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Legal Realism in Action: Indirect Copyright Liability's Continuing Tort Framework and *Sony's* de facto Demise

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Abstract

The Supreme Court's indirect copyright liability standard, derived in *Sony Corporation of America v. Universal City Studios* from patent law and reasserted in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, is widely seen as creating a safe harbor for distributors of dual use technologies. Yet, when one looks to cases decided since *Sony*, legislative enactments, and the decisions of technology companies in the marketplace, a very different reality emerges. This article explores and explains the broad gulf between the idealized (and idolized) *Sony* safe harbor and the practical reality. It shows that the law in many respects reflects the tort principles that undergird copyright liability more generally.

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© 2007 by Peter S. Menell & David Nimmer. This article constitutes the second in a series. The first has already been published. See n.10 *infra*. The final installment is forthcoming. See n.211 *infra*.

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VI. Facing the Future

The Supreme Court's indirect copyright liability standard, announced in *Sony Corporation of America v. Universal City Studios*,¹ is widely seen as creating a safe harbor for distributors of dual use technologies.² By immunizing from contributory liability manufacturers of any technology that is "merely ... capable of substantial noninfringing use,"³ the decision has come to be viewed as the "Magna Carta" of both "product innovation"⁴ and the "technology age."⁵ "Consumer electronics and computer makers see this ruling as having protected the development and sale of everything from Apple Computer's iPod to an ordinary PC."⁶ The Supreme Court's recent unquestioning reliance on *Sony* to address the challenges of the digital age in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*⁷ reinforces this perception.

Yet, when one looks to cases decided since *Sony*, legislative enactments, and the decisions of technology companies in the marketplace, a very different reality emerges. With but one exception⁸ (itself effectively overruled by later amendment),⁹ no reported decision has found

¹ 464 U.S. 417 (1984).

² See generally Pamela Samuelson, *The Generativity of Sony v. Universal: The Intellectual Property Legacy of Justice Stevens*, 74 *Fordham L. Rev.* 1831 (2006).

³ 464 U.S. at 442.

⁴ See Randal Picker, *Rewinding Sony: The Evolving Product, Phoning Home, and the Duty of Ongoing Design*, 55 *Case Western* 749, 753 (2005).

⁵ See Jessica Litman, *The Sony Paradox*, 55 *Case Western Reserve L. Rev.* 917, 951-60 (2005); Roger Parloff, *The Real War Over Piracy: From Betamax to Kazaa, A legal battle is raging over the "Magna Carta of the Technology Age,"* *Fortune Magazine*, October 27, 2003, at 148; Samuelson, *supra* n.2.

⁶ See John Borland, *File Swapping vs. Hollywood*, *CNET News.com* (Jan. 25, 2005) http://news.zdnet.com/2100-9588_22-5548781.html. The "ordinary PC" actually predates *Sony* by several years. See Andrew Pollack, *Big I.B.M.'s Little Computer*, *N.Y. Times D1* (Aug. 13, 1981).

⁷ 125 S.Ct. 2764 (2005).

⁸ See *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988).

the *Sony* safe harbor to immunize a technology company accused of indirect liability. In fact, the developers and distributors of Napster, Aimster, Grokster, Morpheus, and KaZaAa—peer-to-peer systems that have non-infringing uses—have all been held liable for contributory infringement, *Sony* notwithstanding. Nor has Congress adhered to *Sony*, expanding copyright liability to reach technologies that are capable of dual use. Technology companies (YouTube, BitTorrent, TiVo, ReplayTV) behave as though they bear responsibility for system designs that create an unreasonable risk of copyright infringement by users of their technology.

This article explores and explains the broad gulf between the idealized (and idolized) *Sony* safe harbor and the practical reality. As explicated in a prior article,¹⁰ the Supreme Court made several critical mistakes in its *Sony* decision by importing patent law’s “staple article of commerce” safe harbor into copyright law. Traditional principles of statutory construction, the legislative history of the Copyright Act of 1976, and copyright jurisprudence pointed in the direction of tort principles. Such principles would have yielded the same result—shielding Sony from liability based on the unavailability of any reasonably available alternative design for its video cassette recorder—but would have provided a better framework for balancing innovation and copyright protection.

This article shows that the logic of that approach has crept back into copyright law and practice, notwithstanding the nominal obeisance that courts and commentators continue to pay *Sony*.¹¹ A close look at the judicial, legislative, and market reactions to the case reveals that the shift from tort law to patent standards has been essentially cosmetic. The reality remains closer to the tort law framework that has long provided the basis for copyright law's indirect liability jurisprudence.

I. Framing the Investigation

In a moment, we will confront the tort history for determining indirect liability under copyright law¹² and the severe turn that the Supreme Court took by adverting to patent law in 1984.¹³ Before delving into those details, it is useful to frame the broader picture. Specifically, what has come of *Sony*’s “staple article of commerce” doctrine in the more than two decades since the decision was rendered?

Turning first to the *legislative* response to the *Sony* decision, Congress did not rush in either to “save” the motion picture industry or to “correct” the Supreme Court’s wrong turn.¹⁴

⁹ See Digital Millennium Copyright Act, Pub. L. 105-304, 112 Stat. 2860 (Oct. 28, 1998), adding 17 U.S.C. §§ 1201(a)(2); 1201(b)(1) (imposing liability on companies trafficking in decryption keys that circumvent technological protection measures).

¹⁰ See Peter S. Menell and David Nimmer, *Unwinding Sony*, ___ Cal. L. Rev. ___ (2007) (hereinafter cited as “*Unwinding Sony*”).

¹¹ See generally Brian Leiter, “American Legal Realism,” in *The Blackwell Guide to Philosophy of Law and Legal Theory* (W. Edmundson & M. Golding, eds., 2003) (“judges respond primarily to the underlying facts of the cases, rather than to legal rules and reasons”).

¹² See part II.A *infra*.

¹³ See part II.C *infra*.

¹⁴ See part III *infra*.

For Congress is a, political, over-extended, agenda-driven institution. Although it engages at times in deliberative efforts to update and systematically revise laws, as was the case with the Copyright Act of 1976, more often it deals with the salient matters of the day rather than fixing problems that may never manifest.¹⁵ Therefore, it is not surprising that Congress did not directly reconsider whether the *Sony* “staple article of commerce” rule comported with the 1976 Act and revise it accordingly. The outcome of the *Sony* case comported with a proper interpretation of the Copyright Act of 1976 and the views of a significant majority of Americans and legislators. Following the decision, movie studios lobbied Congress for imposition of a levy on VCRs and tapes and a video rental right, to no avail. As the digital age dawned in the late 1980s and 1990s, however, Congress enacted two pieces of legislation that contradict and at least partially overrule the broad safe harbor that *Sony* read into the Copyright Act of 1976. Anachronistically viewed, these enactments cast doubt on the *Sony* majority’s bold assertion that Congress intended blanket immunity for those who manufacture and distribute products that are merely capable of substantial non-infringing use. Yet they do not address the more general question whether Congress (either as of 1976 or as of those later amendments) supports the “staple article of commerce” safe harbor under copyright law. So the legislative record fails to definitively resolve *Sony*’s status.

Turning next to the *judicial* response, from 1984 until 2000, the Supreme Court’s “staple article of commerce” holding received little judicial attention.¹⁶ The situation changed dramatically in 2000, in the aftermath of *Napster* and the peer-to-peer revolution. The discussion below examines the trio of digital age peer-to-peer technology cases – *Napster*, *Aimster*, and *Grokster* (that last in its pre-Supreme Court instantiation)¹⁷ – to glean the vitality of copyright law’s “staple article of commerce” doctrine.¹⁸ Although none directly countermands the “staple article of commerce” rule, each imposes liability on parasitic business models notwithstanding that each all those models plausibly facilitated both actual and potential noninfringing use. In varying degrees, these decisions avoid the broad implications of *Sony* in order to restore some of the balance and dynamism that Congress intended in the liability provisions of the 1976 Act. Nonetheless, the manner in which the courts have achieved this equipoise was neither direct nor candid, resulting in an undesirable muddling of the law.

The last inquiry examines the *marketplace* effects of *Sony*.¹⁹ It surveys the business, and strategy decisions in consumer electronics and computer marketplace over the two decades following *Sony*. Although there is reason to believe that the case exerted some restraining influence on content industries, it would be an exaggeration to conclude that technology companies have enjoyed broad immunity from litigation or that other approaches to indirect liability – whether the *Sony* dissent’s “primary use” test or the tort-based “reasonable alternative

¹⁵ Nonetheless, political clout has at times induced Congress to adopt amendments to the Copyright Act regarding problems that never manifested, with unfortunate results. See David Nimmer, *Codifying Copyright Comprehensibly*, 51 *UCLA L. Rev.* 1233, 1327-44 (2004).

¹⁶ See part IV.A *infra*.

¹⁷ The final installment of this trilogy focuses on the Supreme Court version of *Grokster*. See n.211 *infra*.

¹⁸ See part IV.B *infra*.

¹⁹ See part V *infra*.

design” (“RAD”) framework²⁰ – would have resulted in substantially different market outcomes. In fact, the pattern since the *Sony* decision shows greater resemblance to a RAD-based regime than to a broad “staple article of commerce” safe harbor.

In light of these considerations, how should *Sony*’s “staple article of commerce” doctrine be understood? At one extreme, the Supreme Court’s decision could be read as splicing section 271(c) of the Patent Act directly into the Copyright Act for all future cases. At the other, the decision could be understood solely as resolving Sony Corporation’s indirect liability as of 1984, leaving future courts free to interpret the Copyright Act as needed to resolve the issues posed by later technologies. If the rule were limited to the specific facts, the concerns raised herein would be of only historical significance. But notwithstanding the *Sony* majority’s professed caution in drawing upon a provision of another statute in interpreting supposed silence in a later enactment, the “staple article of commerce” rule that the Court adopted holds broad ramifications for the digital age. Digital technology industries have contended that this was all for the good, applauding the “freedom to invent” that the “staple article of commerce” principle promotes.²¹ Content industries have worried that such immunity for foreseeable, potentially rampant harms threatens to disrupt important markets and to hamper artists’ and producers’ ability to distribute their works through the most effective channels.

Subsequent history supports the wisdom of the *Sony* outcome at the same time that it vindicates both the hopes of the technology industries and the fears of the content industries. Rather than destroy the film industry – as Jack Valenti infamously predicted²² – the VCR proved a great boon to motion picture studios, consumer electronics makers, and consumers alike.²³ In little more than a decade after the Court ruled, the sale and rental of videotapes eclipsed box office revenues.²⁴ Although a contrary result in *Sony* might possibly have led to the development of a market for playback-only video devices or a licensing framework, it seems unlikely that consumers would have adopted that hypothetical technology nearly as fast as they actually purchased VCRs, fueling the rapid expansion of the video sale and rental marketplace in the mid- to late 1980s. Contrary to the studios’ dire predictions, the VCR did not harm the

²⁰ See part II.B *infra*.

²¹ “Consumer electronics and computer makers see th[e *Sony*] ruling as having protected the development and sale of everything from Apple Computer’s iPod to an ordinary PC.” John Borland, *File Swapping vs. Hollywood*, C|Net News.com (Jan. 25, 2005).

²² See *Home Recording of Copyrighted Works: Hearings Before the H. Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the Comm. on the Judiciary, 97th Cong. 8 (1982)* (statement of Jack Valenti) (suggesting that “the VCR is to the American film producer and the American public as the Boston strangler is to the woman home alone.”).

²³ See part III.A *infra*.

²⁴ See Harold L. Vogel, *Entertainment Industry Economics: A Guide for Financial Analyses*, Book 62 (5th ed. 2001); see also Lauren Lipton, *VCR (Very Cool Revolt); Home-Taping Habits Are Lagging Behind Original Predictions*, L.A. Times, TV Times p.2 (Aug. 4, 1991) (reporting that use of VCRs to record television programming had dropped significantly and just 11% of households with VCR are responsible for more than half of all the taping that occurs).

motion picture industry. Yet at the same time, new forms of digital technology – such as largely anonymous peer-to-peer distribution systems – have disrupted content markets and complicated the roll-out of vast libraries of content.²⁵ The *Sony* safe harbor has spawned an environment in which some technologists design software and products based not on what is socially optimal – in terms of balancing functionality against adverse impacts – but rather on how to avoid liability for clearly foreseeable and manageable harms.²⁶

This article is agnostic regarding which advocates are closer to the truth. For reasons previously explained,²⁷ we endorse the outcome of the *Sony* case at the same time that we question the jurisprudential basis for the Supreme Court’s importation into copyright law of a broad safe harbor from patent law.²⁸ Although Congress’ intention on the issue of indirect copyright liability as of adoption of the 1976 Act was inchoate with regard to the challenges of the digital age, the tort principles that have guided copyright law since its inception should continue to guide copyright’s further evolution. Although concededly possible, it would be purely adventitious for the Supreme Court’s unsystematic analysis in the *Sony* case in 1984 to

²⁵ See part IV.B *infra*.

²⁶ See part V.C *infra*. Using *Sony* as a guide, counsel to one of the *Grokster* defendant offered the following checklist for designing peer-to-peer software enterprises to avoid liability:

Can you plausibly deny what your users are up to? . . .

Have you built a level of 'plausible deniability' into your product architecture? If you promote, endorse, or facilitate the use of your product for infringing activity, you're asking for trouble. . . . Software that sends back user reports may lead to more knowledge than you want. Customer support channels can also create bad "knowledge" evidence. Instead, talk up your great legitimate capabilities, sell it (or give it away), and then leave the users alone.

Disaggregate functions . . . In order to be successful, peer-to-peer networks will require products to address numerous functional needs — search, namespace management, security, dynamic file redistribution, to take a few examples. There's no reason why one entity should try to do all of these things. . . .

This approach may also have legal advantages. If Sony had not only manufactured VCRs, but also sold all the blank video tape, distributed all the TV Guides, and sponsored clubs and swap meets for VCR users, the *Betamax* case might have turned out differently. . . . A disaggregated model, moreover, may limit what a court can order you to do to stop infringing activity by your users.

Fred von Lohmann, Electronic Frontier Foundation, “IAAL [I am a Lawyer]: What Peer-to-Peer Developers Need to Know about Copyright Law”, § V.7 (December 2003) (http://www.eff.org/IP/P2P/p2p_copyright_wp.php).

²⁷ See *Unwinding Sony*, *supra* n. ___, at ___.

²⁸ See Part II *infra*.

have determined the optimal public policy for dramatic new technologies developing in 2007 and future years. Therefore, until Congress itself is prepared to surmount the challenges of the digital age by legislating direct solutions geared to its challenges, we believe that the traditional tort framework offers a balanced and dynamic mechanism for addressing the many challenges of adapting copyright law to new technology.

II. Tracing the Evolution of Indirect Copyright Liability

Before considering reactions to *Sony*, it is necessary first to recall the backdrop against which the Supreme Court rendered its decision. This section highlights the Supreme Court's error in framing the indirect liability standard. It concludes by sketching the framework that the Court would have enunciated had it properly considered the legislative and jurisprudential moorings of indirect copyright liability.

A. The Tort Law Wellspring

The first installment in this series meticulously reviewed the forces leading up to the Supreme Court's *Sony* decision.²⁹ *Sony*'s importation of patent law's "staple article of commerce" doctrine rested on the critical inference that a "historic kinship between patent and copyright" justifies looking to patent law to address an analogous issue under copyright law. *Sony*'s lead counsel actually planted the seed in the district court proceedings of importing patent law's staple article of commerce doctrine into copyright law. Lacking experience with copyright law, facing a complex, recently enacted statute and even more daunting case law, and sensing the unprecedented nature of the plaintiffs' assertion of liability, Judge Ferguson found that suggestion enticing.

Eventually, the Supreme Court followed suit. The grand compromise that produced the Supreme Court majority did not turn on analytic review of the statute, its legislative history, or copyright jurisprudence. Rather, it reflected a loose and expedient policy determination that copyright law should follow the patent law model. The task was left to Justice Stevens, as craftsman of the majority opinion, to come up with a rationale for importing patent law—even though he himself had previously favored an alternative manner of resolving the case.³⁰ But his inference of a "historic kinship" between the two regimes fails to stand up to historical and jurisprudential scrutiny.

Sony's majority bolsters its critical "historic kinship" rationale by citing three cases.³¹ The first two deal simply with the "asset" nature of copyrights—one was an antitrust suit under

²⁹ See Unwinding *Sony*, supra n. ___.

³⁰ Justice Stevens previously stated that the case should be resolved by finding an implied immunity for home recording buried within the legislative history of the Sound Recording Act of 1971 and the Copyright Act of 1976. See Letter from Justice John Paul Stevens to Justice Harry A. Blackmun (Jan. 24, 1983).

³¹ 464 U.S. at 439 n.19, citing *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 131 (1932); *Wheaton v. Peters*, 8 Pet. 591, 657-658 (1834).

the Sherman Act charging studios with monopolizing the production of motion pictures,³² the other a tax case, testing whether copyrights, being instrumentalities of the United States, were subject to the power of state authorities to collect taxes on gross receipts of royalties.³³ Neither addresses the contours of copyright protection, nor supports determining the scope of copyright liability by reference to patent law. The third case is weaker still, merely standing for the proposition that non-statutory (common law) doctrines of patent law track non-statutory considerations applicable to copyright law.³⁴ Far from bolstering the proposition that a feature of statutory law can be read from patent onto copyright law, that case instead shows fidelity to “a strict conformity to the law” by which Congress enacted each area of law.³⁵ That holding therefore undercuts *Sony*’s later overlay of the patent statute as enacted on top of the different copyright enactment of a copyright statute.

As opposed to an “historic kinship,” investigation reveals that both copyright and patent law grew out of the common wellspring: tort law. As far back as 1869, courts recognized that “[r]ights secured by copyright are property within the meaning of the law of copyright, and whoever invades that property beyond the privilege conceded to subsequent authors commits a tort . . .”³⁶ Thus, there was nothing new when the Second Circuit observed in 1923 that “[c]opyright infringement is a tort.”³⁷ Courts looked to the law of torts as the wellspring for determining the boundaries of copyright liability—in the process invoking a panoply of familiar tort doctrines. From the late 19th century through the passage of the 1976 Act, courts developed copyright liability based on general tort principles, such that indirect copyright doctrines emerged in tort law’s image:

- *respondeat superior*. In *M. Witmark & Sons v. Calloway*,³⁸ a music publisher brought suit against a theater owner who employed a person to select copyrighted music to be publicly performed on a player piano. The court held the owner liable, even though the employee’s acts may have been done against orders.³⁹
- vicarious liability. The courts would ensnare dance hall operators within the net of indirect liability due to their ability to control the use of their facilities (even by independent contractors) and derive profit from the illegal activity.⁴⁰ In *Shapiro*,

³² 334 U.S. at 140.

³³ 286 U.S. at 126.

³⁴ 8 Pet. at 657-58.

³⁵ 8 Pet. at 663-640.

³⁶ *Lawrence v. Dana*, 2 Am. Law T. Rep. (N.S.) 402 (C.C.Mass. 1869).

³⁷ *Ted Brown Music Co. v. Fowler*, 290 F. 751, 754 (2d Cir. 1923).

³⁸ 22 F.2d 412 (E.D. Tenn. 1927).

³⁹ *Id.* at 414.

⁴⁰ *Dreamland Ball Room v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929). The Supreme Court gave its imprimatur to such indirect liability in *Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 198-99 (1931); later rulings extended this doctrine. See *Buck v. Newsreel, Inc.*, 25 F.Supp. 787 (D.C. Mass. 1938); *Buck v. Crescent Gardens Operating Co.*, 28 F.Supp.

Bernstein & Co. v. H.L. Green Co.,⁴¹ the Second Circuit held liable a chain of department stores that leased a record concession to the direct infringer, who manufactured and sold bootleg recordings of copyrighted musical compositions. The lease based rental fees on the lessee's gross revenues. Notwithstanding the direct infringer's independent contractor/lessee status, the court expanded indirect copyright liability to reach the profit participant.⁴²

- contributory liability (including inducement). The Supreme Court recognized contributory copyright infringement in 1908,⁴³ embroidering on that ruling three years later in *Kalem Co. v. Harper Brothers*,⁴⁴ where defendant had prepared a motion picture based upon plaintiff's copyrighted novel, *Ben Hur*. Because then-applicable copyright law barred only the dramatization of the copyrighted work,⁴⁵ direct copyright liability could only be asserted against those who publicly performed the work. Therefore, the copyright owner proceeded against the makers of the unauthorized film under a contributory infringement theory, and prevailed on that basis.⁴⁶ The Second Circuit further delineated the standards for contributory copyright liability in *Gershwin Publ'g Corp. v. Columbia Artists Mgt.*,⁴⁷ imposing liability on a talent promotion agency that knowingly booked performances in venues lacking public performance licenses. The court succinctly captured the elements of contributory copyright liability: "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."⁴⁸

Thus, the law of indirect copyright liability was firmly established by the 1970s. Courts had drawn on the principles of tort liability and the policies of the copyright system to weave a sophisticated web of indirect liability doctrines addressing the distinctive challenges of enforcing copyright law.

The 1976 Act expressly extended the reach of copyright protection to indirect infringers by stating that liability applied not only those who "do" infringing acts but also those who "authorize" such acts.⁴⁹ The legislative history clarifies that Congress intended to perpetuate in

576, 578 (D. Mass. 1939); *KECA Music, Inc. v. Dingus McGee's Co.*, 432 F.Supp. 72 (W.D. Mo. 1977).

⁴¹ 316 F.2d 304 (2d Cir. 1963).

⁴² *Id.* at 307.

⁴³ See *Scribner v. Straus*, 210 U. S. 352 (1908).

⁴⁴ 222 U.S. 55, 62-63 (1911).

⁴⁵ See Rev. Stat., § 4952, as amended by the act of March 3, 1891, c. 565, 26 Stat 1106.

⁴⁶ 222 U.S. at 62-63.

⁴⁷ 443 F.2d 1159 (2d Cir. 1971).

⁴⁸ *Id.* at 1162.

⁴⁹ See 17 U.S.C. § 106.

its comprehensive reform previous indirect copyright doctrines as well as incremental application of general tort principles. The Senate and House Reports refer specifically to the law of torts: “where the work was infringed by two or more joint tortfeasors, the bill would make them jointly and severally liable.”⁵⁰ They also directly reference indirect liability standards. In explaining the general scope of copyright, the House Report recognizes both contributory liability⁵¹ and vicarious liability.⁵² Those citations cement Congress’ intent to preserve the tort principles that courts had developed under prior copyright regimes.

B. "Reasonable Alternative Design"

What principles of tort law apply to manufacturers and distributors of technologies that can cause harm? Someone who profits from activities that cause harm and is in a good position to supervise those activities can be held responsible in various contexts. One manifestation of this principle, just noted, is *respondeat superior*. Another emerges from products liability—the body of law intended to promote safe product design while balancing incentives to innovate, manufacture, and distribute products that have beneficial uses. Product manufacturers can reduce harm through better design, quality control in manufacturing and testing, and the instructions that they provide for use of products. Though its roots trace back centuries, it reached full fruition in this country by the early 1960s, when courts

recogniz[ed] that a commercial seller of any product having a manufacturing defect should be liable in tort for harm caused by the defect regardless of the plaintiff’s ability to maintain a traditional negligence or warranty action. Liability attached even if the manufacturer’s quality control in producing the defective product was reasonable. A plaintiff was not required to be in direct privity with the defendant seller to bring an action.⁵³

⁵⁰ S. Rep. No. 94-473 (“S. Rep.”) at 144; H.R. Rep. No. 94-1476 at 61 (“H. Rep.”) at 162 (same; but spelling “tortfeasors” as one word); see Reg. Supp. Rep. at 136.

⁵¹ The exclusive rights accorded to a copyright owner under section 106 are ‘to do and to authorize’ any of the activities specified in the five numbered clauses. *Use of the phrase ‘to authorize’ is intended to avoid any questions as to the liability of contributory infringers.*

H. Rep., p.61 (emphasis added).

⁵² To be held a related or vicarious infringer in the case of performing rights, a defendant must either actively operate or supervise the operation of the place wherein the performances occur, or control the content of the infringing program, and expect commercial gain from the operation and either direct or indirect benefit from the infringing performance. The committee has decided that no justification exists for changing existing law, and causing a significant erosion of the public performance right.

Id. at 159-60.

⁵³ Restatement (Third) Torts: Products Liability § 1 comment a (1998).

Under the most recent codification, a product is defective in design when its foreseeable risks of harm could have been reduced or avoided through the adoption of a reasonable alternative design by the seller or other distributor, or a predecessor in the commercial chain of distribution, and the omission of the alternative design renders the product not reasonably safe.⁵⁴ Imposing upstream liability for such effects creates valuable ongoing incentives to prevent and reduce harm. The risk of downstream liability encourages manufacturers to take appropriate precautions. It also reduces the consumption of unreasonably risky products by increasing their cost, making them less competitive in the marketplace.⁵⁵

To illustrate, a defective bolt in an automobile braking system can cause harm long after it is made and many miles down the road. By imposing liability on the manufacturer, the law forces automobile equipment manufacturers, as well as those who inspect the product along the stream of commerce, to internalize the harm at the most efficacious points in time. Even if the bolt was properly manufactured, it might have been better for the manufacturer to have used an alternative design. Such judgments, however, are inherently speculative. Products are not defective merely because they are dangerous. Automobiles that could travel no more than 20 miles per hour would undoubtedly reduce the number and severity of accidents, but not without substantial social cost. Design defectiveness entails a multi-faceted balancing of risk and utility.⁵⁶ This entails examination of the magnitude and probability of the foreseeable risks of harm, the instructions and warnings accompanying the product, the nature and strength of consumer expectations regarding the product, production costs of alternative designs, and attributes of the alternative design (product longevity, maintenance, repair, and aesthetics).⁵⁷

Further, it would be unduly burdensome to require product manufacturers to prove that their products embody the most appropriate design. Rather, courts require *plaintiffs* to establish the feasibility, as of the time of manufacture, of a reasonable alternative design that would have reduced the foreseeable risks of harm. In essence, plaintiffs must show that a RAD was reasonably foreseeable to product manufacturers. In this way, the legal standard has a dynamic quality, the threshold for precaution rising with technological advance.⁵⁸

C. *Sony* Overlay

1. RAD Redux

Plaintiffs in *Sony* sought to pursue a design defect theory through testimony from an engineer that Sony could have designed its VCR to record only programs broadcast with authorization to make copies. Putting aside technical details – as well as the need to coordinate among many industry players and problems of circumvention – such evidence would have been relevant to prove the availability of an alternate design. The questions would remain: Was that

⁵⁴ *Id.* § 2.

⁵⁵ See Guido Calabresi, *The Cost of Accidents* 68-75 (1970).

⁵⁶ See David Owen, *Toward a Proper Test for Design Defectiveness: "Micro-Balancing" Costs and Benefits*, 75 *Tex. L. Rev.* 1661 (1997).

⁵⁷ See Restatement (Third) of Torts: Prod. Liab. § 2 comment f (1998).

⁵⁸ See *id.* comment a.

alternative design then “available”? Could plaintiffs convincingly demonstrate that reduction in risk of harm outweighed the loss in utility?

Our previous analysis showed that technically feasible design alternatives available to Sony at the time of the litigation (e.g., banning remote control devices, blocking the fast forward feature) would not have been justified based on product liability law’s risk/utility trade-off. Such design changes would have unduly impaired legitimate uses of VCRs (such as time-shifting) without significantly reducing potential illegal uses (archiving of programming).⁵⁹ Other design changes (e.g., squelching commercial-skipping, preventing videotaping of broadcasts for which copyright owners opposed home copying) were not reasonably available and might also have failed the risk/utility trade-off by dramatically increasing costs or unreasonably impairing fair uses. Therefore, presented with tort theory on the record then available, the Court should have determined that plaintiffs’ hypothetical “reasonable alternative design” theory was incapable of being sustained. For the reasons previously canvassed, it seems highly unlikely that the *Sony* plaintiffs could have met their burden under pertinent tort principles.

Thus, under the proper RAD regime, Sony would not have been subject to indirect liability for the Betamax. It did not engage in concerted conduct with direct infringers. There were no reasonable alternative designs for its device that offered sufficient reductions in risk of (and harm from) infringement to counterbalance the demonstrable and significant loss in legitimate uses of the Betamax device. For that reason, the outcome of the case was correct even though the test it promulgated was flawed.

2. The Seeds of Confusion

In reaching its *Sony* decision, the Supreme Court turned not to tort law but to patent law. That resolution has produced unnecessary distortion in copyright doctrine. The succeeding sections of this article track the deviation and the pressure to hew back to traditional tort principles. Proponents view the *Sony* decision as the “Magna Carta” of both “product innovation”⁶⁰ and the “technology age.”⁶¹ By contrast, the survey that follows of subsequent developments reveals *Sony* as less epochal.

Meanwhile, the transition from the analog age in which the *Sony* case arose to the current digital age has only made more pressing the question of what standards should govern design of products that can be used to infringe copyrights. For, as of 1984, designers could select from far fewer variables. In today’s digital age, geometrically more ways exist to monitor and control products. The law should exert every effort to produce optimal results.

We need to focus on the process of product evolution, the choices that designers make regarding their ability to evolve the product in light of evolving use and who should have a stake in controlling that evolution. *** To be extreme, imagine a product that will create \$10 million worth of beneficial noninfringing uses and only \$100 in harmful infringing uses. This is a wonderful product. But if we could spend \$5 for a modified

⁵⁹ The Supreme Court did not directly resolve whether archiving was fair use.

⁶⁰ See Picker, *supra* n.4, at 753.

⁶¹ See Litman, *supra* n.5, at 951-60; Parloff, *supra* n.5, at 148.

design that would keep the same benefits while eliminating the harmful infringing uses, we should do so.⁶²

At the same time, a heavy burden must rest on plaintiffs to show that an alternative design was reasonably foreseeable to product manufacturers whose works are later shown to impinge on copyrights.⁶³ The interests of the law should be neither to punish manufacturers for lacking clairvoyance nor to saddle them with all the externalities that have adventitiously ensued from their chosen design; it is simply to encourage responsible behavior when those design decisions are reached.

III. The Legislative Response to *Sony*'s "Staple Article of Commerce" Doctrine

Sony's "staple article of commerce" doctrine derives from patent standards immunizing dual use technology from indirect liability. The doctrine rests on the proposition that dual use technology should be sacrosanct: so long as a device is suitable for substantial non-infringing use, the law errs on the side free competition, leaving aggrieved patent owners with recourse against direct infringers. The *Sony* Court hitched copyright law to this wagon without assessing Congress' intent when comprehensively reforming the Copyright Act just eight years earlier *sans* any parallel safe harbor, the tort framework that had long undergirded copyright law's liability regime, or the policy considerations (enforcement costs and competition effects) bearing on such transplantation to the copyright system. This section examines whether Congress has since spoken to the proper test for indirect copyright liability. Although the legislature neither directly endorsed nor repudiated the *Sony* ruling, its subsequent actions (and inaction) reveal that Congress does not consider dual use technology to be sacrosanct in the context of copyright law.

A. Royalty and Rental Legislative Initiatives

The legislative wheels started spinning even before *Sony* reached the Supreme Court. A day after the Ninth Circuit's decision declaring the Betamax in violation of copyright law, Representative Stanford Parris introduced an amendment to the Copyright Act declaring that noncommercial home use of a video recorder falls within the fair use defense.⁶⁴ Within the next month, consumer electronic manufacturers formed the Home Recording Rights Coalition (HRRC), a lobby focused on issues surrounding home taping.⁶⁵ By month's end, HRRC had persuaded a bipartisan group of senators to introduce similar legislation and the Senate convened an exploratory hearing.⁶⁶

⁶² Picker, *supra* n.4, at 766.

⁶³ See part II.B *supra*.

⁶⁴ See Andrew Pollack, Video Recorder Sales Go on N.Y. Times D5 (Oct. 21, 1981); H.R. 4408, 97th Cong., 1st. Sess. (1981).

⁶⁵ See Home Recording Rights Coalition, History - Chronology 1980's <http://www.hrrc.org/history/1980.html>

⁶⁶ See PR Newswire (Nov. 30, 1981); S. 1758, 97th Cong., 1st. Sess. (1981).

Sensing the public outcry over the Ninth Circuit's decision and seeing the momentum building to undo its victory, the MPAA quickly mobilized to get its justification out to the public and its legislative proposals before Congress. The recording industry also threw its hat into the legislative arena. Citing rising rates of unauthorized copying through the use of cassette tape recorders, the record companies joined forces with the MPAA. Senator Mathias and Representative Edwards introduced amendments that would impose royalties on sales of recording equipment and blank video/audio tapes.⁶⁷ The bill also barred rental, leasing, or lending of a video recording without the copyright owner's permission.

This latter provision portended significant economic consequences for the burgeoning retail video marketplace. By the early 1980s, the studios were selling a growing segment of their catalog into the video stream of commerce. Several million U.S. households owned VCRs and the video rental business had become an established part of the landscape. The studios were, however, disappointed by their relatively small share of the revenue from the video marketplace. They identified the "first sale" doctrine⁶⁸ – which allows the purchasers of copyrighted works to rent, sell, or otherwise transfer the purchased copy – as the culprit.⁶⁹ If they charged a high price for videos, the market was confined largely to video rental stores, resulting in relatively low sales volume. If they moderated their price, sales increased but much of the value flowed to video retailers who benefited from the lower prices while continuing to earn the same rental fees. Efforts to restrict the retailers' activities through contract proved unworkable as retailers resold the tapes, free and clear of restrictions, to other video rental stores, which could then rent them out. Thus, the film industry sought to address this problem through an amendment to exclude videos from the first sale provision.⁷⁰

The Supreme Court's grant of certiorari in *Sony* relieved some of the pressure on members of Congress to confront such a divisive issue. The battle, however, continued to rage, each camp hiring powerful lobbyists to press their cause on both sides of the legislative aisle.⁷¹ The net result was stalemate, with no legislation emerging from the respective committees during the 97th Congress.

⁶⁷ H.R. 5707, 97th Cong., 2d Sess. (1982); see Michael Wines, Entertainment Industry Wants Congress To Make a Federal Case of Home Taping, 14 National J. 813 (May 8, 1982).

⁶⁸ 17 U.S.C. § 109. Note that the moniker is imprecise, inasmuch as "first sale" is not technically a prerequisite to its invocation. See 2 NIMMER ON COPYRIGHT § 8.12[B][1][a] (noting that more accurate description would be "first authorized disposition by which title passes").

⁶⁹ See Home Truths for Hollywood, *The Economist* 78 (U.S. Edition p. 72) (Jul. 30, 1983).

⁷⁰ See Copyright Draft Faces Major Problems, 106 Broadcasting 64 (May 28, 1984).

⁷¹ See Howie Kurtz, Chariots for Hire; The Full-Blown! Multimillion Dollar! Lobbying War! For the Affections of Congress! In Search of Videoland Gold!, *Wash. Post* B1 (Jul. 4, 1982).

Versions of both bills reemerged at the beginning of the 98th Congress.⁷² Competing studies and intensive lobbying again produced stalemate on the royalty proposals. By the end of 1984, however, the recording industry had achieved partial success, persuading Congress to exclude sound recordings from the first sale doctrine. By that time, it became apparent that the rental of phonorecords by record stores posed a threat to the viability of the record industry. Many households owned cassette players that could be patched directly into a phonograph. A growing number of record stores were renting phonorecords for 24 to 72 hour periods for fees of \$.99 to \$2.50 per disc, often at the same time selling blank audio cassette tapes.⁷³ Most people obtaining phonorecords by rental did so for the purpose of making audio tape reproductions of the rented material. As this practice became more prevalent, sales of phonorecords by the record companies would be impaired. Indeed, one record store audaciously advertised: “Never, ever buy another record.”⁷⁴ In order to meet this threat to the record industry, Congress adopted the Record Rental Amendment of 1984,⁷⁵ amending the first sale doctrine to bar rental of sound recordings except for nonprofit purposes by nonprofit libraries and educational institutions.⁷⁶

The film industry’s parallel legislative initiative failed for political and substantive reasons. In opposing restrictions on the use of home recording equipment, the HRRC mobilized the growing number of retail rental establishments.⁷⁷ They marshaled evidence that consumers rarely made copies of the videos they rented, instead typically watching them once. They also blunted the argument that rentals displaced sales, which had led to the Record Rental Amendment of 1984; relatively few consumers would pay \$30 or \$40 to own a video which they watched only once, whereas the record industry was built on consumers owning a phonorecord.

After the Supreme Court’s *Sony* decision, it became increasingly apparent that, rather than being harmed, the film industry was deriving a sizable and growing portion of revenue from the sale of prerecorded videotapes. Thus, the royalty-based bailout strategy was not destined to fly. But the industry still held out hope of capturing a greater share of the money flowing into the marketplace by obtaining greater leverage over the retail rental business. A limitation on the first sale doctrine for prerecorded videos would serve that goal. By this time, though, the HRRC was well-positioned to counter this initiative through a true grassroots campaign. Their efforts over the previous two years had mobilized the Video Software Dealers Association, a large and

⁷² See *The Bills Are Back*, 104 *Broadcasting* 33 (Jan. 31, 1983).

⁷³ See H.R. Rep. No. 98-987, 98th Cong., 2d Sess. 2 (1984).

⁷⁴ See *id.*

⁷⁵ Act of Oct. 4, 1984, Pub. L. No. 98-450, 98 Stat. 1727.

⁷⁶ A half-dozen years later, Congress extended the rental ban to computer software. See *Computer Software Rental Amendments of 1990*, Pub. L. No. 101-650, 101st Cong., 2d Sess., 104 Stat. 5089, 5134-37 (1990) (codified at 17 U.S.C. §109(b)). As compared to the phonorecord situation in 1984, “the evidence is even more compelling in the case of software.” H.R. Rep. No. 101-735, 101st Cong., 2d Sess. 8 (1990) (\$495 software rented for \$35).

⁷⁷ See James Lardner, *Fast Forward: A Machine and the Commotion it Caused* 222-27 (rev. ed. 1987).

growing nationwide organization, to resist any effort to subject video rentals to the control of copyright owners.⁷⁸ By the end of the 1984, the film industry abandoned its legislative effort in this arena as well.

B. The Audio Home Recording Act

Nonetheless, the recording industry did not abandon its drive for new legislation. It continued to press for the imposition of a royalty on recording equipment and blank tapes. By 1985, the compact disc format (CD), offering unprecedented sound quality, was gaining momentum in the marketplace. With many households owning cassette recorders, the recording industry urged the adoption of legislation to stem the losses from home taping.⁷⁹ This strategy formed part of a global campaign that ultimately achieved imposition of levies in much of Europe and Australia.⁸⁰ But with record labels earning healthy returns, Senator Metzenbaum challenged the industry at a 1985 hearing to substantiate its claims of economic threat.⁸¹ Congress ultimately deferred the issue while asking its Office of Technology Assessment to compile a comprehensive study on the effects of home copying on the record industry.⁸² Record industry profits soared in the next few years as CD technology took off,⁸³ weakening the case for imposing levies. The legislative momentum stalled and the proposal died in the legislative committees.

Yet a little more than a year later, the cycle of history started anew.⁸⁴ The sound recording industry again knocked on Congress' door, following announcements that digital audio tape (DAT) technology would soon be let home users make flawless copies of digitally encoded CD sound recordings.⁸⁵ The argument for protective legislation was stronger than with cassette tape recordings insofar as DAT technology allowed for perfect copies (i.e., no degradation in

⁷⁸ See *id.* at 267-88.

⁷⁹ See Record Industry Seeks Surcharges on Taping, *N.Y. Times*, C21 (Oct. 31, 1985).

⁸⁰ See U.S. Congress, Office of Technology Assessment, *Copyright and Home Copying: Technology Challenges Law*, 120-35 OTA-CIT-422 (Washington, DC: U.S. Government Printing Office, October 1989) (hereinafter cited as *OTA Home Copying Study*).

⁸¹ See Michael Isikoff, *Metzenbaum Warns Record Industry*, *Wash. Post* E3 (Oct. 31, 1985).

⁸² See *OTA Home Copying Study*, *supra* n. 85.

⁸³ See William K. Knoedelseder Jr., *Record Industry Is Suddenly a Smash Hit; Fueled by Boom in Compact Discs, Firms' Fortunes Have Soared*, *L.A. Times Business* p.1 (Oct. 15, 1987).

⁸⁴ The parallels extend to Sony Corporation being the target defendant giving rise to the legislative push. See David Nimmer, *On the Sony Side of the Street*, 34 *Sw. U. L. Rev.* 205 (2004).

⁸⁵ See Mark Potts, *Music Industry Girds for War Over New Tapes; Digital 'Cloning' Technology Seen as Threat to Record Sales*, *Wash. Post* H1 (Jul. 5, 1987).

sound quality across multiple generations of copies). The RIAA played up the specter of rampant piracy bringing industry to its knees. It contended that it should not have to prove actual losses, holding that common sense dictated that such losses would befall the industry if urgent action were not taken.

The record industry first sought to block entry of such devices into the United States through a one-year moratorium on importation of DAT devices unless they included a computer chip that would block the recording of copyrighted music.⁸⁶ Although this legislation ultimately stalled, threats of litigation forestalled importation of DAT machines, notwithstanding the apparent immunity offered by the *Sony* decision. But when the inevitable importation occurred, the rightsholders designated veteran songwriter Sammy Cahn as plaintiff, and once again targeted Sony as the defendant.⁸⁷

The case shaped up along similar lines as the Betamax case. Sony argued that DAT technology, like VCRs and Xerox machines, had substantial non-infringing uses – such as the recording of non-copyrighted works or of works with permission of the creators and home copying of CDs owned by the consumer to play on other devices (space-shifting). In fact, given the high cost and quality of these machines, their principal use was likely to be in professional recording studios. The music copyright proprietors sought to distinguish *Sony* by arguing that, unlike VCR users predominantly engaged in legal time-shifting (under the fair use doctrine) and not building archives of programs for repeat viewing, the primary use for DAT recorders was to build a library of music for repeated listening. Whereas videotaping did not supplant the demand for “factory TV shows” (i.e., home receptors of broadcasts), DAT taping threatened to decimate factory sales of record products.

Sony appeared to have the better of the argument inasmuch as, under its own eponymous Supreme Court ruling, it only needed to show that DAT technology was “capable of substantial non-infringing use.” Nonetheless, the parties settled⁸⁸ about a year into the litigation.⁸⁹ The various interest groups hammered out a settlement that became the framework for the Audio Home Recording Act of 1992.⁹⁰ The agreement also reflected a worldwide accord between record companies and hardware manufacturers.⁹¹ After further negotiations with music

⁸⁶ See Janet Clayton, U.S. Music Industry, Japanese at Odds; Bill to Limit Sale of Digital Tape Recorders Faces Test, L.A. Times Business Part 4, p. 1 (Mar. 25, 1987).

⁸⁷ See *Cahn v. Sony Corp.*, 90 Civ. 4537 (S.D.N.Y. filed July 9, 1990); John Burgess, *Sony Sued Over Digital Recorders; Songwriter, Publishers Seek to Block Sales*, Wash. Post B8 (Jul. 11, 1990).

⁸⁸ As the mandala of history has continued to revolve, Sony itself has mutated into a motion picture studio. It therefore now finds itself allied with the likes of Disney and Universal, its erstwhile adversaries from the *Sony* days. See Nimmer, *supra* n.84

⁸⁹ See Stephen Levine, *The Digital Duel Could Be Ending; Manufacturers, Music Industry Reach Pact*, Wash. Post B8 (Jul. 11, 1991).

⁹⁰ See S. Rep. No. 102-294 (“AHRA S. Rep.”) at 33 (“historic compromise” led to dropping of lawsuit and fashioning of legislative proposal).

⁹¹ See H.R. Rep. No. 102-873 Part 1 (“AHRA H. Rep.”) at 9.

publishers, songwriters, performing rights societies, all parties signed onto a basic methodology⁹² – “an equitable solution that promises everyone a share in the benefits of the digital audio revolution.”⁹³ Congress ultimately enacted the agreement of the affected parties into law.⁹⁴

The AHRA unequivocally bans the production and marketing of a dual use technology: unrestricted DAT devices. Congress prohibited the importation, manufacture, and distribution of any digital audio recording device that does not incorporate technological controls to block second-generation digital copies.⁹⁵ The AHRA limits the viral spread of copies: Consumers are allowed to make “one-off” copies, but prohibited from making copies from copies.⁹⁶ In addition, the AHRA imposes levies on the sale of digital audio recording devices and blank media,⁹⁷ the proceeds of which are divided among copyright owners.⁹⁸ It also affords immunity to home tapers who make copies without direct or indirect commercial motivation.⁹⁹ This immunity applies to both digital and analog recordings.¹⁰⁰ This law shows that Congress was willing to strike a different balance in the copyright system than in the patent sphere in order to deal with the specter of digital piracy.

C. The Digital Millennium Copyright Act

1. Anticircumvention Provisions

Analogous concerns in the mid 1990s prompted content owners to seek even greater protections against digital piracy. As the Internet became a popular platform for the exchange of information, these copyright owners came to see encryption and digital rights management as a critical element in the development of the online marketplace for content. They recognized,

⁹² See AHRA H. Rep. at 10. See AHRA S. Rep. at 32-33. “This is landmark legislation which clears the way for the next generation of home audio recording equipment and it was only worked out after years of negotiation.” 138 Cong. Rec. H9036 (daily ed. Sept. 22, 1992) (statement of Rep. McMillan).

⁹³ See AHRA S. Rep. at 40 (quoting president of Tandy Corp.). See 138 Cong. Rec. H9036 (daily ed. Sept. 22, 1992) (statement of Rep. Lent) (“This compromise bill benefits everyone concerned – the manufacturers, the recording companies and artists, and, most importantly, the consumers.”).

⁹⁴ Fast-forwarding, what is the upshot of this legislation? It has proven largely a dead letter. See Nimmer, *supra* n.15, at ___.

⁹⁵ See 17 U.S.C. § 1002(a). For a detailed discussion, see 2 NIMMER ON COPYRIGHT chap. 8B.

⁹⁶ 17 U.S.C. § 1002.

⁹⁷ 17 U.S.C. § 1004.

⁹⁸ 17 U.S.C. § 1006.

⁹⁹ See 17 U.S.C. § 1008.

¹⁰⁰ *Id.*

however, that such technologies were vulnerable to hacking – unauthorized circumvention of technological protection measures (i.e., picking digital locks). They argued to Congress that, without such protection, they would be unwilling to release content onto the Internet, which in turn would hamper the adoption of broadband services. Various other interests — ranging from Internet service providers and telecommunications companies to consumer electronic manufacturers, library associations, computer scientists, and copyright professors — expressed concern about chilling effects of such an expansion of copyright law upon those who transmit content and wish to make fair use of copyrighted works.

In 1998, Congress responded to these concerns by passing the omnibus Digital Millennium Copyright Act.¹⁰¹ Of most relevance is its Title I, which prohibits circumvention of technological protection measures and bans the trafficking in digital keys.¹⁰² As explained in the Senate Report,

Due to the ease with which digital works can be copied and distributed worldwide virtually instantaneously, copyright owners will hesitate to make their works readily available on the Internet without reasonable assurance that they will be protected against massive piracy. Legislation ... provides this protection and creates the legal platform for launching the global digital on-line marketplace for copyrighted works. It will facilitate making available quickly and conveniently via the Internet the movies, music, software, and literary works that are the fruit of American creative genius.¹⁰³

Like the AHRA, Title I of the DMCA goes beyond traditional copyright protections in order to address the threat of unauthorized reproduction and distribution of copyrighted works in the digital age. But rather than mandating specific technology controls like the AHRA's top-down approach, the DMCA envisions bottom-up protection for technological control measures adopted by copyright owners. As to those technological measures that copyright owners implement to control access to their works (e.g., encryption governing access to an eBook), section 1201(a) prohibits specific acts to circumvent the technological measure.¹⁰⁴ Simultaneously, it bars the manufacture, importation, trafficking in, and marketing of devices that: (1) are primarily designed or produced for the purpose of circumventing a technological measure that effectively “controls access to” a copyrighted work; (2) have only limited commercially significant purpose or use other than to circumvent such technological protection measures; or (3) are marketed for use in circumventing such technological protection measures.¹⁰⁵ With regard to technological measures regulating use of a work where access has been lawfully obtained (e.g., through the purchase of a DVD), section 1201(b) prohibits not the

¹⁰¹ See Act of Oct. 28, 1998, Pub. L. No. 105-304, 112 Stat. 2860.

¹⁰² See 17 U.S.C. § 1201.

¹⁰³ S. Rep. No. 105-190, at 8 (1988); see also H. Rep. No. 105-551, pt. 2 at 23 (1998).

¹⁰⁴ 17 U.S.C. §1201(a)(1)(A). To circumvent a technological measure is defined as descrambling a scrambled work, decrypting an encrypted work, or “otherwise to avoid, bypass, remove, deactivate, or impair a technological measures, without the authority of the copyright owner.” 17 U.S.C. §1201(a)(3)(A).

¹⁰⁵ 17 U.S.C. §1201(a)(2).

act of circumvention but only trafficking in and marketing of circumvention devices. This more limited protection was purportedly designed so as not to impair users' ability to make fair use of content to which they have been given access.¹⁰⁶

Although it allows circumvention of use controls, the ban on trafficking of circumvention devices (including instructions) puts the means for such access beyond the reach of all but the most technically adept—those possessing the ability to decrypt restricted works.¹⁰⁷ Moreover, it threatens liability for those who violate its strictures not only in the form of massive damages,¹⁰⁸ but criminal penalties as well.¹⁰⁹

Thus, like the AHRA, Congress unequivocally chose to prohibit trafficking in devices and code that have both infringing and non-infringing uses. Decryption technology can be used to gain access to unprotected works. It also can be used to gain access to a protected work in order to make use of an unprotected aspect or to make fair use of some protected elements. Yet, due to the distinctive enforcement concerns posed by digital technology, Congress chose a more cautious path for copyright law than it follows for patent law.

2. OSP Safe Harbor

Title II of the Digital Millennium Copyright Act is called the "Online Copyright Infringement Liability Limitation Act." OCILLA was adopted in tandem with Title I in order to solve the

chicken-and-egg problem here. On the one hand, because of "the ease with which digital works can be copied and distributed worldwide virtually instantaneously, copyright owners will hesitate to make their works readily available on the Internet without reasonable assurance that they will be protected against massive piracy." Title I of the Digital Millennium Copyright Act responds to that concern. But, on the other hand,

¹⁰⁶ See H.R. Rep. 105-551, pt. 1, at 18 (1998); Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 65 Fed. Reg. 64,557 (2000) (codified at 37 C.F.R. §201).

¹⁰⁷ See David Nimmer, A Riff on Fair Use in the Digital Millennium Copyright Act, 148 U. Pa. L. Rev. 673 (2000).

¹⁰⁸ Focusing solely on statutory damages, they can rise to \$2,500 for every single act of circumvention or product produced. See 17 U.S.C. § 1203(c)(3)(A). Thus, a single copyrighted work can give rise to millions of dollars in statutory damages if enough acts or products occur in relation to it. See 17 U.S.C. § 1203(c)(4) (trebling those amounts for repeat violators). Those prospects markedly depart from traditional statutory damages. See 17 U.S.C. § 504(c)(1) (setting maximum "with respect to any one work," no matter how many times it is infringed).

¹⁰⁹ See 17 U.S.C. § 1204. The DMCA addresses the many objections and concerns raised by various groups through a complex series of narrow exemptions, for such entities as law enforcement, radio and television broadcasters, libraries, encryption researchers, filtering of content to prevent access by minors, and protection for personally identifying information. See 17 U.S.C. §§1201(d), (e), (h), (i). For commentary about composition of the DMCA, see David Nimmer, Appreciating Legislative History, 23 Cardozo L. Rev. 909 (2002).

having a profusion of copyrighted works available will not serve anyone's interest if the Internet's backbone and infrastructure are sued out of existence for involvement in purportedly aiding copyright infringement.

[W]ithout clarification of their liability, service providers may hesitate to make the necessary investment in the expansion of the speed and capacity of the Internet. In the ordinary course of their operations service providers must engage in all kinds of acts that expose them to potential copyright infringement liability. For example, service providers must make innumerable electronic copies by simply transmitting information over the Internet. Certain electronic copies are made to speed up the delivery of information to users. Other electronic copies are made in order to host World Wide Web sites. Many service providers engage in directing users to sites in response to inquiries by users or they volunteer sites that users may find attractive. Some of these sites might contain infringing material. In short, by limiting the liability of service providers, the DMCA ensures that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will continue to expand.¹¹⁰

OCILLA creates four safe harbors from copyright infringement for which online service providers might otherwise be indirectly liable.¹¹¹ Briefly stated, the four relate to transmitting,¹¹² caching,¹¹³ hosting,¹¹⁴ and linking.¹¹⁵ Inasmuch as the third in that enumeration is the most elaborated in the statute, it is most illustrative of Congress's intent in drafting this provision.¹¹⁶

Prior to the Supreme Court's *Sony* case, copyright law had already developed an elaborate jurisprudence for determining secondary liability.¹¹⁷ To prove (1) vicarious liability, the plaintiff had to demonstrate (a) that the defendant possesses an obvious and direct financial interest in the exploitation of the copyrighted materials, as well as (b) the right and ability to supervise the infringing conduct.¹¹⁸ To prove (2) contributory infringement, the plaintiff had to demonstrate (a) that defendant, with knowledge of the infringing activity, (b) induces, causes, or materially

¹¹⁰ 3 NIMMER ON COPYRIGHT § 12B.01[C][1] (quoting S. Rep. No. 105-190, at 8 (1988) (footnotes omitted).

¹¹¹ The definition of "online service providers" is very broad, extending to traditional ISPs, see 17 U.S.C. § 512(k)(1)(A), as well as "a provider of online services or network access, or the operator of facilities therefore," *id.* § 512(k)(1)(B).

¹¹² 17 U.S.C. § 512(a).

¹¹³ 17 U.S.C. § 512(b).

¹¹⁴ 17 U.S.C. § 512(c).

¹¹⁵ 17 U.S.C. § 512(d).

¹¹⁶ See 3 NIMMER ON COPYRIGHT § 12B.04.

¹¹⁷ See *Unwinding Sony*, *supra* n. __27, at __.

¹¹⁸ *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963).

contributes to the infringing conduct of another.¹¹⁹ The innovation of *Sony*, of course, was to depart from the framework by adopting patent law's "staple article of commerce" doctrine.¹²⁰

It is instructive to focus on how Congress in 1998 treated those building blocks when crafting OCILLA, fourteen years after the Supreme Court had handed down *Sony*. First, it codified both aspects of vicarious liability, providing that an online service provider could take advantage of the safe harbor for hosting copyright material only if it "[a] does not receive a financial benefit directly attributable to the infringing activity, [b] in a case in which the service provider has the right and ability to control such activity."¹²¹ Second, it codified both traditional aspects of contributory infringement.¹²² In terms of the *Sony* standard of being capable of substantial noninfringing uses, by contrast, the subject provision is silent.¹²³

Section 512 also shows that Congress knows how to create prospective safe harbors when it deems them necessary. The *Sony* Court's engrafting of an express statutory safe harbor from the Patent Act into the recently enacted comprehensive copyright statute lacking any such provision conflicts with well-established conventions of statutory interpretation intended to preserve the separation of powers.¹²⁴ In looking to other statutes for guidance in interpreting a later-enacted statute, the usual inference to be drawn is the opposite of the *Sony* majority's conclusion: because the prior enactment shows that Congress knew how to draft an exclusion, its

¹¹⁹ *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

¹²⁰ See *Unwinding Sony*, supra n. __27, at __.

¹²¹ 17 U.S.C. § 512(c)(1)(B).

¹²² The reference to element (2)(a) is direct: An online service provider can take advantage of the safe harbor for hosting copyright material only if it "[a] does not have actual knowledge that the material or an activity using the material on the system or network is infringing." 17 U.S.C. § 512(c)(1)(A)(i). The reference to element (2)(b) is more oblique: The entire safe harbor for hosting copyright material arises with respect to something tantamount to "[b] materially contributes to the infringing conduct of another," namely "the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." 17 U.S.C. § 512(c)(1).

¹²³ See 17 U.S.C. § 512. The closest that the statute comes is in its instructions to courts how to craft injunctions. OCILLA directs courts to consider "whether implementation of such an injunction would be technically feasible and effective, and would not interfere with access to noninfringing material at other online locations." 17 U.S.C. § 512(j)(2)(C). But the very structure here shows how far afield of *Sony* this provision falls. Whereas under the Supreme Court's ruling, the defendant would prevail if it could demonstrate the existence of substantial noninfringing uses, in OCILLA, the defendant has lost the liability phase of the case and is being enjoined; only in that context can it ask the court to mitigate the harshness of an injunction by balancing loss of access to noninfringing material when entering an injunction against continued availability of the infringing content.

¹²⁴ As classically stated by the U.S. Supreme Court in pre-*Sony* decisions: "our objective in a case [turning on the interpretation of a statute] is to ascertain the congressional intent and give effect to the legislative will," *Philbrook v. Glodgett*, 421 U.S. 707, 713 (1975).

absence in a later-enacted statute in the same or a related field tends to show that Congress did *not* intend to adopt such a provision.¹²⁵ Although such evidence is not conclusive, the Supreme Court has long considered it to be of significant relevance for both divining congressional intent and respecting the legislature's primacy in the lawmaking arena.¹²⁶ Following this logic, the Court would have been on firm footing had it inferred from the presence of the staple article of commerce safe harbor in the Patent Act of 1952 that Congress knew how to draft such a provision if it wished in enacting the Copyright Act of 1976. By not doing so, the conventional inference would have been that Congress did not intend to adopt the staple article of commerce safe harbor in the copyright context. Congress' later adoption of express OSP safe harbors in copyright law via OCILLA reinforces this logic.

D. *Sony's* Vector: The Subsequent Congressional Experience

Our previous article has shown that the Supreme Court was mistaken to impute to Congress as of 1984 a desire to calibrate indirect copyright liability by reference to patent law's "staple article of commerce" doctrine.¹²⁷ The current investigation is how well Congress handiwork has conformed, after 1984, to that putative goal.

The experience debunks any notion that Congress, regardless of its prior intent, after the *Sony* decision hitched its star to the "staple article of commerce" bandwagon. To the contrary, the various amendments canvassed above betray the opposite sensibility.

Let us start in the Orwellian year of 1984 itself. *Sony* that year interpreted the Copyright Act as reflecting an intent that an article that is merely capable of substantial non-infringing use stands outside of redress, even if its use in fact massively infringes. Yet in that same year,

¹²⁵ Where there is evidence that Congress "knew how to draft a[n] . . . exemption," one should not be read into a statute. See *Chicago v. Environmental Defense Fund*, 511 U.S. 328, 338 (1994) (concluding that an express, codified household waste exception showed that the statute did not "extend the waste-stream exemption to the product of such a combined household/nonhazardous-industrial treatment facility.").

¹²⁶ See e.g., *St. Martin Evangelical Lutheran Church v. South Dakota* 451 U.S. 772, 784 n.14 ((1981) ("Congress knew how to limit expressly an exemption to the place of employment or the type of work performed." (citations omitted)); *Transamerica Mortg. Advisors, Inc. v. Lewis*, 444 U.S. 11, 20-21 (1979); *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 734 (1975) ("When Congress wished to provide a remedy to those who neither purchase nor sell securities, it had little trouble in doing so expressly."); *FTC v. Fred Meyer, Inc.* 390 U.S. 341, 356-57 (1968) ("when Congress wished to expand the meaning of competition to include more than resellers operating on the same functional level, it knew how to do so in unmistakable terms"); *Keifer & Keifer v. Reconstruction Finance Corporation*, 306 U.S. 381, 395 (1939) ("To assume that Congress in subjecting these recently created governmental corporations to suit meant to enmesh them in these procedural entanglements, would do violence to Congressional purpose. When it chose to do so, Congress knew well enough how to restrict its consent to suits sounding only in contract, even with all the controversies in recondite procedural learning that this might entail. It did so with increasing particularity in the successive Court of Claims Acts.")

¹²⁷ See *Unwinding Sony*, *supra* n. ___, at ____.

Congress amended the Copyright Act to bar record rentals—notwithstanding that a store renting phonograph records plainly is *capable* of fostering substantial non-infringing activity.¹²⁸ One need simply reflect that patrons of the store can include people who rent to broaden their musical tastes by sampling a smorgasbord of unknown recordings, in order to determine whether they wish to purchase those albums.¹²⁹

The same dynamic gained even greater force in 1992. Congress that year barred the activity of selling digital audio tape recorders, absent technical modifications to prevent unlimited production of copies, notwithstanding that those DAT recorders were plainly *capable* of fostering substantial non-infringing activity.¹³⁰ Such non-infringing activity can range from amateur bands producing product for public distribution to hobbyists producing high-quality recordings of their own shower serenades (or garage jam session) for their personal enjoyment to fans who disdain copying a friend's purchased items but wish to space-shift their own recordings from car to home to vacation house.¹³¹

Moving forward to 1998, things get even more stark. The anticircumvention features of the Digital Millennium Copyright Act ensnare in civil and criminal liability far more parties than those who actually commit copyright infringement.¹³² Indeed, they extend so far as to bar even paradigmatically unobjectionable conduct, such as helping someone to take advantage of a utilization that the United States Copyright Office has expressly blessed, via regulations that the statute mandates for that very purpose.¹³³ In brief, section 1201 evinces a far different sensibility

¹²⁸ See part III.A *supra*.

¹²⁹ The same considerations apply to the later broadening of the ban on record rental to include barring computer software rental in 1990. See *supra* n.76. For, in like measure, one need only reflect that the store is capable of renting to people who wish to broaden their exposure to new applications by sampling a smorgasbord of unknown programs, in order to determine if they wished to purchase them.

¹³⁰ See part III.B *supra*.

¹³¹ To elaborate, some purchasers of, say, 2 Live Crew's 1990s pre-recorded audio cassettes would, in a world of unencumbered DAT machines, run off multiple copies of them for purpose of trading, selling, or otherwise. That activity could constitute copyright infringement. Yet others, after purchasing recording of "Nasty as They Wanna Be," might have no greater designs than to listen to the album not only on the car's cassette player, but also on the DAT machine in the bedroom. In this instance, the DAT technology shows itself to be capable of substantial noninfringing use. See *RIAA v. Diamond Multimedia Sys. Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999) (to “ ‘space-shift’ those files that already reside on a user's hard drive [constitutes] paradigmatic noncommercial personal use”).

¹³² See part III.C.1 *supra*.

¹³³ See *Nimmer*, *supra* n. 107, at 735-37. A provision of section 1201 directs the Copyright Office to hold hearings to identify categories of works that, by duly promulgated regulations, will fall outside the anti-circumvention framework. If Sally successfully petitions the Copyright Office to exempt works in category X by regulation published in the Code of Federal Register, then Sally can subsequently hack into X without liability. But if Sally is technically unable to accomplish what the law allows her, and therefore hires Harry to help her

than immunizing those who produce a product that is capable of substantial noninfringing uses.¹³⁴ It places the shoe on the other foot by barring those products, even if so capable, if they are "*primarily* designed or produced for the purpose of circumventing a technological measure that effectively controls access" to a copyrighted work.¹³⁵ Therefore, notwithstanding pious floor statements seeking to dispel any suggestion that *Sony's* "staple article of commerce" rule was being overturned,¹³⁶ the reality is that the actual legislation sprinted away from the safeguards of that ruling for device manufacturers.¹³⁷

The other portion of the Digital Millennium Copyright Act is telling for different reasons. In adopting OCILLA's safe harbors for online service providers, Congress was writing on a clean

solely to undertake that permissible conduct, then Harry is culpable for violating the anticircumvention features. *Id.*

¹³⁴ See 17 U.S.C. § 1201(a)(2) ("any technology, product, service, device, component, or part thereof").

¹³⁵ 17 U.S.C. § 1201(a)(2)(A). To express the matter with faux-mathematical precision, a product could escape liability under *Sony* if only 10% of its capability were non-infringing. See David Nimmer, A Tale of Two Treaties, 22 Colum.-VLA J.L. & Arts 1, 18 (1997) (positing that a 10% noninfringing use is "commercially significant"). Yet the Digital Millennium Copyright Act, by adopting the language of *primarily produced*, would hold that same product liable even if a full 49% of its capability were non-infringing. So the DMCA is about five times more restrictive than *Sony*.

¹³⁶ One Congressman remarked, "The original version of the [DMCA] threatened this standard, imposing liability on device manufacturers if the product is of limited commercial value. * * * I'm very pleased that the conferees have meaningfully clarified that the *Sony* decision remains valid law." 144 Cong. Rec. H10618 (daily ed. Oct. 12, 1998) (remarks of Rep. Klug). Others expressed similar views on the House floor. See 144 Cong. Rec. E2136 (Oct. 12, 1998) (remarks of Rep. Bliley). Bruce Lehman, Commissioner of Patents and Trademarks, had previously testified to Congress along the same lines. See The WIPO Copyright Treaties Implementation Act on Online Copyright Liability Limitations Act, Hearings Before the Subcommittee on Courts and Intellectual Property, Serial No. 33 (Sept., 16-17, 1997), at 62.

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Much more basically, those who manufacture equipment and products generally can no longer gauge their conduct as permitted or forbidden by reference to the *Sony* doctrine. For a given piece of machinery might qualify as a staple item of commerce, with a substantial noninfringing use, and hence be immune from attack under *Sony's* construction of the Copyright Act—but nonetheless still be subject to suppression under Section 1201. It is in this sense that enactment of the Digital Millennium Copyright Act leaves *Sony* technically undisturbed, but still emptied of much of its force in this realm. Equipment manufacturers in the twenty-first century will need to vet their products for compliance with Section 1201 in order to avoid a circumvention claim, rather than under *Sony* to negate a copyright infringement claim.

3 NIMMER ON COPYRIGHT § 12A.19[B] (footnotes omitted)

slate.¹³⁸ It could have adopted standards from communications law, from patent law, from the *Sony* decision (or any other case that it liked), or by blazing a new trail into the wilderness. In many regards Congress adopted that last expedient, introducing a system of notice/takedown/putback otherwise unprecedented in copyright law.¹³⁹ But in terms of cabining that new system, such that it would not be available to "undeserving" online service providers, Congress adopted each of the four ingredients for calibrating indirect copyright liability that *predated* the *Sony* decision.¹⁴⁰ Rather than adopting any innovation from *Sony* in that calculus, Congress demurred.¹⁴¹ By this time, it is not difficult to discern that the congressional reaction to the Supreme Court's ruling, far from embracing it, has been to turn its back on it in subsequent amendments to the Copyright Act.

In short, since 1984, Congress on several occasions has approved legislation that bans or limits products or businesses offering substantial noninfringing uses. Thus, even if the *Sony* majority had correctly read Congress' will as of adoption of the 1976 Copyright Act, later amendments evince a sensibility much more in line with the RAD framework.¹⁴² In each of these contexts, Congress opted for policies that balance the interests of promoting new technology with concerns about effective copyright protection.

IV. The Judicial Response to *Sony's* "Staple Article of Commerce" Doctrine

Regardless of whether Congress has stiff-armed *Sony*, courts have less latitude. From the time that ruling issued in 1984 until the issue returned to the Supreme Court in *Grokster*,¹⁴³ every court in the United States has been bound, under the rules of *stare decisis*, to follow its lead when applicable. One would thereupon expect to find numerous rulings immunizing defendants whose conduct is *capable* of fostering substantial non-infringing activity, even if in fact much actually infringing conduct followed in their wake.

Again, experience confounds expectation. A flood of courts have discussed and applied the *Sony* decision when calibrating the proper balance of fair use.¹⁴⁴ By contrast, cases

¹³⁸ See part III.C.2 *supra*.

¹³⁹ See 17 U.S.C. § 512(c)(3), 512(g).

¹⁴⁰ See part III.C.2 *supra*.

¹⁴¹ See part III.C.2 *supra*.

¹⁴² See part II.B *supra*.

¹⁴³ See part IV.B.3 *infra*.

¹⁴⁴ The fair use aspect of the *Sony* case has been cited in literally hundreds of cases. See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577-92 (1994); *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562 (1985); *American Geophysical Union v. Texaco Inc.*, 37 F.3d 881, 916 (2d Cir. 1994). It has also been the subject of extensive legal scholarship. See, e.g., Frank Pasquale, *Breaking the Vicious Circularity: Sony's Contribution to the Fair Use Doctrine*, 55 *Case W. Res. L. Rev.* 777 (2005); Leval, *Toward a Fair Use Standard*, 103 *Harv. L. Rev.* 1105 (1990); Lloyd L. Weinreb, *Fair's Fair: A Comment on the Fair Use Doctrine*, 103 *Harv. L. Rev.* 1137 (1990); William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 *Harv. L. Rev.* 1659 (1988).

addressing secondary liability have fallen very much into the backwaters. Between 1984 and 2000, the issue scarcely arose. With the proliferation of peer-to-peer technology in 2000, however, the tide turned. During those recent years, the “staple article of commerce” doctrine moved to center stage, as two appellate courts and then the Supreme Court in *Grokster* directly confronted the application of that rule for the digital age.

D. 1984-2000: Relative Dormancy

For the first 16 years following the *Sony* decision, only a handful of cases directly addressed the applicability of the “staple article of commerce” rule. Of those, only one found the defense available (and the result of that case was effectively reversed by the DMCA). In the others, the courts seemed to be more influenced by basic tort principles.

The first, *RCA Records, A Div. of RCA Corp. v. All-Fast Systems, Inc.*,¹⁴⁵ was handed down eight months after *Sony*. All-Fast Systems operated a retail photocopying service. In addition, it offered a service where customers could duplicate cassette tapes using a “Rezound” cassette-copying machine. The evidence showed that employees of All-Fast Systems used the Rezound machine to make cassette copies of customers' pre-recorded tapes, marked with copyright notices. In holding All-Fast Systems liable, the court distinguished *Sony* on the grounds that the commercial operator – as distinguished from the manufacturer – of a duplicating machine may be liable as a contributory infringer for providing the duplicating facilities to private customers and furnishing assistance in the duplicating process. A later case raising similar facts held liable as direct infringers the commercial operators of a Rezound cassette-duplicating machine.¹⁴⁶ The *Sony* decision undoubtedly dissuaded RCA from suing the manufacturer of the Rezound cassette-copying machine. Yet, in terms of actual holding, the *Sony* safe harbor provided no refuge to the defendants actually sued. Instead, liability attached to those directly involved in the infringing activity.

The *Sony* rule next arose, again indirectly, in *Vault Corp. v. Quaid Software Ltd.*¹⁴⁷ Plaintiff Vault produced PROLOK, a lock-out technology that prevented copies of computer diskettes from operating. Quaid Software produced a product called CopyWrite, which unlocked Vault's protective feature, enabling copies of the encrypted diskettes to run as though they were the original. Vault brought suit against Quaid, claiming that the CopyWrite program contributed to the infringement of copyrighted works. Quaid defended this claim on the ground that its software product served a substantial noninfringing use – allowing purchasers of programs on PROLOK diskettes to make archival copies.¹⁴⁸ The court recognized the over-inclusiveness of the *Sony* rule:

Software producers should perhaps be entitled to protect their product from improper duplication, and Vault's PROLOK may satisfy producers and most purchasers on this score – if PROLOK cannot be copied by the purchaser onto a

¹⁴⁵ 594 F.Supp. 335 (S.D.N.Y 1984).

¹⁴⁶ See *RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773 (8th Cir. 1988).

¹⁴⁷ 847 F.2d 255 (5th Cir. 1988).

¹⁴⁸ See 17 U.S.C. § 117(2).

CopyWrite diskette without infringing the PROLOK copyright. That result does have appeal, but we believe it is an appeal that must be made to Congress. ‘[I]t is not our job to apply laws that have not yet been written.’ *Sony*, 464 U.S. at 456.¹⁴⁹

Notwithstanding those policy reservations, the decision held in favor of defendant. In this instance, therefore, the *Sony* safe harbor actually exerted real-world significance. Nonetheless, the result was short-lived. For when Congress later adopted the Digital Millennium Copyright Act,¹⁵⁰ it effectively reversed that decision legislatively by imposing liability on companies trafficking in decryption keys.¹⁵¹

The Eleventh Circuit considered itself bound only to a loose application (if that) of the *Sony* rule when the issue next arose in 1990. The defendants in *Cable/Home Communication Corp. v. Network Productions*¹⁵² developed, promoted, and distributed computer devices for decrypting encoded pay-per-view television broadcasting made available by the plaintiffs through satellite transmissions. The plaintiffs sued for both direct copyright infringement – based on reproduction and distribution of the plaintiffs’ copyrighted computer software in its decryption device – and contributory copyright infringement – based on its customers’ use of the defendants’ devices to access plaintiffs’ copyrighted subscription television programming without authorization. Network Productions defended the contributory infringement claim under the *Sony* “staple article of commerce” safe harbor, contending that it “sold the Dealer Demo chip to satellite dish dealers for the purpose of demonstrating programming, that the installation of a socket in the slot containing the U-30 chip facilitated the insertion of a repair or diagnostic chip, and that the Bag-O-Parts kit was a device to ‘clean up’ old video tapes.”¹⁵³ In dismissing this contention, the court departed from the letter of the *Sony* rule. “While these alternative uses may be legitimate, we are not convinced that defendants-appellants used, promoted and sold these devices for any purpose other than to compromise the VideoCipher®II.”¹⁵⁴ In essence, the court applied a subjective intent-based standard without directly addressing whether the asserted non-infringing uses were “substantial.” Although the court’s indirect copyright ruling could have been equally well supported under an inducement theory, it is notable that the court did not adhere to the dictates of *Sony*. Instead, it appears to have imported a tort-based framework, sidestepping the safe harbor, based on evidence of intentional wrongdoing.

The *Sony* “staple article of commerce” doctrine did not again arise directly until 1996.¹⁵⁵ In *A & M Records, Inc. v. Abdullah*,¹⁵⁶ defendant Abdullah operated General Audio Video

¹⁴⁹ 847 F.2d at 266.

¹⁵⁰ See part III.C.1 supra.

¹⁵¹ See 17 U.S.C. §§ 1201(a)(2); 1201(b)(1).

¹⁵² 902 F.2d 829 (11th Cir. 1990).

¹⁵³ *Id.* at 846 n.30.

¹⁵⁴ See *id.*

¹⁵⁵ It arose indirectly, however, in *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965 (9th Cir. 1992). The Ninth Circuit there quoted *Sony* for the vague *desideratum* about protecting “society’s competing interest in the free flow of ideas, information, and

Cassettes (GAVC), a company that sold blank audiotapes and duplicating equipment. Although such products can certainly be used for non-infringing uses, the court rejected the defendant's *Sony* defense on three grounds:

First, the Supreme Court developed the *Sony* doctrine by borrowing a concept from patent law, which provides that the sale of a "staple article or commodity of commerce suitable for substantial noninfringing use" cannot constitute contributory infringement. See 35 U.S.C. § 271(c) (1984); *Sony* at 439-40). Arguably, the *Sony* doctrine only applies to "staple articles or commodities of commerce," such as VCR's, photocopiers, and blank, standard-length cassette tapes. Its protection would not extend to products specifically manufactured for counterfeiting activity, even if such products have substantial noninfringing uses. Second, even if the *Sony* doctrine does apply to items specifically designed for counterfeit use, *Sony* requires that the product being sold have a "substantial" noninfringing use, and although time-loaded cassettes can be used for legitimate purposes, these purposes are insubstantial given the number of Mr. Abdallah's customers that were using them for counterfeiting purposes.

Finally, even if *Sony* protected the defendant's sale of a product specifically designed for counterfeiters to a known counterfeiter, the evidence in this case indicated that Mr. Abdallah's actions went far beyond merely selling blank, time-loaded tapes. He acted as a contact between his customers and suppliers of other material necessary for counterfeiting, such as counterfeit insert cards; he sold duplicating machines to help his customers start up a counterfeiting operation or expand an existing one; he timed legitimate cassettes for his customers to assist them in ordering time-loaded cassettes; and he helped to finance some of his customers when they were starting out or needed assistance after a police raid. Therefore, even if *Sony* were to exonerate Mr. Abdallah for his selling of blank, time-loaded cassettes, this Court would conclude that Mr. Abdallah knowingly and materially contributed to the underlying counterfeiting activity.¹⁵⁷

That excerpt reads the *Sony* precedent narrowly. When a defendant such as Abdallah comes to court having offered a product that is specifically manufactured for infringing purposes, there are two possibilities. First, the court could advert to *Sony*'s "staple article of commerce" doctrine, and conclude that it means what it says—there is no liability as long as the product is capable of substantial noninfringing activity. Second, the court could decline to reach that doctrine, to the extent that the subject defendant acted for bad purposes. The Ninth Circuit in this case adopted the latter expedient. Its conclusion that *Sony*'s "protection would not extend to products specifically manufactured for counterfeiting activity, even if such products have substantial noninfringing uses" subordinates the "staple article of commerce" doctrine in a manner not present on the face of the *Sony* opinion, in order to ensnare what it perceives to be the intentional

commerce." *Id.* at 969. But, for analysis, this case actually relied on the pre-*Sony* case of *Midway Mfg. Co. v. Artic Intern., Inc.*, 704 F.2d 1009, 1013 (7th Cir. 1983).

¹⁵⁶ 948 F.Supp. 1449 (C.D.Cal. 1996).

¹⁵⁷ *Id.* at 1456-57.

aiding and abetting of counterfeiting activities. Thus does this opinion avoid an expansive reading of *Sony* whereby a “bad actor” would escape liability.

In sum, during its first sixteen years, the *Sony* ruling produced victory only a single defendant who successfully relied on its “staple article of commerce” doctrine in defense of a copyright infringement claim. Instead, those who nominally fall within its scope instead found application of the doctrine avoided, to their detriment. Plus, even the one defendant who prevailed under the doctrine did so in a context that Congress later repudiated.

E. Post-2000: “Staple Article of Commerce” Doctrine Takes Center Stage

When Congress enacted the Digital Millennium Copyright Act in late 1998, few imagined that the copyright system would be completely unprepared for the digital challenges to unfold at the turn of the millennium a year later.¹⁵⁸ The amount of content available over the Internet took a quantum leap in late 1999 with the introduction of Napster’s peer-to-peer network technology. This technology vastly expanded the effective storage and exchange capacity of the Internet by enabling computer users running Napster’s software to search the computer drives of thousands of other users for files encoded in the MP3 compression format commonly used for music files. Napster’s server contained the labels of MP3 files, typically some combination of band and song titles, which could be searched by users of the Napster software. Searches produced a list of Internet addresses of computers containing the search term. The Napster software then formed a connection through the Internet to the particular computer containing the file, established a link, and then quickly and effortlessly transferred the file to the searcher’s hard drive. In essence, the Napster platform converted every computer running the software and connected to Napster into a “servent”—enabling it to function as both a server and a client. Napster became the fastest adopted software application in the history of computer technology, attaining 75 million users within its relatively brief period of operation.¹⁵⁹

Major record labels, composers, music publishers, and some recording artists attacked the problem by suing Napster for indirect copyright infringement. Although Napster did not engage in any direct acts of copying or distributing copyrighted works of others, its software in combination with its centralized indexing function facilitated rampant unauthorized distribution of copyrighted works. The alternative of suing individuals using the software would have been time consuming, expensive, and less effective in stemming the unauthorized distribution

¹⁵⁸ Even after Napster itself was enjoined, “millions of people in the United States and around the world continue to share digital.mp3 files of copyrighted recordings using P2P computer programs such as KaZaA, Morpheus, Grokster, and eDonkey.” Recording Indus. Ass’n of Am. v. Verizon Internet Servs., Inc., 351 F.3d 1229, 1231 (D.C. Cir. 2003). One recording artist testified to Congress “that whether we like it or not, Napster has changed everything.” Online Entertainment and Copyright Law: Coming Soon to a Digital Device Near You, Hearing Before the Committee on the Judiciary, U.S. Senate, Serial No. J-107-9 (April 3, 2001) at 14 (Statement of Don Henley).

¹⁵⁹ See *A&M Records v. Napster*, 114 F.Supp.2d 896, 902 (N.D. Cal. 1999), *aff’d* 239 F.3d 1004 (9th Cir. 2001) (“Approximately 10,000 music files are shared per second using Napster, and every second more than 100 users attempt to connect to the system.”).

occurring through the Napster network. The district court issued a preliminary injunction and the 9th Circuit ultimately affirmed Napster's liability.¹⁶⁰

After its success against Napster, the recording industry turned its attention to other peer-to-peer services offering similar functionality. *In re Aimster Copyright Litigation*¹⁶¹ targeted a service that piggybacked on America Online's (AOL) Instant-Messaging service, allowing simultaneous users of an AOL chat room to swap files. The Seventh Circuit rejected Aimster's construction of *Sony* as immunizing the seller of a product used solely to facilitate copyright infringement if it were capable in principle of noninfringing uses.¹⁶²

But the juggernaut faltered with the next litigation. In *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, both the district court and the Ninth Circuit rigorously applied *Sony*'s "staple article of commerce" doctrine to immunize peer-to-peer services from liability.¹⁶³ The disparity between *Aimster* and *Grokster* set the stage for the Supreme Court to revisit the question of indirect liability under the Copyright Act for the first time since *Sony*. Its resulting ruling in *Grokster* reversed, but at the same time created a new wrinkle in *Sony* jurisprudence.¹⁶⁴

1. The Napster Case

Napster's peer-to-peer technology involved two principal dimensions: the software that consumers downloaded from Napster's servers and the centralized indexing service running on Napster's servers. Napster's software scanned users' hard drives to identify all files encoded in the MP3 format commonly used for compressed music. It then transmitted the file names (but not the music files themselves) to Napster's central server, which stored the files along with a link to the user's Internet Protocol (IP) address. Most users labeled their music files with song titles, often accompanied by the recording artist's name. Napster users conducted searches of the files of other users by submitting a query to Napster's central server. That server, in turn, returned a list of the locations of all files featuring the search terms. The requesting user then downloaded the file directly from another Napster user's computer, using a standard Internet transmission protocol without any further involvement of Napster. The infringing file never crossed Napster's server, thereby insulating Napster from any claim of direct copyright infringement. But pursuing individual Internet users for direct infringement would have been difficult, expensive, and of limited efficacy. Given the rampant unauthorized distribution of copyrighted musical compositions and sound recordings facilitated by Napster, music publishers, sound recording companies, and artists brought suit against Napster under an indirect infringement theory.¹⁶⁵ Napster responded with the "staple article of commerce" defense,

¹⁶⁰ For a critique of the Ninth Circuit's analysis, see David Nimmer, Codifying Copyright Comprehensibly, 51 UCLA L. Rev. 1233, 1355-62 (2004).

¹⁶¹ 177 F. Supp. 2d 1380 (J.P.M.L. 2001).

¹⁶² 334 F.3d 643 (7th Cir. 2003), *cert. denied* 540 U.S. 1107 (2004).

¹⁶³ 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2003), *aff'd*, 380 F.3d 1154 (9th Cir. 2004).

¹⁶⁴ 125 S.Ct. 2764 (2005).

¹⁶⁵ See *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).

emphasizing the use of its technology to exchange works in the public domain, songs for which the copyright owners consented, and the promotion of new artists. It fashioned its defense along the same lines as Sony Corporation, emphasizing the general purpose nature of its product and the fact that some artists consented to having their works exchanged through the Napster network.

The district court distinguished between the scenario in *Sony*, where “the only contact between Sony and the users of the Betamax . . . occurred at the moment of sale,”¹⁶⁶ and its own case, in which “Napster, Inc. maintains and supervises an integrated system that users must access to upload or download files.”¹⁶⁷ Judge Patel rejected the notion that Napster had the potential to be used for substantial non-infringing uses,¹⁶⁸ concluding that “Napster’s primary role of facilitating the unauthorized copying and distribution [of] established artists’ songs renders *Sony* inapplicable.”¹⁶⁹

Although ultimately likewise rejecting Napster’s defense under this doctrine, the Ninth Circuit parted company with the reasoning below.¹⁷⁰ Judge Beezer rejected the district court’s focus on “current uses, ignoring the system’s capabilities.”¹⁷¹ Regardless of present utilization, the Napster service was “capable of substantial noninfringing uses.”¹⁷² One need simply imagine its New Artists Program vaulting young talent to a popularity rivaling Britney Spears and Eminem. But the court distinguished between Napster’s architecture and its operation of the system whereby users exchanged songs.¹⁷³ It held the former akin to manufacturing a VCR and declined to “impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs’ copyrights.”¹⁷⁴ It held the latter, by contrast, outside the staple article of commerce doctrine. The distinction recognizes that a product which is manufactured and sold may qualify for immunity under *Sony*, but not a service requiring ongoing support and involvement.

¹⁶⁶ 464 U.S. at 438.

¹⁶⁷ 114 F. Supp. 2d at 917.

¹⁶⁸ Immediately after invoking “potential noninfringing uses of Napster,” the court confined its attention to the present: “the New Artist Program may not represent a substantial or commercially significant aspect of Napster.” *Id.* at 917.

¹⁶⁹ *Id.*

¹⁷⁰ 239 F.3d 1004, 1021 (9th Cir. 2001).

¹⁷¹ “Consequently, the district court placed undue weight on the proportion of current infringing use as compared to current and future noninfringing use.” *Id.* at 1021.

¹⁷² 239 F.3d at 1021, quoting *Sony*, 464 U.S. at 442-43 (emphasis added by Ninth Circuit).

¹⁷³ 239 F.3d at 1020.

¹⁷⁴ *Id.* at 1020-21.

Accordingly, this case continues the almost unbroken tally from the first sixteen years of Sony's existence—once again, the targeted defendant failed to escape liability, despite its invocation of Sony's "staple article of commerce" doctrine.¹⁷⁵

2. The *Aimster* Case

In the wake of Napster's rise, a clever programmer developed software to combine America Online's instant messaging technology with file sharing.¹⁷⁶ Unlike Napster, Aimster's peer-to-peer technology did not rely upon a central server to facilitate the sharing of files, but rather to match users.

Someone who wants to use Aimster's basic service for the first time to swap files downloads the software from Aimster's Web site and then registers on the system by entering a user name (it doesn't have to be his real name) and a password at the Web site. Having done so, he can designate any other registrant as a "buddy" and can communicate directly with all his buddies when he and they are online, attaching to his communications (which are really just e-mails) any files that he wants to share with the buddies. All communications back and forth are encrypted by the sender by means of encryption software furnished by Aimster as part of the software package downloadable at no charge from the Web site, and are decrypted by the recipient using the same Aimster-furnished software package. If the user does not designate a buddy or buddies, then all the users of the Aimster system become his buddies; that is, he can send or receive from any of them.

Users list on their computers the computer files they are willing to share. (They needn't list them separately, but can merely designate a folder in their computer that contains the files they are willing to share.) A user who wants to make a copy of a file goes online and types the name of the file he wants in his "Search For" field. Aimster's server searches the computers of those users of its software who are online and so are available to be searched for files they are willing to share, and if it finds the file that has been requested it instructs the computer in which it is housed to transmit the file to the recipient via the Internet for him to download into his computer. Once he has done this he can if he wants make the file available for sharing with other users of the Aimster system by listing it as explained above.¹⁷⁷

Music copyright owners brought suit against John Deep, Aimster's founder and chief operator,¹⁷⁸ and the corporations controlling Aimster, alleging vicarious and contributory copyright infringement. The defendants asserted the Sony "staple article of commerce" defense,

¹⁷⁵ See part IV.A *supra*.

¹⁷⁶ See Alec Klein, *Going Napster One Better; Aimster Says Its File-Sharing Software Skirts Legal Quagmire*, Wash. Post, Feb. 25, 2001, p. A1.

¹⁷⁷ 334 F.3d at 643 (7th Cir 2003).

¹⁷⁸ See Madster, Wikipedia (chronicling Aimster's short, but dramatic, history) <http://en.wikipedia.org/wiki/Madster>

emphasizing two features of the Aimster software design: its versatility in enabling users to exchange any type of file and lack of control over users' activities.

Although Judge Posner saw the case as centering on the *Sony* decision, he effectively sidestepped the “staple article of commerce” doctrine—as had the Ninth Circuit when confronting Abdallah’s conduct.¹⁷⁹ Rather he deliberated over whether the *Sony* rule should be read to control the very different setting presented by peer-to-peer technology.

Although Sony could have engineered its video recorder in a way that would have reduced the likelihood of infringement, as by eliminating the fast-forward capability, or, as suggested by the dissent, *id.* at 494, by enabling broadcasters by scrambling their signal to disable the Betamax from recording their programs (for that matter, it could have been engineered to have only a play, not a recording, capability), the majority did not discuss these possibilities and we agree with the recording industry that the ability of a service provider to prevent its customers from infringing is a factor to be considered in determining whether the provider is a contributory infringer. Congress so recognized in the Digital Millennium Copyright Act . . .¹⁸⁰

Judge Posner attempted to balance several competing concerns—including the *Sony* decision’s purpose of insulating providers of dual-use technology from potentially crushing liability as well as the implications of some the design choices underlying the Aimster product. Notwithstanding “the *possibility* of substantial noninfringing uses of the Aimster system”¹⁸¹—a complete defense if *Sony*’s articulation of that standard is accepted literally—defendant’s case foundered on its inability to offer “any evidence that its service has ever been used for a noninfringing use, let alone evidence concerning the frequency of such uses.”¹⁸² Perhaps inadvertently, Judge Posner seemed to invoke the “primary use” standard from Justice Blackmun’s dissent in *Sony*.¹⁸³ He resolved contributory infringement based on a tort model reminiscent of the “least cost avoider”.¹⁸⁴

Even when there are noninfringing uses of an Internet file-sharing service, moreover, if the infringing uses are substantial then to avoid liability as a

¹⁷⁹ See part IV.A *supra*.

¹⁸⁰ *Id.* at 648.

¹⁸¹ *Id.* at 652 (emphasis original).

¹⁸² *Id.* at 653. The opinion quotes the finding below that Aimster had failed to offer any concrete evidence

that Aimster is *actually* used for any of the stated non-infringing purposes. Absent is any indication from real-life Aimster users that their primary use of the system is to transfer non-copyrighted files to their friends or identify users of similar interests and share information. Absent is any indication that even a single business without a network administrator uses Aimster to exchange business records

¹⁸³ See Unwinding *Sony*, *supra* n. __27, at __.

¹⁸⁴ See *id.* at ____.

contributory infringer the provider of the service must show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses. Aimster failed to make that showing too, by failing to present evidence that the provision of an encryption capability *effective against the service provider* itself added important value to the service or saved significant cost. Aimster blinded itself in the hope that by doing so it might come within the rule of the Sony decision.¹⁸⁵

This decision condemned Aimster's "willful blindness" as tantamount to guilty knowledge¹⁸⁶ and refused to accord it relief based on its "ostrich-like refusal to discover the extent to which its system was being used to infringe copyright."¹⁸⁷ This 2003 ruling from the Seventh Circuit, like the 2001 *Napster* ruling from the Ninth Circuit (and, for that matter, that same court's earlier *Abdallah* ruling), simply extends the trend inaugurated right after the Supreme Court's 1984 ruling. Again in these examples, no targeted defendant escaped liability by invoking *Sony's* "staple article of commerce" doctrine.¹⁸⁸ By this time, that track record had lasted almost two decades.

3. The *Grokster* Case

During the two years in which the *Napster* litigation unfolded, several new generations of file sharing technology evolved, ranging from the highly decentralized Gnutella platform to various intermediate architectures using a supernode structure.¹⁸⁹ Internet users quickly migrated to these new architectures. Morpheus, KaZaA, and Grokster, all based on the supernode architecture, attracted the most users.¹⁹⁰ The supernode architecture creates a pyramidal computer network for accessing files. Each computer within the system communicates directly with other peers, with the main system server functioning solely to provide software to participate in the network and providing the Internet address of another computer in the network that functioned as a supernode, a proxy server that relayed queries and responses within the network. Once in communication with a supernode, users could submit queries to locate files with specified search terms. The system would then return the addresses of all computers containing files with files containing the search term. The requesting computer user could then

¹⁸⁵ 334 F.3d at 653 (emphasis original).

¹⁸⁶ *Id.* at 650.

¹⁸⁷ *Id.* at 655.

¹⁸⁸ See part 1 *supra*.

¹⁸⁹ See *Napster Eclipsed by Newcomers* (Sept. 6, 2001), at <http://www.wired.com/news/business/0,1367,46596,00.html>; David P. Anderson & John Kubiawicz, *The Worldwide Computer*, SCIENTIFIC AM., Mar. 2002, at 40-47.

¹⁹⁰ See Brad King, *While Napster Was Sleeping* (July 24, 2001), at <http://www.wired.com/news/mp3/0,1285,45480,00.html>; Melanie Warner, *Free Music: The New Napsters* (Aug. 12, 2002), at http://www.fortune.com/indext.jhtml?channel=print_article.jhtml&doc_id=208834.

download the files with the click of a button. These new peer-to-peer networks were more versatile than Napster, allowing access to any type of file (and not just MP3 formats).

Therefore, even after prevailing in the *Napster* case, the record labels found themselves back where they started. These services “marketed themselves as ‘the next Napster.’”¹⁹¹ According to Webnoize, a company that measures Internet traffic, the top four file-sharing systems were used to download more than 3 billion sound recording files in August 2001.¹⁹² The record labels sued the operators of the Morpheus, KaZaA, and Grokster services in October 2001.

The defendants filed a motion for summary judgment on the grounds that their software had substantial noninfringing uses and was outside of their control. Unlike Napster, their file server contained only the addresses of computers (and not file names). Also unlike Napster, their technology allowed searching for any type of file, thereby increasing the range of uses – including noninfringing uses. Users could download Shakespeare and other public domain works, scientific data, federal government documents, and many other works that were not protected by copyright. They could also download copyrighted works for which distribution was authorized. The plaintiffs countered that the predominant use (approximately 90%) of these systems was to share copyrighted works.¹⁹³

Although “not blind to the possibility that Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares,” the district court granted summary judgment in favor of the defendants.¹⁹⁴ That ruling is revolutionary—it marks the only time (other than the legislatively overturned *Vault* ruling) that any defendant had successfully invoked *Sony*’s “staple article of commerce” doctrine.¹⁹⁵ But (again like *Vault*) it also proved short-lived¹⁹⁶—even though initially affirmed.¹⁹⁷ Judge Thomas of the Ninth Circuit upheld the undisputed finding that the peer-to-peer software at issue was capable of substantial noninfringing uses.¹⁹⁸ The Ninth Circuit held defendants not culpable for contributory infringement, in light of the architecture of their decentralized system by contrast to Napster’s centralized set of servers.¹⁹⁹

¹⁹¹ See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1036 (C.D. Cal. 2003), *aff’d*, 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

¹⁹² See Brad King, *File Trading Sites in Crosshairs* (Oct. 3, 2001), at <http://www.wired.com/news/mp3/0,1285,47296,00.html>.

¹⁹³ 259 F. Supp. 2d 1036-37.

¹⁹⁴ 259 F. Supp. 2d at 1046.

¹⁹⁵ See part IV.A *supra*.

¹⁹⁶ See part IV.A *supra*.

¹⁹⁷ See 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

¹⁹⁸ 380 F.3d at 1161.

¹⁹⁹ *Id.* at 1163.

Rejecting *Aimster*'s tort-based analysis,²⁰⁰ it disallowed any separate "blind eye" theory of liability.²⁰¹

If the story ended there, then *Sony*'s "staple article of commerce" doctrine, though born moribund to all appearances, would have picked up vitality in its teenage years, ultimately to emerge victorious. For the two lower court *Grokster* rulings breathed real life into protection for that which is merely capable of substantial non-infringing use, even though in fact employed predominantly to infringe. It is therefore all the more noteworthy that a unanimous Supreme Court vacated both those rulings. That last decision merits its own close investigation. In the third and final installment to this series, we place that decision under a magnifying glass.²⁰² For current purposes, all that need be noted is that, just as the Supreme Court in *Sony* sent copyright law into a new direction by importing a doctrine of patent law in order to reverse the Ninth Circuit ruling below, so *Grokster* sent copyright law into a new direction by importing a doctrine of patent law in order to reverse the Ninth Circuit ruling below.²⁰³ The end result, once again, is to frustrate the position of the litigant who relied on *Sony* furnishing the governing standard.

F. *Sony*'s Vector: The Subsequent Judicial Experience

Like the previous investigation showing how Congress has turned its back on *Sony*, the instant roundup shows that the courts have spun elaborate pirouettes to avoid the need to follow *Sony*'s lead. The only notable exceptions were *Vault*, which Congress overturned, and *Grokster*, which the Supreme Court reversed.

Because the peer-to-peer cases have loomed so large in this field, a few more words should be added about the dynamic of court rulings.²⁰⁴ Both Napster and Aimster defended themselves as straightforward applications falling within *Sony*'s safe harbor. In response to their claims that their peer-to-peer technology was capable of substantial non-infringing use, the courts in each instance ultimately determined that the safe harbor did not shield their respective defendants from liability. In the process, the courts distorted copyright law in confusing and inconsistent ways. Still, these rulings exerted little effect. Any curtailment of unauthorized distribution of copyrighted works through peer-to-peer technology was short-lived as new peer-to-peer software enterprises, built upon less centralized software architectures, entered the market. These peer-to-peer technologies posed even greater exposure for copyright owners than Napster and Aimster because not limited to the distribution of music files. The new services allowed for the distribution of just about any type of file – including movies, software, photographs, and eBooks. Unlike Napster, which operated during its brief existence without any direct revenue model, many of the second generation peer-to-peer system enablers designed their

²⁰⁰ Id. at 1162 n.9.

²⁰¹ 380 F.3d at 1166.

²⁰² See Peter S. Menell & David Nimmer, A Direct Analysis of Indirect Copyright Liability (or, How *Grokster* Should Have Come Out) (forthcoming).

²⁰³ In *Sony*, the Court imported 35 U.S.C. § 271(c). Two decades later, *Grokster* imported 35 U.S.C. § 271(b).

²⁰⁴ See part IV.B supra.

systems to deliver advertisements (in the form of banners, pop-ups, and other text boxes that appear on users' computer screens). Using the *Sony* "staple article of commerce" doctrine as a guide, they designed their technology in such a way as to limit their control over the peer-to-peer network, yet nonetheless derive substantial advertising revenue from the network's use.

But in the end, that reliance proved ill-founded. For the Supreme Court reacted to a successful invocation of the "staple article of commerce" doctrine that immunized a defendant from liability by reaching into its bag of tricks and inventing a new reason that those defendants should be liable.²⁰⁵

At the end of the day, no final judgment that has withstood congressional action has ever applied *Sony* to immunize from liability a defendant whose product, albeit capable of substantial noninfringing use, was in fact used more for the purpose of committing copyright infringement. Instead of applying the "staple article of commerce" doctrine as formulated, courts instead have contorted their analyses to find liable those whose conduct appears blameworthy (such as Mr. Abdallah), even if that behavior nominally would fall within *Sony*'s safe harbor. Thus, far from constituting the Magna Charta of the digital age,²⁰⁶ *Sony* has proven to be shaky and vague Supreme Court precedent. Its legacy speaks more to the precepts of legal realism than the vitality of copyright's "staple article of commerce" doctrine.

V. The Market's Response to *Sony*'s "Staple Article of Commerce" Doctrine

Still, the judicial dormancy of, and congressional antipathy to, *Sony*'s "staple article of commerce" doctrine does not mean that the decision has been without real-world significance. Part of the reason that the *Sony* indirect liability rule received relatively little play in the courts is that content owners exercised care in choosing which fights to pick, where to do so, and how best to achieve their aims. Both the *Sony* case and the MPAA's failure to obtain video rental legislation taught Hollywood valuable lessons about the importance of consumer interests in the courts and Congress.²⁰⁷ At the same time, consumer electronics companies now possessed a liability shield and lobbying know-how, grass roots organizing experience, and an "inside the Beltway" presence to countervail Hollywood's legislative might.

It would be a gross overstatement, however, to suggest that the *Sony* safe harbor settled the battle between content owners and technology companies. This last inquiry examines what might be called the real world "shadow"²⁰⁸ of the *Sony* "staple article of commerce" safe harbor.

A. Audiocassettes

At the same time that the *Sony* case was wending its way through the courts, the market for home cassette recording equipment was taking off, generating fear among copyright owners about widespread home copying of sound recordings and resulting displacement of sales.

²⁰⁵ As noted above, *Grokster* innovated by being the first decision to import 35 U.S.C. § 271(b) as the basis to construe the Copyright Act. See n.203 supra.

²⁰⁶ See TAN 61 supra.

²⁰⁷ See Lardner, supra n. 77, at 287.

²⁰⁸ Cf. Robert H. Mnookin and Lewis Kornhauser, Bargaining in the Shadow of the Law: The Case of Divorce, 88 Yale Law Journal 95 (1979).

Several factors weighed against direct litigation, including the fact that record companies earned substantial revenue from the sale of pre-recorded audio cassettes²⁰⁹ and cassette recording devices had substantial non-infringing uses – from recording a baby’s first words to taking dictation and recording telephone messages on cassette-based answering machines. Although the economic effects of audio home taping (where archiving was prevalent) differed from the patterns of video home taping (predominantly time shifting with re-recording), the *Sony* case undoubtedly stood as a major obstacle to suing manufacturers of cassette devices or blank tapes. But it certainly did not take the issue off the table.

Record companies took their complaints to Capitol Hill, arguing that cassette recording technology threatened the industry and pressing for levies on recording devices and blank media that could be used to staunch the losses due to home recording. Prior to serving as Chairman of the Federal Reserve Bank, Alan Greenspan, as Chairman and President of an economic consulting firm, testified as the recording industry’s primary consultant:

At present ... severe economic damage [is being done] to the property rights of owners of copyrights in sound recordings and musical compositions ... under present and emerging conditions, the industry simply has no out ... Unless something is done to respond to the problem, the industry itself is at risk.²¹⁰

The industry took particular umbrage at the introduction of dual-deck cassette recorders a short time after this testimony.²¹¹ Stanley Gortikov, President of the Recording Industry Association of America, denounced these murderous machines:

Dual-cassette recorder[s] . . . exist primarily to duplicate copyrighted prerecorded music cassettes—sometimes at two, four and even six times normal speed

The problem has reached crisis proportions Are we to stand by passively and watch the greatest musical creative community in the world strangle to death from newer and newer generations of copyright killer machines? But the worst is yet to come. Here is Japan’s newest weapon—a triple-deck cassette machine.²¹²

As noted earlier,²¹³ however, opposition from consumer electronics companies and other groups produced a stalemate. When record labels could not show any diminished revenues, support for the legislation dissipated. But legislation targeting digital audio tape technology became law, although not without some litigation fuel, as the next discussion shows.

²⁰⁹ In 1984, cassettes surpassed albums as the preferred format of prerecorded music, accounting for over 55% of the industry's total revenues. See Horowitz, RIAA Figures: Cassettes Paced A Record '84, *Billboard*, Apr. 13, 1985, at 1, col. 1.

²¹⁰ Testimony of Alan Greenspan, Hearings on the Home Recording Act, H. Rep., Subcomm. On Patents, Copyrights and Trademarks (Oct. 25, 1983).

²¹¹ See John Pareles, Royalties on Recorders and Blank Audio Tapes, *N.Y. Times*, Nov. 21, 1985, at C34, col. 3.

²¹² See The Home Audio Recording Act: Hearings on S. 1739 Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary, 99th Cong., 2d Sess. 1 (1985) (statement of Stanley Gortikov, President, Recording Industry Association of America), at 1-2.

²¹³ See part III.A *supra*.

B. Digital Audio Tape

As previewed above,²¹⁴ the recording industry vowed to block introduction of digital audio tape technology for home use into the United States unless restrictions were imposed to prevent unauthorized distribution of copyrighted works. Taking a page from Jack Valenti's vilification of the VCR, Stanley Gortikov characterized this technology as "an assassination in the making" with "the targeted victim the world's music industry."²¹⁵ After three years, negotiations between the consumer electronics and music industries appeared to reach accord in 1989 around the requirement that DAT devices would contain a computer that prevented second generation copies,²¹⁶ but the music industries later backed out. Sony, which had already been selling DAT devices in Japan for several years, decided in 1990 to do as it had with the Betamax – proceed to market and let the chips fall where they will. The music publishers promptly filed a class-action suit.²¹⁷ The pursuit of such litigation, in combination with the recording industry's refusal to license its works for the DAT medium, ultimately led to a settlement in the form of detailed legislation – the Audio Home Recording Act of 1992.²¹⁸

One of the fascinating sidelights of this history is that Sony itself chose not to test the very safe harbor that it had fought so hard to establish just a few years previously. Notwithstanding the demonstrable non-infringing uses for DAT recorders—from recording public domain material to use in all manner of home and business recording applications, Sony declined to press to judgment in *Cahn v. Sony* on the strength of its own Supreme Court *Sony* ruling. Part of the explanation for this change in strategy may lie in the fact that, by the early 1990s Sony had diversified into the film and music industries.²¹⁹ Its business divisions, and hence its shareholders, were on both sides of the case. In many respects, Sony has internalized the externality of enabling piracy through diversification of its business activities.

C. Computers and Related Devices

1. Overview

Although computers have emerged as a critical link in the unauthorized distribution of copyrighted works, they have avoided any direct assault by the content industries. The evolutionary path of this technology has played a central role in its judicial immunity. The microcomputer revolution was already well underway by the time that the *Sony* case was finally resolved. Time magazine proclaimed the personal computer as its "Person [Machine] of the

²¹⁴ See part III.B supra.

²¹⁵ See Richard Harrington, RIAA Moving to Washington, Wash. Post (Sept. 8, 1986) C2.

²¹⁶ See Hans Fantel, Sound; Harmony Envelops the DAT, N.Y. Times (Aug. 6, 1989) Section 2, p. 26, col. 4.

²¹⁷ See John Burgess, Sony Sued Over Digital Recorders; Songwriter, Publishers Seek to Block Sales, Wash. Post (Jul. 11, 1990) B8.

²¹⁸ See part III.B supra.

²¹⁹ See n.88 supra.

Year” in 1982.²²⁰ Content industries had little appreciation of how this technology would ultimately disrupt and reshape its business models.²²¹ At the time, the recording industry was actively rolling out the compact disc format without any effort to encrypt its crown jewels – high quality digital recordings – because microcomputers were not capable of posing any real threat to the music or film industries in the 1980s or early 1990s. They lacked the memory capacity or speed to copy the large amounts of information contained in film or music files.²²²

The economic threat posed by computers came into sharper focus in the mid 1990s with the increase in storage capacity, development of compression/decompression algorithms, and lowering of prices for entertainment-oriented computing machines for the consumer marketplace.²²³ With the inclusion of CD drives, software for ripping music files, and stereo speakers as standard equipment, the computer became a music storage and copying device like none before.²²⁴ But litigation against computers was hardly an option, with or without the *Sony* safe harbor. By that point in time, personal computers had become a basic feature of economic and social life. The microcomputer industry was substantially larger than the music industries. Furthermore, there could be little question that microcomputers, as well as music accessories being sold with them, had predominantly non-infringing uses. Accordingly, copyright owners could not credibly assert secondary liability against the makers of computers, hard drives, or CD burners if personal use of lawfully-obtained copyrighted music was fair use.

²²⁰ See Otto Friedrich, Michael Mortiz, J. Madeleine Nash, and Peter Stoler, *The Computer Moves In*, *Time Magazine* (Jan. 3, 1983). For *Time*'s person of the year of 2006, see part V.C.7 *infra*.

²²¹ See Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 *N.Y. L. Sch. L. Rev.* 63, 108-18 (2003).

²²² In the sole litigated case under the Audio Home Recording Act, the Ninth Circuit commented:

Until recently, the Internet was of little use for the distribution of music because the average music computer file was simply too big: the digital information on a single compact disc of music required hundreds of computer floppy discs to store, and downloading even a single song from the Internet took hours. However, various compression algorithms (which make an audio file "smaller" by limiting the audio bandwidth) now allow digital audio files to be transferred more quickly and stored more efficiently.

Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys. Inc., 180 F.3d 1072, 1073-74 (9th Cir. 1999).

²²³ See Menell, *supra* n. ___, at 108-18.

²²⁴ Yet less than a decade earlier, the music industries declined to bring computers into the legislative negotiations over the Audio Home Recording Act. As a key legislator at the time noted, the AHRA excludes from coverage material objects in which computer programs are fixed, "except for certain specialized statements or instructions that may be contained in CD's, digital audio tapes, and similar objects covered by the legislation." See 138 *Cong. Rec.* S8422 (daily ed. Jun. 17, 1992) (statement of Sen. DeConcini).

As computer companies increasingly configured and marketed computers for use by a younger generation, some of their advertising campaigns drew criticism from content owners. In 2001, Apple Computer's "Rip, Mix, Burn" advertising campaign struck many in the entertainment industries as bordering on inducement of illegal activity.²²⁵ But Steve Jobs, Apple's President, was quick to defend the slogan as inviting consumers to rip (or copy) musical recordings of albums that they had purchased, burn (or record) them, and prepare a custom mix of such files.²²⁶ Whether or not that is how the consumer marketplace interpreted the campaign, content companies chose not to file any legal action.²²⁷ A year later, the music industries worked out a licensing arrangement that authorized Apple Computer to develop the iTunes online music store, which quickly emerged as the leading outlet for legal digital downloads of sound recordings.²²⁸

2. Portable Digital Music Devices

In 1998, Diamond Multimedia introduced the Rio, a portable hard drive capable of storing approximately one hour of music compressed using the MP3 file format. This product dramatically increased consumer interest in downloading MP3 files over the Internet and ripping sound recording files from CDs to computer hard drives and compressing them. Prior to the introduction of this product, the principal benefit that consumers could derive from downloading or ripping sound recordings was to listen to these files through headphones or speakers at their computers. The Rio rendered these files portable. In comparison to portable cassette players, the Rio 300 was more compact, easier to use, and more resistant to motion.

The recording industry sued Diamond Multimedia²²⁹ under the AHRA, alleging that distributors of MP3 players were required to employ a Serial Copyright Management System ("SCMS") and to pay royalties on sales of digital audio recording devices. Recognizing that the legislative bargain effectuated by the AHRA applied narrowly to digital audio recording devices (and not general computer technology), the Ninth Circuit held that the Rio device did not

²²⁵ See Amy Harmon, Piracy, or Innovation? It's Hollywood vs. High Tech, N.Y. Times (Mar. 14, 2002) C1, col 2; see also Jon Healy, Gateway Touts Online Music, L.A. Times (Mar. 27, 2003) Business, Part 3, p. 6 (announcing Gateway's "RipBurnRespect" slogan, which promotes a more conciliatory message).

²²⁶ See *id.*

²²⁷ At a time of prickly relations between Disney's Michael Eisner and Pixar's Steve Jobs, the latter threatened to retaliate against Apple Computer Corp.—also helmed by Steve Jobs—over its "Rip, Mix, Burn" campaign. See Richard Verrier and Claudia Eller, Clash of CEO Egos Gets Blame in Disney-Pixar Split; Eisner and Jobs had personal differences that affected their business relationship, sources say, L.A. Times A1 (Feb. 2, 2004) But the contretemps blew over, and Disney ultimately acquired Pixar. See Laura M. Holson, Disney Agrees to Acquire Pixar in a \$7.4 Billion Deal, N.Y. Times C1 (Jan. 25, 2006).

²²⁸ See Jon Healy, Labels Think Apple Has Perfect Pitch, L.A. Times (Mar. 4, 2003) Business Part 3, p.1.

²²⁹ See Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc., 29 F. Supp. 2d 624 (C.D. Cal. 1998), *aff'd on other grounds*, 180 F.3d 1072 (9th Cir. 1999).

implicate the AHRA and dismissed the action. Echoing the Supreme Court's decision in *Sony* that "time shifting" fell within the fair use doctrine, the Ninth Circuit added its own dictum that "space shifting" was "paradigmatic noncommercial personal use."²³⁰ The court's ruling that the AHRA's computer exemption "is not limited to the copying of programs, and instead extends to any copying from a computer hard drive" slammed the courthouse door on the RIAA's effort to use the AHRA to squelch digital portable music devices.

Of greater interest for the purposes of this article, the RIAA chose not to allege that the MP3 device contributed to copyright infringement. This strategy no doubt reflected its considered judgment that the *Sony* "staple article of commerce" doctrine barred such an allegation. It should be noted, however, that such a claim would also have failed under the *Sony* dissent's "primary use" standard for secondary liability. Portable digital music devices are used predominantly to "space shift" a user's sound recordings, which the Ninth Circuit believed fell within the bounds of fair use. It would have also failed under application of the RAD tort framework. Therefore, MP3 device manufacturers could not be held liable for infringing uses absent evidence of inducement or control.

3. Digital Encoding Technology

Many other digital technologies can be used for copyright infringement. Camcorders, for example, can be used to videotape movies. Yet Hollywood recognized that camcorders have predominantly non-infringing uses – such as for making home movies. Therefore, they have never pursued indirect liability lawsuits against the manufacturers of such devices. Instead, they have persuaded Congress to ban their use in theatres and impose strong penalties for use in pirating motion pictures.²³¹

4. Digital Video Recorders (DVRs)

Notwithstanding the focus of the *Sony* Betamax decision, the development of digital video recorders at the turn of the millennium reignited many of the controversies thought to have been lain to rest. The digital version of such technology brought several new capabilities (such as automated commercial skipping and the ability to "share" television shows with friends over the Internet), greater speed and convenience, as well as vast storage capacity unimaginable in 1984. With the release of the first DVRs by TiVo and ReplayTV in the spring of 1999,²³² Hollywood reevaluated the reach of the *Sony* decision. Although the "staple article of commerce" doctrine would seem to provide a strong defense to the basic "time shifting" functionality, TiVo's and ReplayTV's viability would be determined less by *Sony*'s design immunity principle than by these companies' willingness to work with content owners and broadcasters.

²³⁰ 180 F.3d at 1079.

²³¹ See Family Entertainment and Copyright Act, Pub. L. 109-9, 119 Stat. 218. For an analysis, see 4 NIMMER ON COPYRIGHT § 15.06[A].

²³² See Lawrence J. Magid, *Rewind, Replay and Unwind With These New High-Tech TV Devices*, L.A. Times (May 10, 1999) Business; Part C; p. 6.

TiVo took the more conciliatory path, raising investment capital from key content industry players early in its development. This allowed content industry players some input into TiVo's product features and services as well as a basis for developing collaborative advertising initiatives.²³³ Content owners have thus far tolerated TiVo's business model.²³⁴

By contrast, ReplayTV took a far more aggressive approach to the design and marketing of its product line.²³⁵ It touted features enabling consumers to skip commercials and to transmit digital copies of television programming over the Internet to other ReplayTV owners. In November 2001, television networks and production studios brought suit against ReplayTV for contributory infringement.²³⁶ The company invoked *Sony's* fair use reasoning and "staple article of commerce" safe harbor in defending its products. Before the case could be resolved, however, financial pressures on the company, exacerbated by the costs of defending this litigation, drove it into bankruptcy.²³⁷ Its new owners agreed to drop the automatic commercial skipping feature in exchange for the lawsuit being dropped.²³⁸ Industry lawyers and scholars have speculated about

²³³ See Michael A. Hiltzik, NBC Allies with Firm that Challenges TV Traditions, L.A. Times (Jun 9, 1999) A; Ashley Dunn, TiVo Woos TV's Big Players with Its Set-Top Box; Technology: Investments Come Despite the Threat to Conventional Advertising Posed by its Digital Recording Device, L.A. Times (Jul. 28, 1999) Business; Part C; p.1. TiVo is seeking to implement a digital rights management technology to limit the duration that programming can be stored so as to prevent accumulation of large digital libraries by users. See Dan Tynan, Winners and Losers 2005, PC World, Dec. 27, 2005, <http://www.pcworld.com/news/article/0,aid,123923,00.asp>

²³⁴ But consider content owner's vigorous response when TiVo began developing technology to enable sharing over the internet similar to ReplayTV. See Center for Democracy & Technology, ALL EYES ON TiVo: THE BROADCAST FLAG & THE INTERNET, <http://www.cdt.org/copyright/20040928tivo-reply.pdf>. The administrative proceeding regarding TiVo's TiVoGuard technology, MD 04-55, is still ongoing before the FCC. The docket can be accessed through http://gullfoss2.fcc.gov/prod/ecfs/comsrch_v2.cgi.

²³⁵ Fred von Lohmann, ReplayTV Zaps Ads and Permits Show Swapping; Get Ready for the Next Big Copyright Battle, Cal. Law., June 2002, at 30. The website for ReplayTV 5000 stated: "You can now choose to playback your recorded shows without the commercials using Commercial Advance.... Under controlled test conditions with major network daytime and prime time broadcasts, approximately 96% [of] intraprogram commercials are eliminated." See Matthew Scherb, Comment, Free Content's Future: Advertising, Technology, and Copyright, 98 Nw. U. L. Rev. 1787, 1814 n.193, 1815 (2004) (quoting ReplayTV 5000 Features and Benefits, at http://www.replaytv.com/video/replaytv5000/re-playtv_5000_features.asp (last visited Apr. 7, 2004)).

²³⁶ See Doug Isenberg, ReplayTV Lawsuit: Napster Redux? (Nov. 12, 2001), at <http://news.com.com/2010-1079-281601.html>.

²³⁷ See Jon Healy, Sonicblue Files for Chapter 11; The ReplayTV maker, which has been sued by copyright holders, says debt hurt the company, L.A. Times (Mar. 22, 2003) Part 3; Business Desk; p.1.

²³⁸ Eric A. Taub, ReplayTV's New Owners Drop Features That Riled Hollywood, N.Y. Times, July 21, 2003, at C3. A suit brought on behalf by ReplayTV users was dismissed a year

whether the *Sony* decision would have shielded ReplayTV from liability even on its core time shifting functionality if the litigation had proceeded to judicial resolution.²³⁹

Given the advances in commercial skipping technology,²⁴⁰ content owners and broadcasters were poised to argue that the impact on the market for advertising was palpable.²⁴¹ Yet the counter to that argument is not hard to formulate: Although the preservation of commercials in Betamax playbacks may have played an important background role in the justices' minds, the *Sony* majority placed little express weight on it.²⁴² Instead, it reached an

later on the grounds that ReplayTV had dropped the feature that was being tested in the lawsuit. See *Paramount Pictures Corp. v. ReplayTV*, 298 F. Supp. 2d 921 (C.D. Cal. 2004); *ReplayTV Users' Lawsuit Is Dismissed*, L.A. Times (Jan. 13, 2004) Business Desk; Part C; Pg. 2.

²³⁹ See, e.g., Randal C. Picker, *The Digital Video Recorder: Unbundling Advertising and Content*, 71 U. Chi. L. Rev. 205 (2004); Ehtan O. Notkin, *Television Remixed: The Controversy Over Commercial-Skipping*, 6 Fordham Intell. Prop. Media & Ent. L.J. 899 (2006); Aaron A. Hurowitz, *Copyright in the New Millennium: Is the Case Against ReplayTV a New Betamax for the Digital Age?*, 1 *CommLaw Conspectus* 145 (2003).

²⁴⁰ ReplayTV claimed that "[u]nder controlled test conditions with major network daytime and prime time broadcasts, approximately 96% of intraprogram commercials are eliminated." See *ReplayTV 4500 Features*, at http://www.sonicblue.com/video/replaytv/replaytv_4000_features.asp (last visited July 8, 2002).

²⁴¹ Surveys indicate that most DVR users skip a high percentage of commercials. See Benny Evangelista, *DVRs Alter Habits – Ads Aren't Watched*, S.F. Chronicle, Apr. 22, 2002 (reporting a survey of DVRs users finding that 35 percent never watch commercials and that 60 percent watch them only occasionally), available at <http://sfgate.com/cgi?bin/article.cgi?file=/chronicle/archive/2002/04/22/BU15029.DTL>. And unlike "commercial skipping" with older analog devices – which required some attention to what was being broadcast – DVRs can accomplish skipping without a glance.

²⁴² The opinion recounts the status of technology as reflected in the record: "The pause button, when depressed, deactivates the recorder until it is released, thus enabling a viewer to omit a commercial advertisement from the recording, provided, of course, that the viewer is present when the program is recorded. The fast-forward control enables the viewer of a previously recorded program to run the tape rapidly when a segment he or she does not desire to see is being played back on the television screen." 464 U.S. at 423. The opinion likewise quotes the district court's ruling:

It must be remembered, however, that to omit commercials, Betamax owners must view the program, including the commercials, while recording. To avoid commercials during playback, the viewer must fast-forward and, for the most part, guess as to when the commercial has passed. For most recordings, either practice may be too tedious. As defendants' survey showed, 92% of the programs were recorded with commercials and only 25% of the owners fast-forward through them. Advertisers will have to make the same kinds of judgments they do now about whether persons viewing televised programs actually watch the advertisements which interrupt them.

express ruling that wholesale copying via Betamax of copyrighted broadcasts made over-the-air is non-infringing—without limiting that pronouncement in a way to avoid future technological advancement as to commercial squelching. Thus, a viewer who uses ReplayTV to copy the entirety of “24” has not infringed on Twentieth Century Fox’s copyright. The further question arises: how could a viewer possibly infringe by copying all of “24” but without implicating the separate audiovisual works consisting of commercials for General Motors and Playtex, by choosing not to copy those spot ads that occurred amidst the broadcast of “24”? Fox would need to craft an argument to the effect, “We have no problem with viewers copying 100% of our own works – but how dare they do so without simultaneously copying the works separately copyrighted by our advertisers?!?” Beyond the fact that Fox would appear to lack standing to complain about how General Motors’ and Playtex’s works have been treated, the latter companies would appear without any right to complain that viewers have *failed* to copy their own copyrighted advertisements.²⁴³ As technology progresses, thus does *Sony’s* “staple article of commerce” legacy become curiouser and curiouser.²⁴⁴

5. Anti-Circumvention Technology

As noted above, the DMCA specifically overrides aspects of the *Sony* safe harbor that might otherwise apply to devices that circumvent technological protection measures.²⁴⁵ The content industries have shown little tolerance for devices or software that approach this line. Lawsuits have targeted all manner of distributors and publishers of decryption code.²⁴⁶

6. Peer-to-Peer Technology

Id. at 453 n.36.

²⁴³ After Jonathan Tasini prevailed in the United States Supreme Court in establishing that the New York Times infringed his copyright when it copied the works of free-lancers, he subsequently filed suit against the New York Times for failing to copy articles by himself and his fellow freelancers! The court had little difficulty dismissing such an outré claim. See *New York Times Co. v. Tasini*, 121 S. Ct. 2381 (2001); *Tasini v. New York Times Co.*, 184 F. Supp. 2d 350, 353 (S.D.N.Y. 2002).

²⁴⁴ By contrast, a tort framework avoids this conundrum. We have previously confronted the possibility of commercial squelching, concluding that Sony could not be liable as of 1984 for its failure to disable commercial squelching. See *Menell & Nimmer*, supra n.27, at ___. By contrast, to the extent that ReplayTV affirmatively decided in the 2000s to enable commercial squelching, tort law might well hold it liable. See *id.*

²⁴⁵ See part III.C.1 supra.

²⁴⁶ See, e.g., *See RealNetworks, Inc. v. Streambox, Inc.*, 2000 WL 127311 (W.D. Jan. 18, 2000) (product decrypting streaming technology); *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp.2d 294, 310 (S.D.N.Y. 2000), *aff’d sub. nom.* *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001) (software for decrypting DVDs); *321 Studios v. Metro Goldwyn Mayer Studios, Inc.*, 307 F. Supp. 2d 1085 (N.D. Cal. 2004) (same); *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111 (N.D. Cal. 2002) (software decrypting eBook reader).

As discussed previously, copyright owners have taken an aggressive stance against general purpose peer-to-peer enterprises, notwithstanding the *Sony* “staple article of commerce” defense.²⁴⁷ Although neither the plaintiffs in these cases nor their content industry-backed *amici* directly attacked the underlying basis of the *Sony* “staple article of commerce” safe harbor, they asserted that it either did not apply in their cases or that the peer-to-peer technology at issue did not have substantial non-infringing use.

7. Video Distribution

A 15-year old set up a webcam in her bedroom to confess the not-too-eventful history of her home-schooled life in a strict, religious household. In mid-2006, millions of people worldwide got sucked up into the saga of Bree, otherwise known as “lonelygirl15.”²⁴⁸ As it turned out, she was really 19, a New Zealander, and an actress at that—and her real name was Jessica Rose, not Bree. But by this time, lonelygirl15 had become a sensation, much to the delight of the Marin County screenwriter and filmmaker who had dreamt her up, now represented by Hollywood powerhouse Creative Artists Agency.²⁴⁹

How did it happen? Thanks to YouTube, a do-it-yourself website where anyone can post home videos.²⁵⁰ A search on that site at present reveals 5821 postings, home movies that rant at lonelygirl15 for being a fake, or offer homage at the delicious deception, or praise the McLuhanesque reversal,²⁵¹ or fantasize about a thousand things with her (most, of course, sexual).²⁵² But, of course, those offerings are simply the tip of YouTube's iceberg. “To tens of millions of people, YouTube is the go-to source for whatever is hot in pop culture at the

²⁴⁷ See part IV.B *supra*.

²⁴⁸ See <http://en.wikipedia.org/wiki/Lonelygirl15>.

²⁴⁹ Virginia Heffernan And Tom Zeller Jr, Well, It Turns Out That Lonelygirl Really Wasn't, *New York Times*, Sept. 13, 2006.

²⁵⁰ The implications reach vastly greater than copyright, perhaps going even to the core of political accountability.

A VIDEO SHOWS a line of people trudging up a snow-covered footpath. A shot is heard; the first person in line falls. A voice-over says, “They are killing them like dogs.” Another shot, and another body drops to the ground. A Chinese soldier fires his rifle again. Then a group of soldiers examines the bodies. [¶] These images were captured in the Himalayas by a member of a mountaineering expedition who claims to have stumbled on the killing. The video first aired on Romanian television, but it only gained worldwide attention when it was posted on YouTube, the video-sharing website. Moisés Naím, *YouTube Journalism*, *L.A. Times*, December 20, 2006.

²⁵¹ For a fabulous account of the new technologies and their antecedents in Andy Warhol and Marshall McLuhan, see Richard A. Lanham, *The Economics of Attention* (2006).

²⁵² See http://www.youtube.com/results?search_query=lonelygirl15&search=Search (visited December 29, 2006).

moment."²⁵³ Indeed, the You of YouTube was instrumental in Time Magazine's selection of You as Person of the Year in 2006.²⁵⁴

What are the copyright implications? Given that all concerned consented to the initial production, the uploading of the original lonelygirl15 does not trigger infringement liability. Theoretically, some of the fan tributes could constitute unauthorized derivative works of lonelygirl15, but the producers seem to be more grateful for the attention than concerned about exercising maximal control of their adaptation right.²⁵⁵ So the direct implications of this particular work are small.

But the larger picture is rife with copyright implications. For the same technology that allows Bill and Jane to post their trek up El Capitan allows Boris to upload the bootleg recording he made at the recent L'il Bowwow concert.²⁵⁶ Thus can some acts of copyright infringement coexist on the site with countless noninfringing works.

One reaction to this scenario is for the owners of YouTube to simply rely on the *Sony* safe harbor. After all, unlike Napster and Aimster, which were merely capable in theory of

²⁵³ Phil Kloer, *You beaut, YouTube, The Age* (Australia), December 26, 2006. The variety is seemingly infinite:

In recent days I've seen Ella Fitzgerald in 1957, at her peak, singing *Angel Eyes* in Amsterdam; the Penguin Cafe Orchestra on Britain's *South Bank Show*; Bob Dylan sound-checking for his 1984 *Letterman* appearance backed by members of the Plugz; Fela Kuti jamming with Ian Anderson and Jack Bruce on German TV in 1983; the Stooges in 1970; Funkadelic in 1979; Conway Twitty and Loretta Lynn singing *Easy Loving*; the prelapsarian Mothers of Invention performing *King Kong*; pre-paralyzed Robert Wyatt in the *Soft Machine*; the KLF on *Top of the Pops* with Tammy Wynette; Liberace playing *Flight of the Bumblebee*

Robert Lloyd, *YouTube is trip down the rabbit hole*, *The Record* (Waterloo, Ontario), December 27, 2006.

²⁵⁴

Who actually sits down after a long day at work and says, I'm not going to watch 'Lost' tonight. I'm going to turn on my computer and make a movie starring my pet iguana? I'm going to mash up 50 Cent's vocals with Queen's instrumentals? I'm going to blog about my state of mind or the state of the union or the steak-frites at the new bistro down the street? Who has that time and that energy and that passion?

The answer is, you do. And for seizing the reins of the global media, for founding and framing the new digital democracy, for working for nothing and beating the pros at their own game, Time's Person of the Year for 2006 is you."

George F. Will, *Full Esteem Ahead*, *The Washington Post*, December 21, 2006 ("Narcissism is news? Evidently.")

²⁵⁵ See 17 U.S.C. § 106(2).

²⁵⁶ That bootleg violates 17 U.S.C. § 1101. To the extent that the artist was singing a previously recorded song, it likewise violates 17 U.S.C. § 501.

substantial noninfringing use,²⁵⁷ YouTube in actuality hosts massive amounts of noninfringing content, perhaps even the vast preponderance of its offerings being beyond legal reproach. But after Google purchased YouTube for \$1.65 billion, it took a very different approach.²⁵⁸

The site late last week began purging copyrighted material from Comedy Central, including clips from YouTube stalwarts like "The Daily Show With Jon Stewart," "The Colbert Report" and "South Park." [¶] The action was "a result of third-party notification by Comedy Central," according to one such e-mail message sent to a YouTube user, Jeff Reifman, who broke the news on the Web site NewsCloud. [¶] A week earlier, nearly 30,000 clips of TV shows, movies and music videos were taken down after the Japanese Society for Rights of Authors, Composers and Publishers cited copyright infringement.²⁵⁹ That strategy reflects accommodation. Google has reportedly reached deals with "leading copyright holders" allowing it to "post copyrighted music videos and other content in exchange for sharing advertising revenue."²⁶⁰ Indeed, Google itself held back over \$200 million of the purchase price, in order "to cover losses or possible legal bills for the frequent copyright violations on YouTube's video-sharing site."²⁶¹

Notwithstanding those efforts to root out unauthorized content from the service, there is also some contrary movement. Some indications are that postings on YouTube drive traffic back to the excerpted shows from which the videos emanate—witness the 5% spike in viewings of David Letterman's "Late Show" after clips from it became one of the most popular offerings on YouTube.²⁶²

²⁵⁷ See part IV.B.1-2 *supra*.

²⁵⁸ See Noam Cohen, YouTube Is Purging Copyrighted Clips, *New York Times*, Oct. 30, 2006.

²⁵⁹ *Id.*

²⁶⁰ <http://news.bbc.co.uk/1/hi/technology/6209414.stm>.

²⁶¹ AP Wire, Google retains part of YouTube payout, *Los Angeles Times*, Nov. 16, 2006. "The reserve could signal that Google is trying to insulate itself from a possible onslaught of lawsuits aimed at the large number of pirated videos posted on YouTube...." *Id.*

²⁶² See Steve Johnson, You may have shone in '06, but your Net worth didn't rise, *Chicago Tribune*, December 29, 2006. New media pose new possibilities.

NBC used YouTube, nimbly, to dance around censors. Its year-end "Saturday Night Live" video, a song about an explicit Christmas present, aired on the network with the song's key word, a vulgarism for a male anatomical feature, bleeped out. But the network posted it, uncensored, on NBC.com and YouTube right away, and that version (search "special Christmas box") became among the most discussed and rapidly circulated viral videos since last year's "SNL" classic, the rap parody "Lazy Sunday."

It was the buzz over "Lazy Sunday," not coincidentally, that took YouTube from fringe to mainstream, Internet audience measurement executives have said. Then, NBC quickly asked YouTube to take the video down, restricting its availability to the network's own site, the one it draws ad revenue from. Now NBC works with YouTube as a virtual bulletin board. This change took less than a year.

Id.

At the same time that Google was dealing, others were holding back. The world's largest music company responded by filing an infringement action against News Corp. and its subsidiary MySpace, "the popular social networking Web site, for allowing users to upload and download songs and music videos."²⁶³ It decided to sue "despite an announcement last month by MySpace that it had adopted technology to identify copyrighted material in order to enable compensation for the owners."²⁶⁴ Moreover, after suit was filed, MySpace announced "that it planned to deploy a new tool that would let copyright owners flag videos posted by users without permission; it said it would remove any videos that received such a marking."²⁶⁵

D. *Sony's Vector: The Subsequent Marketplace Experience*

Based on the foregoing, how has the *Sony* "staple article of commerce" doctrine fared in the marketplace? On the one hand, it would be absurd to maintain that the opinion has had no effect on corporate actors in designing which products to offer. But on the other, it is almost as erroneous to maintain that it has insulated technology companies from secondary liability to the extent that its broad language suggests.

Copyright owners have exerted substantial pressure upon technology companies to exercise restraint in the design of their products and services, as reflected in DAT, DVR, and anti-circumvention markets. The filing of the ReplayTV lawsuit and its resolution largely favorable to the content owners suggest that the *Sony* "staple article of commerce" safe harbor is hardly an invulnerable shield, either in the eyes of the content industries or the marketplace.²⁶⁶ That lawsuit, as well as the DAT and peer-to-peer experience, resulted in the implementation of significant design changes in the marketplace, suggesting that the "shadow" of the *Sony* decision may more closely approximate the reasonable alternative design framework than the broad safe harbor ascribed to the *Sony* rule.²⁶⁷

The recent ferment over YouTube is highly revealing. Napster and Aimster were minimally *capable* of capable of substantial noninfringing use, even though they in fact were used overwhelmingly to infringe.²⁶⁸ By contrast, YouTube is not only capable of hosting noninfringing content (of which lonelygirl15 may be the most celebrated), but, in addition, *actually* hosts countless thousands of such products from home users only too eager to share their personal cinéma vérité. If the language of the *Sony* is to be taken literally, then it should be

²⁶³ Jeff Leeds, Universal Music Sues MySpace for Copyright Infringement, New York Times, Nov. 18, 2006. That suit follows on the heels of Universal's copyright infringement suites against Grouper Networks and against Bolt. *Id.* [Disclosure—counsel for UMG is Irell & Manella, LLP, to which one of the current authors is of counsel.]

²⁶⁴ *Id.*

²⁶⁵ *Id.*

²⁶⁶ Cf. Litman, *supra* n.5, at 856-57 (suggesting that the *Sony* third-party liability safe harbor has proven to be far from clear in practice).

²⁶⁷ See part II.B *supra*.

²⁶⁸ See part IV.B,1-2 *supra*.

deemed paradigmatically to be on the safe side.²⁶⁹ Further, by simply taking down objectionable content in response to content owners' duly filed notices of infringement, it falls into the additional safe harbor that Congress created for its benefit in OCILLA as part of the Digital Millennium Copyright Act.²⁷⁰ For both those reasons, Google could adopt a *what-me-worry?* attitude towards future copyright liability.²⁷¹

Yet, as we have seen, it has done no such thing. Instead, it has created a \$200 million reserve against future infringement liability.²⁷² It has additionally gone further than the Digital Millennium Copyright Act envisions, agreeing to take down not only particularly noticed sites but also thousands of additional videos.²⁷³ MySpace has similarly agreed to do likewise.²⁷⁴ These actions reveal that *Sony* is scarcely the chief determinant of how decisions get made in the boardroom. To be sure, Google and MySpace will undoubtedly direct their counsel²⁷⁵ to highlight the "staple article of commerce" as a defense to any copyright infringement suit.²⁷⁶ But when it comes time to honestly evaluate the litigation risks, the company will considerably discount the odds that any product "capable of substantial noninfringing uses" will, in fact, escape liability on that basis.

²⁶⁹ As will be explored more fully in the final installment in this series, an additional possibility is liability on a theory of inducing copyright infringement. See n.202 supra.

²⁷⁰ See part IV.C.2 infra.

²⁷¹ For copyright owners, that posture is less satisfactory, as the takedown notices mandated by OCILLA Act lead to "a whack-a-mole situation" such that when the proprietor "demands that the site's administrators remove a video, users can simply upload the file again." http://www.forbes.com/technology/2006/11/28/piracy-networks-copyright-tech_cx_ag_1129video.html.

²⁷² See part V.C.7 supra.

²⁷³ See id.

²⁷⁴ See id.

²⁷⁵ War has already been declared. See n.263 supra. In addition, Robert Tur, who made copyright doctrine in the past pursuing networks for rebroadcasting his video footage of the beating of Reginald Denny in the 1992 Los Angeles riots, *see* *Los Angeles News Serv. v. Tullo*, 973 F.2d 791 (9th Cir. 1992), more recently has filed suit against YouTube, alleging 5,500 unauthorized accesses to the footage of that same beating. See <http://pub.bna.com/eclr/064436.pdf>, ¶ 12.

²⁷⁶ In addition, the companies, of course, will vigorously assert 17 U.S.C. § 512, the safe harbor that the Digital Millennium Copyright Act added to the Copyright Act in OCILLA. Will Google Pay for YouTube Infringements? *PC Magazine*, Oct. 10, 2006. At play here, however, is a double-edged sword:

"The problem is that the more they go into editorial control, the less they can rely on the DMCA to protect them," said Randy Broberg, head of the intellectual property practice group at Allen Matkins LLP. "If you exercise editorial censorship, it becomes YouTube's content, which would make them more liable."

<http://www.pcmag.com/article2/0,1895,2027482,00.asp>.

VI. Facing the Future

The experience just recounted shows the hardy survival of tort law's principles in adapting copyright's liability regime, even after its nominal discard by the Supreme Court in *Sony*.²⁷⁷ Not confident to rely on escaping liability because capable of substantial noninfringing uses, Google has decided to ameliorate harm because the foreseeable risks of harm posed by YouTube can be reduced or avoided by the adoption of a reasonable alternative, namely by taking down infringing videos and acting to forestall their future posting. In these particulars, Google's actions show the triumph of tort law's "reasonable alternative design" standard over patent law's "staple article of commerce" doctrine.²⁷⁸

Although *Sony* nominally crowned patent law's "staple article of commerce" doctrine as the decisor for copyright cases, as a practical matter, the ancien régime continues sovereign. The inherent logic of the tort framework still dominates actual analysis, as opposed to the lip service to *Sony* that courts outwardly profess. As shown above, various jurists have gravitated away from the *Sony* test and toward a tort-based analysis over the years since the case was decided. Moreover, Congress itself has pushed the copyright system in this direction through its forays into digital technology policy – requiring inter alia that digital audio tape players incorporate electronics to prevent second generation copies and prohibiting circumvention of technological protection measures.

Sony's aftermath has highlighted the flaws in the Court's unwarranted turn to patent law as a guide for indirect liability. Since the *Sony* case, Congress has approached digital technology with considerable caution – banning record and software rental, regulating DAT technology, and restricting circumvention of technological protection measures. Each of these activities was capable of substantial non-infringing use, yet Congress chose the path of balance and design responsibility. Congress has shown no such proclivity in the patent arena. The courts have also found the *Sony* framework far less compelling in application. The *Sony* safe harbor has proven unavailing to a variety of peer-to-peer enterprises. The marketplace also seems to reflect a great concern for balancing enhanced functionality with content protection, as reflected in the evolution of DVR technology.

A pronouncement that has been on the books for over twenty years without ever having been directly followed is prima facie suspect on that basis alone. In the recent series of cases involving peer-to-peer technology, courts have struggled with the application of the *Sony* safe harbor to highly parasitic business models that pose serious threats to the content industries. In none of these cases have courts immunized the defendants from liability; yet they have adhered to the fig leaf of a flawed, analog age decision. Paradoxically, the legacy of *Sony*'s turn towards patent law has been to force courts to find a way around the Supreme Court's decision rather than unjustly applying patent law. Thus, although courts and commentators continue to pay lip service to the *Sony* "staple article of commerce" doctrine, the practical reality lies closer to the reasonable alternative design standard that the Supreme Court should have followed.

²⁷⁷ See part II.C supra.

²⁷⁸ See part II.B supra.