.<sup>99</sup> In neither case was copyrighted content on their computers.<sup>100</sup> By using software they provided, they enabled infringers to locate copyrighted music files on the computers of other users of the system.<sup>101</sup> This was accomplished with an index and links provided by Napster.<sup>102</sup> Aimster attempted to cover their knowledge of specific content linked by their server by encryption technologies that prevented their knowing the name of the file accessed.<sup>103</sup> Grokster's model tried to remove the central server as the element of control in the equation.<sup>104</sup> Though different in implementation, the common elements in the three cases lie in the role of P2P file sharing, the fact that actual files were stored on participating user computers and not a central server, and the use of software provided by the enabler to enroll, offer for access, find, and download copyrighted content.<sup>105</sup> Grokster's model was advertised and intended to attract prior users of Napster using further advancements in P2P file sharing that avoided central indices by querying all computers running their software online and then downloading packets from multiple computers simultaneously to form a complete file.<sup>106</sup> At no point did any copyrighted material pass through Grokster's server.<sup>107</sup>

### A. *Napster*

*Napster* was one of the early actions addressing digital copy technologies after *Sony*.<sup>108</sup> *Napster* was a server centric means of file sharing that represented an early form of peer to peer file sharing (P2P).<sup>109</sup> *Napster* played an active, as well as central role throughout the infringement process.<sup>110</sup>

---

99. *A&M Records, Inc. v. Napster, Inc.*, 114 F.Supp. 2d 896, 901 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001), *In re Aimster Copyright Litig.*, 334 F.3d 643, 646 (7th Cir. 2003).

100. *Id.*

101. *Id.*

102. *Napster*, 114 F.Supp.2d at 901.

103. *Aimster*, 334 F.3d at 646-47.

104. *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 545 U.S. 913, 920 (2005).

105. *See A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005).

106. *Grokster*, 545 U.S. at 925.

107. *Id.* at 920.

108. *NA&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001).

109. *Id.* at 902.

110. *Id.* at 1012.

Napster believed it had insulated itself from infringement liability because the music files themselves were never stored on their servers.<sup>111</sup> It was clear, however, that Napster knew they provided links that were used for downloading of copyrighted materials.<sup>112</sup> Contributory liability was based on: (1) Napster's operation to act as the central point of communication between those searching and those opening their computers to permit the downloading of files and (2) their knowledge, intention of infringing, marketing of their product for that purpose, and facilitation of actual file copying.<sup>113</sup>

The court did not engage in any inference from the P2P technology itself.<sup>114</sup> Despite the fact that inferences regarding non-infringing usage were thought necessary by the defendant, the court repeatedly indicated that actual use demonstrated the overwhelming purpose of infringement.<sup>115</sup> Regardless of the quantitative determination, liability was premised on evidence of Napster's behavior, intent to provide access to copyrighted files, and its ability to control access to the content on its server.<sup>116</sup>

It was this very element of Napster's control over its servers and interface with its users that distinguished their actions from Sony. Sony sold a product and had no further relationship with the individual user beyond equipment warranty.<sup>117</sup> Napster provided full service to their registered users, which included software, assistance in use, registration, and access to Napster's computer to upload and index available content for downloading.<sup>118</sup> In addition they provided the location, access, and means of downloading files by listing the IP address of the host computer that had files available for copying.<sup>119</sup> Napster maintained the ability to deny a user access, limit its hours of operations, audit its content and, in all respects, control hardware and uses.<sup>120</sup> It was the

---

111. *Napster*, 239 F.3d at 1014

112. *Napster*, 114 F.Supp.2d at 904.

113. *Napster*, 239 F.3d at 1013.

114. *NA&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001).

115. *Napster*, 114 F.Supp.2d at 911.

116. *Id.* at 927.

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

118. *Napster*, 239 F.Supp.2d. at 901-02.

119. *Id.*

120. *Id.* at 916-17.

element of their central role, as observed in later cases, that constituted the basis of their liability.<sup>121</sup>

The Ninth Circuit disagreed with Napster's defense and held that while there may be non-infringing uses, they were contributorily liable for what amounted to intentional inducement and facilitation of infringement.<sup>122</sup> Their entire business model was one of intentional inducement of infringement and their use of technology could not therefore be considered a "Staple Article of Commerce."<sup>123</sup> The court understood that the liability of individual infringers was a separate issue from the function of secondary liability in protecting the rights of the copyright holder by assuring prophylactic and compensatory relief.<sup>124</sup>

### B. *Aimster: Intent, Inducement, and Facilitation: Avoidance Schemes*

Judge Posner characterized Aimster as just another participant in the developing business of satisfying demand in what can only be called the burgeoning practice of file swapping.<sup>125</sup> He indicated that "Aimster is one of a number of enterprises (the former Napster is the best known) that have been sued for facilitating the swapping of digital copies of popular music, most of it copyrighted, over the Internet."<sup>126</sup> Justice Posner identifies a number of reasons behind the growth and practice of file swapping.<sup>127</sup> He starts off by noting normative factors that affect individual choices and behavior.<sup>128</sup> Choices, he says, that impose burdens on the legal system.<sup>129</sup> These include individual infringers who are ignorant, ill informed, "discount the likelihood of being sued," are "disdainful of copyright," or simply have a belief in fairness violated or simply changing normative values.<sup>130</sup>

---

121. See, e.g., *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1163 (9th Cir. 2004, *overruled on other grounds*) ("[T]he software at issue in *Napster* . . . employed a centralized set of servers that maintained an index of available files. . . . We agreed that Napster provides the site and facilities for direct infringement." *Id.*); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1171 (9th Cir. 2007) ("Because Napster knew of the availability of infringing music files, assisted users in accessing such files, and failed to block access to such files, we concluded that Napster materially contributed to infringement." *Id.*). Napster's defense was that their services were simply a product much in the mode of Sony. *Napster*, 239 F.Supp.2d at 916-17.

122. *Id.* at 921.

123. *Id.* at 912.

124. See generally, *id.*

125. *Aimster*, 334 F.3d at 645.

126. *Id.*

127. *Id.*

128. *Id.*

129. *Id.*

130. *Id.*

Secondary liability extends to those who facilitate infringement.<sup>131</sup> While they are not direct infringers themselves, they can be held liable for their role as aiders and abettors.<sup>132</sup> Aimster's system is clearly designed to enable infringement.<sup>133</sup> It provides preparatory software and a server that can be accessed by other computer users over the internet.<sup>134</sup> The server contains information permitting the identification of sites with copyrighted content that can be downloaded.<sup>135</sup> Aimster's servers do not contain copies of the infringing files.<sup>136</sup>

The behavior of the parties is paramount relative to a determination of liability.<sup>137</sup> The behavior includes, among other actions, (1) software and instructions on how to use it, (2) maintenance of a server with file locations for downloading, (3) control and the right to control the content on its server, (4) knowledge of actual infringements, and (5) evidence indicating a business model and intent to infringe.<sup>138</sup>

Two issues in Aimster were critical to the outcome.<sup>139</sup> First, the court indicated that encryption of the names of songs on the server did not constitute an appropriate method for avoiding knowledge of specific instances of infringement.<sup>140</sup> Second, it found that the file sharing system could have been used for "innocuous" purposes that were not

131. *Id.* at 645-46.

132. *Id.* ("Recognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers . . . the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor." *Id.*)

After years of suing thousands of people for allegedly stealing music via the Internet, the recording industry is set to drop its legal assault as it searches for more effective ways to combat online music piracy. . . . Instead, the Recording Industry Association of America said it plans to try an approach that relies on the cooperation of Internet-service providers.

Sarah McBride & Ethan Smith, *Music Industry to Abandon Mass Suits*, Dec. 19, 2008, [http://online.wsj.com/article/SB122966038836021137.html?mod=rss\\_what\\_s\\_news\\_technology](http://online.wsj.com/article/SB122966038836021137.html?mod=rss_what_s_news_technology). This may well indicate that secondary liability is not the long range answer to deal with the problem, nor dealing with the burden of specific infringement requirements and allocation of duties between the parties noted in the *Perfect 10* cases against *Google*, *Amazon.com*, and *Visa infra* Section IV.

133. *See Aimster*, 334 F.3d at 646.

134. *Id.*

135. *Id.*

136. *Id.*

137. *Id.*

138. *See id.* at 646-47.

139. *Id.* at 649-50.

140. *Id.* They turned a blind eye equivalent to intent (encrypted so they didn't know what was being downloaded). Willful blindness is knowledge in copyright law (where indeed it may be enough that the defendant *should* have known of the direct infringement). *In re Aimster Copyright Litigation*, 334 F.3d 643, 650 (7th Cir. 2003).

infringing, the likely objective of this distinction being that liability was premised on purposeful use, not simply the power of the technology to infringe.<sup>141</sup> Posner cited the system used by AOL for instant messaging as an example of a non-infringing use.<sup>142</sup> At the same time, however, the system permitted users the opportunity to distribute copyrighted materials by others which is exactly what Aimster did to “piggyback” its file sharing.<sup>143</sup> This use, without either the knowledge or consent of AOL, would not render them a contributory infringer.<sup>144</sup> What follows is a ritualistic recitation of the Staple Articles of Commerce standard “that the producer of a product that has substantial noninfringing uses is not a contributory infringer merely because some of the uses actually made of the product [infringe]”<sup>145</sup> They noted that Sony found the recording of television programs infringed absent a finding of fair use.<sup>146</sup> “How much more the Court held is the principal issue that divides the parties; and let us try to resolve it, recognizing of course that the Court must have the last word.”<sup>147</sup>

The Court was unwilling to allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying non-infringing consumers the benefit of the technology. We therefore agree with Professor Goldstein that the Ninth Circuit erred in *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir.2001), in suggesting that actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer. . . .” “We also do not buy Aimster’s argument that since the Supreme Court distinguished . . . between actual and potential non-infringing uses, all Aimster has to show in order to escape liability for contributory infringement is that its file-sharing system *could* be used in non-infringing ways . . . . Were that the law, the seller of a product or service used *solely* to facilitate copyright infringement, though it was capable in principle of non-infringing uses, would be immune from liability for contributory infringement.”<sup>148</sup>

---

141. *Id.*

142. *Id.*

143. *Id.*

144. *Id.* at 647.

145. *Id.*

146. *Id.*

147. *Id.* at 649

148. *Id.* at 651.



The court did not base liability on the underlying technology.<sup>149</sup> It understood the non-infringing potential of the technology.<sup>150</sup> It did, however, use this information to identify the relevant elements of behavior necessary to create liability based on intent, inducement, knowledge, and control.<sup>151</sup>

Almost as an aside, the court noted that the doctrine of vicarious liability might have been applied to address the issue of secondary liability.<sup>152</sup>

How far the doctrine of vicarious liability extends is uncertain. It could conceivably have been applied in the *Sony* case itself, on the theory that while it was infeasible for the producers of copyrighted television fare to sue the viewers who used the fast-forward button on Sony's video recorder to delete the commercials and thus reduce the copyright holders' income, Sony could have reduced the likelihood of infringement, as we noted earlier, by a design change. But the Court, treating vicarious and contributory infringement interchangeably . . . held that Sony was not a vicarious infringer either. By eliminating the encryption feature and monitoring the use being made of its system, Aimster could like Sony have limited the amount of infringement. Whether failure to do so made it a vicarious infringer notwithstanding the outcome in *Sony* is academic, however; its ostrich-like refusal to discover the extent to which its system was being used to infringe copyright is merely another piece of evidence that it was a contributory infringer.<sup>153</sup>

The issue is no longer academic. We may be in line to find how far vicarious liability does extend. On remand in the recent case involving *Perfect 10 v. Google*, the lower court granted the plaintiff leave in a second amended complaint to include a vicarious liability claim based on Google's acquisition of another corporate entity that had the infringing photographs on its servers.<sup>154</sup>

---

149. *Id.*

150. *Id.*

151. *Id.*

152. *Id.* at 654-55.

153. *Id.*

154. *Perfect 10 v. Google*, F.Supp.2d, 2008 WL 4217837 (C.D. Cal. 2008). The difference between contributory or vicarious liability is not the issue; the issue is whether there is a duty, and whether it has been violated by the party sought to be held liable. Thus, one might come to this resounding conclusion, rules of law aside, characterized as "a rose meets a duck": "What's in a

C. *Grokster: Composed, Refocused on Behavior - Bon Voyage Safe Harbor*

*Grokster* was the third part of the post-*Sony* trilogy that involved a design to infringe. *Grokster* used adaptive technology that removed the central server from the process.<sup>155</sup> The following is a relatively simplistic description from a video attempting to explain the functional differences in P2P models distinguishing Napster and Aimster from *Grokster*:

The traditional way of finding a file or other information on the web you go to a search engine - type in the criteria and click search. Your computer sends off that information to the search engine. The search engine has a huge data base of web pages. The server then sends the search results back to your computer telling it which sites on the internet have the data you are searching for. The server with the index plays an integral or central role in the process.

In contrast, when you use the search capabilities of a P2P network when you enter the criteria, the computer asks ten other computers if they have it, these ten then ask ten more computers, and each of these continue to ask ten more computers each if they have it, and so on. If any given computer has the file it sends back a yes answer. You then download the file directly from the computer that has indicated it has the file. No server is involved or comes between the users and the network. Since one peer directly accesses the data from the other peer, this is called peer to peer - or P2P. (This is the *Grokster* model removing *Grokster* from direct control represented by server content and access.)<sup>156</sup>

One of the more significant aspects of *Grokster* lies in the much needed clarification of the role played by the “safe harbor” language of *Sony*.<sup>157</sup> No matter the level of non-infringing use that could qualify the technology as a Staple Article of Commerce, it does not act as a shield or “safe harbor” against intentional inducement and behavior that

---

name? That which we call a rose by any other name would smell as sweet.” *Romeo and Juliet* 2.1-2. Likewise “if it walks like a duck and looks like a duck then it must be a duck.”

155. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 919-20 (2005).

156. See Posting of Video to [http://www.businessweek.com/common\\_ssi/tc\\_special/peertopeerdiagram.htm](http://www.businessweek.com/common_ssi/tc_special/peertopeerdiagram.htm) (August 1, 2001).

157. *Grokster*, 545 U.S. at 934.

constitutes the basis for contributory or vicarious liability.<sup>158</sup> *Grokster* does little further to clarify when and under what circumstances the “Staple of Commerce” concept continues to provide a safe harbor and, at best, appears only to factor in its calculation a snapshot of current usage of technology.<sup>159</sup> This short term focus obscures underlying issues affecting normal technology transfer, readiness, and market assessments which identify ripeness for non-infringing market acceptance and use, as well as the potential for growth of new markets and usage. Despite references to *Sony* as protecting future development, *Grokster* leaves the burden of proof of non-infringing uses on the manufacturer or developer and neither provides a vehicle to take into account or inform of future uses by characterizing much of the amicus claim of non-infringing use as anecdotal.<sup>160</sup>

#### D. *StreamCast on Remand: An Exercise in Comprehensive Litigation*

After remand to the district court for retrial, there was an anxious time waiting to see whether there would be any defendants left to go to trial to further understand the ruling of the court.<sup>161</sup> StreamCast and Sharman Networks remained as the only defendants in the case that had not settled prior to trial.<sup>162</sup>

The subsequent trial of *Streamcast* was a model of discovery.<sup>163</sup> The evidence collected highlighted organization, incrimination, and proof of intent.<sup>164</sup> It also focused on the business model, advertisements, help to customer-users, knowledge, refusal to implement known filters because it would work and diminish their business model and many more elements found by emails, telephone calls, letters and testimony of witnesses.<sup>165</sup> It is this model which provides the template and

158. *Id.*

159. *See id.*

160. *Supra* note 90.

161. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F.Supp.2d 966 (C.D. Cal. 2006)

162. *Id.* *Grokster* and related parties settled in November 2005, agreeing to a permanent injunction and payment of \$50 million. *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd.*, Case No. 01-08541 SVW (FMOx), (C.D.Cal. Nov. 9, 2005), available at <http://www.svmedialaw.com/Grokster%20settlement.pdf>. The settlement covered *Grokster Ltd.*, *Swaptor, Ltd.*, *Daniel B. Rung*, *Matthew A. Rung*, and *Michael Rung* as defendants. *Id.* The \$50 million is to be reduced by any judgment against the *Grokster Parties* in *Leiber, et al. v Consumer Empowerment*, Case No. CV 01-09923 SVW. *Id.*

163. *See Grokster*, 454 F.Supp.2d at 971, 975-83.

164. *Id.*

165. *Id.*

foundation of present judicial structure in prosecuting issues of secondary liability for infringement.<sup>166</sup>

#### IV. POST-*GROKSTER*: *PERFECT 10* TO *TIFFANY*: EXTERNALIZING RISK AND SEARCHING FOR DEEP POCKETS

The post-*Grokster* focus on secondary liability was not on inference, nor on dealing with the remnants of the “Staple Article of Commerce” issues. Post-*Grokster* cases have dealt with enabling technologies that have matured to serve clear public functions.<sup>167</sup> The courts have been faced with maturing technologies that deal with issues of risk allocation, of externalizing costs of diligence, of the duties of the respective parties, including the right holder, and of standards of care and Reasonable Alternative Design (RAD).<sup>168</sup> The cases methodically move from consideration of the required finding of direct infringement to secondary liability issues of intent, inducement, and contributory behavior. They introduce issues of liability by reflecting on the broader purpose and usage of technologies that have both infringing and non-infringing applications.<sup>169</sup> They attempt to balance the interests of the content right holder, the innovator of the enabling technology and the public interest.<sup>170</sup> This represents more than a subtle change in focus from a concern with property rights to a perspective of balance and the beneficial use of technologies that can also be used to infringe.<sup>171</sup>

The cases also contend with changing business models that attempt to use the judicial system to externalize risks and costs associated with business practices. They also have had to deal with issues of attempts to maximize returns by resorting to litigation for infringement as compensatory and enriching by statutory damages using injunctive remedies or threats of injunction to secure settlement or licensing fees in excess of fair market value.<sup>172</sup>

These cases demonstrate the inherent quality of the judicial process to adapt in time by continuing to take into account the potential of

166. *Id.*

167. See *Perfect 10 v. Google*, 416 F.Supp.2d 828 (C.D. Cal. 2006); *Perfect 10 v. Google*, F.Supp.2d, 2008 WL 4217837 (C.D. Cal. 2008); *Perfect 10 v. Visa Int’l Service Ass’n*, 494 F.3d 788 (9th Cir. 2007); and *Tiffany (NJ) Inc. v. eBay, Inc.*, 576 F.Supp.2d 463, 2008 WL 2755787 (S.D.N.Y. 2008).

168. *Id.*

169. *Id.*

170. *Id.*

171. *Id.*

172. See generally Gordon, *supra* note 45, at 1609; *eBay*, 547 U.S. at 396-97.

innovative technologies in the measure of protections to be accorded “property rights.”<sup>173</sup>

### A. *Perfect 10 v. Google (Amazon)*

Perfect 10 brought a series of actions against multiple parties for infringement of their copyrights.<sup>174</sup> In the action against Google and Amazon, they alleged primary infringement of their copyrighted images in the very function of search engine technology and secondary liability for facilitating third party infringement.<sup>175</sup> In a separate action against Visa they alleged secondary liability for facilitating the purchase of their copyrighted images and the failure to monitor purchases for infringing purposes.<sup>176</sup> The composite of these distinct actions is a “reasoned” attempt by the court to identify the basis for secondary liability, establish standards of behavior and relative duties of both the content holder and the alleged defendant, and provide transparency in the balance of potential contributory liability.<sup>177</sup> The courts in both cases had the benefit of considering mature technologies and business function that displayed their prowess and beneficial function.<sup>178</sup> In both cases, there was a potential for both infringing and non-infringing activity.<sup>179</sup> In both cases the maturity of the technologies forestalled speculation on intention to use for infringing purposes.<sup>180</sup> This still leaves the teasing question of what might have happened if, as with P2P, the technology in question had been adopted by early users for infringement purposes? How would this have been weighted against an unknown future?

The plaintiff, Perfect 10 “. . . publishes the adult magazine PERFECT 10” and operates the subscription website, “perfect10.com,” both of which feature high-quality, nude photographs of “natural” models.<sup>181</sup> They had considerable investment in these images and derived income from both the hard copy publication and fees charged for

173. *Supra* note 167.

174. *See* Perfect 10, Inc. v. Google, Inc., 416 F.Supp.2d 828 (C.D. Cal. 2006). Perfect 10, Inc. v. Google, Inc., 2008 WL 4217837 (C.D. Cal. 2008); *and* Perfect 10, Inc. v. Visa Int’l Serv. Ass’n., 494 F.3d 788 (9th Cir. 2007).

175. Perfect 10, Inc. v. Google, Inc., 416 F.Supp.2d 828 (C.D. Cal. 2006); Perfect 10, Inc. v. Google, Inc., 2008 WL 4217837 (C.D. Cal. 2008).

176. Perfect 10, Inc. v. Visa Int’l Serv. Ass’n., 494 F.3d 788 (9th Cir. 2007).

177. *Supra* note 167.

178. *Id.*

179. *Id.*

180. *Id.*

181. Perfect 10, Inc. v. Visa Int’l Serv. Ass’n., 494 F.3d 788, 831-32 (9th Cir. 2007).

access to their web site.<sup>182</sup> The copyright infringer copied the images from Perfect 10 without license, posted them, and maintained them on a computer that could be accessed over the internet.<sup>183</sup> Perfect 10 brought this action against Google for direct infringement of its copyrighted images by thumbnails maintained on its server and display of full resolution images on its web pages through framing images located on third party servers.<sup>184</sup> Google was also sued for secondary liability based on the use of Google's search engine to facilitate finding images, some of which included images belonging to Perfect 10 that had been misappropriated and posted by direct infringers.<sup>185</sup> The function of the search engine was not intended to induce or facilitate infringement, although it could be used inappropriately for both purposes.<sup>186</sup>

The direct infringement issue appears one of reconciling the function of the search engine with "incidental" use of protected images.<sup>187</sup> There is a similarity between the search engine and the Betamax as both play a role in enabling the copying of protected materials.<sup>188</sup> Liability for infringement in both cases depends on "fair use" issues that affect primary and secondary liability questions.<sup>189</sup> As noted in *Sony* and revealed in the papers of the Justices, the Betamax resolution of these issues bears directly on the manner by which these issues are identified in terms of present use and future potential, present economic value, and beneficial use both present and future.<sup>190</sup> How this comparison is structured affects characterization of the use for infringement purposes as primary or incidental and outside the core business model or intent of the provider.

Judge Matz structures the comparison by introducing the case with this "flavor:"

The principal two-part issue in this case arises out of the increasingly recurring conflict between intellectual property rights on the one hand and the dazzling capacity of internet technology to assemble, organize, store, access, and display intellectual property "content" on the other hand. That issue,

---

182. *Id.* at 832.

183. *Id.* at 832-34.

184. *Id.* at 834.

185. *Id.*

186. *Id.* at 832.

187. *Id.* at 845-47.

188. *Id.*

189. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 419-20 (1984); *supra* note 174.

190. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 419-20 (1984)..

in a nutshell, is: does a search engine infringe copyrighted images when it displays them on an “image search” function in the form of “thumbnails” but not infringe when, through in-line linking, it displays copyrighted images served by another website?<sup>191</sup>

Note the respect accorded the core functions of the internet and the search engine and the implicit appreciation of the inherent role they serve an information-based global society.<sup>192</sup> The district court found that the thumbnails were infringing.<sup>193</sup> The district court found that the in-line linking of the images from the direct infringer’s server was not a “display” because the images were not stored on or shown from their web page, but simply linked through HTML instructions to the server with the images, which then caused them to appear on the screen.<sup>194</sup>

On appeal, the court reviewed the infringement claims regarding the thumbnails stored on the Google server and ruled that while this did constitute an infringement, they were “fair use.”<sup>195</sup> The images were not used for the purpose of displaying the image, but for the necessary purposes of a search engine.<sup>196</sup> The copying was therefore transformative in use (“function”) and therefore “fair use.”<sup>197</sup> To hold otherwise would have seriously impaired the functionality of the search engine.<sup>198</sup> The court applied what is now called the “server test” harkening us back to *Napster* and *Aimster*.<sup>199</sup> They affirmed the finding of the district court that the display, by framing, might mislead some viewers into thinking that the images were on Google’s web page, but that for purposes of the display right under the copyright statute, the

191. *Google*, 416 F.Supp.2d at 831.

192. *Id.*

193. *Id.* at 844.

194. *Id.*

195. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007). The court considered the direct infringement claims of Perfect 10. *Id.* at 1159. This has become a template-based approach to analyzing these complex relationships. “Plaintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106.” *Id.* Even if a plaintiff satisfies these two requirements and makes a prima facie case of direct infringement, the defendant may avoid liability if it can establish that its use of the images is a “fair use” as set forth in 17 U.S.C. § 107. *See Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 817 (9th Cir. 2003).

196. *Amazon.com*, 508 F.3d at 1166-67.

197. *Id.*

198. *Id.* The court engaged in an extended description of the function of the internet and Google’s search engine. *Id.* at 1155.

199. *Id.* at 1159-62.

function of the internet described in the quotation indicates Google is not a direct infringer:<sup>200</sup>

Instead of communicating a copy of the image, Google provides HTML instructions that direct a user's browser to a website publisher's computer that stores the full-size photographic image. Providing these HTML instructions is not equivalent to showing a copy. First, the HTML instructions are lines of text, not a photographic image. Second, HTML instructions do not themselves cause infringing images to appear on the user's computer screen. The HTML merely gives the address of the image to the user's browser. The browser then interacts with the computer that stores the infringing image. It is this interaction that causes an infringing image to appear on the user's computer screen.<sup>201</sup>

There are innumerable instances in law where the distinction between "form and substance" is important. The question this analysis raises is why in this case form prevails over what may otherwise constitute substance? The substance of the right to display lies in the viewing of the image, which this technology in fact accomplishes. Should it make any difference in a determination of whether a display right is infringed where the image is located? The substance of the right is control over display, which is, in fact, what the HTML instructions accomplish regardless of whether the image is on the Google server or a third party infringer server. These distinctions raise questions regarding implications that may bear on further analysis of secondary liability issues.

The court's analysis of secondary liability issues continues in this awareness of the "dazzling" function of Google's search engine.<sup>202</sup> To have secondary liability, the court looked for a direct infringer, not the party that initially misappropriated them from Perfect 10, but infringement by a user of the search engine that cached an image on the computer hard drive during internet access.<sup>203</sup> It then applied prior fair use analysis to factors similar to that it used on the issue of primary liability regarding Google.<sup>204</sup> The court indicated that even if users of Google's search engine cached an image, it would be fair use just as it

---

200. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1161 (9th Cir. 2007).

201. *Id.*

202. *See id.* at 1169-72.

203. *Id.* at 1169-70.

204. *See id.* at 1170.



was for Google.<sup>205</sup> Google neither induced, nor encouraged infringement of Perfect 10's images.<sup>206</sup> The product Google distributes has commercially significant non-infringing uses.<sup>207</sup> Contributory liability requires intent.<sup>208</sup> That intent can be imputed through tort law which "ordinarily imputes to an action the intention to cause the natural and probable consequences of his conduct."<sup>209</sup> It is interesting that the court first sets this forth as a common law rule, then a rule in the Restatement (Second) of Torts § 8A, and only later does it address the Staple Article of Commerce provision from the Patent Act.<sup>210</sup> All of these appear basically of the same import: "one who, with knowledge of the infringing activity, induces causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."<sup>211</sup> The court concludes that even if Google had actual knowledge that there was some infringing material, its conduct did not materially contribute; it did not promote or encourage users to visit the infringing web sites.<sup>212</sup>

The lower court did not address either the form of notice Google was given, or its response.<sup>213</sup> It is reasonable to assume that Google was aware that a collateral consequence of a search conducted by its search engine would include copyrighted content, which would then be indexed for use by a potential infringer. While they have knowledge that their search engine will include infringing images among the millions of non-infringing images, they will have no details of the specifics of which images are copyrighted and which images are infringements.<sup>214</sup> The search engine crawls the web and indexes any materials it finds, unless the holder chooses to "opt out," or provides specific notice that its materials are being infringed.<sup>215</sup> Google can prevent illegally posted images from being accessed, provided it has notice of which images and where they are located.<sup>216</sup> This requires actual notice of specific images

---

205. *Id.* at 1169-70.

206. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1170 (9th Cir. 2007).

207. *Id.*

208. *Id.* at 1171.

209. *Id.*

210. *See Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1171 (9th Cir. 2007).

211. *Id.*

212. *Id.*

213. *See supra* note 175.

214. *Amazon.com*, 508 F.3d at 1155.

215. *Supra* note 197.

216. *Perfect 10*, 508 F.3d at 1175.

so that Google can respond, as it does when noticed, in an appropriate manner.<sup>217</sup>

What obligation does Google have to identify images which are copyrighted and improperly posted on the internet? We can assume it is not strict liability since that would be devastating to the function of the internet and search engine technologies. It is also one thing to premise liability on wrongful intent and actions, but this is distinctly based on the failure to act to protect another's lawful interests and sounds as a duty, an obligation not to harm, much the same as negligence in tort law. It poses an intellectual property "slip and fall," awareness of the potential for slippery conditions versus actual knowledge of a specific condition in need of attention.<sup>218</sup> It also poses issues of what is reasonable under the circumstances in terms of vigilance or RAD on the part of the technology provider. Filters have become somewhat common with some file structures to prevent infringement, but in the context of digital imaging it becomes particularly problematic and burdensome. The filter must have specific images claimed to be copyrighted and the capacity to store them on a server in order to make a match.<sup>219</sup> Not only is this a liability question, but is an indicator of the vigilance required by the owner of the right to monitor infringement, to give specific notice to permit protection of its rights and the opportunity of the search engine provider to prevent linking.<sup>220</sup> The risk of infringement should not be permitted to be externalized, nor should the cost of vigilance. Further, while hard copy images can be unlawfully digitalized and posted on the internet, the choice of form of publication by Perfect 10 on their internet web site increased the likelihood of misappropriation.<sup>221</sup> In addressing liability, the duties of both parties should be considered as to their comparative responsibility for the infringement and positioning to avoid unintended consequences.

An unanticipated issue was brought to the attention of the court on the question of whether Google could be held vicariously liable because of the direct infringement by a third party that displayed and distributed

217. *Id.*

218. It presents the temptation of those that would slip and fall to enrich themselves. *See Field*, 412 F.Supp.2d at 1115. That question might arise in this case with the motive and business model of *Perfect 10* and whether they are misusing the legal process.

219. *See Perfect 10, Inc. v. Google, Inc.*, 416 F.Supp. 2d 828, 858 (C.D.Cal. 2006) (*overruled on other grounds*).

220. *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 518 F.Supp. 2d 1197, 1237 (C.D.Cal. 2007) (discussing the *Napster* notice requirement).

221. *Perfect 10*, 416 F.Supp. 2d at 832 (*overruled on other grounds*) (permitting users to copy and download images to their cellphones).

the image.<sup>222</sup> The court initially indicated there was no proof that Google had actual knowledge or a right and ability to stop the infringement.<sup>223</sup> In essence, they didn't have the right or ability to stop third party infringers. On remand, however, the court was presented with evidence in the motion for a second amended complaint that Google had acquired a web business that hosted blogs: "it operates a weblog hosting service ("Blogger") at www.Blogger.com and Blogspot.com. Blogger.com is where bloggers create, edit, and administer their blogs, while Blogspot.com is where blogs are actually hosted."<sup>224</sup> Perfect 10 alleged that full size images appeared on these servers by demonstrating that their copyrighted material was indexed, referenced, and stored on a computer controlled by Google.<sup>225</sup> Perfect 10 contends that this renders Google subject to contributory liability for images it has control over its server.<sup>226</sup> This presents a new twist in liability and business relationships. It presents a problem where there are vertical and horizontal amalgamations of closely and distantly related web-based enterprises. It can create new levels of care and potential liability that will have to be addressed for secondary liability implications. It certainly could alter the characterization of the court that Google lacked the ability to police because, in this instance, it may be ruled their own server.

#### B. *Perfect 10 v. Visa*<sup>227</sup>

Perfect 10 brought an action for infringement of its copyright pictures against financial institutions "that process . . . credit card payment to alleged infringing web sites."<sup>228</sup> They did not bring an action against the direct infringers.<sup>229</sup> Perfect 10 claimed to have given defendant Visa and Mastercard entities notices "specifically identifying both the websites and that the payments were for the purchase of infringing images."<sup>230</sup> The credit card companies charge for their

---

222. *Amazon.com*, 508 F.3d at 1172-75 (discussing vicarious infringement).

223. *Id.* at 1175.

224. *Perfect 10, Inc. v. Google, Inc.*, 2008 WL 4217837, \*3 (C.D.Cal. 2008).

225. *Id.*

226. *Id.*

227. *Perfect 10, Inc. v. Visa Int'l Serv., Ass'n*, 494 F.3d 788 (9th Cir. 2007).

228. *Id.* at 793.

229. *Id.*

230. *Id.*

services. At no time did the credit card agencies proceed in response to the notices.<sup>231</sup>

The court set the context in which Perfect 10's claims were to be viewed:

[W]ith an awareness that credit cards serve as the primary engine of electronic commerce and that Congress has determined it to be the "policy of the United States-(1) to promote the continued development of the Internet and other interactive computer services and other interactive media [and] (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation 47 U.S.C. §§ 230(b)(1).<sup>232</sup>

With this preamble, the court set forth a series of observations about secondary liability that both synthesize and expand upon the rules to this point. The foundation for secondary liability lies in tort law "concepts of enterprise liability and imputed intent."<sup>233</sup> There are a number of different variations on the articulation of the test, but they all include (1) knowledge of third party infringement, and (2) the defendant "induces, causes or materially contributes to the infringing conduct."<sup>234</sup> They then go on to say that when the Supreme Court cited from the Patent Act, they adopted the concept of inducement as "intentionally inducing or encouraging direct infringement."<sup>235</sup> And, of immediate relevance, in the case brought by Perfect 10 against Google and Amazon, "we found that "an actor may be contributorily liable . . . for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement."<sup>236</sup> This recitation leads to the following synthesized statement of the rule as applied in this case:

We understand these several criteria to be non-contradictory variations on the same basic test, i.e., that one contributorily infringes when he (1) has knowledge of another's

231. *Id.*

232. *Id.* at 794.

233. *Id.* at 795.

234. *Id.* (citing *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir.2004)).

235. *See id.* (citing *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005)).

236. *Id.* This omits the further notation that Justice Ginsburg used yet another standard in the failure to meet the test of Staple Article of Commerce, one which was neither claimed nor used in this case.

infringement and (2) either (a) materially contributes to or (b) induces that infringement. Viewed in isolation, the language of the tests described is quite broad, but when one reviews the details of the actual “cases and controversies” . . . in each of the test-defining cases and the actual holdings in those cases, it is clear that the factual circumstances in this case are not analogous. To find that Defendants’ activities fall within the scope of such tests would require a radical and inappropriate expansion of existing principles of secondary liability and would violate the public policy of the United States.<sup>237</sup>

In this case the credit card companies do not contribute to the infringement.<sup>238</sup> There is no connection to locating, downloading, displaying, or distributing the images.<sup>239</sup> They have no connection with the infringer other than in the ordinary course of their business of honoring credit card transactions.<sup>240</sup> As compared to *Perfect 10 v. Google*, it must be borne in mind that the Google search engine contributed to finding and downloading of the copyrighted works.<sup>241</sup> The payment using Visa credit cards is not the equivalent, but is extraneous to and independent of the infringement process.<sup>242</sup>

Perfect 10 also claimed that Visa was vicariously liable for the copyright infringement.<sup>243</sup> In light of the fact that this issue was raised in the *Perfect 10 v. Google* remand and will be pursued further, the court’s statement of the basis to sustain a vicarious copyright claim is helpful. The court stated: “[t]o state a claim for vicarious copyright infringement, a plaintiff must allege that the defendant has (1) the right and ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity.”<sup>244</sup>

The court “. . . decline[d] to create any of the radical new theories of liability advocated by Perfect 10 . . . [and] affirm[ed] the district court’s dismissal with prejudice of all causes of action in Perfect 10’s

237. *Id.*

238. *Id.* at 796.

239. *Id.*

240. *Id.*

241. *Supra* note 175.

242. *Supra* note 228.

243. *Visa*, 494 F.3d at 802.

244. *Id.* The court went on to note that “[t]he Supreme Court has recently offered (in dictum) an alternate formulation of the test: ‘One . . . infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.’”*Id.*

complaint for failure to state a claim upon which relief can be granted.”<sup>245</sup>

C. *Tiffany v. eBay*<sup>246</sup>

Tiffany is an old and reputable retailer of jewelry and accessories that are coveted for their design and symbolic status.<sup>247</sup> eBay is an online marketplace where third party sellers list their wares, and buyers view, bid, and purchase products directly from the vendors.<sup>248</sup> eBay never possesses or gives an opinion on the product or the reputation or veracity of the seller.<sup>249</sup> Its primary function is to provide a means for sellers and buyers to connect and consummate a transaction.<sup>250</sup> eBay may have as many as six million new listings per day.<sup>251</sup>

The premise of Tiffany’s action is that between 2003 and 2006 hundreds of thousands of fraudulent and counterfeit Tiffany goods were sold on eBay and that the sale of these goods resulted in direct and secondary trademark infringement as well as trademark dilution and other claims of harm.<sup>252</sup> Tiffany contends that eBay is generally aware that counterfeit goods are being sold and has been made specifically aware and has done nothing to monitor its sellers or control the sales of infringing goods by preemptively refusing to accept listings or removing sellers they suspect of infringing product.<sup>253</sup> eBay has removed listings and barred sellers when given specific notice by Tiffany of an infringing listing.<sup>254</sup> Tiffany also acknowledges that the infringers are the sellers, not eBay.<sup>255</sup> Secondary liability is based on facilitating with knowledge that counterfeits are being sold.<sup>256</sup>

The court goes to the heart of the issue when it restates the controversy as one which both eBay and Tiffany share: removing counterfeit Tiffany merchandise from eBay’s web site.<sup>257</sup> eBay needs to

---

245. *Id.* at 810.

246. *Tiffany & Co., v. eBay, Inc.*, 576 F.Supp.2d 463, 2008 WL 2755787 (S.D.N.Y.).

247. *Id.* at 472.

248. *Id.* at 474.

249. *Id.* at 475.

250. *Id.*

251. *Id.*

252. *Id.* at 469.

253. *Id.*

254. *Id.*

255. *Id.*

256. *Id.*

257. *Id.*

protect its business reputation and business model.<sup>258</sup> Tiffany needs to protect its trademark and reputation for quality goods which are damaged when inferior products are sold with their name.<sup>259</sup> To Tiffany's attempt to externalize the risks of doing business and the cost of monitoring to protect its rights, the court noted: "the heart of this dispute is not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce."<sup>260</sup>

The burden of policing is different than the burden of responding when put on notice of counterfeit goods. Many, if not most goods bearing Tiffany's name on eBay were genuine objects put up for resale.<sup>261</sup> eBay was however, aware that counterfeit goods were often posted for sale.<sup>262</sup> When specific notice of this was brought to their attention, they acted with reasonable dispatch, removed the listing, and prohibited the seller from further listings.<sup>263</sup> Does having notice that there are ongoing listings of counterfeit goods render eBay liable for infringement? The court held that this alone does not render eBay liable because ". . . the standard is not whether eBay could reasonably anticipate possible infringement, but rather whether eBay continued to supply its services to sellers when it knew or had reason to know of infringement by those sellers."<sup>264</sup> Does having general notice of infringing activity render eBay liable to monitor for infringement, and remove those items it believes infringe, before the listings are posted? The court again set out a clear rule respecting the function of internet business ventures:

The law does not impose liability for contributory trademark infringement on eBay for its refusal to take such preemptive steps in light of eBay's "reasonable anticipation" or generalized knowledge that counterfeit goods might be sold on its website. Quite simply, the law demands more specific knowledge as to which items are infringing and which seller is listing those items before requiring eBay to take action.<sup>265</sup>

---

258. *Id.*

259. *Id.*

260. *Id.*

261. *Id.*

262. *Id.*

263. *Id.* at 470.

264. *Id.*

265. *Id.*

Who has the responsibility and bears the cost and burden of monitoring for specific instances of infringement? The court again refused to allow these duties to be externalized:

Tiffany must ultimately bear the burden of protecting its trademark. Policymakers may yet decide that the law as it stands is inadequate to protect rights owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement. Nevertheless, under the law as it currently stands, it does not matter whether eBay or Tiffany could more efficiently bear the burden of policing the eBay website for Tiffany counterfeits—an open question left unresolved by this trial. Instead, the issue is whether eBay continued to provide its website to sellers when eBay knew or had reason to know that those sellers were using the website to traffic in counterfeit Tiffany jewelry. The Court finds that when eBay possessed the requisite knowledge, it took appropriate steps to remove listings and suspend service. Under these circumstances, the Court declines to impose liability for contributory trademark infringement.<sup>266</sup>

With this ruling comes the potential of shaping the prerequisites to secondary liability in the future that takes into account the inherent responsibilities and duties of the parties. The court noted that while they were “sympathetic to Tiffany’s frustrations . . . the fact remains that right holders bear the principal responsibility to police their own trademarks.”<sup>267</sup> *Tiffany v. eBay*<sup>268</sup> has added a dimension that may help in instances requiring specificity of knowledge and notice by considering the relative burden on each of the parties to ferret out infringers.<sup>269</sup> Thus, the court indicated that because eBay had legitimate sellers in their business model of authentic Tiffany products, the burden on eBay was disproportionate to the duty Tiffany would bear if it monitored eBay web sales for counterfeits or trademark infringement and notified eBay of the infraction.<sup>270</sup> Each time eBay was given specific notice; it responded and removed the product and or the seller.<sup>271</sup> The court imposed a duty on the owner to exercise care and

---

266. *Id.*

267. *Id.* at 471.

268. *Tiffany & Co. v. eBay, Inc.*, 576 F.Supp.2d 463, 2008 WL 2755787 (S.D.N.Y.).

269. *Id.* at 469.

270. *Id.* at 517.

271. *Id.* at 469.



give notice in a manner similar to comparative responsibility under general rules of tort.<sup>272</sup>

## V. THE FUTURE OF SECONDARY LIABILITY

In the two-and-a-half decades since *Sony*, the rules have changed, albeit subtly at times, reflecting the courts' experience in addressing constantly changing technologies and public interests. While the primary basis for secondary liability is intent coupled with behavior to induce and facilitate infringement, there remain some issues relating to inferences derived from actual uses that infringe.

Technologies and business methods that have been widely adopted are no longer treated as suspect simply because they can be used for infringement. The resort to inferences from improper use tainting technology still appears as lurking in the background, rather than as directly applicable to the conflict before the court. The courts appear increasingly adept at highlighting the legitimate functions of technology in the context of protecting vested rights of the property holder. While the "Staple Article of Commerce" characterization continues to be noted, its use as a probative factor has been minimized by rapid assimilation of new technologies and business methods into the mainstream. Who would question that eBay, or Amazon, or Google and the multiple of other internet and information technologies are not staples in commerce?

Some early concerns that the valuation of intellectual property rights would inhibit balanced consideration of nascent technologies and future uses have abated. There are legitimate issues, however, regarding the lack of transparency and objective methodologies for assessment of innovation and technology transfers. The adversarial process has limitations when decisive issues may not be represented by the parties before the court.

The measure of technology in early cases was but a snapshot in time. In application of the Staple Articles of Commerce equation, the burden of proof regarding existing non-infringing uses is on the

---

272. The rapid development of the Internet and websites like eBay have created new ways for sellers and buyers to connect to each other and to expand their businesses beyond geographical limits. These new markets have also, however, given counterfeiters new opportunities to expand their reach. The Court is not unsympathetic to Tiffany and other rights owners who have invested enormous resources in developing their brands, only to see them illicitly and efficiently exploited by others on the Internet. Nevertheless, the law is clear: it is the trademark owner's burden to police its mark, and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement might be occurring on their websites. *Id.* at 527.

defendant.<sup>273</sup> There are a few instances where potential is verbalized as the objective and in an adversarial context anecdotal declarations have not been accorded significant probative value. Consider the following from *Perfect 10 v. Visa*:

In sum, where an article is good for nothing else but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing intent to infringe. Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce.<sup>274</sup>

Does it really matter how many times you read this quotation in searching for how judgments are to be made, where the evidence comes from and how that evidence is evaluated? Is there any indication of when in time the determination of “non infringing uses” is made? What validity attaches to present use, without an understanding of how technologies develop and how they are adopted in the market place? Does the Staple Article of Commerce address these issues? So where is the “breathing room for innovation . . .?” Basic application of tort doctrine asking for proof of present or future uses should seek to be informed from disciplines designed specifically to tell about different models, paths, and paces of development and the conclusions that can be drawn from facts and factors that are available and calculable.<sup>275</sup> What is needed is a transparent analytical framework that assures objective facts for an otherwise subjective judgment.

Those engaged in the burgeoning area of technology transfer in the public and private sectors have templates for evaluation and technology assessment. Technology readiness assessment is used by industry, universities, and the military just to note a few areas of application. What does readiness mean? It includes “market readiness,” which seeks

273. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 440-42 (1984).

274. *Perfect 10 v. Visa Int'l Serv. Ass'n.*, 494 F.3d 788, 801 (9th Cir. 2007).

275. See Ginsburg, *supra* note 19.

Indeed, though intent to facilitate infringement by enabling end-user copying supposedly forms the keystone of contributory liability, it is not clear whether *Grokster's* indicia identify bad intents or bad results. In many cases it may be possible to show intent to enable end-user copying, but intent to enable end-user copying that is infringing may end up being retrospectively assessed based on the volume of infringement that in fact transpires. *Id.* at 585.

to determine whether innovation is in response to an identified user need, simply designated as “user driven,” predicated on a known demand to adopt the technology. The converse of the “user driven” model is one where there are few, if any, known uses or users for the technology or product. This is a “technology driven model,” where the “hope” is that potential users will find the technology and recognize its utility. User-driven models present little risk and are “market ready.” Real estate investors have long known this as location theory - the right place, the right time. The classic example of underestimating the potential market for technology-driven application is that of Xerox and the Palo Alto Research Park innovation of the Graphic User Interface design. Xerox failed to appreciate its potential for use and its application. Those with a vision outside the box realized its potential, and thus began the Apple Computer saga, the Windows transition, and contemporary digital interfaces.

Technology transfer assessment methodologies follow proven paths of disciplined data collection and analysis that assure some semblance of objectivity in making assessments. The first step used by many to find whether there is user need is often a “quick” patent search. The level of Patent Activity is indicative of current user need or demand. Issues of readiness assessment regarding “demand” are applicable to other aspects of the technology transfer process, such as supplies, labor, and facilities in the context of manufacturing capability and capacity. If the readiness assessment addresses existing technologies, it might be a “technology transfer readiness assessment” focusing on the transfer of technologies to other applications as might well have occurred with the development of the Sony Betamax. These are routine assessments that universities, investors, the military and other institutions engage in on a regular basis. These assessments are as much an art as they are a science. While they have their limitations, there is transparency which is more easily understood than intuition and in most instances, more likely superior to relying on the adversarial process to be informed of matters critical to the public wellbeing and progress in the arts and sciences.<sup>276</sup>

Readiness assessments should also consider risk assessment elements. The risk of incalculable liabilities is one factor. The losses that are occasioned by a product being used for infringement purposes

---

276. See generally Phyllis L. Speser, *THE ART AND SCIENCE OF TECHNOLOGY TRANSFER* (John Wiley & Sons) (2006) (discussing Technology Transfer and Assessment). The references in these paragraphs for use in secondary liability cases are an adaptation of these principles that emerged in a class co-taught with Professor Speser at the State University of New York School of Law, Buffalo, during the academic year 2007.

should be considered for internalization as part of the decision making process. Decisions that are made under the current process externalize many of these costs because of incomplete licensing and market strategies. The R&D factor involved in RAD (reasonable alternative design) assessment should be disciplined to inform of readiness, application, and recovery of costs.

“Readiness” lies at the heart of each decision that attempts to give weight to early adoption as indicative of intent. Early cases used a snapshot in time that failed to provide a transparent model addressing distinctions that drive adoption timing, rates, and user groups. The cases fail to differentiate between user-driven adoption and technologies that drive uses. It doesn’t appear as if current models consider that inappropriate infringing adoptions may show the way to non-infringing uses that might not otherwise have been evident. This applies to all those wonderful potential applications introduced in evidence and touted in the amicus briefs the court in *Grokster* dismissed as anecdotal. Consider this excerpt from *Sony* on the need for disciplined consideration of new technologies.

The question is thus whether the Betamax is capable of commercially significant noninfringing uses. In order to resolve that question, we need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement. Rather, we need only consider whether on the basis of the facts as found by the district court a significant number of them would be non-infringing. Moreover, in order to resolve this case we need not give precise content to the question of how much use is commercially significant.<sup>277</sup>

We ought not to be put in the position where the unknown prematurely denies society the benefit of uses yet to come. Each use should be measured and the technology innovator or distributor held liable only for the consequences specific to their actions or, in some circumstances, inaction that do not involve inferences.

These issues were among the residuals of *Sony*.<sup>278</sup> They were at the boundaries of conventional methodologies for secondary liability. The discomfort with the unknown and potential loss of intellectual property value often resulted in pressure to draw preemptive inferences from the use of technology focusing on “infringement,” rather than on

---

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

278. *Id.* at 419-20.

the potential for achieving greater value by the use of inherent technologies.

The differences in the later cases involving technologies appear to be increasing tolerance for future use. *Perfect 10 v. Google*, demonstrated the court's ability to deal with a rapidly evolving new technology based on the internet search engine.<sup>279</sup> It wasn't simply that there were infringing uses and beneficial uses, but that the underlying technology had matured to the point that, independent of its actual use, it was deemed "dazzling" by the lower court and important to the functionality of the internet and public interest.<sup>280</sup> With the preeminent role digitalization and the internet serve in infringement, copying, distributing, and displaying, the question is, what has changed? One might suggest a sense of balance.

There remains, however, a gray area of concern. The courts have left to future cases a workable and sustainable modeling of technology-based readiness and market assessment. They have left open the "risk assessment" that leaves to future cases consideration of necessary and dependent risk analysis at the heart of innovation. A clear understanding of the pulse of new technology innovation necessitates the incorporation of existing assessment frameworks to prevent unwarranted inferences and "chilling affects" to the detriment of the public.<sup>281</sup>

How would either the eBay business model or Google's search engine process have been decided at the inception of their implementation cycle using the Staple Article of Commerce standard? Would the potential have been factored into the analysis and ever been realized?

279. *Supra* note 174.

280. *Id.*

281. *See* *Remedying Grokster*, *supra*, note 90. An interesting question after *Grokster*:

Under Justice Ginsburg's more demanding formulation (which appears to have only 3 votes), BitTorrent might be in trouble. Would Justice Ginsburg go this far? Her opinion dismissed the evidence of the band Wilco using *Grokster* . . . to distribute *Yankee Hotel Foxtrot* as merely anecdotal. (One would think that *Yankee Hotel Foxtrot* would have taught people to stop dismissing Wilco, but that's another story.) Would she dismiss *etree* so quickly? Yes, BitTorrent is massively used to pirate movies, but the non-infringing use of BitTorrent is also substantial. It was developed for the jam band community for legal usage, and continues to foster thriving, well-policed legal usage in that community. I would hope that if faced with BitTorrent, Justices Ginsburg, Kennedy and Rehnquist would see one of the messages of today's decision: Technology doesn't commit infringement; people commit (or induce) infringement.

Mark Schultz, *What Happens to BitTorrent After Grokster?*, [http://blog.ericgoldman.org/archives/2005/06/what\\_happens\\_to.htm](http://blog.ericgoldman.org/archives/2005/06/what_happens_to.htm) (last visited Jan. 14, 2009).

It is thus that the world of innovation and secondary liability keeps changing. Vested property rights remain in need of protection as does the future. Recent cases represent a step in the right direction to achieve balance along the path toward a sustainable future.<sup>282</sup>

---

282. But see, *Columbia Pictures Industries, Inc., v. Gary Fung*, 447 F.Supp.2d 306 (S.D. New York 1006). Could this simply be one step forward and two steps back or is this consistent with focus on behavior to preserve the public benefit of the underlying technology?

