Mastering New Issues Arising from New Technology

LSI - March 10, 2006

Secondary Liability

- **Contributory Infringement:** Knowledge + Material Contribution to the infringement - *Financial Benefit Irrelevant*
- **Vicarious Liability:** Right and Ability to Control + Direct Financial Benefit From The Infringing Activity - *Knowledge Irrelevant*

Setup to Grokster Showdown

- Impact on Internet & Digital Technology
- Content industry groups aggressively pursuing P2P providers
- Concern by technology industry re stifling innovation
- Ambiguity in the *Sony* case
- Split in the courts (9th Circuit *Grokster* approach vs. 7th Circuit *Aimster* approach)

The Background- Napster/MP3

- Initial cases involved centrally hosted or coordinated networks, similar to a BBS Sega v. MAPHIA)
- MP3.com involved “space shifting” of music purportedly owned by individual subscribers and hosted on the defendant’s servers. Direct infringement found.
- Napster P2P network involved music residing on subscribers’ individual computers, but defendants provided an index as to where the songs could be found--Contributory & vicarious liability found.

Napster

- If not capable of “substantial or commercially significant non-infringing uses” then plaintiff need show only constructive knowledge to meet the “Knowledge” prong for contributory infringement.
- If is capable of such non-infringing uses, then must show defendant had “reasonable notice of specific [infringements] and failed to act on that knowledge to prevent infringement.” (Napster I 239 F. 3d at 1027).
- Plaintiff has burden of giving notice. (Napster II, 284 F.3d at 1096).

The Aimster Case – 7th Cir.

- IM based swapping; register a name and password on Aimster system; can designate other "buddies" (or by default all others become "buddies") and then exchange files BUT the Aimster software encrypts the communications ("Willful blindness"); Aimster server assists in locating files being sought – somewhat like a "stock exchange" matching service but with no exchange in its "facilities" or servers. Provided tutorial on exchanging copyrighted music. Plus provided "Club Aimster" one click service.
- Sony could not de-mix the infringing from non-infringing uses in the Betamax case; found "time shifting" to be fair use and thus non-infringing.
- Also holds that the ability of a service provider to prevent its customers from infringing is a factor to be considered.

The Aimster Case – Cont'd

- Interprets Sony-Betamax case to require assessment of how probable the non-infringing uses of a product are and not merely that the product be "capable" of such substantial or commercially significant non-infringing uses.
- However, 7th Circuit implicitly interprets Sony-Betamax to preclude Contributory Infringement liability if is meets that test (whereas the 9th Circuit's Napster case still permits liability if have specific knowledge but fail to act). Disagrees with Napster holding on that point. 334 F.3d at 649.
- Did not focus on vicarious liability, referring to issue as academic because "ostrich-like refusal to discover the extent to which system being used to infringe copyright is merely another piece of evidence that it was a contributory infringer."
- Held that did qualify under broad definition of the DMCA Safe Harbor language as a service provider, but noted that far from doing anything to discourage repeat infringers...Aimster invited them to do so..." disqualifying it from protection.

U.S. Supreme Court Grokster Decision (2005)

- Avoided the original issues; created new basis for Secondary Copyright Liability – Inducement.
- Holding: “One who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, going beyond mere distribution with knowledge of third-party action, is liable for the resulting acts of infringement by third parties, regardless of the device’s lawful uses.”
- Similar to Patent law Section 271(b) of Patent Act

Grokster – Avoiding *Sony*

- Court would not revisit its holding in *Sony*, but emphasized that nothing in *Sony* "requires courts to ignore evidence of intent to promote infringement if such evidence exists."
- Distinguished *Sony's* Facts: *Sony* provided "no evidence of stated or indicated intent to promote infringing uses"
- Explained that *Sony* "limits liability to instances of more acute fault than the mere understanding that some of one's products will be misused. It leaves breathing room for innovation and a vigorous commerce."

Grokster – Inducement Found

- Found evidence of classic inducement (i.e. “by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations.”)
- Specific features of intent found:
  - (1) Defendants targeted, advertised to and even instructed former Napster users.
  - (2) Defendants did not attempt to develop filtering tools or other mechanisms to diminish the infringing activity using their software, and even took active steps to prevent other parties from monitoring the infringing activities.
  - (3) the manner by which the defendants made money, as there was a direct correlation between the volume of infringing use by their clients and the amount of money made by the defendants. (e.g. the greater the volume of infringing use by their customers, the more streaming advertisements sent to customers and more money made by defendants.)

Grokster – Vicarious liability

- As did the *Sony* Court, the *Grokster* court found no need to analyze the plaintiff's vicarious liability theory separately.
- Avoided a full revisiting of *Sony* or squarely addressing vicarious liability leaving those theories open for future debate (e.g. the recent PearLyrics scenario).

Grokster – Remaining Issues

- Continued uncertainty re traditional secondary liability theories
  - Did not adopt broad ("merely capable" vs. "principal use") reading of *Sony* and then limit exposure to where there is inducement;
  - Sidestepped & simply created a third basis for "secondary liability" where there is inducement to infringe.
  - Breyer, O'Connor & Steven's concurrence supported bright line; Bader, Rehnquist & Kennedy's concurrence rejected such test; all avoided vicarious discussion
  - Statutory damages & risk of personal or tertiary liability significant if device used primarily for infringing purposes: possible chilling effect

Grokster – Sensitivity to Effect on Commerce and Technology

- Supreme Court emphasized the need and desire to keep from "trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential."
- Qualified application of intentional inducement theory by recognizing that "mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves."
- "The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise."

“Tertiary” Liability

- Risk of Contributory or Vicarious Liability extended to those who contribute to or control, not the infringers themselves, but one who is contributorily or vicariously liable for others’ direct infringement.
  - *UMG Recordings vs. Bertelsmann AG,* 222 FRD 406 (N.D. Cal. 2004) (denying motion to dismiss)
- Similar to lack of protection of corporate shield in tort cases

Perfect 10 v. Visa International (N.D. Cal. 8/5/2004)

- Credit card company are not subject to contributory or vicarious liability for processing credit card charges for Websites that publish materials that infringe others' copyrights.
- Material contribution must bear some direct relationship to the infringing acts and must be substantial;
- Here content neutral; do not promote the sites; no content-specific regulations; do not hold out as to quality of product; concerned only with financial aspects not content – no reason to believe could not operate but for Visa and MasterCard; Contrast Cybernet Ventures case (C.D. Cal. 2002)
- As to vicarious liability, no control over alleged infringing activity; financial interest itself is not enough
- Contrast *UMG v. Bertelsman* (N.D. Cal. 7/14/2004) re alleged Napster control

Inducement Liability of Investors

- MercExchange, LLC v. eBay, Inc., 401F.3rd 1323 (Fed. Cir. 2005) (Cert. Granted 11/26/05)
  - Invested $2 Million & Observer on Board of Directors & provided primary venue for sales & assisted in posting – held, insufficient absent knowledge of infringement or actual intent to infringe
  - Is a patent case, but those decisions should be strongly persuasive in light of *Grokster* decision

Legislative “Safe Harbor?”

- IEEE-USA’s Proposal submitted as a Substitute to S. 2560 in July 2004:

  Section 501 of title 17, United States Code, is amended by adding at the end the following:

  (g)(1) Inducement of Infringement. Whoever actively and knowingly induces infringement of a copyrighted work by another with the specific and actual intent to cause the infringing acts shall be liable as an infringer.

  (2) Contribution to an Infringement. Whoever knowingly and materially contributes to the infringement of a copyrighted work by another shall be liable as an infringer.

  (3) Vicarious Infringement. Whoever has the right and ability to supervise an activity resulting in a direct infringement and has a direct financial interest in such activity and infringement shall be liable as an infringer.

- Continued--

Possible Legislation – Cont'd

- (4) Limitations on Secondary Liability.

  (A) manufacture, distribution, marketing, operation, sale, servicing, or other use of embodiments of an otherwise lawful technology by lawful means, with or without the knowledge that an unaffiliated third party will infringe, cannot constitute inducement of infringement under Subsection g(1) in the absence of any additional active steps taken to encourage direct infringement.

  (B) manufacture, distribution, marketing, operation, sale, servicing or other use of embodiments of an otherwise lawful technology capable of a substantial noninfringing use cannot constitute contribution to an infringement under Subsection (g)(2) or vicarious infringement under Subsection (g)(3).

  (5) Damages for violations of section (g)(1) of this section shall be limited to an injunction against inducement, and actual damages for infringement of a work for which the defendant had specific and actual knowledge the work would be infringed.

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Number of **Users Online** Now:
13,145,438
Number of **Songs Available**:
174,403,415
Number of **Movies Available**:
108,301,237
Total Files Available:
629,328,182
Total Size of Files Shared:
4,268,409 GB

Refresh

*estimations

System Requirements

OPTIMIZED FOR:

» Windows 95, 98, Me, 2000, XP
» 32Mb RAM Minimum
» 133Mhz CPU or better
» 3MB of Disk Space for Install
» CD Writer for Burning or Video CDs
» Large Hard-Drive recommended to store all of your files

Step 1 - Enter Account Info

First Name:*
Last Name:*
Email:*
Confirm Email:*

You must enter a **valid email address**.
Your account info will be sent here.

Submit

*Required fields

By filling out this form to create an account, you certify that you have read and agree to our privacy policy and terms and conditions.

Free Stuff:
Free High Powered File Finder
Free MP3 Players (Software)
Free CD Burning Software
Free Movie Players
Free Popup Killer
Free Spyware Killer

100% SATISFACTION GUARANTEE

"I've never seen so many files !"
-Brian

"Finally, I can delete Kazaa!"
-Stacy

Copyright Cases - Cont'd

- ***RTC v. Netcom*** *(N.D. Cal. 1995)**:***
  - Claim against Usenet operator and ISP that provides Internet access to the Usenet operator
  - RTC notified Usenet operator & ISP and requested they keep Erlich's postings off
  - Usenet operator requested proof of validity of copyright claim; refused by RTC. ISP expressed impossibility of prescreening or shutting down entire Usenet site

Copyright Cases - Cont'd

- ***RTC v. Netcom - Cont'd***
  - **Contributory Infringement:** Knowledge + Substantial Participation (induces, causes or materially contributes) - *Financial Benefit Irrelevant*
    - Reasonable ISP standard / ability to verify copyright claim; failure to cancel = substantial participation
  - **Vicarious Liability:** Control + Direct Financial Benefit From The Infringing Activity - *Knowledge Irrelevant*
    - Judge Whyte relied on the Fonovisa District Court decision in rejecting vicarious liability despite control, but *Fonovisa* later reversed by 9th Circuit.

Copyright Cases - Cont'd

- ***RTC v. Netcom - Cont'd***
  - Judge Whyte acknowledged strict liability of copyright law and no requirement of state of mind but held that "copying" entails a volitional element requiring affirmative action by the Defendant; applied a "copy machine owner" analogy
  - Declared that would "not make sense" to hold operator of a computer liable "merely because …is linked to computer with an infringing file"

Copyright Cases - Cont'd

- ***Fonovisa v. Cherry Auction:***
  - 9th Circuit reversed "swap meet" case relied on by Netcom court in rejecting vicarious liability
  - analogized "swap meet operator" to "dance hall operator" rather than an "absent landlord"
  - held that admission fees, concession stand revenues and parking fees collected amount to "direct financial interest" in the draw of patrons

Digital Millennium Copyright Act

- Anti-circumvention provisions
  - Protects against circumventing technological measures designed to protect access to copyright protected content
  - Permits limited circumventing for interoperability purposes only – open question as to for fair use (see HR 107 – The Digital Media Consumer Rights Act proposed in 2004)
  - *Davidson & Associates, Inc. v. Internet Gateway* (E.D. MO. 9/30/2004): Plaintiff's Blizzard Entertainment controls Battle.net, a free 24 hour gaming site for playing Blizzard games online. Members of the BnetD Project reverse engineered Blizzard's software to create a "functional alternative" emulation server software which was hosted by Defendant, Internet Gateway. The Court found violation of DMCA and rejected a Fair Use argument. An appeal to the 8th Cir. is pending. See www.eff.org

The 9th Circuit Grokster Case – No Vicarious Infringement

- Sony-Betamax is inapplicable to this analysis; vicarious liability treated interchangeably with contributory liability issue there.
- Found no dispute that direct infringement by third parties and direct financial benefit via advertising revenue exists;
- Held no right and ability to supervise the infringers, so no vicarious liability can exist. Reference to Dance Hall and Landlord cases.
- No registration and login required so no practical way to terminate access. IP address blocking also ineffective where dynamic IP address instead of static. Can not selectively "evict" individual violators as in *Fonovisa.*

Copyright Cases

- ***Playboy v. Frena:***
  - Closed BBS service
  - BBS operator did not screen uploads
  - When informed of alleged violation, operator removed & began monitoring for recurrence
  - M.D. Fla. granted summary judgment for Playboy and found BBS operator strictly liable on direct copyright infringement analysis

Ownership Issues/Mindset

- Pre-Berne Convention Implementation: Copyright notice required
- Post-Berne Paradigm: Deemed copyrighted unless otherwise disclosed
- Internet culture of the view that “information wants to be free” and that is a medium for sharing and collaborating freely

Judicial Deference?

- "Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials..."
  - Sony Corporation of America v. Universal City Studios, Inc., 464 U.S. 417, 431 (1984)
- Both 9th and 7th Circuits agree that content industry desire to change the Sony precedent should be addressed to Congress rather than the courts
- Congress failed to proceed with major legislation pending outcome of Grokster
- Differing views of Sony's application may force Supreme Court to act despite its protestations in the quote in Sony itself.

Grokster Case Briefs – S. Ct.

- 26 *Amici* briefs filed supporting the two Respondents
- 19 filed supporting the two groups of Petitioners (music and movie groups)
- 9 briefs filed neutral as to result
- Much more far reaching impact than just on P2P and file-sharing: lining up to be a content versus technology showdown – but consider ironies of blurring lines (e.g., Sony and AOL/Time Warner)
- Chief Justice Rehnquist was a dissenter in the Sony/Betamax case
- Oral argument set for March 29th

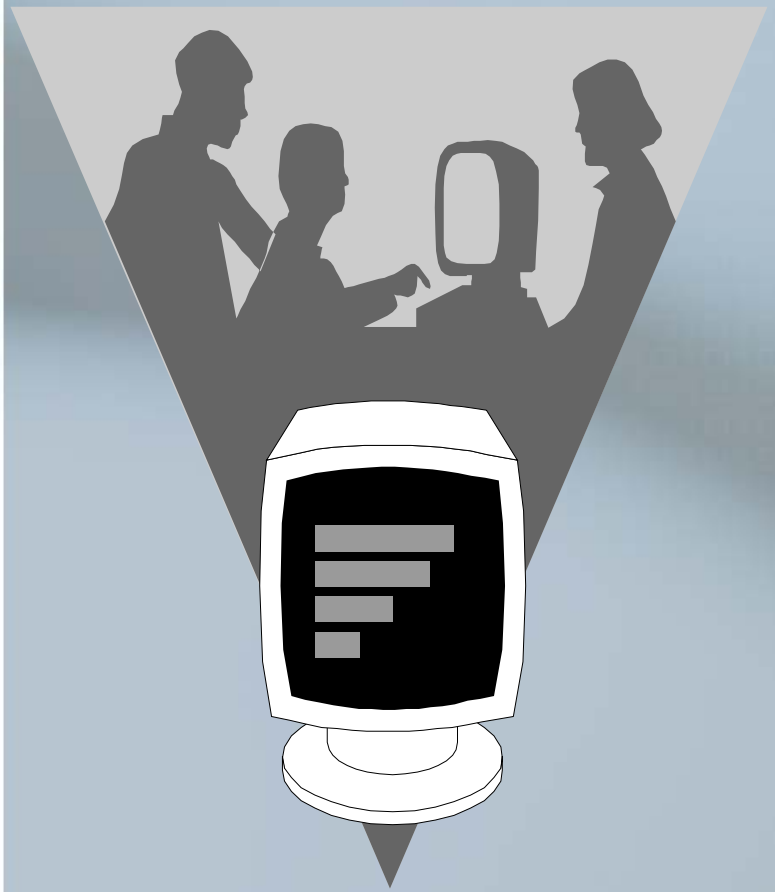
DMCA and Safe Harbor

- **Ellison v. Robertson & AOL** (9th Cir. 2/10/2004):
  - Usenet access provided by AOL
  - Contributory infringement - triable issue in that storing and allowing access may be deemed "material contribution" to the infringement, agreeing with *Napster II* and *RTC*
  - Vicarious – may be sufficient financial benefit where availability "acts as a draw" for customers; need not be "substantial" -- but here lack of evidence of this.
  - Thus, Safe Harbor issue addressed: found that while AOL would otherwise qualify, some evidence that it did not meet the threshold requirements of maintaining an adequate notification procedure in place; remanded to trial court.

Safe Harbor – Cont'd

- **Corbis v. Amazon** (W.D. Wash. 12/21/2004)
  - Amazon a "service provider" under Section 512 re its zShops.com site and entitled to Safe Harbor protection;
  - Amazon provides tools and forms for vendors; collects percentage of each sale but exercises no other control.
  - However, does have a policy against infringement and has terminated access of repeat infringers
  - Evidence of some slipping through not fatal. Held policy does not have to be perfect, only "reasonably implemented."

Background



- Internet built on concepts of shared access (TCP/IP)
- Little interest in control or protection of content
- Development of HTML/Web
- Now is a major medium for entertainment and distribution of commercial content

Implied License Environment

- Deemed to consent to such copying, distribution, performance, display and use in derivative works as is necessary or intrinsic to the working of the Internet or Web