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**Intellectual Property - Copyright & Internet Law - "The Big Chill":
The Supreme Court Adopts an Inducement Standard for Third-
Party Copyright Infringement Liability, Leaving Innovation in the
Cold Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 125 S.
Ct. 2764 (2005).**

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INTELLECTUAL PROPERTY—COPYRIGHT & INTERNET LAW—“THE BIG CHILL”: THE SUPREME COURT ADOPTS AN INDUCEMENT STANDARD FOR THIRD-PARTY COPYRIGHT INFRINGEMENT LIABILITY, LEAVING INNOVATION IN THE COLD. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005).

I. INTRODUCTION

Resolution of the question presented here will largely determine the value, indeed the very significance, of copyright in the digital era.¹

Reconciling the interrelationship and ongoing struggle between the rights of copyright holders and those who develop new technologies has been a topic of concern since the advent of copyrights.² Technological innovation and copyrights are generally seen as being in conflict, with copyright pitted against progress.³ The rights of copyright holders are often put into jeopardy when some types of new technologies are introduced, for example, the printing press, photocopier, and VCR.⁴ Technological innovation requires sufficient incentive to develop and appropriate time to cultivate legal markets.⁵ In this regard, a copyright system that is too protective will stifle the flow of capital into developing new technologies.⁶ In addition, a copyright system that is uncertain regarding the potential for liability will chill innovation.⁷ Conversely, it is argued that a weak copyright system will not encourage and promote artistic expression and information distribution, thereby depriving the public of creative output.⁸ Weak copyright law may

1. Petition for a Writ of Certiorari at 1, *MGM Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) (No. 04-480).

2. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984); Jane C. Ginsburg, *Copyright and Control over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613, 1613 (2001).

3. Ginsburg, *supra* note 2, at 1613.

4. *MGM Studios, Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764, 2791–92 (2005) (Breyer, J., concurring).

5. Deborah Tussey, *Technology Matters: The Courts, Media Neutrality, and New Technologies*, 12 J. INTELL. PROP. L. 427, 442 (2005); see also GEOFFREY A. MOORE, *CROSSING THE CHASM* 12–13, 30–49 (1999).

6. See Brief for Sixty Intellectual Property and Technology Law Professors and the United States Public Policy Committee of the Association for Computing Machinery as Amici Curiae Supporting Respondents, *Grokster III*, 125 S. Ct. 2764 (2005) (No. 04-480).

7. See *id.*

8. See Ginsburg, *supra* note 2, at 1614.

even suppress business development, without which many useful technologies would never be developed.⁹

A key feature of an effective copyright system is to provide protection against infringement that is consistent with a copyright's goal: to "promote . . . useful Arts."¹⁰ Thus, for the overall public good, it is vital to achieve a proper balance between protecting authors' works as an incentive to create and the public's interest in accessing both creative works and new technology.¹¹ The outcome of *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* (*Grokster III*),¹² and the resulting business and legal developments, created ambiguity and doubt regarding potential liability in the copyright system that is having a deleterious effect on technical innovation and investment.

This Note addresses the current confusion surrounding contributory liability for copyright infringement after the Supreme Court's decision in *Grokster III* and the decision's failure to clarify a split among the circuit courts regarding the application of the safe-harbor defense to contributory liability for copyright infringement adopted in *Sony Corp. of America v. Universal City Studios, Inc.*¹³ Part II of this Note outlines the facts and procedural history;¹⁴ Part III contains the background and historical development of relevant copyright law, with an emphasis on the development of contributory liability, the safe-harbor doctrine adopted in *Sony*,¹⁵ and the emerging split between the Seventh and Ninth Circuits regarding the interpretation of the *Sony* doctrine.¹⁶ Part IV analyzes the unanimous opinion of the United States Supreme Court in *Grokster III* in which the Court adopted an inducement standard for third-party copyright infringement liability, and the conflict between Justice Ginsburg's and Justice Breyer's concurring opinions on the correct interpretation of the *Sony* doctrine.¹⁷ Part V emphasizes that, without action by Congress or the courts to clarify the boundaries of legal liability, the ambiguity left by the Supreme Court's failure in *Grok-*

9. See, e.g., Keith E. Maskus, *Intellectual Property Challenges for Developing Countries: An Economic Perspective*, 2001 U. ILL. L. REV. 457, 461 (2001).

10. UNITED STATES CONST. art. I, § 8, cl. 8 [hereinafter Copyright Clause or Patent and Copyright Clause]. The United States Constitution grants Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." *Id.*

11. *Grokster III*, 125 S. Ct. at 2792-94 (Breyer, J., concurring); Ginsburg, *supra* note 2, at 1614; Lior Zemer, *Rethinking Copyright Alternatives*, 14 INT'L J.L. & INFO. TECH. 137, 137, 139 (2006).

12. 125 S. Ct. 2764.

13. *Id.* at 2764; 464 U.S. 417 (1984).

14. See *infra* Part II.

15. 464 U.S. 417.

16. See *infra* Part III.

17. See *infra* Part IV.

ster III to resolve the split among the circuits regarding the application of *Sony* will chill technological innovation and investment.¹⁸

II. FACTS

In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster I)*,¹⁹ a number of entertainment companies brought a complaint against the defendants on the basis of contributory and vicarious copyright infringement for distributing second-generation peer-to-peer file-sharing software to end users who utilized the software to illegally share the plaintiffs' copyrighted material with others.²⁰

Initially, this section focuses on the development of the first two generations of peer-to-peer (P2P) file-sharing technology, the impact of the technology on copyright holders, and the legal responses to the new technology as epitomized by *A&M Records, Inc. v. Napster, Inc. (Napster II)*.²¹ Next, this section focuses on the specific facts that gave rise to the copyright holders' suit for contributory and vicarious copyright infringement.²² Finally, this section traces the procedural history of the *Grokster* litigation in the United States District Court for the Central District of California, the United States Court of Appeals for the Ninth Circuit, and the ultimate grant of certiorari by the United States Supreme Court.²³

A. Factual Background

1. Peer-to-Peer File Sharing: The First Wave

In the fall of 1998, Shawn Fanning, a freshman at Northeastern University in Boston, developed software to solve a problem his roommate had finding web sites for downloading digital music files.²⁴ The available web sites were hard to find, unreliable, and infrequently updated.²⁵ In an attempt

18. See *infra* Part V.

19. 259 F. Supp. 2d 1029 (C.D. Cal. 2003).

20. *Id.* at 1032. Peer-to-peer software works by networking together a number of individual, personal computers to provide access to files on them instead of storing the files on a centralized server. John M. Moyer, *How Sony Survived: Peer-to-Peer Software, Grokster, and Contributory Copyright Liability in the Twenty-First Century*, 84 N.C. L. REV. 646, 660 (2006). In order for peer-to-peer software users to find files located on a peer computer in the network, an index of files available on the network is maintained. *Id.*

21. 239 F.3d 1004 (9th Cir. 2001); see *infra* Part II.A.1.

22. See *infra* Part II.A.2.

23. See *infra* Part II.B.

24. *Utah's Digital Economy and the Future: Peer-to-Peer and Other Emerging Technologies: Hearing Before the S. Comm. on the Judiciary*, 106th Cong. 29 (2000) (testimony of Shawn Fanning, Founder, Napster, Inc.) [hereinafter Fanning Testimony].

25. *Id.*

to solve these issues, Fanning developed software to locate and transfer digital music files in MPEG-3 (MP3) format²⁶ from other individuals' personal computers that were connected to the Internet.²⁷ In order to create a searchable database of available files, users of Fanning's software would send information about files they were willing to share to a centralized server.²⁸ Users could then use the server to search for particular files and download those files directly from the computer hosting the file.²⁹ The peer-to-peer file-sharing software that Fanning developed was named MusicShare, and it formed the basis for Napster, Inc.³⁰ Within a year of the software's public release in the summer of 1999,³¹ the number of MusicShare users swelled to twenty million and to over fifty million by the time the Ninth Circuit issued its injunction.³²

P2P software, which allows users to exchange files directly with other users on the Internet, can be used to share any type of digital file.³³ However, the primary use for Napster's software, essentially unchanged from Fanning's original version of MusicShare, was illegally trading MP3 music

26. MP3 music files are created when a user copies (i.e., "rips") music from an audio compact disc (CD) onto his or her computer hard drive in the compressed MP3 format. *Napster II*, 239 F.3d at 1011. This compressed audio "format allows for rapid transmission of digital audio files from one computer to another." *Id.*

27. Fanning Testimony, *supra* note 24, at 33.

28. *Id.*

29. *Napster II*, 239 F.3d at 1011. Fanning's software allowed its users to "(1) make MP3 music files stored on individual computer hard drives available for copying by other Napster users; (2) search for MP3 music files stored on other users' computers; and (3) transfer exact copies of the contents of other users' MP3 files from one computer to another via the Internet." *Id.* This direct user-to-user sharing of files is termed peer-to-peer (P2P) file sharing. *Grokster III*, 125 S. Ct. 2764, 2770 (2005). P2P file sharing is

so called because users' computers communicate directly with each other

Because they need no central computer server to mediate the exchange of information or files among users, the high-bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated . . . [and] copies of a file . . . are available on many users' computers.

Id.

30. *A&M Records, Inc. v. Napster, Inc. (Napster I)*, 114 F. Supp. 2d 896, 901, 905 (N.D. Cal. 2000).

31. Fanning Testimony, *supra* note 24, at 33.

32. Christopher Jensen, *Your iPod Is Safe, but: A Provisional Assessment of the Supreme Court's Grokster Decision*, 9 J. INTERNET L. 28 (2005). Senator Orrin Hatch, making a statement after the Ninth Circuit's decision, put the number of users higher, saying that "ordering the lower court to impose a preliminary injunction before a trial on the merits . . . could have the effect of shutting down Napster entirely, depriving more than [fifty] million consumers access to a music service they have enjoyed." Statement of Sen. Orrin Hatch on the Ninth Circuit Decision in the *Napster* Case Feb. 14, 2001, available at <http://judiciary.senate.gov/oldsite/ogh021401nap.htm> (last visited Feb. 19, 2006).

33. Napster's software was originally developed specifically for trading music files. Fanning Testimony, *supra* note 24, at 29.

files.³⁴ Faced with a vast amount of allegedly infringing activity taking place by the software's users,³⁵ A&M Records and seventeen other record companies sued Napster for vicarious and contributory copyright infringement liability in December 1999—little more than a year after Fanning began work on the MusicShare software.³⁶ The Northern District of California determined that Napster's central business strategy was to facilitate the unauthorized exchange of copyrighted music.³⁷ The court granted the plaintiffs' motion for a preliminary injunction and enjoined Napster from operating its business.³⁸ On appeal, the Court of Appeals for the Ninth Circuit affirmed the "district court's conclusion that plaintiffs [had] demonstrated a likelihood of success on the merits of [their] contributory copyright infringement claim."³⁹ In addition, the court concluded that Napster had both knowingly and materially contributed to its users' infringing activities by providing and monitoring the "site and facilities" for direct infringement—the indexing and search servers.⁴⁰ For all practical purposes, Napster was out of business.⁴¹

2. *Peer-to-Peer File Sharing: The Second Wave*

A number of P2P file-sharing software companies sprang up in Napster's place, including Grokster, StreamCast, and KaZaa, all vying to be "the next Napster."⁴² They intended to avoid Napster's fate by doing away with the centralized indexing and search servers, the source of liability in *Napster II*.⁴³

34. *Napster I*, 114 F. Supp. 2d at 911 ("[V]irtually all Napster users engage in the unauthorized downloading or uploading of copyrighted music.").

35. The estimate given during the *Napster* case was that twelve to thirty million songs were being downloaded per day. John Gibeaut, *Facing the Music: You Say You Want a Revolution? Well, the Napster Case and Others Herald the Beginning of a Technological Rebellion That May Alter Traditional Concepts of Copyright Law*, 86 A.B.A. J. 36, 38 (2000).

36. *Napster I*, 114 F. Supp. 2d at 900.

37. *Id.* at 918.

38. *Id.* at 927.

39. *Napster II*, 239 F.3d 1004, 1022 (9th Cir. 2001). The court also concluded that the plaintiffs showed a likelihood of success on their vicarious copyright infringement claim. *Id.* at 1024 ("Napster's failure to police the system's 'premises,' combined with a showing that Napster financially benefits from the continuing availability of infringing files on its system, leads to the imposition of vicarious liability.").

40. *Id.* at 1022–23.

41. *Napster R.I.P. Music File-Swapping. (Napster Dies, but Its Clones Live on)*, ECONOMIST, Sept. 7, 2002, at 56.

42. *Grokster III*, 125 S. Ct. 2764, 2773 (2005).

43. 239 F.3d 1004; Maria Termini, *Time-Shifting in the Internet Age: Peer-to-Peer Sharing of Television Content*, 38 COLUM. J.L. & SOC. PROBS. 415, 430 (2005) ("Second-generation P2P software rose to take Napster's place. The second-generation software is tailored to avoid the legal problems Napster had encountered.").

KaZaa developed the peer-to-peer software, which it initially licensed to the other defendants, who distributed branded versions.⁴⁴ Unlike Napster,⁴⁵ Grokster's software did not utilize a centralized server to maintain an index of the files available on the system; instead, the system used the network of user computers for searching.⁴⁶

While Grokster, StreamCast, and KaZaa all began using the same P2P network protocol,⁴⁷ StreamCast later modified its software to utilize the Gnutella P2P network protocol.⁴⁸ Users who installed software compatible with either protocol would be able to trade files with others on the same protocol's P2P network.⁴⁹ In the FastTrack network, instead of a centralized server, some computers on the network would be temporarily designated "supernodes," which would collect and index the files available on a segment of the network.⁵⁰ A search for a file would query a supernode, which would then instruct other supernodes to process the search and return partial results to the original supernode where they would be aggregated and delivered to the user, thus making the indexing and search functionality an autonomous, distributed system.⁵¹ Some of the Gnutella protocol had no supernodes or a centralized index; rather, search requests were passed from user to user until results were found or there were no other connected peers.⁵²

In marketing their software, StreamCast also distributed a program compatible with the Napster P2P network, OpenNap, which was used to collect marketing information about Napster's users.⁵³ StreamCast used this harvested information, which included mostly e-mail addresses, in order to

44. Termini, *supra* note 43, at 431. "Grokster distributed a branded version of the Kazaa Media Desktop based on FastTrack while Streamcast [later] offered its own proprietary software, Morpheus, based on the open-source Gnutella protocol." Tussey, *supra* note 5, at 464 n.199 (citing *Grokster I*, 259 F. Supp. 2d 1029, 1032-33 (C.D. Cal. 2003)).

45. See *supra* Part II.A.1.

46. Jesse M. Feder, *Is Betamax Obsolete?: Sony Corp. of Am. v. Universal City Studios, Inc. in the Age of Napster*, 37 CREIGHTON L. REV. 859, 865 (2004).

47. In a pure P2P network protocol there are no servers or centralized control systems. Duncan Campbell, *Transfer Report: Design Information Push Research*, Research Centre at the University of Bath, at 27 (Dec. 23, 2004), available at <http://www.bath.ac.uk/~enpdrc/Docs/tr.pdf> (last visited Mar. 12, 2006). Each peer on the network is capable of both initiating communication and being the subject of a request. *Id.* A peer is also able to leave or enter the network at any time. *Id.* This is unlike the more conventional client/server network model in which there is a rigid distinction of roles between the client nodes and the server nodes. *Id.*

48. *Grokster III*, 125 S. Ct. 2764, 2771 (2005).

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.*

53. *Id.* at 2773.

market the StreamCast system to these former Napster users.⁵⁴ The Court recognized that the "OpenNap program . . . was designed, as its name implied, to invite the custom of patrons of Napster, then under attack in the courts for facilitating massive infringement."⁵⁵ Grokster and StreamCast's software contained advertising space that generated revenue based on the number of advertising viewers.⁵⁶ Both companies' goal was to increase the use of their software, thereby increasing their advertising revenue.⁵⁷

Like Napster, the record developed in the cases against Grokster and StreamCast indicated that a majority of the activity on their networks was for the illegal trading of music files on a massive scale.⁵⁸ Over 100 million copies of the defendants' software had been downloaded by the time the case reached the Supreme Court.⁵⁹ Although, in *Grokster III*, the Motion Picture Association of America (MPAA) stated that creating digital versions of a compact disk (CD) for personal use was permissible,⁶⁰ it has since sought to qualify this statement.⁶¹

54. *Grokster III*, 125 S. Ct. at 2773.

55. *Id.* at 2780. For a more detailed discussion, see *infra* Part IV.A.4.

56. *Grokster III*, 125 S. Ct. at 2774.

57. *Id.* The record indicated that "both companies generate income by selling advertising space As the number of users of each program increases, advertising opportunities become worth more." *Id.*

58. *Id.* at 2772. A study commissioned by copyright holders indicated that "nearly [ninety percent] of the files available for download on the FastTrack system were copyrighted works." *Id.*; Brief for Respondents at 10 n.6, *Grokster III*, 125 S. Ct. 2764 (2005) (No. 04-480). Grokster and StreamCast conceded in their brief that most downloads were infringing. *Id.* They stated that "[i]t is undisputed that those who use Grokster and StreamCast in this way are committing copyright infringement, and that this infringement constitutes at least [ninety percent] of the activity on the services." Petition for a Writ of Certiorari, *supra* note 1, at 1.

59. *Grokster III*, 125 S. Ct. at 2772.

60. Transcript of Oral Argument at 14, *Grokster III*, 125 S. Ct. 2764 (2005) (No. 04-480) [hereinafter *Grokster III* Oral Argument]. Donald B. Verrilli, Jr., counsel for Petitioner Recording Industry Association of America (RIAA), stated as follows: "The record companies, my clients, have said, for some time now, and it's been on their Website for some time now, that it's perfectly lawful to take a CD that you've purchased, upload it onto your computer, put it onto your iPod." *Id.*

61. The RIAA recently argued, contrary to its statement to the Supreme Court, that space and format shifting, such as making digital copies of a CD you own, are infringing uses:

Nor does the fact that permission to make a copy in particular circumstances is often or even routinely granted, necessarily establish that the copying is a fair use when the copyright owner withholds that authorization. In this regard, the statement attributed to counsel for copyright owners in the *MGM v. Grokster* case is simply a statement about authorization, not about fair use.

Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Hearings, Copyright Office, 22 n.46 (2006) (Joint Reply Comments of RIAA et al.); see also Colbern C. Stuart, III & Matthew C. Lapple, *MGM v. Grokster: Multimillion-Dollar Questions That the Supreme Court Did Not Answer*, 17 INTELL. PROP. & TECH. L.J. 13, 19

B. Procedural History

The *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.* litigation consolidated two cases brought by copyright holders against Grokster, Streamcast, and KaZaa.⁶² Like Napster, the defendants distributed software that allowed its users to exchange digital files, including music in the MP3 file format.⁶³ In the litigation, both the district court and the United States Court of Appeals for the Ninth Circuit determined that Sony's safe-harbor doctrine provided Grokster and StreamCast a defense to contributory infringement liability because their software was capable of substantial, commercially significant, noninfringing uses.⁶⁴ Two separate panels of judges in the Ninth Circuit, though finding the same result, differed on the reason for the result, leading to an intra-circuit split.⁶⁵

1. *United States District Court for the Central District of California*

Beginning October 2, 2001, "[t]wenty-eight of the largest entertainment companies in the world" filed complaints against Grokster, StreamCast, and KaZaa on the same basis as in *Napster*: contributory and vicarious copyright infringement liability.⁶⁶ While Grokster and StreamCast were successful in establishing a defense to infringement liability in the district court, the district court entered a default judgment against KaZaa when the company ceased defending the action.⁶⁷ Consequently, all judicial opinions per-

n.25 (2005) (stating that the "RIAA takes the position that much of the ripping, burning, is infringement").

62. Robyn Axberg, *File-Sharing Tools and Copyright Law: A Study of In re Aimster Copyright Litigation and MGM Studios, Inc. v. Grokster, Ltd.*, 35 LOY. U. CHI. L.J. 389, 431 (2003).

63. *MGM Studios, Inc. v. Grokster (Grokster II)*, 380 F.3d 1154, 1157 (9th Cir. 2004), *aff'g* 259 F. Supp. 2d 1029 (C.D. Cal. 2003), *rev'd*, 125 S. Ct. 2764 (2005); *see also* discussion *infra* Part III.B.6.

64. *Grokster II*, 380 F.3d at 1157. In response to the decision, which held that the distributors of a product used primarily for massive, electronic copyright infringement could not be held liable, Mary Beth Peters, the Register of Copyrights, said that it "threatens to dramatically undermine the effectiveness of copyright in the digital age." Mary Beth Peters, *The 33d Donald C. Brace Memorial Lecture Delivered at New York University School of Law on April 29, 2004*, 51 J. COPYRIGHT SOC'Y U.S.A. 701, 724 (2004); *see also* Jessica Litman, *The Sony Paradox*, 55 CASE W. RES. L. REV. 917, 918-19 (2005).

65. Kelly M. Maxwell, *Software Doesn't Infringe, Users Do? A Critical Look at MGM v. Grokster and the Recommendation of Appropriate P2P Copyright Infringement Standards*, 13 COMM'LAW CONSP'CTUS 335, 349 (2005).

66. Stuart & Lapple, *supra* note 61, at 13-14. The cases were consolidated in the district court. *Grokster I*, 259 F. Supp. 2d 1029, 1032 (C.D. Cal. 2003).

67. *Grokster I*, 259 F. Supp. 2d at 1032. "Although Grokster, StreamCast and Kazaa . . . independently branded, marketed[,] and distributed their respective software, all three plat-

tained to Grokster and StreamCast exclusively.⁶⁸ In each instance, the software being distributed was nearly identical in function to Napster's, the primary difference being the lack of a centralized indexing server for locating files on the P2P network.⁶⁹

On April 25, 2003, United States District Court Judge Stephen V. Wilson granted partial summary judgment in favor of defendants Grokster and StreamCast.⁷⁰ Judge Wilson ruled that no genuine issues of fact were left to try and that Grokster and StreamCast were entitled to judgment as a matter of law on the issue of contributory infringement liability based on the *Sony* safe-harbor doctrine.⁷¹ In finding the software vendors not secondarily liable for their users' infringing actions, the district court sided with Grokster and StreamCast on both elements of contributory infringement: knowledge and material contribution.⁷² For the knowledge element, the court emphasized the timing of the knowledge.⁷³ While noting that the defendants had actual knowledge of its users' infringing activities, the court went on to say that the acquisition of the knowledge must happen at a time when it can be used to stop the infringement.⁷⁴ The court also held that *Sony* provided a complete defense to the knowledge element because both potential and actual substantial, noninfringing uses of the defendants' software existed, saying "it is undisputed that there are substantial[,] noninfringing uses for Defendant's software."⁷⁵ On the second element, the court said that there was no material contribution because there was no ongoing relationship with the software users.⁷⁶ Judge Wilson ruled that because the defendants did not have the ability to supervise and control their users' infringing conduct, Grokster and

forms initially were powered by the same FastTrack networking technology As a result, users of these software platforms . . . were able to exchange files seamlessly." *Id.*

68. *Id.* at 1032 n.2.

69. *Grokster III*, 125 S. Ct. 2764, 2780 (2005) (determining that people who located Grokster when searching for free file-sharing software "would have understood Grokster to be offering the same file-sharing ability as Napster").

70. *Grokster I*, 259 F. Supp. 2d at 1046.

71. *Id.* at 1033, 1046; see also *infra* Part III.B.3.

72. Maxwell, *supra* note 65, at 349–50.

73. *Grokster I*, 259 F. Supp. 2d at 1037–38; Maxwell, *supra* note 65, at 349.

74. Maxwell, *supra* note 65, at 350.

75. *Grokster I*, 259 F. Supp. 2d at 1035–36 (including "distributing movie trailers, free songs or other non-copyrighted works; using the software in countries where it is legal; or sharing the works of Shakespeare"). Grokster and StreamCast both introduced evidence of legitimate uses of their systems, such as "numerous declarations by persons who permit their work to be distributed via the software, or who use the software to distribute public domain works," including Project Gutenberg's digital library of public domain literature. *Grokster II*, 380 F.3d 1154, 1161–62 (9th Cir. 2004); Maxwell, *supra* note 65, at 350. As Justice Breyer would later point out during oral arguments, for more than twenty years, the industry had relied upon *Sony*'s safe-harbor to allow the development of both innovation and thriving creative industries. *Grokster III* Oral Argument, *supra* note 60, at 35.

76. *Grokster I*, 259 F. Supp. 2d at 1035; Maxwell, *supra* note 65, at 350.

StreamCast were entitled to judgment as a matter of law on the vicarious infringement liability claim.⁷⁷ The partial summary judgment related only to whether the then-current versions of the defendants' products subjected them to vicarious or contributory infringement liability, not whether the defendants were liable for past actions or versions of their products and services.⁷⁸

2. *United States Court of Appeals for the Ninth Circuit*

On August 19, 2004, on interlocutory appeal, the Court of Appeals for the Ninth Circuit affirmed the grant of partial summary judgment in favor of Grokster and StreamCast, relying on *Sony's* safe-harbor doctrine.⁷⁹ The Court of Appeals for the Ninth Circuit used a different basis for finding against the plaintiffs on the contributory infringement claim than did the district court.⁸⁰ The Ninth Circuit's opinion made a passing mention of the elements of knowledge and material contribution, but it concentrated the formulation of its *Sony* test on the level of knowledge required instead of the timing of that knowledge.⁸¹ Writing for the court,⁸² Circuit Judge Sidney R. Thomas interpreted *Sony's* safe-harbor doctrine to mean that the distributor of a product *capable* of substantial, noninfringing uses cannot be held liable for contributory infringement unless the distributor (1) has *actual* knowledge of specific instances of infringing activity by its users and (2) fails to take action to prevent those infringing activities.⁸³ Under the Ninth Circuit's test, a showing of constructive knowledge would be sufficient if the product was not capable of substantial or commercially significant, noninfringing uses.⁸⁴ Conversely, a showing of actual, specific knowledge and a failure to act on that knowledge to prevent further infringement would be needed to create liability if the product was capable of substantial or commercially significant, noninfringing uses.⁸⁵ Because Grokster and StreamCast's software utilized a "decentralized architecture," the court concluded that the two companies had no *actual* knowledge of their users' infringement.⁸⁶ Addition-

77. *Grokster I*, 259 F. Supp. 2d at 1045–46.

78. *Id.* at 1033.

79. *Grokster II*, 380 F.3d at 1167.

80. *Id.* at 1154; Maxwell, *supra* note 65, at 350.

81. *Grokster II*, 380 F.3d at 1161; Maxwell, *supra* note 65, at 350.

82. The three members of the court included Circuit Judges Sidney R. Thomas, Robert Boochever, and John T. Noonan, Jr. *Grokster II*, 380 F.3d at 1157.

83. *Id.* at 1162 (concluding that the Grokster and Streamcast software had commercially viable noninfringing uses).

84. *Id.* at 1161; Maxwell, *supra* note 65, at 351.

85. *Grokster II*, 380 F.3d at 1161; Maxwell, *supra* note 65, at 351.

86. *Grokster II*, 380 F.3d at 1161; *see also Grokster III*, 125 S. Ct. 2764, 2774 (2005). There was evidence below to indicate that "Grokster and StreamCast previously operated

ally, the court concluded that while the defendants may have had actual knowledge of specific uses as a result of notices from the RIAA, the knowledge came too late for the companies to have a duty or an ability to act on that knowledge.⁸⁷ Citing the district court opinion, the court then concluded that the product was “capable of substantial [or commercially significant] noninfringing uses,” such as distributing public domain literature and music that bands had authorized for distribution on the networks.⁸⁸ Thus, under its interpretation of *Sony*, the Ninth Circuit affirmed the district court’s grant of partial summary judgment and remanded for a decision on issues remaining after the partial summary judgment.⁸⁹

The media companies petitioned the United States Supreme Court for a writ of certiorari, ostensibly to resolve the split between the Seventh and Ninth circuits on the interpretation of *Sony*’s safe-harbor doctrine.⁹⁰ When the Supreme Court granted certiorari, it took what some said was to be “its biggest copyright case” in more than twenty years since *Sony*.⁹¹

III. BACKGROUND

The following section provides the background of vicarious and contributory copyright infringement liability doctrines, focusing on the underlying policy rationale behind copyright protection itself. This section will then trace the development of third-party liability by identifying the standards for vicarious liability for copyright infringement,⁹² discussing the standards for contributory liability for copyright infringement,⁹³ and describing the development of a safe-harbor defense to contributory liability for copyright in-

supernodes,” which would have given them the ability to have some actual knowledge of the specific infringing activities. *Grokster III*, 125 S. Ct. at 2771 n.4. Nonetheless, as the Court noted, this evidence “would not [have] affect[ed its] conclusions in any event.” *Id.*

87. *Grokster II*, 380 F.3d at 1162; Maxwell, *supra* note 65, at 351.

88. *Grokster II*, 380 F.3d at 1162; *see also Grokster III*, 125 S. Ct. at 2767; Maxwell, *supra* note 65, at 351. Unlike *Grokster II*, *Aimster*’s system contained no evidence of the product being used for such legal purposes. *See In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *see also infra* Part III.B.6 (discussing in depth the *Aimster* litigation).

89. *Grokster II*, 380 F.3d at 1167.

90. Petition for a Writ of Certiorari, *supra* note 1, at 13, 24 (stating that the decision of the Ninth Circuit “creates a direct and acknowledged conflict with the Seventh Circuit’s *Aimster* decision The undoubted legal and practical importance of the question presented in this case, and the conflict between the Ninth and Seventh Circuits, provide ample grounds for this Court to grant review.”); *see also* Matthew Bender & Co., Inc. v. West Publ’g Co., 158 F.3d 693 (2d Cir. 1998).

91. Richard A. Epstein, *Untying the Grokster Knot: Learning to Live in a Second-Best World*, 12 BROWN J. WORLD AFF. 177, 178 (2005).

92. *See infra* Part III.B.2.

93. *See infra* Part III.B.2.

fringement in *Sony*.⁹⁴ Finally, this section will analyze the ambiguity of the *Sony* safe-harbor doctrine by reviewing two recent cases, prior to *Grokster II*, that challenged the limits of the doctrine's application.⁹⁵

A. The Policy Rationale Behind Copyright Protection

While copyright protection for creative works is a relatively recent⁹⁶ and artificial construct,⁹⁷ the time-limited monopoly protections it created were so valuable that provisions for them were included in the United States Constitution.⁹⁸ During the United States Constitution's creation and adoption, the drafters approved the Patent and Copyright Clause unanimously and without debate.⁹⁹ Some historians claim that the debate is missing from the official records because, while heated, it took place in private.¹⁰⁰ The only official statement in support of including the Copyright Clause¹⁰¹ in the

94. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *see also infra* Part III.B.3.

95. *Grokster II*, 380 F.3d 1154 (9th Cir. 2004); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *Napster II*, 239 F.3d 1004 (9th Cir. 2001); *see also infra* Part III.B.

96. PAUL GOLDSTEIN, *COPYRIGHT'S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX* 29–30 (2003). Prior to copyright, people asserted moral claims to a work. *Id.* at 30. For instance, when a sixth-century monk made a copy of an Abbot's psalter without permission, the King ordered the copy to be turned over to the Abbot with the following proclamation: "To every cow her calf, and to every book its copy." *Id.* at 30–31. Until the advent of the printing press, these types of claims were seldom asserted. *Id.* at 31.

97. Marshall Leaffer, *Protecting Authors' Rights in a Digital Age*, 27 U. TOL. L. REV. 1, 2–3 (1995). The first modern copyright was created in Britain in 1534 by royal decree. *Id.* The decree required anyone who wished to publish to have a license and "approval by official censors." *Id.* The common law development of copyright took place alongside the development of the printed word. *Sony*, 464 U.S. at 429–30; Leaffer, *supra*, at 2. The printing press is the seminal example of how the law changes in response to technological progress: it was the invention of the printing press that gave rise to the original development of, and "need for," copyright protection. *Sony*, 464 U.S. at 429.

98. UNITED STATES CONST. art. I, § 8.

99. Edward C. Walterscheid, *To Promote the Progress of Science and Useful Arts: The Anatomy of a Congressional Power*, 43 IDEA 1, 1–2 (2002) (determining from the historical record that "[t]he Clause received only the briefest mention[,] and there was no opposition to it").

100. *See* Opening Statement of Dr. Richard L. Thurston, FTC/DOJ Hearings on Competition and Intellectual Property Law and Policy in a Knowledge-Based Economy (Mar. 20, 2002) *available at* <http://www.ftc.gov/opp/intellect/020320richardthurstonstatement.pdf> (last visited Feb. 3, 2006). Dr. Thurston found that, regarding patents, Jefferson's and Madison's personal papers were "replete with discussion[s]" on the subject of creating a "monopoly grant to inventors." *Id.* at 2.

101. Walterscheid, *supra* note 99, at 2 (stating that "[w]ith the exception of James Madison in *The Federalist No. 43*, no Framer ever offered any explanation of the Clause or of why it was included in the draft Constitution").

United States Constitution comes in the form of a single paragraph by James Madison in *The Federalist No. 43*.¹⁰²

As a general practice, copyright law creates a property right in any type of creative or intangible work created by an "author."¹⁰³ It was not until the eighteenth century that copyright holders had exclusive rights to make copies of their protected works.¹⁰⁴ At that time, the printing press was the largest concern to those creating copyright laws.¹⁰⁵ In fact, the very first copyright legislation—the Statute of Anne, passed in 1710—was an attempt to control the power of the printing press.¹⁰⁶ Though derived from previous stop-gap attempts by the crown at controlling the printing press, the Statute of Anne is considered to be both the advent of modern copyrights¹⁰⁷ and "the model for copyright law in the United States."¹⁰⁸ Beginning with Connecticut in 1783, and prior to the 1787 Constitutional Convention, twelve of the thirteen original states enacted copyright acts modeled after the Statute of Anne.¹⁰⁹ The Statute of Anne provided protection for a book or other writing for a

102. THE FEDERALIST NO. 43, at 222 (James Madison) (Gideon ed., 1973). James Madison's complete supporting statement for the clause reads as follows:

The utility of this power will scarcely be questioned. The copy-right of authors has been solemnly adjudged in Great Britain, to be a right of the common law. The right to useful inventions, seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals. The states cannot separately make effectual provision for either of the cases, and most of them have anticipated the decision on this point, by laws passed at the instance of congress.

Id.

103. Leaffer, *supra* note 97, at 2–3.

104. *Id.* The first known copyrights appeared in Renaissance Italy, whose government issued *privilegii* (privileges) on an ad hoc basis, granting a monopoly license for a specified period to print or sell an entire class of books, usually classics, the authors of which were long since dead. BRUCE W. BUGBEE, GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW 43–44 (1967). Under Venetian patent law, the government granted Marc' Antonio Sabellico a *privilegii* on September 1, 1486, for his history, *Decades rerum Cenetarum*, in what may have been the first-ever copyright given to an author for his work. *Id.*

105. Leaffer, *supra* note 97, at 2–3; L. Ray Patterson & Craig Joyce, *Copyright in 1791: An Essay Concerning the Founders' View of the Copyright Power Granted to Congress in Article I, Section 8, Clause 8 of the United States Constitution*, 52 EMORY L.J. 909, 913 (2003). The Copyright Clause, coupled with the Free Press Clause of the First Amendment, outlines the bounds of "Congress's power over the printing press." Patterson & Joyce, *supra*, at 910.

106. Leaffer, *supra* note 97, at 2–3.

107. Patterson & Joyce, *supra* note 105, at 916.

108. Leaffer, *supra* note 97, at 2–3.

109. GOLDSTEIN, *supra* note 96, at 41. Noah Webster—seeking to protect the profits from the sale of his book, *Grammatical Institute of the English Language*—along with Thomas Paine and Joel Barlow, were the main lobbyists for comprehensive copyright acts for the States. *Id.* at 40–41.

limited time of fourteen years,¹¹⁰ during which the copyright owner's consent was required before a book could be copied.¹¹¹ After the protection period, the work fell into the public domain, a legal concept that is said to be one of the more important aspects of the development of copyrights.¹¹² This tradeoff attempted to protect both the artist and society by balancing the original creator's right to profit from her work and "the public's right of access"—the first time the latter right was recognized.¹¹³ This delicate balancing act remains, essentially, the goal of American copyright law.¹¹⁴

United States copyright law protects "original work[s] of authorship fixed in any tangible medium of expression."¹¹⁵ There are three types of liability for copyright infringement: direct, contributory, and vicarious in-

110. Patterson & Joyce, *supra* note 105, at 920. Coincidentally, this was the original term of copyright in the original Copyright Act, enacted by the First Congress on May 31, 1790. MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT: CONGRESSIONAL COMMITTEE REPORTS ON THE DIGITAL MILLENNIUM COPYRIGHT ACT AND CONCURRENT AMENDMENTS 1-5 n.3 (2000). It remained so until 1831, when Congress increased the term of protection to twenty-eight years. *Id.* The term has periodically and continually increased since that time. See United States Copyright Office, *A Brief Introduction and History*, available at <http://www.copyright.gov/circs/circl1a.html> (last visited Feb. 5, 2006). For most copyrights, the current term is for the life of the author plus seventy years, 17 U.S.C. § 302(a) (2006), a length that even the current United States Register of Copyrights believes is too long. UNC Symposium for Intellectual Property, Creativity, and the Innovation Process, UNC Law School, November 2, 2005 (Statement of Mary Beth Peters, the United States Register of Copyrights) ("We've certainly lengthened the term perhaps—I won't even say perhaps—too long a term. I think it is too long. I think that was probably a big mistake, but one that Congress can make."). Professor Lawrence Lessig argued in *Eldred v. Ashcroft* that "enlarging the term for published works with existing copyrights" overstepped Congress's authority, an argument with which the Court did not agree. 537 U.S. 186, 193 (2003). Justice Stevens's dissent agreed with Lessig's argument that retroactive extensions served only to perpetuate a monopoly in contravention of the Constitutional purpose of the copyright clause. *Id.* at 227 (Stevens, J., dissenting) ("Ex post facto extensions of copyrights result in a gratuitous transfer of wealth from the public to authors, publishers, and their successors in interest.").

111. Leaffer, *supra* note 97, at 3.

112. Patterson & Joyce, *supra* note 105, at 918 ("The policy of the public domain was the most subtle, and arguably the most important, of the policies. It prevented copyright from being used to capture existing works, and it freed works from the copyright monopoly after a limited time.").

113. *Id.* at 919, 923.

114. LAWRENCE LESSIG, FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY 74-75 (2004). Lessig's alternate, and more modern, formulation is that every copyright law must balance the dual goals of allowing "innovators" to develop new content delivery methodologies while also protecting the financial interests of the copyright holders. *Id.*

115. 17 U.S.C. § 102(a) (2006); JANE K. WINN & BENJAMIN WRIGHT, LAW OF ELECTRONIC COMMERCE § 12.02 Copyright, 12-1 (Supp. 2003).

fringement liability. The latter two are due to the infringing actions of a third party.¹¹⁶

B. Historical Development of Third-Party Liability for Copyright Infringement

1. Vicarious Copyright Infringement Liability

One rationale for holding a party liable for another's infringing acts springs from the doctrine of respondeat superior.¹¹⁷ Interestingly, some of the earliest cases involving the infringement of music copyrights dealt with new challenges to intellectual property protection due to an emerging technology: the player piano.¹¹⁸

M. Witmark & Sons v. Calloway (M. Witmark & Sons II),¹¹⁹ a case involving the player piano, demonstrates the application of the doctrine of respondeat superior to cases of vicarious liability for copyright infringement. In *M. Witmark & Sons*, the defendants operated a silent-movie theater that made use of a player piano to provide musical accompaniment to their movie performances.¹²⁰ Unbeknownst to the owners, one of their employees had exchanged a music roll for the player piano with another local business.¹²¹ This roll was then played during at least one performance.¹²² Although the employee had "borrowed this music without the direction, knowledge, or consent of the owner or manager of the theater," the court concluded that the theater owners were vicariously liable for their employee's infringing actions.¹²³ Additionally, the court affirmed the then-

116. 17 U.S.C. § 102(a) (2006); WINN & WRIGHT, *supra* note 115, at § 12.02[C] Copyright Infringement, 12-10. Direct infringement, which falls under a strict liability standard, is beyond the scope of this writing. See WINN & WRIGHT, *supra* note 115, at § 12.02.

117. Alfred C. Yen, Sony, *Tort Doctrines, and the Puzzle of Peer-to-Peer*, 55 CASE W. RES. L. REV. 815, 859 (2005) (explaining that vicarious copyright liability is generally described by courts "as an outgrowth of respondeat superior"). Respondeat superior is defined as "holding [a] . . . principle liable for the . . . agent's wrongful acts." BLACK'S LAW DICTIONARY 1338 (8th ed. 2004).

118. *White-Smith Music Publ'g Co. v. Apollo Co.*, 209 U.S. 1, 8 (1908); NIMMER & NIMMER, *supra* note 110, at 4-2. In fact, the Court of Appeals for the Ninth Circuit commented on this very fact in *Grokster II*, stating that "[f]rom the advent of the player piano, every new means of reproducing sound has struck a dissonant chord with musical copyright owners, often resulting in federal litigation." 380 F.3d at 1158.

119. 22 F.2d 412, 414 (D. Tenn. 1927).

120. *Id.* at 413.

121. *Id.* The song in question was *Smilin' Through* by Arthur A. Penn. *Id.*

122. *Id.*

123. *Id.* at 414 (citing *M. Witmark & Sons v. Pastime Amusement Co.*, 298 F. 470 (D.S.C. 1924), a previous player piano case involving the same plaintiff). In other cases, employers were found liable under the common law principle that the "master is civilly liable in damages for the wrongful act of his servant in the transaction of the business," despite the

established common law rule that intent to infringe is not a requirement to be held liable for infringement.¹²⁴ While it may not have been the intent of the theater operators to violate copyright, the court held that this fact would not absolve them of liability.¹²⁵ The decision in *M. Witmark & Sons*, like many others, relied on the rule that "[t]he result, and not the intention, determines the question of infringement."¹²⁶

As seen in cases such as *Fonovisa, Inc. v. Cherry Auction, Inc.*,¹²⁷ vicarious liability is no longer limited to the classical confines of respondeat superior.¹²⁸ Vicarious liability attaches after direct infringement takes place when a defendant (1) had "the right and ability to supervise the infringing activity," and (2) had an obvious and direct financial interest in such activities.¹²⁹ Intent to infringe or knowledge of the infringement is not required.¹³⁰ In *Fonovisa*, the defendant, Cherry Auction, operated a flea market in which third-party vendors sold counterfeit copies of music in contravention of the plaintiff's copyrights and trademarks.¹³¹ The United States Court of Appeals for the Ninth Circuit reversed the district court's dismissal of *Fonovisa*'s complaint, saying that Cherry Auction would likely be held liable under the doctrine of vicarious liability both for having a right to supervise its vendors—due to Cherry Auction's broad contractual right to police its vendors—and for profiting from its vendor's infringement.¹³² While Cherry Auction did not derive a commission from its vendor's receipts, "the sale of

fact that the employees were acting in derogation of the employer's orders. *Shapiro, Bernstein & Co. v. Veltin (Shapiro, Bernstein & Co. I)*, 47 F. Supp. 648, 649 (D. La. 1942); *accord M. Witmark & Sons v. Pastime Amusement Co. (M. Witmark & Sons I)*, 298 F. 470 (D.S.C. 1924); *McDonald v. Hearst, D.C.*, 95 F. 656, 657 (D. Cal. 1899).

124. *M. Witmark & Sons II*, 22 F.2d at 414 (citing *Journal Publ'g Co. v. Drake*, 199 F. 572 (9th Cir. 1912); *Lawrence v. Dana*, 15 F. Cas. 26 (C.C. Mass. 1869)).

125. *Id.* The decision indicates that the theater operators had a copyright infringement issue several years prior and had taken active steps to avoid infringement. *Id.* at 413.

126. *Id.* at 414 (citing *Journal Publ'g Co.*, 199 F. 572; *Harper v. Shoppell*, 26 F. 519 (C.C.N.Y. 1886); *Reed v. Holliday*, 19 F. 325 (C.C. Pa. 1884); *Lawrence*, 15 F. Cas. 26).

127. 76 F.3d 259 (9th Cir. 1996).

128. *Id.* at 262. The existence of a master-servant or employer-employee relationship, a requirement for liability under respondeat superior, is no longer a requirement for vicarious liability. *Napster II*, 239 F.3d 1004, 1022 (9th Cir. 2001); *Fonovisa*, 76 F.3d at 262 (citing *Shapiro, Bernstein & Co. v. H. L. Green Co. (Shapiro, Bernstein & Co. II)*, 316 F.2d 304 (2d Cir. 1963); *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 271 F. Supp. 2d 737, 745 (D. Md. 2003)).

129. *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004) (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)); *see also Shapiro, Bernstein & Co. II*, 316 F.2d 304; *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929) (holding owner of dance hall liable for copyright infringement by a band hired to entertain dance hall customers).

130. *See CoStar Group*, 373 F.3d at 550; *Gershwin Publ'g*, 443 F.2d at 1162.

131. *Fonovisa*, 76 F.3d 259.

132. *Id.* at 261, 263.

pirated recordings at the Cherry Auction swap meet [was] a 'draw' for customers," from which the defendant derived additional admission and parking fees, as well as concession sales.¹³³

Thus, while the right and ability to supervise is most easily expressed in the employer-employee relationship, it extends to other supervisory relationships when the supervisory and financial interest elements are met.¹³⁴ While the stated policy of vicarious liability is to prevent an infringing party from hiding behind "dummy" entities,¹³⁵ the general standard of oversight required to create liability in these cases is "whether or not the proprietor has knowledge of the compositions to be played or any control over their selection."¹³⁶

The only notable application of vicarious liability to the violation of copyrights on the Internet is *A&M Records, Inc. v. Napster, Inc. (Napster II)*.¹³⁷ The *Napster II* court concluded that the online, peer-to-peer software vendor, Napster, was liable for its users' infringement because it met the classical elements for vicarious infringement liability: (1) Napster, Inc.'s users directly infringed the copyrights, (2) the company had the right and ability to supervise its users' conduct and failed to do so, and (3) the company's "future revenue [was] directly dependent upon increases in user-

133. *Id.* at 263.

134. *Shapiro, Bernstein & Co. II*, 316 F.2d at 307. Additional examples include landlords who have been held liable for the activities of their tenants when rent was based on a percentage of the tenant's receipts, *Universal City Studios, Inc. v. Am. Invesco Mgmt., Inc.*, 217 U.S.P.Q. 1072, 1079 (D. Ill. 1981); *Shapiro, Bernstein & Co. II*, 316 F.2d at 307; WINN & WRIGHT, *supra* note 115, at § 12.02[C] Copyright Infringement, 12-11; majority shareholders who have been held liable for the companies in which they invest and have close control, *Warner Bros., Inc. v. Lobster Pot, Inc.*, 582 F. Supp. 478, 482 (D. Ohio 1984); and businesses that have been held liable for the activities of independent contractors, *Dreamland Ball Room*, 36 F.2d at 355. In *Dreamland Ball Room*, as in a number of similar cases commonly referred to as the "'dance hall cases,' the owners of nightclubs and similar establishments were held vicariously liable for the infringement of musical copyrights by bands performing at the club." *Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1324 (D. Mass. 1994); *see also, e.g., M. Witmark & Sons II*, 22 F.2d 412, 414 (D. Tenn. 1927) (containing a list of "dance hall cases").

135. *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 513 (4th Cir. 2002); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992) (citing *Shapiro, Bernstein & Co. II*, 316 F.2d at 309, and saying the important public policy behind vicarious liability is to "prevent an entity that profits from infringement from hiding behind undercapitalized 'dummy' operations when the copyright owner eventually sues").

136. *Polygram*, 855 F. Supp. at 1324 (citing *Shapiro, Bernstein & Co. II*, 316 F.2d at 307).

137. 239 F.3d 1004 (9th Cir. 2001).

base.”¹³⁸ Indeed, Napster derived no significant revenue from its business model.¹³⁹ The promise of future revenue was an adequate benefit on which to impose vicarious liability.¹⁴⁰

2. *Contributory Copyright Infringement Liability*

Contributory infringement liability originates from the principle of enterprise liability in tort law.¹⁴¹ The accepted standard for contributory infringement was set forth in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*¹⁴² The *Gershwin* court held that liability will arise for contributory infringement if the defendant (1) has knowledge of the infringing conduct and (2) “induces, causes, or materially contributes to the infringing conduct.”¹⁴³ Contributory infringement follows two general forms: “(a) personal conduct that forms part of or furthers the infringement; or (b) the contribution of machinery or goods that provide the means to infringe.”¹⁴⁴

Recently, in addition to the requirement that the defendant have real or constructive knowledge of the infringing activity, contributory liability also requires either the failure to end the infringing activity or the encouragement of it.¹⁴⁵ Recent cases involving contributory infringement range from the imposing of liability on operators of electronic bulletin board systems (BBS)¹⁴⁶ who encouraged their users to upload infringing material¹⁴⁷ to hold-

138. *Id.* at 1023–24 (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263–64 (9th Cir. 1996), for the principle that the element of financial benefit can be proven with infringement that “enhance[s] the attractiveness of a venue”).

139. William Sloan Coats, Mark R. Weinstein & Erik R. Zimmerman, *Pre- and Post-Grokster Copyright Infringement Liability for Secondary and Tertiary Parties*, 842 PLI/PAT 221, 234 (2005) (“The court reasoned that even though Napster had not yet taken in any revenues, future revenues would be dependent on the number of Napster users and thereby on the amount of infringement.”).

140. *Id.*

141. *Polygram*, 855 F. Supp. at 1320. Under the principle of enterprise liability, an enterprise should bear the burden of risk as a cost of doing business when it creates that risk. Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 GEO. L.J. 1833, 1856 (2000). Such cost internalization “encourages risk creators to take precautions against loss [and] provides compensation for victims.” *Id.*

142. *Gershwin Publ’g Corp. v. Columbia Artist Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004).

143. *Gershwin Publ’g*, 443 F.2d at 1162; see also *CoStar Group*, 373 F.3d at 550; Coats, Weinstein & Zimmerman, *supra* note 139, at 227.

144. Eric J. Schwartz, *Outline of Domestic Copyright Law*, 527 PLI/PAT 293, 314 (1998).

145. *Id.*

146. “A bulletin board system or BBS is a computer system running software that allows users to dial into the system over a phone line and, using a terminal program, perform functions[,] such as downloading software and data, uploading data, playing games, reading news,

ing a company liable for knowingly encouraging another infringing use of a license.¹⁴⁸

In *Playboy Enterprises, Inc. v. Russ Hardenburgh, Inc.*,¹⁴⁹ the operators of a BBS allowed their users to upload image files of Playboy's adult photographs for other users to download.¹⁵⁰ The operators were held liable for their users' copyright infringement because the operators encouraged uploading the files and had constructive knowledge that the activity was likely to be occurring, even if they were not deriving an actual benefit.¹⁵¹ As pointed out in *Napster II*, a system operator is liable for the infringing material put there by others only when he or she learns about specific infringing material on his system.¹⁵² Without actual or constructive knowledge of the specific infringing activities, the system operator "cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material."¹⁵³

3. *The Sony Betamax Safe-Harbor Doctrine*

In *Sony Corp. of America v. Universal City Studios, Inc.*,¹⁵⁴ members of the motion picture and entertainment industries sought to hold Sony, as the producer and distributor of the Betamax videocassette recorder, liable for the copyright infringement by that product's users.¹⁵⁵ The issue in *Sony* was, once again, new technology challenging the protection of established copyrights.¹⁵⁶ In 1976, videocassette recorders were just starting to be sold into homes.¹⁵⁷ Universal City Studios, along with Walt Disney Productions, had lost the political fight to have the copyright laws amended in their favor,

and exchanging messages with other users." *Bulletin Board System*, available at http://en.wikipedia.org/wiki/Bulletin_board_system (last visited Feb. 6, 2006).

147. *Playboy Enters., Inc. v. Russ Hardenburgh, Inc. (Playboy I)*, 982 F. Supp. 503, 505 (N.D. Ohio 1997); *Sega Enters. Ltd. v. MAPHIA*, 857 F. Supp. 679, 686–87 (N.D. Cal. 1994) (holding that defendants providing "facilities, direction, knowledge and encouragement, amount[ed] to contributory copyright infringement"); *Playboy Enters., Inc. v. Frena*, 839 F. Supp. 1552, 1556 (M.D. Fla. 1993).

148. *Universal City Studios, Inc. v. Nintendo Co. Ltd. (Universal City Studios I)*, 615 F. Supp. 838, 857 (S.D.N.Y. 1985).

149. 982 F. Supp. 503.

150. *Id.* at 505, 514.

151. *Id.* at 514.

152. *Napster II*, 239 F.3d 1004, 1021 (9th Cir. 2001).

153. *Id.* (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442–43 (1984)).

154. 464 U.S. 417 (1984).

155. *Id.* at 420.

156. *Id.* at 417; GOLDSTEIN, *supra* note 96, at 117–29; NIMMER & NIMMER, *supra* note 110, at 4–2.

157. *Sony*, 464 U.S. at 417.

and the suit against Sony was seen as a test case to establish precedent against this new, encroaching technology.¹⁵⁸

The decision to pursue Sony for contributory infringement on the basis of its manufacturing, marketing, and sale of the Betamax videocassette recorder to consumers was novel at the time.¹⁵⁹ The theory of liability was dependant on extending Justice Holmes's reasoning in *Kalem Co. v. Harper Bros.*,¹⁶⁰ known as the *Ben-Hur* case, which was decided nearly seventy years prior to *Sony*.¹⁶¹ In *Kalem*, the Court held the defendant—a producer of a film depicting chariot races from the book *Ben-Hur* without authorization—secondarily liable for selling copies of the film to independent distributors, who then infringed the author's copyright by displaying the films.¹⁶² In *Sony*, the Respondents asked the Court to extend the *Kalem* decision to apply secondary liability when, although there was no identified primary infringement, there was an assumption of likely widespread infringement based on the products or activities of the defendant.¹⁶³ The studios argued that "*Kalem* stands for the proposition that supplying the 'means' to accomplish an infringing activity and encouraging that activity through advertisement are sufficient to establish liability for copyright infringement."¹⁶⁴ Justice Stevens's majority decision in *Sony* dismissed this reading of *Kalem* as a "gross generalization" and refused to adopt the standard proposed by the studios.¹⁶⁵ Instead, Sony won the case outright when the Court concluded that the Betamax manufacturer was not liable for its customers' infringing uses of the product.¹⁶⁶ Nevertheless, the Court set forth a new standard in which secondary liability could be based on an assumption of extensive, primary infringement.¹⁶⁷

158. GOLDSTEIN, *supra* note 96, at 117. While Sony won this case, the Betamax videocassette recorder would eventually lose the battle in the marketplace against JVC's rival VHS videocassette format. *The Betamax vs. VHS Format War*, available at <http://www.mediacollege.com/video/format/compare/betamax-vhs.html> (last visited Feb. 11, 2006). "The war was over by the late 1980s[,] . . . production in America ended in 1993, and the last Betamax machine in the world was produced in Japan in 2002." *Id.*

159. GOLDSTEIN, *supra* note 96, at 117.

160. 222 U.S. 55 (1911).

161. GOLDSTEIN, *supra* note 96, at 117.

162. See generally *Kalem*, 222 U.S. 55.

163. Max Stul Oppenheimer, *Yours for Keeps*: MGM v. Grokster, 23 J. MARSHALL J. COMPUTER & INFO. L. 209, 227 (2005).

164. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 436 (1984).

165. *Id.*

166. *Id.* at 499; Karen M. Kramer, Metro-Goldwyn-Mayer Studios v. Grokster—*The Supreme Court's Balancing Act Between the Risks of Third-Party Liability for Copyright Infringement and Rewards of Innovation*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 169, 173 (2005).

167. Oppenheimer, *supra* note 163, at 227.

Prior to *Sony*, secondary infringement liability was imposed by first identifying primary infringement and then determining whether the defendant had knowledge of the infringement and caused or contributed to the infringement.¹⁶⁸ Applying the “staple item of commerce” doctrine from patent law—that there can be no contributory patent infringement when the defendant’s products are a “staple item of commerce”—the Court held that, as applied to copyrights, there could be no contributory infringement so long as the product was capable of “substantial noninfringing uses” or “commercially significant noninfringing uses.”¹⁶⁹ This left open the possibility that there could be secondary liability based on a showing of “widespread, but not completely identified, infringement,” despite the lack of any statutory provision imposing liability.¹⁷⁰

Sony’s “staple item of commerce” analysis, known generally as the *Sony* safe-harbor doctrine, is a defense to contributory infringement.¹⁷¹ There has been much debate over the *Sony* safe-harbor doctrine because the Court did not subsequently define the language used in the decision.¹⁷² The safe-harbor defense tends to protect manufacturers against contributory liability when the “technology at issue could be used for both legitimate and infringing purposes.”¹⁷³ The district and circuit courts’ applications of *Sony*’s safe-harbor doctrine have been inconsistent because of the ambiguities in the language of the decision.¹⁷⁴ These inconsistent applications have caused a split in the circuits over the correct interpretation of the phrases “substantial noninfringing uses” and “commercially significant noninfring-

168. See *Sony*, 464 U.S. at 438 n.18.

169. *Id.* at 442; Coats, Weinstein & Zimmerman, *supra* note 139, at 229.

170. Oppenheimer, *supra* note 163, at 228. In *Sony*, the Supreme Court stated the following:

The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity [C]ontributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.

464 U.S. at 435.

171. See *Napster II*, 239 F.3d 1004, 1022 (9th Cir. 2001).

172. Kramer, *supra* note 166, at 170, 173–74.

173. *Id.* at 170.

174. Oppenheimer, *supra* note 163, at 228–29; Andrew J. Lee, MGM Studios, Inc. v. Grokster, Ltd. & *In re Aimster Litigation: A Study of Secondary Copyright Liability in the Peer-to-Peer Context*, 20 BERKELEY TECH. L.J. 485, 504–05 (2005) (suggesting that the confusion over the *Sony* decision was due to the Court “articulat[ing] a broad legal rule” but emphasizing very specific facts to support its opinion, including the fact that over seventy-five percent of the customers use the product to time-shift program viewing, a noninfringing fair use).

ing uses.”¹⁷⁵ The commercially significant, noninfringing use identified in *Sony* was “time-shifting,” or recording television shows in order to view them at a later time.¹⁷⁶ The *Sony* court did not believe that time-shifting would cause any harm to identifiable markets, such as movie theaters.¹⁷⁷ Additionally, whether authorized or unauthorized by the content owner, the Court determined time-shifting to be a legitimate, fair use by the consumers.¹⁷⁸

In analyzing the recordings that owners of the Betamax videocassette recorder made of television shows as a potential fair use, the Court looked to the factors laid out in the United States copyright code:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit[,] educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.¹⁷⁹

*UMG Recordings, Inc. v. MP3.com, Inc.*¹⁸⁰ may indicate a potential limit of the *Sony* approach when applying the fair-use doctrine to new technology.¹⁸¹ A service offered by MP3.com allowed users to insert a CD into their computer, and MP3.com software would identify the CD, giving the users access to an online service that would allow them to listen to the music contained on the CD.¹⁸² To facilitate this, MP3.com purchased 50,000 CDs

175. Oppenheimer, *supra* note 163, at 228–29. The different interpretations are manifest in the application of the standard in three cases involving peer-to-peer file sharing: *Napster I*, 114 F. Supp. 2d 896, 901 (N.D. Cal. 2000), *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003), and *Grokster I*, 259 F. Supp. 2d 1029, 1032 (C.D. Cal. 2003). See Kramer, *supra* note 166, at 170.

176. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 443 (1984).

177. *Id.* at 454–55; Stacey L. Dogan, Comment, *Sony, Fair Use, and File Sharing*, 55 CASE W. RES. L. REV. 971, 975 n.14 (2005) (“In the age of TiVo, it seems quaint that the Justices assumed that time-shifters would watch all commercials, but they appear to have made exactly that assumption.”).

178. *Sony*, 464 U.S. at 454–55.

179. 17 U.S.C. § 107 (2006).

180. 92 F. Supp. 2d 349, 351, 353 (S.D.N.Y. 2000) (holding that downloading music files from MP3.com’s service was not a fair use, even when the end user owned a copy of the music in another format).

181. Elisabeth Hanratty, *Google Library: Beyond Fair Use?*, 2005 DUKE L. & TECH. REV. 10, ¶ 28 (2005) (“The court rejected this argument on the premise that the record companies had the right to grant or withhold a license to perform such a service.”).

182. *UMG Recordings*, 92 F. Supp. 2d at 351.

and began the process of copying the content of those CDs to their servers.¹⁸³ The five major music labels sued MP3.com nine days after it launched the service.¹⁸⁴ While access to the online versions—what MP3.com argued to be “space shifting”—would be available only to those who already owned the CD, the district court concluded that the company copying of the CDs was not a fair use because “the use was commercial and non-transformative; entire, creative works were copied; and the defendant was usurping a developing market for sound recordings.”¹⁸⁵ In its decision, the district court capped its criticism of MP3.com’s defense by saying “on any view, defendant’s ‘fair use’ defense is indefensible and must be denied as a matter of law.”¹⁸⁶

4. *Sony’s Safe-Harbor Doctrine Tested Under Fire: Napster II and Aimster*

As seen in the varying results among the circuits when applying *Sony* to peer-to-peer technology to determine contributory liability, the application of the “capable of substantial noninfringing uses” test has been inconsistent.¹⁸⁷ Seeking to stop the threat that peer-to-peer networks posed, associations of copyright holders, such as the Recording Industry Association of America (RIAA), commenced a number of contributory infringement lawsuits against peer-to-peer software providers, beginning with Napster.¹⁸⁸ The

183. LESSIG, *supra* note 114, at 190.

184. *Id.*

185. *UMG Recordings*, 92 F. Supp. 2d at 352 (holding that the space-shifting argument was an “insufficient basis for any legitimate claim of [fair use]”); June M. Besek, *Music on the Internet*, 838 PLI/PAT 263, 265 (2005); LESSIG, *supra* note 114, at 190.

186. *UMG Recordings*, 92 F. Supp. 2d at 352. After this case, one of the plaintiffs purchased MP3.com and then sued the attorneys who had advised MP3.com that the service would be legal under copyright law. LESSIG, *supra* note 114, at 190.

187. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984); Moye, *supra* note 20, at 659–60. The *Sony* Court refused to provide “precise content to the question of how much use is . . . significant.” *Id.* at 659.

188. Moye, *supra* note 20, at 661. The RIAA has also directly sued the end users of peer-to-peer software, who are the primary infringers. John G. Malcolm, Deputy Assistant Attorney General, United States Dept. of Justice, Speech Before the New York State Bar Association and International Bar Association: Privacy and Intellectual Property—Legal Issues Related to Peer-to-Peer File Sharing over the Internet (Oct. 23, 2003), available at <http://www.cybercrime.gov/Malcolmtestimony102303.htm> (“P2P users who are illegally sharing copyrighted materials on the Internet are perhaps not so anonymous as they might imagine themselves to be, as over 250 P2P users who were recently sued by the Recording Industry Association of America can attest.”); see also *Recording Industry Continues Campaign Against Online Music Theft in Latest Round of Lawsuits*, Jan. 31, 2006, available at <http://www.riaa.com/news/newsletter/013106.asp> (last visited Feb. 4, 2006); *RIAA Brings New Round of Lawsuits Against 751 Online Music Thieves*, Dec. 15, 2005, available at <http://www.riaa.com/news/newsletter/121505.asp> (last visited Feb. 3, 2006).

results of this and subsequent suits against peer-to-peer software vendors, namely Aimster and Grokster, were inconsistent.¹⁸⁹ The Seventh and Ninth Circuits split on the issue, failing to clarify whether the *Sony* test imposed liability on peer-to-peer vendors, especially when many peer-to-peer software programs met the "capable of substantial noninfringing uses" requirement of *Sony*.¹⁹⁰ The next two sections examine these cases individually: *A&M Records, Inc. v. Napster, Inc. (Napster II)*¹⁹¹ and then *In re Aimster Copyright Litigation*,¹⁹² with an emphasis on the circuit court's interpretation and application of *Sony*'s safe-harbor doctrine in each. With one exception, the Ninth Circuit's later decision in *Grokster II*, all circuit court cases have shifted the balance between the development of new technology and the rights of content creators and owners to favor copyright holders.¹⁹³

5. A&M Records, Inc. v. Napster, Inc.

In *Napster II*, the United States Court of Appeals for the Ninth Circuit analyzed the implications of *Sony*, stating that the safe-harbor doctrine did not absolve the company of liability, and then, the court decided the case based on a standard different than that articulated in *Sony*.¹⁹⁴ Thus, the decision added no real clarity to the courts' applications of *Sony*.¹⁹⁵

Napster provided software and supporting services that allowed its users to exchange, among other things, music files in MP3 format.¹⁹⁶ At one time, users on the Napster network were exchanging 10,000 files per second.¹⁹⁷ In the *A&M Records, Inc. v. Napster, Inc.* litigation, Napster lost at the district court level and then again on appeal to the Ninth Circuit.¹⁹⁸ Affirming the district court's findings, the United States Court of Appeals for the Ninth Circuit held that peer-to-peer software distributors, such as Napster, could be held liable for contributory infringement under the *Sony* standard but that the specific facts of the case implicated the common law test for contributory copyright infringement.¹⁹⁹ The Ninth Circuit relied on

189. Moye, *supra* note 20, at 661–62.

190. *Sony*, 464 U.S. at 442; Moye, *supra* note 20, at 662.

191. 239 F.3d 1004 (9th Cir. 2001).

192. 334 F.3d 643 (7th Cir. 2003).

193. LESSIG, *supra* note 114, at 194 n.10.

194. Lee, *supra* note 174, at 493–95.

195. *Id.*

196. *A & M Records, Inc. v. Napster, Inc. (Napster I)*, 114 F. Supp. 2d 896, 901 (N.D. Cal. 2000); Coats, Weinstein & Zimmerman, *supra* note 139, at 232.

197. *Napster I*, 114 F. Supp. 2d at 902; Coats, Weinstein & Zimmerman, *supra* note 139, at 232.

198. *Napster I*, 114 F. Supp. 2d 896; *Napster II*, 239 F.3d 1004 (9th Cir. 2001).

199. *Napster II*, 239 F.3d at 1021–22; Lee, *supra* note 174, at 493.

*Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*²⁰⁰ to define the common law elements of contributory infringement liability: an infringer is “one who, with knowledge of the infringing activity, induces, causes[,], or materially contributes to the infringing conduct of another.”²⁰¹

The Napster system utilized a number of centralized servers to provide an index of files available on the network and a registration system to allow users to join the network.²⁰² This centralized index allowed Napster users to search for music files located on other users’ computers within the system.²⁰³ The fact that Napster owned and maintained the centralized servers was a deciding factor for the court.²⁰⁴ The court determined that having an ongoing level of control over the search index facilitated the actions of the system’s users.²⁰⁵ The court concluded that Napster had actual knowledge of specific acts of infringement from notices provided to the company by RIAA.²⁰⁶ In addition, internal e-mails by one of the company’s co-founders indicated that they were aware of their users’ infringing activity.²⁰⁷

With the “knowledge of the infringing activity” element met, the court then concluded that, as a service provider, the operation of the centralized index and registration servers materially contributed to the infringement.²⁰⁸ Not only did the company know of its users’ infringement, but, by operating the servers, the company had the ability to “block access to the system by suppliers of the infringing material, and . . . failed to remove the material.”²⁰⁹ The court’s decision left no question as to the company’s contributory infringement liability.²¹⁰ Additionally, the court concluded that Napster

200. 443 F.2d 1159 (2d Cir. 1971).

201. *Napster II*, 239 F.3d at 1019 (quoting *Gershwin Publ’g*, 443 F.2d at 1162); see also *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

202. Lee, *supra* note 174, at 493.

203. Maxwell, *supra* note 65, at 345.

204. Lee, *supra* note 174, at 494.

205. *Id.*

206. *Napster I*, 114 F. Supp. 2d 896, 903, 908 (N.D. Cal. 2000); Maxwell, *supra* note 65, at 345–46 (“RIAA informed the company of over 12,000 direct infringement acts.”).

207. *Napster I*, 114 F. Supp. 2d at 918 (“[A] document authored by co-founder Sean Parker mentions the need to remain ignorant of users’ real names and IP addresses ‘since they are exchanging pirated music.’”).

208. Lee, *supra* note 174, at 493–94. “[T]he *Napster* court’s approach . . . improperly conflate[d] the substantial noninfringing use defense with the knowledge element of the contributory infringement cause of action.” Jensen, *supra* note 32, at 28.

209. *Napster II*, 239 F.3d 1004, 1022 (9th Cir. 2001). When the company later indicated that it had developed software that would allow it to block 99.4% of illegal file sharing, district court Chief Judge Marilyn Hall Patel rejected this, saying the only acceptable solution would be to reduce infringement by users “down to zero.” LESSIG, *supra* note 114, at 73–74; GOLDSTEIN, *supra* note 96, at 167–68; Transcript of Proceedings at 34–35, *In re Napster, Inc. Copyright Litig.*, 191 F. Supp. 2d 1087 (N.D. Cal. 2002) (No. MDL 00-1369 MHP, C 99-5183 MHP).

210. See *Napster II*, 239 F.3d at 1022.

was liable for vicarious infringement.²¹¹ However, the decision made no conclusions as to whether the software was capable of substantial, noninfringing uses.²¹² As a result, the court never “resolve[d] the question of Napster’s contributory liability as a product provider” under the *Sony* standard.²¹³ While the decision quoted *Sony*’s language to include “with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material,” the court then explained its understanding of the standard in somewhat different terms.²¹⁴ In the final analysis, while the Ninth Circuit did not rely on the *Sony* safe-harbor doctrine, the court did state that its reading of the rule “was that the distribution of a product that is capable of substantial noninfringing uses does not constitute contributory copyright infringement, unless the distributor has *actual knowledge* of specific infringing activities and fails to exercise its ability to stop those infringing acts.”²¹⁵

6. *In re Aimster* Copyright Litigation

In *In re Aimster Copyright Litigation*, the Seventh Circuit gave quite a different interpretation of *Sony* than did the Ninth Circuit.²¹⁶ In order to assess contributory copyright infringement liability under the *Sony* doctrine, the *Aimster* court looked at five factors: (1) the ongoing relationship between the vendor and the users, (2) the balance between infringing and noninfringing uses, (3) any willful blindness on the part of the vendor, (4) the cost to the vendor to avoid the infringement, and (5) the probability of actual noninfringing uses.²¹⁷

The *Aimster* system was a peer-to-peer system that worked in conjunction with America Online’s (AOL) Instant Messenger service, a peer-to-peer chat network that allowed its users to share and trade files, mostly music in MP3 format.²¹⁸ The service’s only users were AOL customers, and *Aimster*’s users were required to connect to an AOL chat room in order to trade files.²¹⁹ *Aimster* provided servers that collected and indexed information

211. *Id.* at 1020–21; Lee, *supra* note 174, at 493.

212. Lee, *supra* note 174, at 494.

213. *Id.* at 495.

214. See *Napster II*, 239 F.3d at 1020 (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984)).

215. Coats, Weinstein & Zimmerman, *supra* note 139, at 235 (emphasis added); see generally *Napster I*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).

216. See generally *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); see also *Napster II*, 239 F.3d 1004.

217. Lee, *supra* note 174, at 495–96.

218. *Aimster*, 334 F.3d at 646; Maxwell, *supra* note 65, at 347.

219. *Aimster*, 334 F.3d at 646; Lee, *supra* note 174, at 495 n.73.

relating to the files available on the network, which provided search capabilities to the users.²²⁰

In affirming a lower court ruling granting a preliminary injunction against Aimster, Judge Posner applied his interpretation of the *Sony* doctrine.²²¹ The decision first considered the ongoing relationship between the vendor and its users, and the court stated that, in the ongoing relationship, the vendor may have some control over its users' actions.²²² According to the court, this "is a factor . . . in determining [the liability of the vendor as] a contributory infringer."²²³ Judge Posner's decision then considered the balance between infringing and noninfringing uses of the software and service, saying that this balance was "downplayed in [*Sony's*] majority opinion," but "it was apparent that the Betamax was being used for infringing as well as noninfringing purposes."²²⁴ Judge Posner suggested that, in balancing the competing interests, legitimate users should not be denied the benefit of technological advances just to punish the infringers.²²⁵

Judge Posner then directly criticized the Ninth Circuit's "actual knowledge of specific infringing uses" test articulated in *Napster II*.²²⁶ Judge Posner looked at the encryption built into Aimster's system, which shielded Aimster from actual knowledge.²²⁷ He understood this element to be nothing but willful blindness on Aimster's part, and he concluded that, in copyright law, "[w]illful blindness is knowledge."²²⁸ Judge Posner then adopted a knowledge rule that holds a distributor liable if it *knew or should have known* of the infringing activity.²²⁹

Judge Posner briefly considered the final two factors: the cost to the vendor of avoiding the infringement and the probability of actual, noninfringing potential uses.²³⁰ To avoid infringement liability, the court set out a test based on the cost to the vendor of stopping the infringing activities, first articulated as a "highly burdensome" threshold²³¹ and later as a "dispropor-

220. Feder, *supra* note 46, at 884 ("AOL Instant Messenger takes care of some of the housekeeping functions . . . that the other peer-to-peer programs need to carry out on their own. To this existing layer of peer-to-peer functionality, Aimster adds a searchable database of files available on the network, and message encryption."); Maxwell, *supra* note 65, at 347.

221. Lee, *supra* note 174, at 495.

222. *Aimster*, 334 F.3d at 649; Lee, *supra* note 174, at 495.

223. *Aimster*, 334 F.3d at 648.

224. *Id.* at 649.

225. *Id.*

226. *Id.*

227. *Id.* at 646; Lee, *supra* note 174, at 496.

228. *Aimster*, 334 F.3d at 650. While *Sony* said that "constructive knowledge" of infringing uses will not create liability, Judge Posner distinguished willful blindness from mere constructive knowledge. Maxwell, *supra* note 65, at 347-48.

229. *Aimster*, 334 F.3d at 650; Lee, *supra* note 174, at 496.

230. *Aimster*, 334 F.3d at 648.

231. *Id.*

tionate cost.”²³² The “highly burdensome” test is the rule the recording industry argued for in their briefs, and, as Judge Posner pointed out, the rule is contrary to the *Sony* decision.²³³ That is how AOL escaped liability, although it too had the ability to stop the infringing use and did not do so.²³⁴ Aimster simply failed to prove its case to the court on this point.²³⁵ Judge Posner cited to *Sony*’s “significant, noninfringing commercial use” test when considering the potential for actual, noninfringing uses of the Aimster system.²³⁶ Judge Posner said that the potential, noninfringing uses in *Sony* were actual or highly probable and that, accordingly, Aimster would need to show more than mere theoretical noninfringing uses.²³⁷ Aimster failed to prove actual, or even probable, future, noninfringing uses, and therefore, Aimster failed this test as well.²³⁸ Judge Posner did not give guidelines as to what would be required to meet this test, stating only that Aimster’s evidence was insignificant.²³⁹

In the end, the court both embraced and extended *Sony* and concluded that Aimster was liable for contributory infringement.²⁴⁰ The court inferred factors from the *Sony* decision, such as the balancing test the court felt was evident in *Sony*, and expanded others, such as the *probability* of non-infringing uses rather than the *capability* of non-infringing uses.²⁴¹

IV. REASONING

In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster III)*, the issue before the Court was whether *Sony*’s safe-harbor rule provided Respondents, Grokster and StreamCast, a defense to liability for contributory copyright infringement.²⁴² The United States Supreme Court held in favor of the copyright holders, MGM Studios, concluding that Grokster and StreamCast were liable by adopting an alternate theory of third-party, copy-

232. *Id.* at 653 (“[T]o 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.”).

233. *Id.* at 649–50.

234. *Id.* at 648 (“[D]etection and prevention of the infringing uses would be highly burdensome.”).

235. *Id.* at 651.

236. *Aimster*, 334 F.3d at 651.

237. *Id.* (“We also do not buy Aimster’s argument that . . . all Aimster has to show in order to escape liability for contributory infringement is that its file-sharing system *could* be used in noninfringing ways, which obviously it could be.”); Lee, *supra* note 174, at 496.

238. *Aimster*, 334 F.3d at 652–53.

239. *Id.* at 653.

240. Maxwell, *supra* note 65, at 347–49.

241. *Id.*; see also Lee, *supra* note 174, at 495–96.

242. *Grokster III*, 125 S. Ct. 2764, 2783 (2005).

right-infringement liability: active inducement.²⁴³ The Court's decision focused on Grokster and StreamCast's intent in promoting their product for infringing uses.²⁴⁴ The Court's reasoning proceeded as follows: (1) Sony's safe-harbor doctrine did not preclude liability on other theories;²⁴⁵ (2) the Court adopted an inducement theory imposing third-party liability on those who distribute a device while promoting its use to infringe copyrights;²⁴⁶ and (3) Respondents were liable under the inducement theory because they sought to satisfy a known demand for an infringing product, took no steps to stop or lessen the infringement, and derived added revenue from their product's increased infringing use.²⁴⁷

This section discusses the manner in which the Supreme Court analyzed *Grokster III* and the Court's decision to adopt an inducement theory for copyright liability.²⁴⁸ It then discusses the Court's decision to vacate the lower court decisions granting partial summary judgment in favor of Grokster and StreamCast based on the conclusion that, under the newly adopted inducement theory, Respondents were likely liable for the infringing activities of their users.²⁴⁹ Finally, the section will analyze the two concurring opinions as an indication of how the Court might decide a case based on Sony in the future.²⁵⁰

A. The Court's Unanimous Opinion

1. *The Court's Holding*

The Supreme Court handed down its decision in *Grokster III*²⁵¹ on June 27, 2005, the last day of the 2004–2005 term.²⁵² In an opinion written by Justice Souter, the Court unanimously vacated the Ninth Circuit's judgment, which upheld a grant of partial summary judgment in favor of Respondents, Grokster and StreamCast.²⁵³ In doing so, the Supreme Court adopted an inducement liability rule that holds the distributor of a product contributorily liable for users' infringing activities when the distributor promotes the use of the product to infringe copyrights—as shown by clear expression or af-

243. *Id.*

244. *Id.* at 2771–74, 2780.

245. *Id.* at 2778.

246. *Id.* at 2780.

247. *Id.* at 2781–83.

248. *See infra* Part IV.A.1–2.

249. *Grokster III*, 125 S. Ct. at 2774; *see also infra* Part IV.A.3.

250. *See infra* Part IV.B.

251. *Grokster III*, 125 S. Ct. at 2770.

252. *United States Supreme Court Completes 2004–2005 Term*, available at <http://usinfo.state.gov/dhr/Archive/2005/Jun/30-230940.html> (last visited Feb. 17, 2006).

253. *Grokster III*, 125 S. Ct. at 2783.

firmative steps to foster infringement—regardless of the product's lawful uses.²⁵⁴

While adopting the inducement liability rule in this case, the Court declined to directly answer the central question before it: is the *Sony* safe-harbor rule still valid, and if so, under what circumstances does it apply?²⁵⁵ The Court, in support of the new rule, emphasized the need and importance of maintaining “a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement.”²⁵⁶ The Court remitted the case for further findings of fact and reconsideration under the inducement rule.²⁵⁷

2. *The Court of Appeals Misapplied Sony in Affirming the District Court's Grant of Summary Judgment*

After a discussion of the facts and history of the case and a review of the history and policy considerations underpinning the various theories of secondary liability, including recent applications of the theories in cases such as *Aimster*, the Court shifted to an analysis of the Ninth Circuit's application of the *Sony* safe-harbor doctrine in *Grokster III*.²⁵⁸ The Court explained that the Ninth Circuit interpreted *Sony*'s basic proposition to mean “that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it.”²⁵⁹ The Court concluded that the Ninth Circuit's analysis premised liability on the distributors of a product having actual and “specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information.”²⁶⁰ The Court noted that *Grokster* had advertised to satisfy a known demand for a product to facilitate copyright infringement, and it derived revenue from the increased infringing use of its product.²⁶¹ The Court also concluded that the Ninth Circuit incorrectly attempted to distinguish the evidence that *Grokster* and *StreamCast* had promoted infringing uses of their products from the facts in *Sony* in which the defendants knew only that some uses would be infringing.²⁶²

254. *Id.* at 2780.

255. *Id.* at 2778 (“[W]e do not revisit *Sony* further, as MGM requests, to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur.”).

256. *Id.* at 2775.

257. *Id.* at 2783.

258. *Id.* at 2774–77.

259. *Grokster III*, 125 S. Ct. at 2778.

260. *Id.* (quoting *Grokster II*, 380 F.3d 1154, 1162 (9th Cir. 2004)).

261. *Id.* at 2770–72.

262. *Id.* at 2781.

The Court explained that the Ninth Circuit's analysis also premised liability on a product's distributor having materially contributed to the infringement.²⁶³ It further explained why the Ninth Circuit's holding—that the Respondents did not materially contribute to their users' infringement because the users searched for and traded files without the intervention or assistance of Respondents—was incorrect and, therefore, was being overruled.²⁶⁴ The Court observed that Grokster had taken no steps to lessen the infringing activity, such as developing tools to filter out infringing activity.²⁶⁵ The Ninth Circuit had considered this fact “irrelevant” without the attendant “independent duty to monitor their users' activity,” but the Court said that this evidence “underscore[d] Grokster's and StreamCast's intentional facilitation of their users' infringement.”²⁶⁶

Therefore, in the Court's opinion, the Ninth Circuit's interpretation of *Sony* was overly broad and “convert[ed] the case from one about liability resting on imputed intent to one about liability on any theory.”²⁶⁷ The Court specifically rejected the Ninth Circuit's reading of *Sony* to require “actual knowledge of specific acts of infringement.”²⁶⁸ It also affirmed the interpretation that, without evidence of intent to foster infringement, the mere distribution of a product that is capable of substantial, noninfringing uses with knowledge of third-party infringement “does not expose a distributor to contributory liability.”²⁶⁹ However, the Court did not resolve the split in the circuits by clarifying the application of *Sony*'s safe-harbor doctrine²⁷⁰—something most people expected the Court to do.²⁷¹

263. *Id.* at 2775.

264. *Id.*

265. *Grokster III*, 125 S. Ct. at 2781.

266. *Id.*

267. *Id.* at 2778 (“We agree with MGM that the Court of Appeals misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied.”).

268. *Id.* at 2775 (emphasis added); Lori Ploeger, Matthew D. Brown & Orion Armon, *An Overview of MGM Studios Inc. v. Grokster, Ltd.*, COLO. LAW., Sept. 2005, at 89, 90.

269. *Grokster III*, 125 S. Ct. at 2775; Ploeger, Brown & Armon, *supra* note 268, at 90 (“Beyond that, there is disagreement regarding the limits and applications of the *Sony* decision, as evidenced by the two concurring opinions.”).

270. *Grokster III*, 125 S. Ct. at 2778–79 (saying that it was “enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and to leave further consideration of the *Sony* rule for a day when that may be required”).

271. Craig Steckley, Note, *MGM v. Grokster: A Disincentive for Technological Responsibility*, 7 TUL. J. TECH. & INTELL. PROP. 299, 311 n.124 (2005) (noting that one of the reasons the Supreme Court granted the petition for certiorari was the split in the circuit courts).

3. *Adoption of the Inducement Test for Contributory Infringement Liability*

Despite failing to resolve the split in the circuits over the application of *Sony's* safe-harbor doctrine, the Court was able to reach a resolution of the problem in *Grokster* through the adoption of a new rule.²⁷² The Court adopted an inducement test for contributory infringement liability, declaring it "a sensible one for copyright[s]."²⁷³ The Court declared that "one who distributes a device with the object of promoting its use to infringe copyright[s] . . . is liable for the resulting acts of infringement by third parties."²⁷⁴ The manner in which the opinion set this new rule suggested that the Court formulated the question much more broadly than did either party to the case.²⁷⁵ According to the opinion, the question before the Court was, "under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product?"²⁷⁶

Instead of applying the *Sony* safe-harbor doctrine, as did the Ninth Circuit, the Court followed Justice Scalia's assertion during oral arguments that the Court should not decide this case on the basis of *stare decisis*.²⁷⁷ As the *Sony* Court had done two decades earlier,²⁷⁸ this Court looked to patent law for guidance and found a suitable solution in the patent law theory of intentional inducement of infringement liability.²⁷⁹ The Court explained that, un-

272. *Grokster III*, 125 S. Ct. at 2780.

273. *Id.*

274. *Id.*

275. Brief for Songwriter & Music Publisher Petitioners at i, *Grokster III*, 125 S. Ct. 2764 (2005) (No. 04-480) (formulating the question as "[w]hether secondary copyright liability extends to companies whose Internet-based 'file sharing' services facilitate copyright infringement and exploit it through advertising"); Brief for Respondents, *supra* note 58, at i (formulating the question as "[w]hether the court of appeals correctly ruled, on the only issue before it, that respondents' distribution of the current versions of their file-sharing software does not render respondents secondarily liable for every direct infringement of petitioners' copyrights committed by users of the software"); see generally Brief for Motion Picture Studio & Recording Co. Petitioners, *Grokster III*, 125 S. Ct. 2764 (2005) (No. 04-480).

276. *Grokster III*, 125 S. Ct. at 2770.

277. *Grokster III* Oral Argument, *supra* note 60, at 41 (Justice Scalia stated to counsel for Respondents that "[t]his Court is certainly not going to decide this case on the basis of *stare decisis* . . . whatever else is true."). The doctrine of *stare decisis* is defined as "[t]o stand by things decided." BLACK'S LAW DICTIONARY 1443 (8th ed. 2004). Under *stare decisis*, "it is necessary for a court to follow earlier judicial decisions when the same points arise again in litigation." *Id.*

278. *Grokster III*, 125 S. Ct. at 2779; *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 440 (1984).

279. *Grokster III*, 125 S. Ct. at 2780 ("*Sony* took the staple article doctrine of patent law as a model for its copyright safe-harbor rule."). In patent law, the "staple item of commerce"

der the theory of intentional inducement, a party is liable when it engages in "purposeful, culpable expression and conduct" that promotes and encourages the infringing uses of its product, not when it has "mere knowledge" of infringement.²⁸⁰ Intent can be derived from "'active steps . . . taken to encourage direct infringement,'" such as advertising.²⁸¹ The *Sony* Court declined to adopt this same rule because Sony had not intentionally induced infringement.²⁸²

Additionally, the Court noted that the actions of Sony's users were not seen as infringing because they "qualified as legitimate fair use."²⁸³ The Court distinguished *Grokster* from *Sony* on the issue of fair use, by saying that the two were "significantly different."²⁸⁴ While in both cases Respondents could claim alternative uses, the Court reasoned that *Grokster*'s "unlawful objective [was] unmistakable," as evidenced by a "purpose to cause and profit" from its users' direct infringement.²⁸⁵

4. *Consideration of Summary Judgment: Respondents Liable Under the Inducement Test for Contributory Infringement*

After adopting the inducement test for contributory liability, the Court then turned to consider Respondents' liability under the test.²⁸⁶ The newly

doctrine protects distributors from liability when they distribute a patented device that is suitable for uses not claimed in the patent. *Id.* at 2777.

280. *Id.* at 2780.

281. *Id.* at 2779 (quoting *Oak Indus., Inc. v. Zenith Elecs. Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988)).

282. *Id.* at 2780; *Sony*, 464 U.S. at 454. Evidence in the record showed that the Betamax video recorder was "advertised as being able to copy copyrighted works." Thomas A. Mitchell, *State of the Art(s): Protecting Publishers or Promoting Progress?*, 12 RICH. J.L. & TECH. 7, ¶ 32 n.149 (2005). While the Court may not have recognized any inducement on Sony's part, the aforementioned advertising in the record and Sony's manual for the Betamax, containing instructions on "Recording TV Programs" and "Recording One TV Program While Viewing Another," provided evidence to the contrary. *Sony*, 464 U.S. at 439 n.19 ("Sony certainly does not 'intentionally induce' its customers to make infringing uses of respondents' copyrights, nor does it supply its products to identified individuals known by it to be engaging in continuing infringement of respondents' copyrights."); *contra Sony Corp., Sony SL-7200 Betamax Videocassette Recorder Manual*, 2, 4 (1975). Sony Betamax "machines are advertised for one purpose in life. Their only single mission, their primary mission is to copy copyrighted material that belongs to other people. . . . The ads are here. Here is Sony that tells you that you can record one channel while watching another." *Home Recording of Copyrighted Works: Hearings on H.R. 4783, H.R. 4794, H.R. 4808, H.R. 5250, H.R. 5488 & H.R. 5705 Before the Subcomm. on Courts, Civil Liberties & the Admin. of Justice of the H. Comm. on the Judiciary*, 97th Cong., 2d Sess. (1982) (testimony of Jack Valenti, President, Motion Picture Association of America, Inc.).

283. *Grokster III*, 125 S. Ct. at 2784 (citing *Sony*, 464 U.S. at 447–55).

284. *Id.* at 2782; Mitchell, *supra* note 283, ¶ 32.

285. *Grokster III*, 125 S. Ct. at 2782.

286. *Id.* at 2780–81.

adopted rule required two elements to make a vendor liable for direct acts of infringement by third parties: the distribution of a device and the promotion of the device to infringe copyrights.²⁸⁷ Here, the Court noted the "evidence of [Respondents'] express promotion, marketing, and intent to promote further" infringing uses.²⁸⁸ For example, both companies sought to be Napster's replacement, and executives for StreamCast monitored the number of copyrighted songs on their network and sought to have more copyrighted songs on their network than their competitors.²⁸⁹ Grokster's customer newsletter promoted the availability of copyrighted materials on their network, and both companies' customer support teams assisted users "in locating and playing copyrighted materials."²⁹⁰ The Court reasoned that this and other evidence fell into three categories that, together, justified an inference of intent to induce users to participate in infringing activities.²⁹¹ First, Respondents sought to satisfy a known demand for a product to facilitate infringement.²⁹² Second, Respondents took no steps to lessen the infringing activity, such as developing tools to filter out infringing activity.²⁹³ Third, Respondents derived added revenue from the increased use of their product due to the infringing activity.²⁹⁴

The Court declined to weigh in on Grokster and StreamCast's vicarious liability because it resolved that issue under the inducement theory for liability.²⁹⁵ The Court explained that a product's distributor infringes vicariously when it "profit[s] from direct infringement while declining to exercise a right to stop or limit it."²⁹⁶ The Court did, however, separately note the facts that should have been sufficient for the lower courts to find Grokster and StreamCast liable under a theory of vicarious infringement.²⁹⁷ These facts included Respondents' failure to develop tools to halt or diminish the infringing uses, which the Court took as clear evidence of "intentional facilitation."

287. *Id.* at 2780.

288. *Id.* at 2774.

289. *Id.* at 2773, 2781. Once Petitioners notified StreamCast about the infringing files on its network, StreamCast actively sought to block users it thought to be monitoring its networks. *Id.* at 2774.

290. *Id.* at 2780-81.

291. *Grokster III*, 125 S. Ct. at 2781; Seth A. Miller, Note, *Peer-to-Peer File Distribution: An Analysis of Design, Liability, Litigation, and Potential Solutions*, 25 REV. LITIG. 181, 213-14 (2006).

292. *Grokster III*, 125 S. Ct. at 2781.

293. *Id.*

294. *Id.* at 2781-82.

295. *Id.* at 2776 n.9.

296. *Id.* at 2776 (citing *Shapiro, Bernstein & Co. II*, 316 F.2d 304, 307 (2d Cir. 1963)).

297. *Id.* at 2781-82.

tion” of the infringing activities and Respondents’ intention to “profit from third-party acts of copyright infringement.”²⁹⁸

Finally, the Court briefly assessed the evidence of actual, direct infringement by users of Respondents’ software, a necessity under any third-party liability theory.²⁹⁹ Noting ample evidence of actual infringement, the Court concluded by applying the finding to a review of the motion for summary judgment.³⁰⁰ Accordingly, the Court remanded the matter for additional findings of fact and reconsideration of MGM’s motion for summary judgment.³⁰¹

B. Two Concurring Opinions Concerning *Sony*’s Safe-Harbor Doctrine

This section focuses on the two concurring opinions in *Grokster*.³⁰² The concurrences take opposing views on the correct interpretation of *Sony*’s safe-harbor doctrine and how the Court would have decided the case under that theory.³⁰³ Justice Ginsburg, joined by Chief Justice Rehnquist and Justice Kennedy, wrote the first concurrence, which would have reversed the Ninth Circuit on the basis of *Sony* alone.³⁰⁴ Justices Stevens and O’Connor joined Justice Breyer’s concurrence, which would have affirmed in favor of *Grokster* on *Sony* alone.³⁰⁵ Justices Scalia, Thomas, and Souter did not write or join a concurring opinion.³⁰⁶

1. Justice Ginsburg’s Concurring Opinion

Justice Ginsburg filed a concurring opinion, joined by Chief Justice Rehnquist and Justice Kennedy, which concluded that *Grokster* and StreamCast did not meet the requirements for protection under *Sony*’s safe-harbor doctrine for two reasons.³⁰⁷ First, according to Ginsburg, the *Sony* doctrine created a defense to liability if a product had *substantial, nonin-*

298. *Grokster III*, 125 S. Ct. at 2781–82.

299. *Id.* at 2782.

300. *Id.*

301. *Id.*

302. *See infra* Part IV.B.1–2.

303. *Grokster III*, 125 S. Ct. at 2787, 2796.

304. *Id.* at 2783, 2786.

305. *Id.* at 2787, 2796.

306. Regarding *Sony*, Justice Breyer stated that “three of the Justices got it about right[.] . . . three leaned too far to protect copyright holders, and the remaining three didn’t make up their minds because they didn’t have to.” Stephen Breyer, Justice, United States Supreme Court, Lecture to the Students and Staff of the University of Arkansas at Little Rock, William H. Bowen School of Law (March 8, 2006) (on file with author) [hereinafter Justice Breyer Lecture]; *see also Grokster III*, 125 S. Ct. at 2783.

307. *Grokster III*, 125 S. Ct. at 2783 (Ginsburg, J., concurring).

fringing uses.³⁰⁸ Second, according to Justice Ginsburg, the doctrine allowed an absolute defense to liability if there were *commercially significant, non-infringing uses* for the product.³⁰⁹

Justice Ginsburg was underwhelmed by the scant evidence of noninfringing uses in *Grokster*.³¹⁰ The concurrence stressed that Respondents' products were "overwhelmingly used to infringe" and that the infringing uses provided the "overwhelming source of revenue from the products."³¹¹ Justice Ginsburg thought it improbable that substantial or commercially significant, noninfringing uses would develop in the future in light of the history of Respondents' products.³¹² The concurrence also declared that, based on the evidence presented, the question of there being any prospective, substantial or commercially significant, noninfringing uses of the products was "beyond genuine debate."³¹³ The concurring opinion concluded that there "had been no finding of any fair use" as there had been in *Sony*, and all evidence presented to the contrary was either pure anecdote or mere assertion.³¹⁴

In sum, the correct interpretation of *Sony*, according to Justice Ginsburg's concurrence, is that *Grokster* and StreamCast could still be liable for contributory infringement.³¹⁵ Even without the adoption of the inducement rule, Respondents would be liable because there was no real evidence that their products were capable of substantial or commercially significant, non-infringing uses.³¹⁶

2. Justice Breyer's Concurring Opinion

Justice Breyer, with whom Justices Stevens and O'Connor joined, agreed with the district and circuit courts in "favoring a more lenient interpretation of substantial noninfringing use[s]."³¹⁷ Under Justice Breyer's interpretation of *Sony*, no liability attaches "unless the product in question will be used *almost exclusively*" for infringement.³¹⁸ In Justice Breyer's judgment, *Grokster* deserved protection from liability under the *Sony* safe-harbor

308. *Id.*

309. *Id.*

310. *Id.* at 2786.

311. *Id.*

312. *Id.*

313. *Grokster III*, 125 S. Ct. at 2786.

314. *Id.* at 2785.

315. *Id.* at 2786.

316. *Id.*

317. *Id.* at 2787 (Breyer, J., concurring); David Moser, *Free to Share? Grokster Decision Sidesteps Innovation/Copyright Battle; Puts Focus on Business Strategies*, TENN. B.J., Oct. 2005, at 14, 15 n.9.

318. *Grokster III*, 125 S. Ct. at 2791 (Breyer, J., concurring).

doctrine.³¹⁹ The concurrence centered on the evidence presented of noninfringing uses, specifically public domain works and files lawfully and permissibly shared on Grokster's network.³²⁰ Justice Breyer rebuffed Justice Ginsburg's concurrence, concluding that Grokster and StreamCast met the threshold for protection under *Sony's* safe-harbor—that a product be *merely capable* of substantial non-infringing uses, even though the vendor distributes it with knowledge that it would be put to infringing use.³²¹

In his opinion, Justice Breyer considered both the substantial and capability elements from *Sony*.³²² In analyzing the substantial element of *Sony*, Breyer wrote that a reasonable inference from the evidence presented was that roughly the same percentage of lawful use existed in *Grokster* as in *Sony*—approximately ten percent.³²³ He continued by pointing out that this small percentage of the total use was the same percentage sufficient in *Sony* to meet the “substantial” threshold for protection from liability.³²⁴ Justice Breyer continued by examining the capability element of *Sony*.³²⁵ In *Sony*, the Court determined that ten percent legitimate use was sufficient to withstand liability because, as in the case of the Betamax videocassette recorder, this evidenced the product's capacity for current, noninfringing use and potential for increased future, noninfringing use.³²⁶ In *Grokster*, Breyer pointed out that the evidence showed the P2P software was capable of actual noninfringing use, and by extension, potential future use that would be noninfringing.³²⁷

Justice Breyer also went to great lengths to affirm the policy balance struck by *Sony's* safe-harbor doctrine.³²⁸ He explained that the rule from *Sony* was comprehensible, protected nascent technology, and was “forward looking.”³²⁹ What the rule ultimately provided entrepreneurs, according to Breyer, was a shield from liability as they develop new technologies.³³⁰ Moreover, according to the concurrence, the bright line intended by *Sony* made it intentionally demanding for the courts to impose liability unless either the use of the product in question was exclusively for infringement or

319. *Id.* at 2790–91.

320. *Id.* at 2790.

321. *Id.* at 2787 (recognizing that Sony knew that its customers would use the VCR for infringement).

322. *Id.* at 2790–93.

323. *Id.* at 2788–89.

324. *Grokster III*, 125 S. Ct. at 2790 (Breyer, J., concurring).

325. *Id.* at 2791, 2793.

326. *Id.* at 2789.

327. *Id.* at 2789–90.

328. *Id.* at 2791–92.

329. *Id.*

330. *Grokster III*, 125 S. Ct. at 2791–92 (Breyer, J., concurring).

the distributor encouraged or induced infringement.³³¹ The concurrence noted that this difficulty in imposing liability protected a number of technologies in their infancy, particularly “VCRs, typewriters, tape recorders, photocopiers, computers, cassette players, compact disc burners, digital video recorders, MP3 players, Internet search engines, and *peer-to-peer software*.”³³²

Justice Breyer argued that a modification of the rule, or a more strict interpretation, as suggested by Justice Ginsburg’s concurrence, would “increase the legal uncertainty” for entrepreneurs and developers of new technology, drive up the risk of litigation, and “chill . . . technological development.”³³³ Moreover, in Justice Breyer’s view, a change would be ill advised because it would weigh too heavily on the interests of the copyright holders without concomitant incentives to create.³³⁴

V. SIGNIFICANCE

The following section discusses the ambiguity left by the majority opinion and the conflict among the concurring opinions regarding *Sony*’s safe-harbor doctrine in terms of its impact on technological development and the business ecosystems that support innovation.³³⁵ This Note argues, as Justice Breyer predicted, that the *Grokster III* decision will have a direct chilling effect in the high-tech world, both because of the Court’s failure to affirm the balance struck in *Sony*, thereby creating uncertainty regarding the future of its safe-harbor doctrine, and because of the Court’s adoption of the inducement rule.³³⁶

For more than twenty years, the high-tech industry has relied on *Sony* in making development and business decisions.³³⁷ According to *The Economist*, *Sony* had become “holy writ in Silicon Valley” because it supported innovation that could be injurious to copyrights and allowed it to flourish.³³⁸ The National Venture Capital Association attempted to portray the decision in the best possible light, saying that the decision was “favorable to the venture capital industry because the Supreme Court rejected the studios’ strong efforts to cut back on the protections for innovative technologies set forth in

331. *Id.* at 2792.

332. *Id.* at 2791–92 (emphasis added).

333. *Id.* at 2792–93.

334. *Id.* at 2793–94.

335. *See infra* Part V.A–D.

336. *See infra* Part V.B.

337. *See supra* note 75.

338. *Innovation and Intellectual Property: A Bad Week for Pirates*, *ECONOMIST*, July 2, 2005, at 84.

Sony.³³⁹ It is easy, though, to see why this is not the case for at least four reasons: (1) the split on *Sony* among the circuits, (2) the addition of a new rule in the legal arsenal of copyright holders, (3) the need to seek legal opinions in the more routine decisions of a company, and (4) the potential for the personal liability of the investors themselves.

A. The Chill of Ambiguity

Now that Justice O'Connor and Chief Justice Rehnquist have been replaced by Justice Alito and Chief Justice Roberts, the official opinion of five members of the Court is not known, and "it is uncertain how the Court might rule in a future case" based on *Sony* when substantially different facts are involved.³⁴⁰ Additionally, the tech industry may not see *Sony* as sacrosanct as it previously had, especially when dealing with peer-to-peer technologies, now that the Court has disclosed its internal split in perspective regarding *Sony*.³⁴¹ A partner at a law firm that advises technology companies said that "P2P will continue to be a pariah in the investment community[.]. . . and investors will be careful about touching anything that has digital content."³⁴²

The National Venture Capital Association filed an amicus brief in *Grokster III* in which it articulated the problems that the split among the courts created for them.³⁴³ For instance, using the standard offered by Judge Posner in *Aimster* creates a "question[] of fact" that will require extensive discovery.³⁴⁴ According to the brief, this "encourages entrenched busi-

339. Mark Heesen, President, Nat'l Venture Capital Ass'n, National Venture Capital Association Reaction to United States Supreme Court Decision on *MGM vs. Grokster* (June 27, 2005), available at <http://www.nvca.org/pdf/grokster%20statement%206-27-05.pdf> (last visited Mar. 3, 2006).

340. Ploeger, Brown & Armon, *supra* note 268, at 90; William H. Hollander, *Copyright Protection Versus Technological Innovation: Secondary Liability for Copyright Infringement Becomes More Uncertain*, FED. LAW., Jan. 2006, at 20, 21 (commenting on the fact that *Sony* is now a "far murkier standard" than previously thought).

341. David Post, *The Impact of Grokster*, NAT'L L.J., Aug. 3, 2005, at 10 (saying that uncertainty remains as to how a claim based on *Sony* will play out in the future, specifically as to "the precise meaning of 'capable of substantial[,] non-infringing use'"); David G. Post, Annemarie Bridy & Timothy Sandefur, "Nice Questions" Unanswered: *Grokster*, *Sony's Staple Article of Commerce Doctrine*, and the *Deferred Verdict on Internet File Sharing*, 2005 CATO SUP. CT. REV. 235 (2005) (concluding that the silence of the unanimous opinion in *Grokster* "leaves considerable uncertainty" about the future application of *Sony*).

342. Heather Green, *Keeping with the Grokster Theme*, BUS. WK. ONLINE, June 29, 2005, available at http://www.businessweek.com/the_thread/techbeat/archives/2005/06/keeping_with_th.html (quoting Mark F. Radcliff, a partner at DLA Piper Rudnick Gray Cary).

343. See Brief of the National Venture Capital Association as Amici Curiae Supporting Respondents, *Grokster III*, 125 S. Ct. 2764 (2005) (No. 04-480).

344. *Id.* at 19.

nesses to file suit against prospective competitors and any other nascent business whose product threatens their monopoly interests."³⁴⁵

B. Living with the Inducement Rule

The day after the Supreme Court announced its decision in *Grokster III*, the lead article in the business section of the *New York Times* announced that the ruling created "serious concern" among peer-to-peer advocates and that the innovation sector in America faced a "new era of . . . uncertainty."³⁴⁶ The concern, according to the article, was that the Court's emphasis on intent invites lawsuits and "could mire new technologies in a litigious limbo."³⁴⁷

The inducement rule will certainly "make IT and electronics firms more cautious about how they market their products."³⁴⁸ The rule will allow an emboldened entertainment industry to claim, true or not, that any company that distributes a product that is used for infringement knew of the infringement and had the intent to encourage it.³⁴⁹ Although these companies may or may not be inducing infringement, the cost of discovery in potential lawsuits could easily "kill off . . . small innovative start-ups."³⁵⁰ It has even been said that the ruling will allow the entertainment industry "to sue without restraint . . . [against] every technology it does not like."³⁵¹

Speculation began almost immediately as to who would be the first company sued by the entertainment industry under the new rule.³⁵² As it turns out, RIAA used the *Grokster III* decision as justification for sending out cease-and-desist letters to seven P2P file-sharing firms in September

345. *Id.*

346. Tom Zeller, Jr., *The Supreme Court: The File Sharers; Trying to Tame an Unruly Technology*, N.Y. TIMES, June 28, 2005, at C1 (quoting Fred von Lohmann, an intellectual property lawyer with the Electronic Frontier Foundation).

347. *Id.* ("Every e-mail message, every conversation, every cocktail napkin on which an entrepreneur scribbles a vision for a new technology . . . could become evidence in a future lawsuit, making unfettered blue-sky innovation a risky business without lawyers vetting every move.").

348. *Innovation and Intellectual Property: A Bad Week for Pirates*, *supra* note 338, at 84.

349. *Id.*

350. *Id.*

351. Zeller, *supra* note 346, at C1. This claim is more believable when viewed from the perspective of Dr. Siva Vaidhyanathan, Assistant Professor, Department of Culture and Communication, New York University, who characterized the struggle between online, music file sharing and copyright holders as a "battle for control of the music and information pipelines, not the music itself." SIVA VAIDHYANATHAN, COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUAL PROPERTY AND HOW IT THREATENS CREATIVITY 181 (2001).

352. *Innovation and Intellectual Property: A Bad Week for Pirates*, *supra* note 338, at 84.

2005, including BearShare, LimeWire, and WinMX.³⁵³ These lawsuits demonstrate that, in the future, developers of new technologies should seek counsel before acting.³⁵⁴ But requiring prior legal review before acting does not create an environment that is conducive for breeding innovation and developing new technologies.

Some legal scholars have argued that the outcome of this case, in effect the judicial adoption of a variation of proposed legislation,³⁵⁵ is favorable to the legislative adoption because it allows the courts to have latitude in determining when a distributor is encouraging or inducing copyright infringement.³⁵⁶ Arguing that the outcome of *Grokster III* was favorable, Professor Pamela Samuelson³⁵⁷ claims that the ruling leaves *Sony's* safe harbor intact

353. *RIAA Goes After P2P Firms*, RED HERRING, Sept. 16, 2005, available at <http://www.redherring.com/Article.aspx?a=13616>.

354. Ian C. Ballon, *Reconsidering the Winners and Losers in MGM Studios v. Grokster*, L.A. LAW., Sept. 2005, at 60 ("Technology firms should involve copyright lawyers in the development process to ensure that engineers are educated about a company's potential exposure for inducement and the benefits of implementing engineering solutions to limit, rather than encourage, infringement."); Green, *supra* note 342 ("[C]ompanies [will] need lawyers involved more during the entire process of creating a company, from conceptual discussions, to financial negotiations, to R&D, to customer outreach."); Lawrence Lessig, *Newsmaker Q&A: "Ten Years of Chilled Innovation,"* BUS. WK. ONLINE, June 29, 2005, available at http://www.businessweek.com/technology/content/jun2005/tc20050629_2928_tc057.htm ("Now, when you innovate, you're going to have a legal review—what can you say, what kind of things can you signal.").

355. The *Grokster III* inducement rule is surprisingly similar to the proposed regulatory end run of the *Sony* doctrine by the Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Cong. § 2 (2004) ("Induce Act"). Introduced by Senators Hatch, Leahy, Frist, Daschle, Graham, and Boxer, the Induce Act was a direct response to *Grokster I* in which the district court stated that *Grokster* may have "intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares." *Grokster I*, 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2005); Maxwell, *supra* note 65, at 363; see also *Innovation and Art While Preventing Piracy: Hearing Before the Sen. Comm. on the Judiciary*, 108th Cong. (2004) (Testimony of Mary-Beth Peters, United States Register of Copyrights) ("The *Grokster I* decision fails to see the forest for the trees; it essentially ignores defendants' intent to establish and create a network of massive infringement . . . upon which they have built their business."). Behind the scenes, several drafts of the Induce Act circulated, and among them was one more favorable to the interests of copyright holders than the *Grokster III* ruling. Telephone interview with David Jones, Majority Staff, Senate Committee on the Judiciary, in Washington, D.C. (Jan. 23, 2006). All drafts, including one more stringent than either the introduced act or the rule eventually adopted by the Court, were rejected by copyright holders' lobbyists as not being tough enough. *Id.*

356. Pamela Samuelson, *Legally Speaking: Did MGM Really Win the Grokster Case?*, 48 COMM. ACM 19, 24 (Oct. 2005) ("[A]ny law that would have come out of [Congress] would have been a lot less technology-friendly than the *Grokster* decision the Supreme Court issued.").

357. Professor of Law at University of California at Berkeley, Boalt School of Law, and Co-Director of the Berkeley Center for Law and Technology, University of California at

as a reliable rule for technology developers.³⁵⁸ Other commentators have said that fears of liability by companies that develop dual-use technology that could be used to facilitate copyright infringement are overblown.³⁵⁹

Taking the opposite view are scholars such as Professor Lawrence Lessig,³⁶⁰ who predicts that the fallout from the ruling will usher in “ten years of chilled innovation.”³⁶¹ Lessig contends that, while there will not be a rash of litigation, the intent standard will simply cause “innovation that’s channeled in ways the copyright owners can agree to, or channeled in ways that avoid any kind of possibility of this kind of litigation.”³⁶² He indicates that, as of June 2005, a shift in investment strategy had already taken place, with money flowing where it avoids potential conflict with copyright holders.³⁶³ This is precisely the point that Samuelson and others miss—not that the venture capital community will fail to invest, but that what they are willing to invest in will become circumscribed.

C. Targeting Facilitators of Innovation

Venture capitalists are active investors specializing in startups, “a characteristic that distinguishes them from just about every other class” of investors.³⁶⁴ Venture capitalists often serve as board members for the companies they invest in, and they may sometimes serve as interim CEOs.³⁶⁵ In addition, venture capital funds typically have a ten-year maturity period,³⁶⁶ which tends to make their investments particularly sensitive to the receptivity of the legal environment and public markets.³⁶⁷ Any friction in these

Berkeley, available at <http://www.sims.berkeley.edu/~pam/> (last visited Mar. 12, 2006) [hereinafter Samuelson].

358. *Id.* at 24 (“I believe that as long as technology developers do not actively induce user infringements, they can continue to innovate and rely on the *Sony* safe harbor.”).

359. Joshua P. Binder, *The Future of Streaming Technology After Grokster*, 28-Dec. L.A. LAW. 13, 17 (2005).

360. Professor of Law at Stanford Law School and Founder of the Center for Internet and Society, Stanford University, available at <http://www.lessig.org/bio/short/> (last visited Mar. 12, 2006).

361. LESSIG, *supra* note 114, at 354.

362. *Id.*

363. *Id.* (“Why buy a lawsuit when you can buy a new innovation that doesn’t get you a lawsuit? And[,] you don’t even see it—you don’t even know what you don’t get because people are afraid.”).

364. JEFFREY ZYGMONT, *THE VC WAY: INVESTMENT SECRETS FROM THE WIZARDS OF VENTURE CAPITAL* 35 (2001).

365. RANDY KOMISAR, *THE MONK AND THE RIDDLE* 39–41 (2000); ZYGMONT, *supra* note 364, at 34–38.

366. ZYGMONT, *supra* note 364, at 35.

367. *Id.* at 36 (“[V]enture capitalists depend upon a mechanism for converting their investments to tangible returns, within a reasonable time frame.”).

spheres, unless the return on risk is so great that it cannot be ignored, will cause prudent venture capitalists to simply move on to safer areas of opportunity.³⁶⁸

The role that venture capitalists play in startup companies may also stifle investments in a different way, through the threat of “going after *necessary third parties*[,] like investors and law firms.”³⁶⁹ An example of this would be the complaint filed by UMG Recordings, Inc. seeking to hold Hummer Winblad Venture Partners and two of its partners liable for contributory and vicarious copyright infringement for their investment in Napster.³⁷⁰ While lawsuits against software and services providers stifle innovation directly, lawsuits against necessary third parties threaten to dry up the lifeblood of much innovation—speculative financial backing.³⁷¹

D. Copyright as a Tariff on Innovation

Extending the analogy that copyright is a tax on the reader,³⁷² copyright has also become a tax on any entity that treads into the business area of a copyright holder. The question for a developer is whether this tax has become a tariff³⁷³—in other words, whether the copyrights are blocking legiti-

368. The value of P2P may be such that the reward overcomes risks that would make other investments unattractive. One venture capitalist explained the investment value of P2P this way:

[One] out of [ten] of the deals I am looking at has a P2P element. I look at what the problem is to be solved, and sometimes P2P is a part of that solution—the secret sauce that makes it work . . . I look at P2P as one of the enabling technologies that make capital investments more efficient.

Telephone interview with Keith Benjamin, Managing Director of Levensohn Venture Partners, in San Francisco, Cal. (Mar. 16, 2006).

369. Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1349–50 (2004) (emphasis added).

370. *In re Napster, Inc. Copyright Litig.*, 354 F. Supp. 2d 1113, 1115 (N.D. Cal. 2005). UMG Recordings, Inc. sought to hold both Hummer Winblad partners personally liable for serving on Napster’s board of directors and one for serving as the company’s temporary CEO. *Id.* at 1116. UMG Recordings, Inc. is the same company that sued MP3.com’s attorneys for advising the company that its planned music service was legal. See discussion *supra* note 186.

371. See Ed Black & David McIntosh, *Investors Face Potential Liability for Napster’s Copyright Infringement*, Ropes & Gray Intellectual Property Client Alert, Aug. 2, 2004, available at http://www.ropesgray.com/files/tbl_s20News/FileUpload116/447/Alert_July%2027,%202004_Napster_Intellectual%20Property.pdf.

372. See LORD THOMAS BABINGTON MACAULAY, SPEECHES ON COPYRIGHT 11 (A. Thorndike ed. 1915) (Speech Delivered to British House of Commons Regarding 1841 Copyright Bill on Feb. 5, 1841).

373. “According to Macaulay, copyright is a tax on the reader for encouraging the author. When does it act as a tariff? When does the tax act as a barrier? . . . [When you cannot use a] work because your pocketbook is too small,” or the author can no longer be found. Justice Breyer Lecture, *supra* note 306.

mate, technical innovation. Tim Berners-Lee, inventor of the World Wide Web, has pointed out that developers will restrict their work "in a given direction when they hear rumors that some company may have a patent that may involve the technology."³⁷⁴ As Berners-Lee points out, the mere rumor of difficulty is enough to get most developers to move in a different direction.³⁷⁵ Compared to a rumor, the actual lawsuits that the entertainment industry has brought have certainly steered many away from working with peer-to-peer software, though the investment funding is still available to those who make peer-to-peer a part of the solution to a particular problem.³⁷⁶

It is clear that, in the near future, action needs to be taken to clarify the ambiguities of *Sony's* language and to resolve the split among the circuits—whether that action is the Supreme Court accepting another case based on *Sony* or Congress stepping in to draw clear lines.³⁷⁷ The alternative to this will be confusion and a lack of trust in the system by those building the technologies and industries of tomorrow.

A bright spot on the horizon for peer-to-peer software is BitTorrent, which received \$8.5 million in venture capital investment in September 2005.³⁷⁸ BitTorrent is more decentralized than any previous peer-to-peer system. In addition to there being no centralized indexing server, requests for files are distributed, with portions of the file coming from any number of end users' computers.³⁷⁹ Some have estimated that BitTorrent traffic accounts for nearly half of the traffic on the Internet.³⁸⁰ Additionally, Bertelsmann subsidiary, Warner Brothers, announced in January 2006 that it is launching a German P2P service for downloading movies.³⁸¹ Bertelsmann is the same company that acquired Napster's assets in 2002 for eight million dollars and relaunched Napster as a tool for legal music downloads.³⁸² This

374. TIM BERNERS-LEE, *WEAVING THE WEB: THE ORIGINAL DESIGN AND ULTIMATE DESTINY OF THE WORLD WIDE WEB BY ITS INVENTOR* 196 (1999).

375. *Id.*

376. "One of the areas I am looking at is security . . . how to use P2P in enabling [distribution], but also in business, how to shut down P2P networks, how to hack the hackers." Telephone interview with Keith Benjamin, *supra* note 368. "What we have been looking at is how to use this as a part of a solution, not simply just because it is P2P, but the less obvious prospects of P2P, particularly in the security space." *Id.*

377. In response to my asking Justice Breyer whether he "believed it time for the legislature to step in" to resolve the ambiguities of third-party liability, he indicated that he thought it "a job for Congress and not for the Court." Justice Breyer Lecture, *supra* note 306.

378. *BitTorrent Gets \$8.75M*, RED HERRING, Sept. 27, 2005, available at <http://www.redherring.com/Article.aspx?a=13743>.

379. Post, Bridy & Sandefur, *supra* note 341, at 235 n.97.

380. *BitTorrent Gets \$8.75M*, *supra* note 378.

381. *Warner Debuts P2P Film Service*, RED HERRING, Jan. 30, 2006, available at <http://www.redherring.com/Article.aspx?a=15522>.

382. Post, Bridy & Sandefur, *supra* note 341, at 235; *Warner Debuts P2P Film Service*, *supra* note 381.

move may signal a realization by the entertainment industry of the need to compromise, or it may simply be a capitulation by developers in the face of *Grokster III*'s precedent.

VI. CONCLUSION

The Gordian knot that is copyright in a digital age will not be easily untied. The balance between protecting the property of copyright owners and allowing innovation is not easy to achieve. Nonetheless, over the course of two decades, the policy balance articulated in *Sony* has started to degrade as different courts have interpreted and applied its safe-harbor analysis differently. Congress has failed to act, and the Supreme Court in *Grokster III* had an opportunity to affirm the balance struck in *Sony*—to allow innovation to flourish while providing ample protection for copyright holders.³⁸³ The *Grokster III* Court did not affirm that balance, and in so doing, allowed the uncertainty surrounding *Sony*'s application to remain, while simultaneously adopting an inducement standard for third-party liability for copyright infringement—handing copyright owners a new tool that could be used to gratuitously stifle innovation. Until the policy balance forged in *Sony* is affirmed, the climate will not be safe for new technologies.

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383. *Grokster III* Oral Argument, *supra* note 60, at 35.

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