

SECONDARY LIABILITY FOR INDUCING COPYRIGHT INFRINGEMENT AFTER *MGM V. GROKSTER*. INFRINGEMENT- PREVENTION AND PRODUCT DESIGN

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Earlier this year, the United States Supreme Court handed down its decision in *MGM Studios Inc. v. Grokster, Ltd.*,¹ a case addressing the scope of secondary liability for copyright infringement in the context of peer-to-peer file sharing software. Particularly due to the increasing prevalence of digital technologies, and their impact on the copying, use, and transmission of copyrighted works, the decision was eagerly anticipated not only by copyright holders, but also by creators and distributors of new products that potentially could be used by consumers for infringing purposes. The parties and a multitude of *amici curiae* asked the Court to decide and clarify many important issues,

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including the application, in the digital era, of the Court's 1984 decision in *Sony Corp. of America v. Universal City Studios, Inc.*,² which held Sony was not secondarily liable for the infringing uses consumers made of its Betamax videocassette recorder. In *Grokster*, the Court clarified, to some degree, its approach to balancing the competing values served by copyright law, but it left a number of difficult issues unresolved, including the precise contours of the Sony "safe harbor" for distributors of products capable of substantial noninfringing uses.

The Court adopted an inducement rule for copyright, "hold[ing] that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."³ The decision makes clear that one could not be liable for distributing a product capable of substantial noninfringing uses even with knowledge that it will be used for infringing purposes.⁴ It is also clear that for such products, the mere failure to take steps to prevent infringement, without more, is not sufficient for a finding of liability.⁵ Yet in a short, significant paragraph of its decision, the Court injected the issue of product design into the inducement analysis, citing the fact that neither defendant attempted to develop filtering tools or other mechanisms to diminish infringement by users of their software as evidence that "[gave] added significance" to and "underscore[d]" other evidence of unlawful intent to induce infringement.⁶

After raising the specter of inducement liability supported by evidence of a product-design omission, such as not building in infringement-preventing mechanisms, the Court gave little guidance on several resulting issues, including what circumstances must exist before a defendant's product-design omissions become relevant, or what the appropriate substantive standard is for evaluating whether alternative designs should be considered as evidence of intent. Lower courts will, at a minimum, have to develop workable principles and establish a framework for judging relevance and admissibility. And there likely will be related questions about the significance of defendants' steps to prevent infringement, and plaintiff copyright holders' failure to take their own infringement-preventing steps, among other matters.

Because of the uncertainty about the relationship between product design, infringement-prevention, and secondary liability, *Grokster* also has implications for companies who are not involved in litigation but instead are attempting to design, test, and commercialize new products against the backdrop of their potential liability later in the products' life cycles. Although *Grokster's* citation of evidence of "failure to develop infringement-preventing mechanisms" is only one aspect of the Court's inducement ruling, the gaps and ambiguities resulting from this unde-

veloped notion could place a burden on innovation to the extent they cause emerging companies, already saddled with financial and technical risk, to make undesirable changes to their products before they reach the market, or to abandon commercialization altogether.

FACTUAL BACKGROUND AND LOWER COURT PROCEEDINGS

Grokster, Ltd. and StreamCast Networks, Inc. distributed free software products that enabled users to share electronic files through decentralized, peer-to-peer (often called "P2P") networks. The software allowed a user's computer to query other users' computers for a file, which then could be transferred directly to the requesting computer without the need for a central server to mediate the exchange.⁷ These P2P networks operated in a less centralized way than the free file-sharing network that had been facilitated by Napster, Inc.⁸

MGM Studios Inc. and other copyright owners from the movie and music industries (collectively "MGM") sued Grokster and StreamCast for contributory and vicarious copyright infringement, arguing that the defendants were secondarily liable for their users' direct infringement. MGM claimed that the defendants intentionally distributed software to enable users to reproduce and distribute copyrighted works, such as movies and songs, in violation of the Copyright Act.⁹ Evidence in the record indicated that a substantial majority of files shared by users of Grokster and StreamCast software contained copyrighted information.¹⁰

Relying on the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*,¹¹ the Court of Appeals for the Ninth Circuit upheld summary judgment for Grokster and StreamCast. *Sony* involved a claim of secondary liability based on Sony's distribution of its Betamax videocassette recorder (VCR). Copyright owners argued that Sony was contributorily liable for infringement by VCR consumers when they taped copyrighted television programs for impermissible uses. Following patent law's "staple article of commerce" doctrine, the Supreme Court held that Sony was not liable, despite knowing that some consumers would use the VCR to infringe, because the product was capable of substantial noninfringing uses. The Ninth Circuit interpreted the *Sony* decision to mean that distributing a commercial product capable of substantial noninfringing uses cannot give rise to liability for contributory infringement unless the product's distributor has actual knowledge of specific instances of infringement and fails to take preventive action.¹² The court of appeals reasoned that Grokster's and StreamCast's software was capable of substantial noninfringing uses, and neither Grokster nor StreamCast were able to monitor individual file transfers due to the decentralized

architecture of the software and the fact that most file transfers were encrypted. The Ninth Circuit also concluded that Grokster and StreamCast did not materially contribute to users' infringement because the users themselves searched for, retrieved, and stored the infringing files.¹³

THE SUPREME COURT DECISION

The Supreme Court granted *certiorari*. Justice Souter, writing for a unanimous Court, noted at the outset that "the subject of this case" was the tension between two values served by copyright law: "supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement."¹⁴ Attempting to strike an appropriate balance, the Court preserved the *Sony* safe harbor in certain circumstances and adopted a rule of liability based on active inducement of infringement. The Court vacated the Ninth Circuit's judgment and remanded for further proceedings, including reconsideration of MGM's summary judgment motion and possibly a trial.¹⁵

SONY SAFE HARBOR AND LIABILITY FOR INDUCING INFRINGEMENT

The Supreme Court held that Grokster and StreamCast could be found liable under a common-law inducement theory of liability. The Court explained that one infringes copyright contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it. Although the Copyright Act¹⁶ does not address these secondary liability doctrines, they have emerged from common law principles. The Court declared the inducement rule, which is codified in patent law,¹⁷ to be "a sensible one for copyright."¹⁸ Adopting the inducement rule in this case, the Court held "that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."¹⁹

The Court rejected the Ninth Circuit's broad reading of *Sony* but preserved the *Sony* safe harbor in certain circumstances and declined to revisit *Sony* further as MGM requested. The Court explained:

We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as *Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could

be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a 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 conduct²⁰

Elaborating on the limits of the inducement doctrine, the Court stated that in cases where there is no affirmative evidence of culpable intent, the *Sony* rule limits imputing such intent as a matter of law from the characteristics or uses of a distributed product. The *Sony* rule was not, however, intended to displace other theories of secondary liability, including inducement of infringement.²¹ In *Grokster*, unlike *Sony*, there was substantial evidence that the defendants intended their products to be used for infringing purposes and took active steps to encourage infringement. Indeed, the Supreme Court found the summary judgment record to be replete with evidence that *Grokster* and *StreamCast* acted with the unlawful purpose of inducing third parties to commit copyright infringement.²²

TREATMENT OF PRODUCT-DESIGN EVIDENCE

Among the evidence of unlawful intent the Court cataloged was the design of the companies' software products. Generally speaking, this product-design evidence can be placed into two familiar, albeit blurry-edged, categories: acts and omissions. Indeed, the Court discussed "[t]hree features of this evidence of intent [that] are particularly notable,"²³ two of which relate (at least in part) to affirmative acts of product design, and one of which involves the failure to develop certain mechanisms and incorporate them into the products' design.

StreamCast initially distributed its *Morpheus* software through an *OpenNap* program compatible with *Napster*. *Morpheus* functions as *Napster* did except that it could be used to distribute more kinds of files, including copyrighted movies and software programs. *Grokster*, too, offered an *OpenNap* program, and its software functions comparably to *Napster*'s. The Court pointed to this and related evidence as showing that *Grokster* and *StreamCast* were "aiming to satisfy a known source of demand for copyright infringement, the market comprising former *Napster* users."²⁴ Further, *Grokster*'s and *StreamCast*'s software programs were designed to direct advertisements to the screens of computers employing the software. The more the software was used, the more advertisements were streamed to users, thereby increasing advertising revenue. According to the Court, the exceedingly high volume of files that were shared via the *Grokster* and *StreamCast* networks was

a function of the free access that the defendants' software provided to copyrighted works. Although the Court considered the defendants' adoption of this business model to be evidence of inducement, the Court cautioned that alone it "would not justify an inference of unlawful intent."²⁵

In a short but critically important paragraph of the opinion, the Court also cited a product-design omission as one of the "particularly notable" "features of this evidence of intent": the fact that *Grokster* and *StreamCast* had failed to develop technological mechanisms to reduce the improper use of their software for copyright-infringing purposes. In injecting this aspect of product design into the inducement analysis, the Court used vague and imprecise language: "[T]his evidence of unlawful objective is given *added significance* by *MGM*'s showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software."²⁶ The Court concluded that "this evidence *underscores* *Grokster*'s and *StreamCast*'s intentional facilitation of their users' infringement."²⁷ Earlier in the decision, the Court noted "there is no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impede the sharing of copyrighted files."²⁸ Additionally, the Court noted that *Grokster* "never blocked anyone from continuing to use its software to share copyrighted files," and *StreamCast* rejected an offer and attempts to monitor infringement.²⁹

Evidence of a product manufacturer's failure to develop infringement-preventing technologies in designing its product³⁰ cannot alone support a finding of intent to induce infringement. The Court noted: "Of course, in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor."³¹ Evidence must "go[] beyond a product's characteristics or the knowledge that it may be put to infringing uses, and show[] statements or actions directed to promoting infringement" before a defendant is unmoored from *Sony*'s safe harbor.³²

The Court's treatment of product design incorporates elements from differing positions urged by the parties and certain amici, although the positions are difficult to reconcile. The petitioner movie studios and recording companies, citing the Seventh Circuit's decision in *In re Aimster Copyright Litigation*,³³ urged the Court to adopt a liability standard that expressly considered whether infringing uses of defendants' products "can be readily blocked without significantly affecting lawful uses [of the product]," which, the petitioners argued, would not be inconsistent with *Sony*.³⁴ The petitioner songwriters and

music publishers joined that argument, asserting that Grokster and StreamCast should be held liable because, among other things, they did not take steps to limit infringement “through readily available filtering technology.”³⁵ In *Aimster*, the Seventh Circuit had “agree[d] 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.”³⁶ The *Aimster* court pointed out that the *Sony* majority declined to consider alternative design choices, such as eliminating the VCR’s fast-forward capability, scrambling broadcasters’ signals so programs could not be recorded (as suggested by the dissent), or removing the recording capability altogether.³⁷

In contrast to the copyright-holding petitioners, Grokster, StreamCast, and a number of amici argued that the approach espoused in *Aimster*’s dicta should be rejected. They argued that liability should not be based on an assessment of the possible costs and benefits of hypothetical alternative design decisions, or on a determination of whether creators of innovative products could have predicted customers’ future infringing uses and built in technology that would have eliminated or minimized them. Moreover, they argued, *Sony* precluded liability on that basis.³⁸

The *Grokster* decision contains elements of each of these positions, reasoning that evidence of failure to develop filtering devices alone cannot be considered evidence of intent to induce infringement, but that such evidence may “underscore[]” or “add[] significance” to “other evidence of intent,” namely “clear expression” of unlawful intent or “affirmative steps taken to foster infringement.” The Court issued this unanimous decision even though there were significant differences of view among members of the Court regarding the *Sony* safe harbor, as reflected by the two concurring opinions filed in the case, one by Justice Ginsburg, joined by Chief Justice Rehnquist and Justice Kennedy, and one by Justice Breyer, joined by Justices Stevens and O’Connor.

ISSUES ARISING FROM GROKSTER’S UNDEVELOPED CONCEPTION REGARDING PRODUCT DISTRIBUTORS’ FAILURE TO DEVELOP FILTERING TOOLS OR OTHER COPYRIGHT-INFRINGEMENT-PREVENTING MECHANISMS

The Court’s failure-to-develop conception, as articulated, presents a number of critical issues for lower courts and litigants in cases involving claims of secondary liability based on inducement theories. First, it is unclear precisely what threshold circumstances must exist for this failure-to-develop evidence to become relevant to the question of

inducement liability. Second, the Court failed to offer any guidance on an appropriate substantive standard for evaluating whether a given design omission supports liability. Third, depending on precisely what evidence is proffered and what substantive standard is applied, lower courts may need to decide issues of evidentiary reliability and prejudice. Fourth, there is a question whether, following *Grokster*, a defendant may proffer evidence of steps it took to prevent infringement in defending against a charge of secondary liability. Fifth, there is a question as to the relevance of a plaintiff copyright holder’s failure to employ filtering or other infringement-preventing mechanisms.³⁹

CIRCUMSTANCES IN WHICH A DEFENDANT’S PRODUCT-DESIGN OMISSIONS BECOME RELEVANT TO THE QUESTION OF INDUCEMENT LIABILITY

In many cases alleging secondary liability against a product distributor on an inducement theory, an important threshold question will be whether appropriate circumstances exist such that the distributor’s product-design omissions can support an inducement finding. The *Grokster* decision provides little guidance for resolving this threshold question, and several critical gaps and ambiguities remain.

The Court’s product-design formulation becomes problematic when one tries to understand it in light of the essential holding of the case, namely, that “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”⁴⁰ The holding indicates that the element of intent, “the object of promoting [infringing use of the device],” could be “shown by clear expression or other affirmative steps taken to foster infringement.”⁴¹ Thus, this test encompasses both speech (such as advertising or statements) and conduct, as defined and qualified by the Court.⁴²

The notion of “failure to develop” infringement-prevention tools or mechanisms does not fit comfortably within this construct. By definition, failing to take steps to prevent infringement is not taking affirmative steps to foster infringement. Moreover, “failure to develop” does not fit naturally within the meaning of “clear expression.” The Court, in articulating its holding, did not refer to any category other than affirmative steps or clear expression. Thus, the “failure to develop” notion makes sense only if one takes an overly expansive view of “clear expression” such that “failure to develop,” if proven, could evidence a defendant’s “clear expression” of an intent to promote infringing use of the distributed device. Taking that view, however, also implies that

evidence of “failure to develop” is not relevant and should not be admissible except as part of an attempted showing of “clear expression.” In the absence of other evidence of “clear expression”—for example, a defendant’s advertising that its file-sharing software is “the new Napster”—a defendant’s failure to develop infringement-preventing tools or mechanisms should be irrelevant.

One admittedly speculative explanation for this problem may be that the Court inadvertently omitted from its statement of the core holding the concept of a defendant’s failure to develop infringement-preventing mechanisms, linking that failure in some way to the unlawful objective. Yet if the Court did intend for “failure to develop” to be part of its holding, then presumably a plaintiff would need to carry a heavy evidentiary burden to support a finding of unlawful objective based on failure to develop, commensurate with the heavy burdens implied by the two categories of proof articulated by the Court: “clear expression” or “affirmative steps.” Thus, there would be a need for a limiting principle, an issue discussed below.

The Court’s holding appears to differ slightly but significantly from the “active inducement” rule in patent law. Though difficult to tease out, there is a fine distinction made in a few patent cases between (a) an affirmative act directed toward encouraging or promoting infringement, and (b) the distinct element of intent to induce, which can be proven by a wide array of evidence—not only affirmative acts but also omissions. To establish liability for inducing patent infringement, a plaintiff must prove an affirmative act as well as intent.⁴³ The Federal Circuit has held: “The requisite intent to induce infringement may be inferred from all of the circumstances.”⁴⁴ Although most reported decisions, by the nature of the evidence, infer intent from affirmative acts, intent may also be inferred from omissions, including failure to adopt product designs that would have diminished infringing uses. For example, in *Oak Industries, Inc. v. Zenith Electronics Corp.*,⁴⁵ the plaintiffs suggested a “simple” design change, addition of a VHF antenna by-pass switch, that they claimed would allow Zenith’s converter product to perform its noninfringing functions and not infringe the plaintiffs’ patent.⁴⁶ Although the court held that “lack of a by-pass switch” could not result in Zenith’s liability for contributory infringement, the court reasoned that “the fact that converters with such a by-pass switch could practice all the patented methods, yet not allow infringement of [plaintiffs’] patent, could be a factor in determining liability for actively inducing infringement.”⁴⁷ In essence, to use the language of *Grokster*, Zenith had failed to develop an infringement-preventing mechanism for its device. In contrast to *Oak Industries*—which suggests that the element of intent may be proven by evidence of a product-

design omission, distinct from evidence supporting the affirmative-act element—*Grokster* holds that unlawful intent is shown by “clear expression or other affirmative steps taken to foster infringement.”

Putting aside the language of the Court’s core holding, another key passage of the decision suggests that failure to develop infringement-preventing mechanisms for use in products will not support an inducement finding unless there also exists other evidence of either the defendant’s clear expression of intent to induce infringement or affirmative steps taken to foster infringement. The Court stated that “MGM’s showing that neither [defendant] company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software” “[gave] added significance” to the “evidence of unlawful objective” that the Court had already discussed.⁴⁸ The Court further stated that this evidence of failure to develop such infringement-diminishing tools “underscores *Grokster*’s and *StreamCast*’s intentional facilitation of their users’ infringement.”⁴⁹ The Court’s choice of the words “added significance” and “underscores” takes on even greater significance given the footnote that immediately follows. In footnote 12, the Court explained that “in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses” because “[s]uch a holding would tread too close to the Sony safe harbor.”⁵⁰ It follows from this passage of the decision that evidence of omission of infringement-preventing mechanisms is alone insufficient to support an inducement finding, and should be deemed irrelevant unless the plaintiff first adduces “other evidence” of “clear expression” or “affirmative steps” that the omission evidence underscores or adds significance to.

This doctrinal formulation also leaves lower courts, litigants, and product distributors without critical guidance on the quantum of “clear-expression” or “affirmative-step” evidence that is sufficient to trigger the relevance of “failure-to-develop” evidence. The question arises whether a mere scintilla of such “other evidence” is sufficient to make “failure-to-develop” evidence relevant to the question whether the defendant had an unlawful intent to induce infringement. There is no reason to think that such a light standard should apply but, because of *Grokster*’s silence on the matter, copyright holders may argue for it. The quantum must be something less than a preponderance of the evidence; if a plaintiff has proven unlawful intent by preponderant “other evidence,” there would be no need for admitting “failure-to-develop” evidence, at least for liability purposes, even though such evidence may “add significance to” or “underscore” the

other evidence. Short of the preponderance measure of proof, we cannot be sure exactly where the line should be drawn based on the Court's decision.

A related question is the nature of the "other evidence" of clear expression of unlawful intent that should be considered in deciding whether "failure-to-develop" evidence may also be considered to decide liability. For example, courts will need to decide whether direct evidence of clear expression is necessary, or whether circumstantial evidence is sufficient. The federal law of evidence is generally quite liberal in the admission of circumstantial evidence. Further, under the inducement rule codified in the patent statute, "[w]hile proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice."⁵¹ If circumstantial evidence is sufficient as a general matter, courts should consider whether there is any limit to the type of circumstantial evidence that may be considered as to state of mind. The *Grokster* Court cited an array of evidence relevant to inducement⁵² but identical facts are unlikely to appear in every future case, given that the Court found evidence of "unequivocal indications of unlawful purpose" and characterized the record as "replete with other evidence that Grokster and StreamCast . . . acted with a purpose to cause copyright violations."⁵³

NEED FOR A SUBSTANTIVE STANDARD FOR EVALUATING WHETHER A DEFENDANT'S PRODUCT-DESIGN OMISSIONS MAY SUPPORT INDUCEMENT LIABILITY

It is both striking and troubling that in *Grokster* the Court injected the issue of product design into secondary copyright infringement doctrine without defining or even hinting at the appropriate substantive standard for determining when failure to employ an alternative design is relevant evidence of intent to induce infringement. The lower courts will need to establish a standard to define the circumstances in which failure to develop filtering tools or other mechanisms to diminish infringing activity may be taken into account as evidence of unlawful intent.⁵⁴ It cannot be sufficient to show that a filtering solution was theoretically possible but would have required exhaustive invention or would have been exceedingly technically difficult to execute, or that an alternative product design could have been implemented at any cost. It cannot be that technology companies must foresee and prevent all manner of infringing uses to which motivated consumers might put their products once placed in the stream of commerce. But the Court has provided no guidance as to when product design evidences intent and no objective standard by which to make the determination. As articulated by the Court, the failure-to-develop conception is

not anchored in any precedent, analogy, or business practice. Nor is it expressly bounded by limitations of practical availability, objective workability, or reasonableness.⁵⁵

As the lower courts develop this now-standardless doctrine, they may want to consider, by way of analogy or contrast, standards and limitations on liability and damages that have been developed in related or other areas of the law, particularly those in which competing interests must be balanced. This article briefly discusses three such areas: copyright law, trademark law, and products liability law.⁵⁶

Principles in Other Areas of Copyright Law

Lower courts may want to consider principles of reasonableness and other limits on liability and damages that have been developed in other areas of copyright law. For example, courts might consider certain provisions of the Digital Millennium Copyright Act, which codifies, in the context of secondary liability, the concept that Internet Service Providers (ISPs) need only accommodate copyright owners' copyright-protecting mechanisms when those mechanisms enjoy widespread industry acceptance and when doing so is reasonable from a cost and burden standpoint. Specifically, 17 U.S.C. § 512(i) conditions ISPs' eligibility for safe harbors from contributory and vicarious liability on accommodation and noninterference with "standard technical measures" "used by copyright owners to identify or protect copyrighted works" that "have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process" and "do not impose substantial costs on service providers or substantial burdens on their systems or networks." Thus, copyright law provides safe harbor for ISPs so long as they merely accommodate and do not interfere with standard technical measures, implemented not by the service providers but instead by copyright owners, that have already been developed through broad consensus and are not substantially costly or burdensome. Though these provisions of the DMCA apply specifically to ISPs,⁵⁷ it would nevertheless be unreasonable for copyright law simultaneously to allow creators of new products that are not ISPs to be held liable based in part on their own failure to develop infringement-preventing technical measures, regardless of cost, burden, feasibility, industry acceptance, or the comparative nature and extent of copyright owners' preventive efforts.

Principles in Trademark Law

The law governing contributory liability for trademark infringement includes limitations that might usefully be imported into the intent-to-induce doctrine of secondary copyright-infringement liability. Under the Restatement (Third) of Unfair Competition approach, a manufacturer

or distributor of a product is contributorily liable for trademark infringement if (a) the actor intentionally induces the third person to engage in the infringing conduct, or (b) the actor fails to take reasonable precautions against the occurrence of the third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated.⁵⁸ Intentional inducement may consist of an express statement or may be implicit in conduct.⁵⁹ When discussing liability for omissions rather than affirmative conduct, the unfair-competition Restatement explains that "[a] failure to take *reasonable precautions* when there is a known risk of substantial infringement may indicate an intention to induce the infringing conduct."⁶⁰ In the absence of an intent to induce, "the duty to take *reasonable precautions* . . . arises only when the manufacturer or distributor has *reason to anticipate* that some substantial number of infringing sales will otherwise occur."⁶¹ "A manufacturer or distributor who has [such] reasonable grounds to anticipate infringing sales of its product by others, however, is obligated to take only those precautions that are *reasonable under the circumstances*."⁶² Thus, under the Unfair Competition Restatement, the liability standard for contributory trademark infringement, and specifically for inducement, requires an evaluation of reasonableness.

Principles in Products Liability Law

In addition to principles in other areas of copyright law and in trademark law, principles governing tort liability for the design and distribution of products may be instructive as a source of analogy or contrast. In that area of the law, courts have attempted to develop doctrines that balance competing interests in the service of overarching goals, while reflecting certain realities of products' design and distribution and their use by consumers. This is not to suggest that products liability principles should somehow supplant the overall test for inducement liability announced in *Grokster*. Rather, the principles might be used by lower courts to help develop appropriate limitations on the relevance of product-design omissions to the issue of intent to induce copyright infringement.

To be sure, there are critical differences between the overarching goals of copyright law and products liability law, and between the relationships of the parties involved in lawsuits in each area. "The primary objective of copyright is . . . [t]o promote the Progress of Science and useful Arts."⁶³ Progress is maximized by achieving the proper balance between providing copyright protection and limiting liability for copyright infringement.⁶⁴ Products liability law, on the other hand, is concerned with safety—harm to persons or property, as opposed to "pure economic loss."⁶⁵ Generally speaking, in the areas of product design and the warnings and instructions given to consumers,

products liability law aims to strike a desirable balance between risk (to human life and safety and to property) and utility.⁶⁶ Liability for inducing copyright infringement hinges on specific intent,⁶⁷ whereas for defective products the trend is toward "strict liability" for manufacturing defects and a reasonableness test for design defects and warning defects.⁶⁸ Despite these differences, design-defect principles may be useful in developing an appropriately reasoned and balanced approach for the circumstances in which decisions about product design may or may not be factored into secondary copyright infringement analysis.⁶⁹

The test for design-defect liability, as articulated in the Restatement (Third) of Torts: Products Liability, represents a reasoned and balanced approach that reflects certain realities of product design, distribution, and use. The test states:

A product . . . is defective in design when the foreseeable risks of harm posed by the product could have been reduced or avoided by 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.⁷⁰

A broad range of factors is relevant to determining whether an alternative product design is reasonable and whether its omission renders the product not reasonably safe.

The factors include, among others, the magnitude and probability of the foreseeable risks of harm, the instructions and warnings accompanying the product, and the nature and strength of consumer expectations regarding the product, including expectations arising from product portrayal and marketing. The relative advantages and disadvantages of the product as designed and as it alternatively could have been designed may also be considered. Thus, the likely effects of the alternative design on production costs; the effects of the alternative design on product longevity, maintenance, repair, and esthetics; and the range of consumer choice among products are factors that may be taken into account.⁷¹

Under this reasonable-alternative-design test, a product distributor should not be held liable for harm to persons or property if, at the relevant time, there was no realistic possibility of an alternative design that was also reasonable. "[T]he balancing of risks and benefits in judging product design and marketing must be done in light of the knowledge of risks and risk-avoidance techniques reasonably attainable at the time of distribution."⁷² This test also recognizes that "[s]ociety does not benefit from products that are excessively safe . . . any more than it benefits from products that are too risky."⁷³ An alternative design "may deprive a product of important features which make

it desirable and attractive to many users and consumers.”⁷⁴ The design-defect test similarly recognizes that “some risks cannot be designed out of the product at reasonable cost.”⁷⁵ “The monetary cost of the alternative design may exceed the safety benefits to be derived from it.”⁷⁶

It is not difficult to see why it would be socially undesirable to have liability rules that result in, for example, a hunting knife designed to be as dull as a butter knife, or a car designed with a top speed of twenty miles per hour. Likewise, most would agree that it would not be socially desirable to have new digital products that block unauthorized use of copyrighted works but—because of, say, the relative imprecision of existing blocking technology available for inclusion in those products—can do so only at the expense of unpredictably preventing users from accessing information to which they are entitled. Neither would it be desirable to require development of filtering tools if that development were so costly that it would make the price of a valuable product skyrocket, or prevent it from coming to market altogether.

Although the Seventh Circuit’s *Aimster* dicta appears to be inconsistent with *Grokster* insofar as *Aimster* is read to suggest that failure to affirmatively prevent infringing uses could alone (that is, without other evidence of unlawful intent) subject a file-sharing service to liability, it bears noting that even *Aimster* factors cost into its proposed liability equation. There the Seventh Circuit stated that “if the infringing uses are substantial then to avoid liability as a 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.”⁷⁷ Similarly, the court stated that the ability of a service provider to prevent customers’ infringement is not “a controlling factor” because if “the detection and prevention of the infringing uses would be highly burdensome, the rule for which the recording industry is contending could result in the shutting down of the service or its annexation by the copyright owners (contrary to the clear import of the *Sony* decision).”⁷⁸

Given the current state of “filtering” (or “blocking” or “digital rights management”) technology, it may not be “reasonable” for non-copyright-holding companies to incorporate it into the design of particular products.⁷⁹ As the technology improves and becomes better understood—or as technical feasibility and cost structures change, or other relevant factors evolve—the “reasonableness” or “risk-utility” calculus may change. Limiting consideration of infringement-prevention mechanisms (the rough copyright analog to “risk-avoidance techniques” in the Restatement) to those that are reasonable⁸⁰ serves the interest of fairness and furthers the goal of fostering innovation.

Further, under the Restatement, “liability for defective design attaches only if the risks of harm related to *foreseeable* product use could have been reduced by the adoption of a reasonable alternative design.”⁸¹ “The post-sale conduct of the user may be so unreasonable, unusual, and costly to avoid that a seller has no duty to design or warn against them.”⁸² In the copyright context, if the use of a product to infringe copyrights was not foreseeable, it would be unsound to infer anything from the fact that the product’s design did not include technology designed to block the unforeseeable use.

The Restatement also recognizes the relationship between product design and instruction or warning. Although warnings are not a substitute for reasonably safe design, “when an alternative design to avoid risks cannot reasonably be implemented, adequate instructions and warnings will normally be sufficient to render the product reasonably safe.”⁸³

The failure-to-develop notion forwarded by the *Grokster* Court does not, on the face of the decision, appear to contain these sorts of limitations or to reflect the realities underlying them. But just as these limitations are important elements in achieving the goals of products liability law, analogous and appropriately tailored limitations on the use of product-design evidence may be important in achieving the goals of copyright law. It is ironic that the Court invoked, without qualification, such an undefined factor as evidencing culpable intent for a case involving commercial losses from secondary copyright infringement, whereas the common law has adopted a more defined test, anchored in precedents, for cases involving physical harm to persons and property. Courts struggling to develop limitations on *Grokster*’s failure-to-develop conception might therefore find it helpful to consider design-defect principles as a source of analogy or contrast. Allowing limitless consideration of a technologically innovative company’s failure to design infringement-diminishing mechanisms into its products threatens to undermine, rather than promote, the progress of science and the useful arts.

RELEVANCE VERSUS ADMISSIBILITY OF PRODUCT-DESIGN EVIDENCE WHERE INDUCEMENT HAS BEEN ALLEGED

Despite the difficulties engendered by *Grokster*’s undeveloped failure-to-develop conception, conscientious trial and appellate courts presiding over subsequent inducement cases will have no choice but to make legal rulings that they believe to be consistent with the decision. Based on the analysis of *Grokster* above, a court trying to apply the decision might adopt the following framework for determining whether evidence of failure to develop infringement-preventing tools is relevant to whether a defendant

intended to induce copyright infringement. First, there must already be evidence of clear expression of intent to induce or affirmative steps taken to induce infringement. (Whether lower courts will limit this threshold requirement solely to evidence of clear expression will depend on their reading of *Grokster*'s holding and other key language, as discussed above.) Second, the proffered "failure-to-develop" evidence must underscore or add to the existing clear-expression or affirmative-step evidence. Third, the proffered evidence must satisfy an appropriate substantive test (for example, that there was a "reasonable alternative design" for the product that would have diminished consumers' foreseeable infringing uses).

If the plaintiff's evidence is deemed relevant under such a framework, the court will also need to consider admissibility. *Grokster* has given copyright holders the opportunity to proffer a wide range of evidence regarding the defendant's product design choices and possible alternatives. With that opportunity comes the risk of evidence whose "probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury, or by considerations of undue delay, waste of time, or needless presentation of cumulative evidence," and therefore should be excluded.⁸⁴ Additionally, a plaintiff may elect or be required to introduce expert testimony to establish facts regarding the defendant's alleged unreasonable failure to develop infringement-preventing mechanisms and incorporate them into the design of its product.⁸⁵ If so, the court will need to ensure that the standards for admissibility of such opinion testimony are met, including in some cases perhaps, the reliability of the expert's principles and methods.⁸⁶

SIGNIFICANCE OF DEFENDANT'S STEPS TO PREVENT INFRINGEMENT

Although the Court in *Grokster* pointed to the defendants' failure to take infringement-preventing steps as evidence of liability, a reasonable implied corollary is that a defendant's affirmative steps to prevent infringement could be raised as a defensive matter. The first lower court decision to cite *Grokster* employed such reasoning in holding the defendant to be not secondarily liable for copyright infringement. In *Monotype Imaging, Inc. v. Bitstream Inc.*,⁸⁷ the district court found that, unlike the defendants in *Grokster*, Bitstream "submitted evidence that it had taken steps to avoid the use of its [software] with protected fonts of other companies."⁸⁸ This product-design evidence, along with other evidence admitted during a full bench trial, supported the court's conclusion that the defendant did not have the culpable intent necessary for liability on either a contributory theory or an inducement

theory.⁸⁹ The district court did not attempt to articulate what type of evidence of affirmative infringement-diminishing steps would be sufficient to defeat a claim of contributory or inducement liability. The court merely stated that "Bitstream has made at least some efforts to reduce the risk of infringement," and concluded that "[w]hile Plaintiffs dispute the effectiveness of these technologies and argue that Bitstream could do more, this argument does not weigh heavily in favor of finding contributory infringement and certainly does not outweigh the first two factors [of the Seventh Circuit's three *Aimster* factors for determining culpable intent] that decisively weigh in favor of Bitstream."⁹⁰ Despite the no-liability result in this particular case, the nebulous role of product design is troubling because it does not give technology companies clear guidance on what they need to do to avoid liability as they research and develop new products and bring them to market.

SIGNIFICANCE OF PLAINTIFF'S FAILURE TO TAKE INFRINGEMENT-PREVENTING STEPS

Among the questions raised by *Grokster*'s notion that the defendant's failure to incorporate filtering or related technologies may be relevant to the inducement-of-infringement analysis is the relevance, if any, of a plaintiff copyright holder's failure to employ such technologies. Currently neither the common law nor the Copyright Act requires copyright owners to incorporate features into their copyright works that would prevent infringement by end users. Products liability law provides that the two most relevant actors, product manufacturers and users, have a shared responsibility for preventing injury, and that the fault of the plaintiff is relevant in assessing liability for product-caused harm.⁹¹ These principles do not transfer particularly well to the realm of copyright, where the law must allocate the burdens of preventing infringement between a somewhat different set of actors: copyright holders, manufacturers of products that are capable of playing or reproducing copyrighted works, and end users.

It is not clear why, as a matter of fairness or efficiency, product developers should be burdened with developing or implementing infringement-preventing technology though copyright holders are not. In some circumstances, especially in the world of digital content, it may be less expensive or more technologically feasible for the copyright holder to incorporate technological solutions to prevent or reduce infringement than for the defendant to do so.⁹² If so, that fact may weigh against a finding that the defendant's adoption of an alternative design incorporating infringement-reducing technology would have been reasonable. An argument could even be made

that the plaintiff's failure to act should be a defense to secondary liability. As the law of secondary infringement and inducement develops, courts, counsel, and clients may wish to consider the pros and cons of "cheapest (or lowest) cost avoider" analysis and their potential relevance to issues of liability and defenses as well as damages.⁹³ Additionally, *Grokster* has opened the door to consideration of fault principles in this area of copyright law—indeed, the Court stated that Sony "was never meant to foreclose rules of fault-based liability derived from the common law"⁹⁴—and therefore fault of the copyright holder and comparative responsibility principles could become relevant.⁹⁵

CONCLUSION

The Supreme Court's treatment of infringement-prevention and product-design omissions in *Grokster* presents serious issues for lower courts and litigants in copyright cases involving allegations of inducement. The Court's brief discussion does not fit comfortably within the construct of its core holding, which provides that intent to induce may be shown either by clear expression or other affirmative steps to induce infringement, and the decision gives little guidance on the threshold circumstances in which evidence of a product distributor's failure to develop infringement-preventing mechanisms is relevant to intent. Moreover, the Court injected the issue of product design into inducement doctrine without discussing the appropriate substantive standard for determining when failure to employ an alternative design is probative of intent to induce.

Lower courts will need to establish a framework and standards for assessing the relevance and admissibility of product-design evidence, taking into account the overarching goals of copyright law. As the courts struggle to develop these principles, it may be useful to consider analogous or contrasting principles in other areas of copyright law as well as trademark law and products liability law. Given the fundamental nature of these issues, they are likely to have a ripple effect across various stages of litigation, including discovery, summary judgment, and trial.

In the near term, the uncertainty engendered by *Grokster*'s product-design formulation promises to affect distributors of new products not only once they are involved in litigation, but also when they attempt to assess, before a product is distributed, the likelihood of secondary liability for consumers' infringing uses of the product. For emerging companies that create, sell, and market new digital technologies, this sort of uncertainty increases legal risk, which, when coupled with technical and financial risk, can burden innovation.

NOTES

1. 125 S. Ct. 2764 (2005).
2. 464 U.S. 417 (1984).
3. *Grokster*, 125 S. Ct. at 2770, 2780.
4. *Id.* at 2780.
5. *Id.* at 2779, 2781 n.12.
6. *Id.* at 2781.
7. *Id.* at 2770-71.
8. See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (describing Napster service; holding that plaintiffs demonstrated likelihood of success on merits of contributory and vicarious infringement claims; remanding for modification of preliminary injunction); *A & M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091 (9th Cir. 2002) (affirming district court's modified preliminary injunction and shut-down order, which was issued due to Napster's failed attempts to use filtering mechanisms to prevent sharing of copyrighted works by users of its service).
9. 17 U.S.C. § 101 et seq.
10. *Grokster*, 125 S. Ct. at 2772.
11. 464 U.S. 417 (1984).
12. *Grokster*, 125 S. Ct. at 2774-75 (summarizing Ninth Circuit's reasoning).
13. *Id.*
14. *Id.* at 2775.
15. On remand, MGM and Grokster reached a settlement providing, among other things, that Grokster would shut down. The district court entered a consent judgment and permanent injunction against Grokster and related parties.
16. 17 U.S.C. § 101 et seq.
17. 35 U.S.C. § 271(b) (providing that "[w]hoever actively induces infringement of a patent shall be liable as an infringer"). "Thus, a person infringes [a patent] by actively and knowingly aiding and abetting another's direct infringement." *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988).
18. *Grokster*, 125 S. Ct. at 2780.
19. *Id.* at 2770, 2780.
20. *Id.* at 2780 (internal citation omitted).
21. *Id.* at 2778.
22. See *id.* at 2772-74, 2780-82 (discussing evidence of inducement in record, such as defendants' advertisements, internal communications, affirmative assistance with product downloading, and expressed intent to satisfy known source of demand for infringement).
23. *Id.* at 2781.
24. *Id.*; see also *id.* at 2772-73.
25. *Id.* at 2781-82; see also *id.* at 2774.
26. *Id.* at 2781 (emphasis added).
27. *Id.* (emphasis added).
28. *Id.* at 2774.
29. *Id.*
30. This article discusses filtering tools and other infringement-preventing mechanisms in the context of product design, and assumes for purposes of discussion that mass-marketed software, such as Grokster's and StreamCast's, is a product. The Seventh Circuit appears to endorse a distinction between products and services for purposes of contributory copyright liability: "The industry points out that the provider of a service, unlike the seller of a product, has a continuing relation with its customers and therefore should be able to prevent, or at least limit, their infringing copyright by monitoring their use of the service and terminating them when it is discovered that they are infringing." *In re Aimster Copyright Litig.*, 334 F.3d 643, 648 (7th Cir. 2003). The Restatement (Third) of Torts: Products Liability also makes a distinction between products and services for purposes of tort liability, consistent with the case law. Restatement (Third) of Torts: Prods. Liab. § 19 cmt. f & reporters' note on cmt. f (1998). The distinction between products and services is beyond the scope of this article.
31. *Grokster*, 125 S. Ct. at 2781 n.12. The Court also noted: "It is not only that encouraging a particular consumer to infringe a copyright can give

- rise to secondary liability for the infringement that results. Inducement liability goes beyond that, and the distribution of a product can itself give rise to liability where evidence shows that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use." *Id.* at 2782 n.13.
32. *Id.* at 2779.
 33. 334 F.3d 643 (7th Cir. 2003).
 34. Brief for Motion Picture Studio & Recording Co. Petitioners at 33 (citing *Aimster*, 334 F.3d at 653), available at http://www.eff.org/IP/P2P/MGM_v_Grokster/04-480_Petitioners_brief.pdf.
 35. Brief for Songwriter and Music Publisher Petitioners at 15, available at http://www.eff.org/IP/P2P/MGM_v_Grokster/Songwriters_brief.pdf; see also *id.* at 17, 18.
 36. 334 F.3d at 648.
 37. *Id.*
 38. E.g., Brief for Respondents at 30-33, available at http://www.eff.org/IP/P2P/MGM_v_Grokster/20050301_respondents_brief.pdf; Brief of Business Software Alliance as Amicus Curiae Supporting Petitioners at 6-7, 12-17, available at http://www.eff.org/IP/P2P/MGM_v_Grokster/050124_BSAGroksterBrief.pdf; Brief of Amici Curiae Emerging Technology Companies in Support of Respondents at 6-8, 18-25, available at http://www.eff.org/IP/P2P/MGM_v_Grokster/20050301_emerging_tech.pdf.
 39. This article does not discuss possible implications of the Supreme Court's decision for criminal enforcement of the copyright laws. See generally, e.g., 17 U.S.C. § 506(a) (criminal offense of willful copyright infringement); 18 U.S.C. § 2319 (punishment); U.S. Sentencing Guidelines Manual § 2B5.3 (2004) (sentencing); see also U.S. Dept. of Justice, Criminal Division, Computer Crime and Intellectual Property Section, Intellectual Property Cases, <http://www.usdoj.gov/criminal/cyber-crime/ipcases.htm> (last visited Oct. 4, 2005) (sample of copyright prosecutions); U.S. Dept. of Justice, Report of the Department of Justice's Task Force on Intellectual Property (Oct. 2004), <http://www.usdoj.gov/criminal/cybercrime/IPTaskForceReport.pdf>; U.S. Dept. of Justice, Criminal Division, Computer Crime and Intellectual Property Section, Prosecuting Intellectual Property Crimes Manual (Jan. 2001), <http://www.usdoj.gov/criminal/cybercrime/ipmanual.htm>; Prepared Remarks for Attorney General Alberto R. Gonzales at the U.S. Chamber of Commerce "Stopping the Fakes" Anti-counterfeiting Summit, http://www.usdoj.gov/ag/speeches/2005/ag_speech_051110.html (last visited Nov. 16, 2005); Electronic Frontier Foundation, U.S. v. ElcomSoft & Sklyarov Archive, http://www.eff.org/IP/DMCA/US_v_Elcomsoft/ (last visited Oct. 4, 2005).
 40. *Grokster*, 125 S. Ct. at 2770, 2780.
 41. *Id.*
 42. Because the Court specifically crafted its holding using these two broad, as well as familiar, categories (speech and conduct), and specifically defined and qualified them (first by the term "clear expression" and second by the terms "affirmative" and "taken to foster infringement"), arguably there could be a presumption that the second element of inducement liability must be shown by such evidence.
 43. *Ferguson Beawegard/Logic Controls, Div. of Dover Res., Inc. v. Mega Sys., LLC*, 350 F.3d 1327, 1342 (Fed. Cir. 2003) (stating approvingly that "[t]he district court noted that to be found liable under § 271(b), 'a patentee must show that the individual charged with inducement took actions that actually induced infringement and that such individual knew or should have known that such actions would induce direct infringement'").
 44. *Water Techs.*, 850 F.2d at 669; accord *Insituform Techs., Inc. v. Cat Contracting, Inc.*, 385 F.3d 1360, 1378 (Fed. Cir. 2004) ("Intent is a factual determination particularly within the province of the trier of fact and may be inferred from all of the circumstances.").
 45. 726 F. Supp. 1525 (N.D. Ill. 1989).
 46. *Id.* at 1540-41.
 47. *Id.* at 1541; see also *id.* at 1542 (summarizing actions identified by plaintiffs as bearing on intent, including that "Zenith could have provided a VHF antenna by-pass switch . . . to eliminate the possibility of infringement").
 48. *Grokster*, 125 S. Ct. at 2781 (emphasis added).
 49. *Id.* (emphasis added).
 50. *Id.* at 2781 n.12 (emphasis added). The Court did not address the lack of parallelism between, on the one hand, "[failure to] develop filtering tools or other mechanisms to diminish [] infringing activity," *id.* at 2781, and, on the other hand, "failure to take affirmative steps to prevent infringement," *id.* at 2781 n.12. The latter appears to be a more expansive category of conduct that includes the former.
 51. *Water Techs.*, 850 F.2d at 668.
 52. See *Grokster*, 125 S. Ct. at 2772-74, 2780-82 (discussing evidence of inducement in record, such as defendants' advertisements, internal communications, affirmative assistance with product downloading, and expressed intent to satisfy known source of demand for infringement).
 53. *Id.* at 2781.
 54. This article takes no position on whether product design *should* be a factor in assessing secondary liability, but rather assumes that the Court in *Grokster* has ensured that it *will* be a factor in certain circumstances.
 55. It is surprising that a unanimous Court with ample opportunity to articulate clarifying principles would have allowed such an undeveloped idea to survive earlier drafts of the opinion, especially in a doctrinal area that likely will require laborious and craftsmanlike refinement in the lower courts and generate needless uncertainty. Cf. Harry T. Edwards, *The Effects of Collegiality on Judicial Decision Making*, 151 U. Pa. L. Rev. 1639 (2003) (discussing the components and dynamics of circuit court collegiality and arguing that they improve and refine the court's opinions; recognizing that collegiality on the Supreme Court may operate differently).
 56. Another potentially relevant source of analogy or contrast, not discussed in this article or in the Court's decision, is the principle in defamation law that a "failure to investigate" is not itself sufficient to show the mental element of reckless disregard of the truth. See *St. Amant v. Thompson*, 390 U.S. 727, 731-33 (1968) (holding that reckless disregard of the truth "is not measured by whether a reasonably prudent man would have published, or would have investigated before publishing. There must be sufficient evidence to permit the conclusion that the defendant in fact entertained serious doubts as to the truth of his publication."). In *St. Amant*, the Court, balancing competing reputational and First Amendment interests, adopted this standard recognizing that it might create an incentive not to investigate and might prevent recovery for injured reputation caused by lies and false communications. *Id.* at 731-32.
 57. By referring to this one subsection of the DMCA for the purpose of illustrating important liability-limiting principles in copyright law, we are not suggesting that product manufacturers should be subject to an entire regime akin to the DMCA's provisions for ISPs, which are much differently situated. For example, emerging technology companies that are designing and testing new products and bringing them to market cannot reasonably be expected to readily accommodate procedures analogous to the DMCA's "notice and take down" provisions.
 58. Restatement (Third) of Unfair Competition § 27 (1995).
 59. *Id.* § 27 cmt. b.
 60. *Id.* § 27 cmt. c (emphasis added).
 61. *Id.* (emphasis added).
 62. *Id.* (emphasis added).
 63. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 111 S. Ct. 1282, 1290 (1991) (quoting U.S. Const. art. I, § 8, cl. 8).
 64. *Grokster*, 125 S. Ct. at 2775.
 65. Restatement (Third) of Torts: Prods. Liab. § 21 & cmt. a (1998) (hereinafter "Restatement").
 66. Restatement § 2(b)-(c) & cmts. a, d. In this article, we refer to the "risk-utility balancing" approach of the Restatement, which is one of the two most common approaches taken by state courts. The main competing approach is the consumer expectations test. See Restatement § 2 reporters' note cmt. d(II). California has a mixed approach: it adheres to the consumer expectations test in non-complex design cases, and follows a risk-utility balancing approach in complex design cases. See *id.* § 2 reporters' note cmt. d(II)(D) (discussing *Barker v. Lull Eng'g Co.*, 573 P.2d 443 (Cal. 1978) and *Soule v. General Motors Corp.*, 882 P.2d 298 (Cal. 1994)). The Restatement does incorporate "the nature and strength of consumer expectations" into the liability analysis as one of the factors to be considered. Restatement § 2 cmt. f.
 67. E.g., *Grokster*, 125 S. Ct. at 2776-80.
 68. Restatement § 2 & cmt. a. The Restatement takes a different approach

- to design-defect liability for prescription drugs and medical devices. In part because of the substantial regulatory involvement of the FDA and the countervailing policy of encouraging research and development to foster improvements in human health care, only a limited opening was provided for design-defect liability for drugs or devices that no reasonable physician would prescribe. Restatement § 6(c). See also *Brown v. Super. Ct.*, 44 Cal.3d 1049, 1061 (1988) (stating that “a drug manufacturer’s liability for a defectively designed drug should not be measured by the standards of strict liability [because of the] public interest in the development, availability, and reasonable price of drugs”).
69. One commentator has gone so far as to suggest that a design-defect analysis drawn from products liability law could provide the overarching test of liability for providers of peer-to-peer technologies. Alfred C. Yen, *Sony, Tort Doctrines, and the Puzzle of Peer-to-Peer*, 55 Case W. Res. L. Rev. 815, 862 (2005).
 70. Restatement § 2(b).
 71. *Id.* § 2 cmt. f (internal citation omitted).
 72. *Id.* § 2 cmt. a.
 73. *Id.*
 74. *Id.* § 2 reporters’ note cmt. f(1).
 75. *Id.* § 2 cmt. a.
 76. *Id.* § 2 reporters’ note cmt. f(1).
 77. 334 F.3d at 653.
 78. *Id.* at 648-49.
 79. It is beyond the scope of this article to discuss the current state of this technology. Also, this article takes no position on whether it would be reasonable, at a given time and for a given product, to incorporate such technology into product design.
 80. Under the Restatement, the reasonableness of “risk-avoidance techniques” is evaluated as of the time a product is distributed. Restatement § 2 cmt. a. When determining whether the failure to include infringement-prevention mechanisms evidences intent to induce infringement, it may be more appropriate to make the determination as of the time a product is designed. Digital technologies evolve rapidly, and analyzing matters such as technical feasibility and cost late in the product’s life cycle, after a product has been designed and tested, would increase legal risk for emerging technology companies, which are already saddled with technical and financial risk, thereby burdening innovation. Additionally, products liability law deals with harm to people and property rather than economic harm.
 81. Restatement § 2 cmt. p (emphasis added).
 82. *Id.* § 2 cmt. p.
 83. *Id.* § 2 cmt. l.
 84. Fed. R. Evid. 403.
 85. Cf. Restatement § 2 cmt. f.; Paul Goldstein, *Copyright’s Highway: From Gutenberg to the Celestial Jukebox* 159 (1994) (noting that in *Sony*, Universal Studios sought to present expert testimony regarding “the availability of a low-cost jamming device that would make it impossible to record a television program without the copyright owner’s permission”).
 86. See Fed. R. Evid. 702; *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993); *Kumho Tire Co. v. Carmichael*, 526 U.S. 137 (1999).
 87. 376 F. Supp. 2d 877 (N.D. Ill. 2005).
 88. *Id.* at 889.
 89. *Id.* at 887-89.
 90. *Id.* at 888. Under the district court’s reading of *Aimster*, a court is to consider the following three factors in determining whether the alleged contributory infringer acted with culpable intent: “(1) the respective magnitudes of infringing and noninfringing uses; (2) whether the defendant encouraged the infringing uses; and (3) efforts made by the defendant to eliminate or reduce infringing uses.” *Id.* at 887 (citing *Aimster*, 334 F.3d at 649-51).
 91. Restatement § 2 cmt. a, p; *id.* § 17 & cmt. a-d.
 92. See Douglas Lichtman & William Landes, *Indirect Liability for Copyright Infringement: An Economic Perspective*, 16 Harv. J. L. & Tech. 395, 408 (2003) (urging that an economic analysis of indirect liability should take into account the costs and benefits associated with “the many technological remedies available to copyright holders” and noting that “[o]nline music piracy, for example, can be discouraged through the use of encrypted music files that are difficult to copy without permission”).
 93. See, e.g., James Boyle, *Foucault in Cyberspace: Surveillance, Sovereignty, and Hardwired Censors*, 66 U. Cin. L. Rev. 177, 199 n.62 (1997) (“In many cases, the party best situated to avoid the cost of copyright infringement will be the owner of the copyright. Whether by developing technical solutions or by fine-tuning their business plan so as to minimize the incentives to violate copyright in the first place, copyright owners might well be the cheapest cost avoiders.”); see generally, e.g., Stephen G. Gilles, *Negligence, Strict Liability, and the Cheapest Cost-Avoider*, 78 Va. L. Rev. 1291 (1992); Guido Calabresi, *The Costs of Accidents: A Legal and Economic Analysis* (1970). At a minimum, the fact that the plaintiff copyright holder may be the cheapest cost avoider underscores the economic inefficiencies that may result in some cases from admitting evidence of the defendant’s failure to develop blocking technologies, as the *Grokster* decision authorizes in certain circumstances.
 94. *Grokster*, 125 S. Ct. at 2779.
 95. See generally, e.g., Restatement (Third) of Torts: Apportionment of Liab. (2000).

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