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THE FUTURE OF COPYRIGHT INFRINGEMENT: *METRO-GOLDWYN-MAYER STUDIOS, INC. V. GROKSTER, LTD.*

DANA R. LEVIN*

INTRODUCTION

The developing trend of peer-to-peer¹ file sharing on the Internet, as well as the ensuing flood of copyright infringement lawsuits,² has given the courts cause to re-examine the established law of copyright infringement and assess the applicability of such law to modern Internet innovations. In light of the fast-paced growth of Internet technologies that have made the illegal distribution of copyrighted works as simple as the click of a mouse, copyright owners are eager to have those facilitating infringement of their copyrights found liable for copyright infringement.³ The courts are faced with the daunting task of determining which entity is liable, either the direct infringer or

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¹ See Jesse M. Feder, *Is Betamax Obsolete?: Sony Corp. of America v. Universal Studios, Inc. in the Age of Napster*, 37 CREIGHTON L. REV. 859, 862 (2004) (offering a broad definition of "peer-to-peer" as "interactions between machines of equal status on the network," including both "communications between servers, as well as file distribution systems"); see also Tim Wu, *When Code Isn't Law*, 89 VA. L. REV. 679, 717-19 (2003) (describing elements of peer-to-peer file sharing).

² See Feder, *supra* note 1, at 860 (noting flood of lawsuits has given courts several opportunities to explore meaning of copyright holding in *Sony*). See generally David J. Colletti, Jr., Note, *Technology Under Siege: Peer-to-Peer Technology Is the Victim of the Entertainment Industry's Misguided Attack*, 71 GEO. WASH. L. REV. 255, 255-56 (2003) (noting wave of suits against infringers even after decisions against copyright owners).

³ See Colletti, *supra* note 2, at 255-56 (commenting on recent attack against peer-to-peer file distribution on Internet); Recent Case, *Copyright Law: Ninth Circuit Holds That Computer File-Sharing Software Vendors Are Not Liable For Users' Copyright Infringement: Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 118 HARV. L. REV. 1761, 1761-62 (2005) (noting that media goliaths are in technological arms race with Internet software developers).

the company that facilitated the means for the infringement, and by which standard.⁴

Copyright owners are unlikely to sue those who directly trade software, video, or music files over the Internet.⁵ In fact, allegations made against direct infringers are so rare that when the Recording Industry Association of America (RIAA) filed suits against infringers utilizing peer-to-peer networks, the legal community was shocked.⁶ More often, the owners seek to have those companies who facilitate such infringement held liable.⁷ From the position of the copyright owners, the suits are justified because “the high volume of illegal uses, and the low return to suing any one individual, make it more cost effective to aim litigation at targets as far up the chain as possible.”⁸ In short, it is easier for the owners to sue companies like Napster who make the software that can be used to share files, instead of the millions of individuals who actually share files illegally with the aid of the Napster software.

Suits brought against file sharing distribution companies are frequently based on theories of secondary liability.⁹ Both the file sharing software distributors and the copyright owners in the music and movie industries are eager to know where the courts

⁴ See Feder, *supra* note 1, at 860–61 (commenting on how the flood of peer-to-peer infringement has forced courts to struggle with applying *Sony* decision). See generally Richard M. Myrick, *Peer-To-Peer and Substantial Noninfringing Use: Giving the Term “Substantial” Some Meaning*, 12 J. INTEL. PROP. L. 539, 539–40 (2005) (noting that Ninth Circuit has made it extremely difficult to pursue contributory infringement claims).

⁵ See Kristina Groennings, *Costs and Benefits of the Recording Industry's Litigation Against Individuals*, 20 BERKELEY TECH. L.J. 571, 573–74 (2005) (noting difficulties in pursuit of direct infringers, most notably prohibition from using Digital Millennium Copyright Act's subpoena power to compel internet service providers (ISP) to disclose identities of individual users accused of direct infringement); Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1346 (2004) (commenting that suing actual infringers is becoming passé).

⁶ See Lemley, *supra* note 5, at 1346 (noting that actual infringement suits are based on secondary liability); Myrick, *supra* note 4, at 539 (noting there was settlement largely because of public outrage).

⁷ See Lemley, *supra* note 5, at 1346 (naming Napster, eBay, and Yahoo! Auction as the normal targets of copyright holders as both direct facilitators and quasi-internet service providers). See generally Myrick, *supra* note 4, at 539 (noting direct infringer lawsuits are largely a result of the recent Ninth Circuit ruling against the industry).

⁸ See Lemley, *supra* note 5, at 1349 (commenting that it was easier and more effective to shut down Napster than to sue each individual infringer).

⁹ See Lemley, *supra* note 5, at 1347 (adding that some recent suits involve tertiary liability); Feder, *supra* note 1, at 868 (noting that courts impose secondary liability to parties who are not direct infringers).

will ultimately find liability for such infringement.¹⁰ It seems, however, that while Internet technology continues to grow, the law lags behind. Conflicting holdings have been produced in a series of cases involving copyright infringement and the Internet.¹¹ Napster was the leading peer-to-peer file sharing program facilitating millions of illegal downloads of copyrighted music and, through several rounds of litigation, was forced to evolve into a fee based file distributor providing only legal downloads of music.¹² Yet, there are other companies that continue to make available peer-to-peer file sharing software that may be used to pirate copyrighted music and movies.¹³ In hopes of resolving the dispute over Internet copyright infringement liability, Part I of this Comment will provide a detailed analysis of the seminal cases in this area of law. Part II will focus on the Ninth Circuit decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*¹⁴ and its recent review by the Supreme Court – a

¹⁰ See David Moser, *Free to Share?: Grokster Decision Sidesteps Innovation/Copyright Battle; Puts Focus on Business Strategies*, 41 TENN. B.J. 14, 17 (2005) (arguing that Supreme Court in its *Grokster* decision framed the conflict in terms of “company’s actions in marketing its technology” and could realign landscape and business strategies of file sharing industry); see also Olga V. Kotlyarevskaya, *BMG Canada, Inc. v. Doe & Society of Composers, Authors & Music Publishers of Canada v. Canadian Ass’n of Internet Providers: Why the Canadian Music Compensation System May Not Work in the United States*, 20 BERKELEY TECH. L.J. 953, 967–73 (2005) (discussing strengths and weaknesses of the adoption of Canadian approach to copyright enforcement in digital context). See generally Emily E. Larocque, *No Free Music: Effect of A&M Records, Inc. v. Napster, Inc. on the Music Industry and Internet Copyright Law*, 23 U. HAW. L. REV. 767, 792–93 (2001) (noting future litigation will further refine Internet copyright law).

¹¹ See Feder, *supra* note 1, at 860–61 (describing contradicting decisions between Ninth Circuit and Seventh Circuits); Recent Case, *supra* note 3, at 1764 (noting difference in the Seventh and Ninth Circuit decisions).

¹² See Julie Hilden, *File Sharing Goes Before Supreme Court*, CNN.COM, Feb. 16, 2005, <http://www.cnn.com/2005/LAW/02/16/hilden.fileswap/> (stating that Napster has transformed into a website that, for a monthly rate, allows only downloads of copyrighted music for which a license has been granted); Kevin Michael Lemley, Comment *Protecting Consumers From Themselves: Alleviating the Market Inequalities Created by Online Copyright Infringement in the Entertainment Industry*, 13 ALB. L.J. SCI. & TECH. 613, 625 (2003) (stating that by 2000, “Napster alone could have had some “75 million users”).

¹³ See Hilden, *supra* note 12 (stating that now Napster only allows legal downloads); see also John Borland, *Supreme Court to Hear P2P Case*, CNET NEWS.COM, Dec. 10, 2004, <http://news.com>.

[\com/Supreme+Court+to+hear+P2P+case/2100-1027_3-5487491.html](http://news.com/Supreme+Court+to+hear+P2P+case/2100-1027_3-5487491.html) (noting Morpheus is another file-sharing provider).

¹⁴ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

decision likely to be a landmark in this field.¹⁵ Part III will weigh the benefits and dangers of holding the file sharing software distributors vicariously liable for the direct infringement of its users, considering the basic tenets of copyright law, namely, promoting the progress of sciences and the useful arts.

I. CASE LAW

A. *Establishing a Prima Facie Case of Secondary Liability*

In order to establish a prima facie case of secondary liability in copyright infringement cases, plaintiffs must first demonstrate that the users of the software or websites were engaging in direct infringement.¹⁶ A claim for direct infringement is satisfied when plaintiffs show both that they own the works in issue and that at least one of the exclusive rights granted to them as copyright holders under the Copyright Act of 1976 ("Copyright Act")¹⁷ has been violated.¹⁸ Subsequent to the establishment of direct infringement, the plaintiffs are then required to demonstrate the elements of either form of secondary liability: contributory or vicarious.¹⁹ Although these theories were not codified in the Copyright Act, Congress has acknowledged their existence in the

¹⁵ See Hilden, *supra* note 12 (noting Court's ultimate decision will make Grokster a landmark of its term); see also John Borland, *Last Waltz for Grokster*, available at http://news.com/Last+waltz+for+Grokster/2100-1027_3-5937832.html, (commenting that the future of the creative industry is in the *Grokster* case).

¹⁶ See Michael S. Elkin & Alexandra Khlyavich, *Napster Near and Far: Will the Ninth Circuit's Ruling Affect Secondary Infringement in the Outer Reaches of Cyber Space?*, 27 BROOK. J. INT'L L. 381, 388 (2002) (noting plaintiffs have to prove they owned works and that one exclusive right was violated); *A&M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1013 (9th Cir. 2001) (stating "secondary liability for copyright infringement does not exist" without direct infringement).

¹⁷ The Copyright Act of 1976, 17 U.S.C. § 106 (2000) (granting copyright owners the exclusive rights "to do and to authorize" the reproduction and distribution of their works).

¹⁸ See *A&M Records*, 239 F.3d at 1013 (noting those two points represent points on a sliding scale).

¹⁹ See Lemley, *supra* note 5, at 1354 (describing what vicarious and contributory liability is); 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 COMMLAW CONCEPTUS 335, 340-41 (2005) (noting secondary liability occurs when individual has had some involvement with direct infringement).

legislative history of the Act,²⁰ and they are also recognized by both the Supreme Court and lower federal courts.²¹

i. Contributory Liability

Contributory liability has been considered an outgrowth of the tort of enterprise liability,²² or “the common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor.”²³ The rationale is based on the principle that the person whose involvement in an activity is limited to an ancillary role is considered to be equally responsible for the resulting harm and should bear the consequences for it.²⁴

Following the demonstration of direct infringement, a claim for contributory liability will be sustained with a showing that the defendant both (a) had knowledge of the infringement and (b) made a material contribution to the infringement.²⁵ The Ninth Circuit has recognized that the knowledge requirement of contributory copyright infringement encompasses those with *actual* knowledge and those who *have reason to know* of the

²⁰ H.R. Rep. No. 94-1476, at 159–60 (1976).

²¹ See Feder, *supra* note 1 at 869 (discussing how secondary liability is imposed on those who “have some degree of involvement in a direct infringement”); see also Elizabeth Miles, *In re Aimster & MGM, Inc. v. Grokster, Ltd.: Peer-to-Peer and the Sony Doctrine*, 19 BERKELEY TECH. L.J. 21, 22 (2004) (noting that secondary liability for copyright infringement holds “a second party liable for direct infringement by others,” and is judge-made).

²² See *Demetriades v. Kaufmann*, 690 F. Supp. 289, 292 (S.D.N.Y. 1988) (clarifying two avenues of third-party liability, vicarious liability “grounded” in respondeat superior, and contributory infringement “founded” on concept of enterprise liability); see also *Intellectual Reserve, Inc. v. Utah Lighthouse Ministry, Inc.*, 75 F. Supp. 2d 1290, 1293 (D. Utah 1999) (noting that while benefit and control are “signposts” of various liability, participation and knowledge are “touchstones” of contributory infringement).

²³ *Gershwin Publishing Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (quoting *Screen Gems-Columbia Music, Inc. v. Mark Fi Records, Inc.*, 256 F. Supp. 399, 403 (S.D.N.Y. 1966)).

²⁴ See Feder, *supra* note 1, at 872 (comparing concept of enterprise liability to the concept of “aiding and abetting” in criminal law); see generally *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354, 365 (9th Cir. 1947) (demonstrating how writer can be held liable for damages “as a contributory and participating infringer and joint tortfeasor”).

²⁵ See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1160 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005); (noting that in this particular case, element of direct infringement was undisputed); see also *Playboy Enters v. Russ Hardenburgh, Inc.*, 982 F. Supp. 506, 514 (N.D. Ohio 1997) (describing another test for contributory copyright infringement, whereby a person will be liable if she “with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another”).

direct infringement.²⁶ As for the material contribution requirement, the courts have recognized that these contributions may be established when a defendant provides “the site and facilities” for infringement, followed by a failure to discontinue specific instances of infringement once knowledge of same is acquired.²⁷ The two elements are interrelated in the sense that “the degree to which a party is involved in the activity may affect the strength of a showing of knowledge that must be shown: a party’s direct involvement in the infringing activity may give rise to an inference that the party has the requisite knowledge.”²⁸

ii. Vicarious Liability

Vicarious liability, often considered an extension of the doctrine of *respondeat superior* (holding employers responsible for the tortious conduct of their employees),²⁹ is applicable when the defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”³⁰ The right and ability to supervise may be based on contractual rights, even if those rights are not exercised in practice.³¹ Important to note is that while the rule is often interpreted to indicate a requirement of “direct” financial gain, it

²⁶ See *Ellison v. Roberts*, 357 F.3d 1072, 1076 (9th Cir. 2004) (noting that regardless of whether a person possessed actual knowledge, or should have had actual knowledge, plaintiff must also prove that person received financial benefit from another’s infringing activity, if he is to be held vicariously liable); see also *UMG Recordings, Inc. v. Sinnott*, 300 F. Supp. 2d 993, 998 (E.D. Cal. 2004) (holding that the knowledge requirement for contributory copyright infringement may be satisfied by constructive knowledge).

²⁷ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (discussing broad “site and facilities” approach); see also *UMG Recordings*, 300 F. Supp. 2d at 1001 (discussing how operation of a flea market satisfied the material contribution requirement necessary to establish contributory liability, based on the fact that the flea market provided the “site and facilities” for infringing activities, actually known by the operator).

²⁸ See *Feder*, *supra* note 1, at 871.

²⁹ *Id.* at 869 (noting that vicarious liability, with regard to copyright law, developed in response to dance halls playing the songs of musical publishers without paying them royalties for that unauthorized use); see generally *Shapiro, Bernstein, & Co. v. H. L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963) (holding that it is “quite clear” that the normal agency rule of *respondeat superior* applies to a “servant” who has committed copyright infringement, while acting within the scope of his employment).

³⁰ *A&M Records, Inc. v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1022 (9th Cir. 2001).

³¹ See *Feder*, *supra* note 1, at 869 (noting that financial benefit retained must bear some “direct or indirect relation to the infringing product”); see generally *Shapiro*, 316 F.2d at 307 (discussing how courts have not drawn “rigid line” between agency cases and independent contract cases).

is sufficient for this interest to bear either a direct or indirect relation to the infringing activity.³² The collection of admission fees, concession stand sales, and parking fees are examples of interests that have satisfied the financial benefit element, while the mere collection of a fixed rental fee from a premise where infringing activity occurs is not sufficient to meet this standard.³³

The doctrine of vicarious liability originates in the Dance Hall Cases,³⁴ where it was clear that a dance hall owner who derived a benefit from the infringement was in a better position than the injured composer to bear the costs of liability and redistribute those costs to others who also derived a benefit from the infringement.³⁵ The same notion applies in cases dealing with Internet copyright infringement: the file sharing distribution companies who facilitate the illegal downloading of copyrighted works are in a far better position than those individuals downloading the copyrighted material to bear the liability of infringement.³⁶

B. Copyright Infringement Cases

The continued success and growth of the Internet industry has created a new realm of legal questions that the law has yet to fully answer. Decisions in cases of copyright infringement have varied by circuit and largely turn on the minute details of each

³² See *Feder*, *supra* note 1, at 869 (noting that the more common way to describe financial benefit is simply “direct control”).

³³ See *Shapiro*, 316 F.2d at 307 (discussing how issue of infringement ultimately depends “merely upon a legal conclusion to be drawn from a consideration of the parties’ relationship”); see also *Feder*, *supra* note 1, at 869 (demonstrating how liability stems from fixed control of the unit and space or premises in question).

³⁴ See *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929) (holding dance hall owners liable for music played in their facilities if music aided them in receiving profit from patrons); see also *Feder*, *supra* note 1, 869 (noting that publishers of music were not receiving royalties for their work from dance hall owners).

³⁵ See *Dreamland Ball Room*, 36 F.2d at 355 (rejecting contention that contract made with orchestra turned dance hall into independent contractor who was shielded from liability); see generally *Feder*, *supra* note 1, at 871 (citing the doctrine of unjust enrichment as one rationale why liability can be imposed).

³⁶ See *Feder*, *supra* note 1, at 871 (discussing how there “is certainly an intuitive force” guiding principle that file sharing companies are at least partially to blame for the copyright infringement” as they are deriving some benefit from operation); see generally *A&M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1019–20 (9th Cir. 2001) (applying standard to Napster, who had both actual and constructive knowledge of direct infringement based on their experience in industry).

case, as precedent has demonstrated.³⁷ A review of the seminal copyright infringement cases offers some insight into how the legal system will assign future liability in the area.

i. *Sony Corp. of America v. Universal City Studios, Inc.*

One of the earliest cases dealing with secondary liability and copyright infringement was *Sony Corp. of America v. Universal City Studios, Inc.*³⁸ In that case, petitioner, Sony Corp., manufactured and sold Betamax home video tape recorders.³⁹ The respondents were copyright owners for some of the programs that were televised on public airwaves;⁴⁰ members of the general public used petitioner's video tape recorders to copy some of these televised broadcasts.⁴¹ Respondents alleged that in so doing, these individuals had infringed upon their copyrights.⁴² Based on a theory of secondary liability, respondents further contended that petitioner was liable for the alleged copyright infringement of the Betamax consumers because petitioners marketed the Betamax recorders.⁴³

After a very detailed and comprehensive analysis, the Supreme Court held that the sale of video tape recorders could not assign contributory copyright infringement to petitioner Sony Corp., even though the company knew the consumers were using the machines to commit infringement.⁴⁴ In utilizing the 'staple article of commerce' doctrine found in patent law,⁴⁵ the Supreme

³⁷ See e.g., *Napster II*, 239 F.3d at 1019–20 (holding Napster liable for contributory liability); *UMG Recordings, Inc. v. Sinnott*, 300 F. Supp.2d 993, 1001 (E.D. Ca. 2004) (holding that operator of flea market is contributorily liable for direct infringement when it provides the site and facilities for "known infringing activities"). But see *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984) (finding videotape recording machine manufacturers and retailers not liable for contributory infringement on the grounds that they merely provided the technology without any ancillary support for potentially infringing activity).

³⁸ 464 U.S. 417 (1984).

³⁹ *Id.* at 419.

⁴⁰ See *id.* at 419–20.

⁴¹ See *id.* at 420.

⁴² See *id.*

⁴³ See *id.*

⁴⁴ See *id.* at 456.

⁴⁵ See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764, 2777 (2005) (explaining traditional staple article of commerce doctrine reflected in patent law stating that distribution of component of patented device will not violate the patent if it is suitable for use in other ways); see also *A&M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1020–21 (9th Cir. 2001) (adopting the modified staple article

Court determined that a claim of contributory copyright infringement could be effectively rebutted if petitioner could show that the product at issue was “capable of substantial” or “commercially significant non-infringing uses.”⁴⁶ Therefore, because petitioner’s Betamax video tape recorders were capable of commercially significant non-infringing uses, constructive knowledge of the infringement could not be attributed to Sony although the company knew that the recorders could be used for infringing purposes.⁴⁷ In short, a product’s capability for substantial non-infringing uses acts as a shield against contributory liability for its distributor, without regard for its purpose or the proportion of actual infringing use.⁴⁸

ii. Napster

The first peer-to-peer file sharing software distributor to be charged with copyright infringement was Napster.⁴⁹ Created by college student Shawn Fanning, the program was designed as a means of locating obscure music on the Internet.⁵⁰ Napster utilized a combination of client-server and peer-to-peer structure in which music files were stored on users’ computers while a

of commerce doctrine followed in *Sony* where Court declined to impute requisite level of knowledge where defendants made and sold equipment capable of both infringing and substantial non-infringing uses and did not have specific knowledge of such infringement).

⁴⁶ See *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 442 (1984) (stating that “copying equipment” does not constitute contributory infringement without need to explore every possible use if the item is capable of commercially significant, non-infringing uses).

⁴⁷ See *id.* (characterizing this non-infringing use as non-commercial “home-shifting” of television programs, which could be authorized by other copyright holders, or are alternatively “fair use” of the program).

⁴⁸ See *Sony*, 464 U.S. at 442 (emphasizing that the existence of substantial noninfringing uses prevents the invocation of copyright infringement); see also Miles, *supra* note 21, at 36 (noting that even single noninfringing use activates the *Sony* shield of liability).

⁴⁹ See *A&M Records, Inc. v. Napster, Inc. (Napster I)*, 114 F. Supp. 2d 896, 927 (N.D. Cal. 2000) (enjoining Napster from facilitating copying of plaintiff record companies’ music); see also Miles, *supra* note 21, at 27 (commenting on how recording industry alleged that Napster committed contributory and vicarious infringement by allowing unauthorized sharing of music).

⁵⁰ See *Napster I*, 114 F. Supp. 2d at 902 (describing Napster as “the brainchild of a college student who wanted to facilitate music-swapping by his roommate); see also Elkin, *supra* note 16, at 387 (explaining how system allowed users to obtain songs available for copying and downloading onto their own computers).

centralized server⁵¹ conducted file searches and transfers by listing the names and locations of those files available for sharing.⁵² Napster was able to evade a charge of direct copyright infringement because the files were actually stored on the users' computers, not on a central server.⁵³ Copyright owners struck back under the umbrella of the Recording Industry Association of America ("RIAA"). Eighteen prominent record companies filed a complaint against Napster for contributory and vicarious copyright infringement based on its facilitation of the unauthorized sharing of copyrighted material by its software users.⁵⁴

On July 26, 2000, Chief Judge Marilyn Patel of the District Court for the Northern District of California found that plaintiffs had established a likelihood of success on their claims for contributory and vicarious liability against Napster and issued a preliminary injunction enjoining Napster "from engaging in, or facilitating others in copying, downloading, uploading, transmitting, or distributing plaintiffs' copyrighted musical compositions and sound recordings, protected by either federal or state law, without express permission of the rights owner."⁵⁵

Although the Ninth Circuit vacated the preliminary injunction in part, it kept in effect most of Chief Judge Patel's conclusions of

⁵¹ See Feder, *supra* note 1, at 864 (distinguishing peer-to-peer transactions in which resources reside on multitude of networked PCs that may be acting simultaneously as both clients and servers from central indexing server system where each user on the peer-to-peer network can search the entire network because all of the index entries are always in one place); see also Miles, *supra* note 21, at 27 (explaining how Napster enabled music files to reside on individual users' computers).

⁵² See *Napster I*, 114 F. Supp. 2d at 901 (recounting how Napster enables people who have downloaded software to log-on to Napster system and share MP3 music files with other users who are also logged-on); see also Miles, *supra* note 21, at 27 (noting that not all peer-to-peer networks are completely decentralized, as with Napster where a centralized server facilitates file searches and transfers by indexing the names and locations of files available to be shared).

⁵³ See Sarah D. Glasebrook, Comment, "Sharing's Only Fun When It's Not Your Stuff": *Napster.com Pushes the Envelope of Indirect Copyright Infringement*, 69 UMKC L. REV. 811, 811-12 (2001) (highlighting how Napster system allowed anyone with access to the Internet to download MP3 files to their individual computers for free); see also Miles, *supra* note 21, at 27 (accrediting structure of Napster with enabling it to evade direct copyright infringement liability because there was no central site to sue).

⁵⁴ See *A&M Records, Inc. v. Napster, Inc. (Napster I)*, 114 F. Supp. 2d 896, 900 (N.D. Cal. 2000).

⁵⁵ *Id.* at 925.

law with regard to the likelihood of Napster's liability.⁵⁶ In reviewing the Chief Judge's decision for a potential abuse of discretion, the court found that through its software

Napster 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.⁵⁷

In making its determination, the court interpreted the *Sony* 'non-infringing use' doctrine narrowly and applied the rule as a test for the knowledge prong of contributory liability, instead of as an absolute shield against secondary liability.⁵⁸ The court contended that *Sony* prohibited it from assigning "the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs' copyrights,"⁵⁹ but instead asserted that "Napster's actual, specific knowledge of direct infringement renders *Sony*'s holding of limited assistance."⁶⁰

The court in *Napster II* modified the *Sony* test by adding a two-step analysis to the test for contributory liability: (1) a defendant whose product is determined to have substantial non-infringing uses will not be charged with constructive knowledge of infringement based on the product design, and (2) the court may review the record for evidence of defendant's actual knowledge

⁵⁶ See generally *A&M Records v. Napster, Inc.*, (*Napster II*), 239 F.3d 1004 (9th Cir. 2000) (affirming District Court's findings that the plaintiffs would likely succeed in showing that defendants did not have fair use defense and defendants' liability as contributory infringer and vicarious infringer); see also Elkin, *supra* note 16, at 388 (stating that "[t]he Ninth Circuit's analysis of Napster's liability for the peer-to-peer file sharing it facilitated defines the boundaries of secondary infringement liability vis-a-vis the Internet in the United States).

⁵⁷ See *Napster II*, 239 F.3d at 1011.

⁵⁸ See *id.* at 1021-22.

⁵⁹ *Napster II*, 239 F.3d at 1020-21 (holding that Napster will not be imputed with requisite level of knowledge simply because A&M's copyrights may have been infringed); see David Balaban, Note, *The Battle of the Music Industry: The Distribution of Audio and Video Works via the Internet, Music and More*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 235, 283 n.319 (2001) (noting that "[f]ollowing *Sony*, the Ninth Circuit declined to impute the requisite level of knowledge where the defendants msazade and sold equipment capable of both infringing and 'significant noninfringing uses'").

⁶⁰ *Napster II*, 239 F.3d at 1020 (stating that the *Sony* doctrine has limited application when the secondary infringer has actual knowledge of the violation).

arising from defendant's conduct.⁶¹ Using this test, the court determined that although Napster's services did have "substantial non-infringing uses," the company had actual knowledge of user infringement based on its centralized file index and the notices of infringement it had received from the plaintiffs in the case.⁶² In its holding, the Ninth Circuit stated that "if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement."⁶³

After establishing the first prong of contributory liability, the court faced the second: causation, inducement, or material involvement. The court found that Napster provided the "site and facilities" for infringement in the form of its "integrated service" which was used for finding and downloading files, and thus Napster had "materially contribute[d] to the direct infringement."⁶⁴

Additionally, the court found Napster vicariously liable for copyright infringement, as it had the ability "to supervise and control" the infringing conduct of its users through its file index,⁶⁵ thereby satisfying the standard set forth in *Fonovisa*,

⁶¹ See Miles, *supra* note 21, at 28 (describing two-step analysis set forth in *Napster II*); see also Laura E. Hancock, *Contributory and Vicarious Copyright Infringement as Applied to Auctions, Flea Markets, and Swap Meets: How Fonovisa and Napster Have Set the Standard*, 9 COMP. L. REV. & TECH. J. 295, 311 (2005) (noting that the Ninth Circuit "relied heavily on the district court's findings in finding both actual and constructive knowledge").

⁶² See *A&M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1020–22 (9th Cir. 2000) (ruling that Napster had knowledge sufficient "to impose contributory liability when linked to demonstrated infringing use of the Napster system"); Miles, *supra* note 21, at 28 (restating Ninth Circuit's findings).

⁶³ *Napster II*, 239 F.3d at 1021 (ruling that once "a computer system operator learns of specific infringement material on his system and fails to" remove it, he "knows of and contributes to direct copyright infringement"); Grace J. Bergen, *The Napster Case: The Whole World is Listening*, 15 TRANSNAT'L LAW. 259, 266 (2002) (quoting Ninth Circuit's ruling on contributory infringement).

⁶⁴ *Napster II*, 239 F.3d at 1022; see Daniel D. Hill, Note, *A & M Records, Inc. v. Napster, Inc.: A Victory in the War to Sound the Digital Death Knell for Peer-to-Peer Online File Sharing*, 12 WIDENER L.J. 161, 176-77 (2003) (noting the Ninth Circuit's finding of material contribution to infringement in *Napster II*).

⁶⁵ See *A&M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1023–24 (9th Cir. 2001) (ruling that in spite of limited ability to police its system, Napster was vicariously liable for copyright infringement); Hill, *supra* note 64, at 177 (reiterating Ninth Circuit's finding that Napster had limited control and supervision of its users).

*Inc. v. Cherry Auction, Inc.*⁶⁶ and other precedent. The court then found that Napster had received financial benefit from the customer lure that the infringing capability supplied.⁶⁷

If read broadly, the *Napster II* holding implicitly provides courts with precedent to hold all service providers liable if they have reason to know their software or website is being used in an infringing manner.⁶⁸

iii. *In Re: Aimster Copyright Litigation*

Unlike Napster, Aimster was a file sharing system that operated on the already existing client-server platform that America Online ("AOL") provided, thereby creating a peer-to-peer network when connected to AOL's Instant Messaging service ("IM").⁶⁹ Aimster provided a means by which its users could identify large numbers of other users with whom they could share files in encrypted form and to whom they could send instant messages.⁷⁰ Additionally, Aimster provided a feature

⁶⁶ See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (concluding that "providing the site and facilities for known infringing activity is sufficient to establish contributory liability"); *Fonovisa, Inc. v. Napster, Inc.*, 2002 U.S. Dist. LEXIS 4270, at *13 (N.D. Cal. 2002) (stating vicarious copyright infringement standard (citing *Napster II*, 239 F.3d at 1013 n.2, 1019)).

⁶⁷ *Napster II*, 239 F.3d at 1023 (agreeing with District Court's determination that "Napster financially benefit[ed] from the availability of protected works on its system," as its revenue was directly related to increased traffic that resulted); Miles, *supra* note 21, at 29 (noting Ninth Circuit's finding that Napster "received financial benefit from the customer draw the infringing capability supplied").

⁶⁸ See Elkin, *supra* note 16, at 385 (arguing that *Napster II* allows courts to hold service providers, "who have reason to know that their software or website is being used for infringing purposes, liable to copyright holders for contributory infringement"); see also Hancock, *supra* note 61, at 317 (arguing that service providers like Napster should be held vicariously liable when they know their products are being used in infringing manner and do not act on their knowledge).

⁶⁹ *In re: Aimster Copyright Litig. (Aimster I)*, 252 F. Supp. 2d 634, 638 (N.D. Ill. 2002). AOL IM enables users to communicate with each other by sending messages and files in real time through AOL servers. Each user is required to download IM software to her own computer and the software then locates other users that she had previously designated as her "buddies" when they are connected to the Internet. The software provides the connection for instant messaging and file exchanges and additionally allows users to specify files on their hard drives available for transfers to other buddies upon request. *Id.* at 638. The "Aim" in "Aimster" refers to AOL Instant Messenger, which resulted in a trademark dispute between Aimster and AOL-Time Warner. See Feder, *supra* note 1, at 884 n.128. The Aimster software and services have since been renamed "Madster," and are now located at www.madster.com. See *Aimster I*, 252 F. Supp. 2d at 638 n.1.

⁷⁰ *Aimster I*, 252 F. Supp. 2d at 638 (describing purpose of Aimster software); see Haydn J. Richards Jr., Note and Comment, *Is the Whole Greater Than the Sum of Its Parts? The Applicability of the Fair Use Doctrine to the New Breed of Instant Messaging*

called 'Club Aimster,' which allowed subscribers to download the most shared songs from the network for a small monthly fee.⁷¹ A Club Aimster member would only have to visit Aimster's website, view the 'Aimster Top 40' list, and select a title to begin a search of the network to find and obtain a file.⁷² In sum, Aimster added three features to the existing AOL structure: (1) encryption - used to protect the identity of the users and the content of their transfers; (2) the capability to search and transfer files between all other Aimster users; and (3) Club Aimster, a centralized file index potentially similar to the one offered by Napster.⁷³ Although the factual record is unclear, it appears that the Aimster system as a whole operated a central database index.⁷⁴

The district court found that all of the elements of contributory infringement had been satisfied.⁷⁵ The court stated that it was "unequivocally established that Aimster's users are engaged in direct copyright infringement."⁷⁶ It further found that Aimster had both actual and constructive knowledge of the infringing use and, since it "provided the software and the support services

Software, 8 RICH. J.L. & TECH. 15, 54 (2001) (noting that "the Aimster service can act as an instant e-mail courier for any type of files including text files, images, and sounds").

⁷¹ See Miles, *supra* note 21, at 32-33 (listing the features Club Aimster offered its members); see also Jennifer Norman, *Staying Alive: Can the Recording Industry Survive Peer-to-Peer?*, 26 COLUM. J.L. & ARTS 371, 385 (2003) (describing Club Aimster).

⁷² See Miles, *supra* note 21, at 32-33 (stating that a "paying club member needed only to visit Aimster's website, view the 'Aimster Top 40' list, and click on a title to initiate a search of the network to locate and transmit the file"); see also Norman, *supra* note 71, at 385 (observing that "users who paid for Club Aimster did not have to use the search function if they downloaded from the top 40 list presented at log-in").

⁷³ See Miles, *supra* note 21, at 33 (listing three features Aimster added to AOL); see also Lee B. Burgunder, *Reflections on Napster: The Ninth Circuit Takes a Walk on the Wild Side*, 39 AM. BUS. L.J. 683, 704 (2002) (noting "a program distributed via Aimster called the Aimster Pig Encoder that used a form of pig Latin to disguise file names").

⁷⁴ See Feder, *supra* note 1, at 884 (concluding that Aimster had central database index); see also Robert A. Gilmore, *Peer-to-Peer: Copyright Jurisprudence in the New File-Sharing World, The Post Grokster Landscape of Indirect Copyright Infringement and the Digital Millennium Copyright Act*, 5 FL. COASTAL L.J. 85, 101-02 (2004) (stating that *Aimster I* refused to decide whether Aimster had a centralized database and that its decision would stand regardless of the answer, in spite of the court's awareness of that issue's significance in *Napster I*).

⁷⁵ *Aimster Copyright Litig. (Aimster I)*, 252 F. Supp. 2d 634, 654 (N.D. Ill. 2002) (ruling that Aimster "had knowledge of and materially contributed to the infringing activity" of its users); Feder, *supra* note 1, at 884 (noting District Court ruling).

⁷⁶ See *Aimster I*, 252 F. Supp. 2d at 648 (finding that plaintiffs proved that "they own or control the copyrights for works copied and distributed using the Aimster system"); Myrick, *supra* note 4, at 552 (stating District Court's finding).

necessary for individual Aimster users to connect with each other," its contribution to the infringement was material.⁷⁷

Aimster contended that it was not a contributory infringer because, as per *Sony*, the system was capable of substantial non-infringing uses.⁷⁸ Incorporated in this argument was "the ability of Aimster users to transfer any number and type of non-copyrighted files and messages to other users, and the ability of users to identify other users with similar interests, share information and develop clubs."⁷⁹ Aimster additionally asserted that businesses could use its system "to exchange business records securely and efficiently" without a network administrator.⁸⁰ The district court, however, rejected Aimster's assertion of the *Sony* doctrine on five distinct grounds, and held that "the protections of *Sony* [were] simply not applicable to the instant case."⁸¹

Despite the fact that the Seventh Circuit rejected the district court's attempts to distinguish *Sony*, it still held Aimster liable for contributory infringement.⁸² The court found unpersuasive the recording industry's argument that the *Sony* doctrine did not

⁷⁷ See *Aimster I*, 252 F. Supp. 2d at 652 (discussing Aimster's contributions to its users' infringement and ruling that they were material); Feder, *supra* note 1, at 885 (stating district court's finding that Aimster's contributions were material).

⁷⁸ *Aimster I*, 252 F. Supp. 2d at 652 (noting Aimster's argument that its program has "substantial non-infringing uses" as identified by the Supreme Court" in *Sony*); Norman, *supra* note 71, at 386 (discussing Aimster's unsuccessful argument that "it was shielded from liability under the *Sony* doctrine because its system was a 'staple article of commerce' capable of 'substantial non-infringing uses'").

⁷⁹ *Id.* at 653.

⁸⁰ *Id.*

⁸¹ *Aimster Copyright Litig. (Aimster I)*, 252 F. Supp. 2d 634, 654 (N.D. Ill. 2002). First, the District Court distinguished the present case from *Sony* because the primary use of the Betamax video recorder in *Sony* was for non-infringing uses. See *id.* at 653. It found that Aimster had not provided any evidence that its system was used for non-infringing uses and that, even if it had, "the mere inclusion of such evidence would not suffice unless it tended to show that such constituted Aimster's primary use." *Id.* Second, the court concluded that Aimster did not provide a "staple article of commerce," but an ongoing service "more closely akin to the swap meet in *Fonovisa*." *Id.* Third, the court distinguished the present case from *Sony* based on the fact that, in *Sony*, the users engaged in "private, home use," while the users of the Aimster system were "global distributors" of copyrighted works. *Id.* at 653-54. Fourth, the court determined that *Sony* did not provide a protection to those who created devices specifically designed for infringing activity, even if the product was capable of non-infringing uses. *Id.* at 654. Lastly, the district court held that *Sony* was inapplicable because Aimster actively encouraged infringement. *Id.*

⁸² See *In re Aimster Copyright Litigation (Aimster II)*, 334 F.3d 643, 656 (7th Cir. 2003). The court chose to criticize the appellant's brief instead of addressing the district court's shortcomings directly. See *id.* at 648-49; see also Feder, *supra* note 1, at 886.

apply to service providers.⁸³ It found, instead, that the provider of a service is often in a better position to prevent or reduce infringement than is the manufacturer of a product.⁸⁴ The “ability of a service provider to prevent its customers from infringing is a factor to be considered in determining whether the provider is a contributory infringer.”⁸⁵ The court also noted, however, that there may be instances where it may be “highly burdensome” for a service provider to prevent infringement; in such cases, the product is capable of non-infringing uses, and the staple article of commerce rationale applies equally well to service providers.⁸⁶

While the opinion of the Seventh Circuit stated that a service provider’s ability to prevent infringement “is a factor to be considered” in a copyright infringement case, it did not express how and with what weight it is to be considered.⁸⁷ In fact, absent from the opinion is any discussion of whether preventing infringement would indeed be “highly burdensome” to Aimster.⁸⁸ The court seems to imply that the ability of a service provider to prevent infringement is a threshold question to determining which analysis to apply - the *Sony* doctrine or the traditional test of contributory infringement.⁸⁹

Upon making a determination that the Aimster system as a whole should be evaluated under the *Sony* doctrine, the court proceeded to review Aimster’s potential non-infringing uses.⁹⁰ While the Seventh Circuit noted that the Supreme Court in *Sony*

⁸³ *Aimster II*, 334 F.3d at 648.

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ *Id.*; see also Feder, *supra* note 1, at 886 (arguing that rationale that supported application of staple article of commerce test to *Sony* applies equally well to service provider in situations where such circumstances exist).

⁸⁷ See *In re Aimster Copyright Litigation (Aimster II)*, 334 F.3d 643, 648 (7th Cir. 2003).

⁸⁸ See *id.*; see also Feder, *supra* note 1, at 886 (noting that “there is no discussion of whether preventing infringement would be ‘highly burdensome’ to Aimster in the court’s application of the staple article of commerce test to the Aimster system”).

⁸⁹ See *Aimster II*, 334 F.3d at 648; see also Feder, *supra* note 1, at 887 (stating that “the service provider’s ability to prevent infringement is relevant in determining the preliminary question of which test to apply (Sony’s staple article of commerce test or the traditional test for contributory infringement) but not to the ultimate question of infringement”).

⁹⁰ See *Aimster II*, 334 F.3d at 652. The court theorizes and lists several examples of “actually or arguably non-infringing uses” of Aimster’s service. See *id.*

had held that a product's *potential* non-infringing uses were adequate to overcome a claim of contributory infringement,⁹¹ it found that "the question is how probable they are. It is not enough . . . that a product or service be physically capable, as it were, of a non-infringing use."⁹² The court interpreted *Sony* to require a balancing of infringing and non-infringing uses: "when a supplier is offering a product or service that has non-infringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement."⁹³ It ruled that there was no evidence before the court that any Aimster user had actually used the system for any of the non-infringing uses it identified, while the facts in *Sony* established that the Betamax recorder's "principal use" was non-infringing.⁹⁴ It further stated that in situations where the infringing uses are substantial, the service provider must show that it would have been "disproportionately costly" for him to prevent or meaningfully reduce the infringing uses in order to avoid liability.⁹⁵

The Seventh Circuit ultimately concluded that Aimster's *Sony* defense failed, and it affirmed the district court's finding of contributory infringement.⁹⁶ Writing for the court, Judge Posner stated that Aimster's software tutorial "aided and abetted" infringing use because it listed only songs that were protected by copyright in its examples: "[t]he tutorial is the invitation to infringement that the Supreme Court found missing in *Sony*."⁹⁷ The Court also found material contribution in Club Aimster because the songs listed in the Aimster Top 40 were all copyright-protected.⁹⁸ Judge Posner additionally noted the monthly fee paid by the Aimster subscribers as further evidence

⁹¹ *Aimster II*, 334 F.3d at 650.

⁹² *In re Aimster Copyright Litigation (Aimster II)*, 334 F.3d 643, 656 (7th Cir. 2003); *cf. Feder*, *supra* note 1, at 887 (suggesting that *Sony* requires a weighing of infringing and noninfringing uses).

⁹³ *See Aimster II*, 334 F.3d at 653. As Aimster failed to produce any evidence that its service was used for noninfringing uses, it was impossible for the court to compare the frequency of such noninfringing use with infringing uses. *See id.* at 649.

⁹⁴ *See id.* at 653.

⁹⁵ *See id.* at 656.

⁹⁶ *Id.* at 651.

⁹⁷ *In re Aimster Copyright Litigation (Aimster II)*, 334 F.3d 643, 651 (7th Cir. 2003).

⁹⁸ *Id.* at 652.

of the company's liability.⁹⁹ In applying the 'willful blindness' test, the court determined that Aimster's activities satisfied the knowledge prong.¹⁰⁰ Despite the fact that the encryption prevented actual knowledge of the transfers, the court concluded that Aimster willfully blinded itself to the infringement of its users.¹⁰¹ In other words, Aimster could have observed and controlled the infringement, but the encryption process was seemingly implemented in order to shield the company from any secondary liability.¹⁰² After making a finding of contributory liability, Judge Posner did not address the issue of vicarious liability.¹⁰³

II. METRO-GOLDWYN-MAYER STUDIOS, INC. V. GROKSTER, LTD.

A. Facts and Procedural History

Most recently, the issue of secondary copyright infringement liability has arisen in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*¹⁰⁴ The Plaintiffs in the consolidated cases are various songwriters, music publishers, and motion picture studios who "own or control the vast majority of copyrighted motion pictures and sound recordings in the United States."¹⁰⁵ The Defendants, Grokster, Ltd. and StreamCast Networks,

⁹⁹ See *Aimster II*, 334 F.3d at 651–52 (discussing monthly membership fee); Miles, *supra* note 21, at 34 (noting mention by court that monthly fee was further evidence of liability).

¹⁰⁰ *Aimster II*, 334 F.3d at 650–51 (finding Aimster "blinded itself"); see Miles, *supra* note 21, at 34 (discussing court's finding that Aimster used encryption software to intentionally blind itself).

¹⁰¹ See *Aimster II*, 334 F.3d at 654–55 (stating that Aimster "hampered its search for evidence by providing encryption [and therefore] must take responsibility for that self-inflicted wound"); see also Miles, *supra* note 21, at 34 (noting that the court "concluded that Aimster willfully blinded itself to infringing activity").

¹⁰² See *In re Aimster Copyright Litigation (Aimster II)*, 334 F.3d 643, 656 (7th Cir. 2003) (discussing how Aimster could have limited amount of infringement by eliminating encryption); Miles, *supra* note 21, at 34 (discussing court's view that company engaged in conduct designed to exculpate itself from the knowledge requirement).

¹⁰³ See Miles, *supra* note 21, at 34 (noting that Judge Posner did not address vicarious liability); see generally *Aimster II*, 334 F.3d 643 (failing to address issue of vicarious liability).

¹⁰⁴ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster III)*, 125 S. Ct. 2764 (2005).

¹⁰⁵ *Grokster II*, 380 F.3d at 1158.

Inc.,¹⁰⁶ are companies that distribute peer-to-peer file sharing software, 'Grokster' and 'Morpheus' respectively, which permits users to exchange computer files with each other at no cost.¹⁰⁷ These computer files include digitized music and motion pictures.¹⁰⁸ The Plaintiffs allege that over ninety percent of the files exchanged by users of the defendants' peer-to-peer file sharing software involves copyrighted works, seventy percent of which is owned by the Plaintiffs themselves.¹⁰⁹ The Plaintiffs, therefore, allege that the Defendants are liable for vicarious and contributory copyright infringement violations, pursuant to 17 U.S.C. §§ 501-13,¹¹⁰ for which they are entitled to monetary and injunctive relief.¹¹¹

In April 2003, the district court granted Grokster and StreamCast summary judgment as to their liability regarding the dissemination of file sharing software, and certified the resolved questions for appeal.¹¹² This marked the first victory of peer-to-peer file distributors in a copyright infringement suit brought by members of the entertainment industry.¹¹³ The Plaintiffs appealed to the United States Court of Appeals for the Ninth Circuit by presenting the issue of whether distributors of peer-to-peer file sharing software are secondarily liable for the copyright infringement of the software's users.¹¹⁴

¹⁰⁶ See Elliot Zimmerman, *Entertainment, Arts and Sports Law: P2P File Sharing: Direct and Indirect Copyright Infringement*, 78 FLA. BAR J. 40, 44 (2004) (noting initial lawsuit was comprised of three defendants – makers of Kazaa, Morpheus, and Grokster – but summary judgment was only awarded to StreamCast (Morpheus) and Grokster). See generally *Grokster II*, 380 F.3d at 1154 (noting parties to suit).

¹⁰⁷ *Grokster II*, 380 F.3d at 1158.

¹⁰⁸ *Id.*

¹⁰⁹ *Id.*

¹⁰⁹ 17 USC §§ 501-13 (2000).

¹¹⁰ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1158 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

¹¹² See Lemley, *supra* note 5, at 1362 (discussing summary judgment granted by district court in April 2003). See generally *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003) (granting summary judgment to Grokster and StreamCast).

¹¹³ See Zimmerman, *supra* note 106, at 44 (recognizing decision was first victory by P2P developers in a copyright action); 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 (2005) (stating that *Grokster II* marks first time P2P provider successfully defended copyright action).

¹¹⁴ *Grokster II*, 380 F.3d at 1157 (phrasing issue on appeal as "whether distributors of peer-to-peer file-sharing computer networking software may be held contributorily or vicariously liable for copyright infringements by users").

In August 2004, the Ninth Circuit ultimately held that the file sharing software distributors in this case were not liable for contributory or vicarious copyright infringement, and affirmed the district court's grant of partial summary judgment.¹¹⁵ The court began its analysis by noting that the issue presented in this case was not one of direct copyright infringement, but instead an issue of whether the Defendants were liable for the infringement of its software users, based on the theory of secondary liability.¹¹⁶ The Ninth Circuit made its decision based on an in depth analysis of the intricate structure and mechanical nature of the software the companies disseminated. The Supreme Court reviewed the ruling in this case on March 29, 2005; understanding the factual elements that the Ninth Circuit deemed critical is essential to critiquing the conclusion at which the Court arrived.

B. Understanding Peer-to-Peer File Sharing

Similar to those who utilized the Napster program, Grokster users are able to exchange various types of files quite easily.¹¹⁷ Also akin to Napster, the peer-to-peer network offers an interface which permits software users to select, upload, and download files directly from other users' hard drives without the aid of software distributors.¹¹⁸ In fact, to its users, the basic features of the Napster and Grokster programs are very similar.¹¹⁹

¹¹⁵ *Id.* (concluding that defendants were "not liable for contributory and vicarious copyright infringement").

¹¹⁶ *Id.* at 1160 (stating that "question of direct copyright infringement is not at issue [but instead] Copyright Owners rely on the two recognized theories of secondary copyright liability: contributory copyright infringement and vicarious copyright infringement").

¹¹⁷ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F.Supp.2d 1029, 1029 (C.D. Cal. 2003) (stating that users of Grokster "were able to exchange files seamlessly"); see also *A&M Records v. Napster, Inc. (Napster II)*, 239 F. 3d 1004, 1011 (9th Cir. 2000) (discussing the ease in which Napster users may share files).

¹¹⁸ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1159-60 (9th Cir. 2004) (explaining Grokster-licensed FastTrack technology which enables users to share digital audio, video, picture, and text files by initiating file search without StreamCast or Grokster maintaining control over index files); see also Tom Graves, Note *Picking Up the Pieces of Grokster: A New Approach to File Sharing*, 27 HASTINGS COMM. & ENT. L.J. 137, 152 (2004) (explaining that Grokster's "P2P Software" allows users to connect to an independent peer-to-peer network not controlled by software distributors).

¹¹⁹ See *Grokster I*, 259 F. Supp. 2d at 1032 (noting that both Grokster and Morpheus platforms operate in manner conceptually analogous to Napster system described at length by the District Court in *Napster*); see also Graves, *supra* note 118, at 152 (noting

However, there is one underlying structural difference between the two programs that has proven significant in litigation.¹²⁰ Unlike Napster, which made information available on a centralized index that it maintained by utilizing a combination of client-server and peer-to-peer architecture, Grokster and StreamCast operated solely on a peer-to-peer distribution network.¹²¹ Therefore, Grokster does not operate one primary computer that maintains all of the available information for its users.¹²² Instead, each user's computer offers information to every other computer in the peer-to-peer network and therefore acts as both client and server.¹²³ More simply, the Grokster software allows users to connect to an independent peer-to-peer network that is not controlled by software distributors.¹²⁴ However, because the information is decentralized in a peer-to-peer network, the software must offer some method of organizing

that from the user's standpoint the basic features of the P2P Software were the same as the Napster system).

¹²⁰ See *Grokster II*, 380 F.3d at 1159 (explaining the difference between Napster's centralized indexing software architecture, the decentralized index peer-to-peer file-sharing model, and the "supernode" model presently at issue); see also Graves, *supra* note 118, at 153 (explaining that with Grokster neither digital files to be downloaded nor names of files are stored on centralized server, whereas Napster maintained list of available files).

¹²¹ See *Grokster II*, 380 F.3d at 1159. A Napster user who sought a digital copy of a recording would transmit a search request to the Napster server, the software would conduct a text search of the centralized index for the matching files, and the search results would be transmitted to the requestor. *Id.* If the search results indicated that another Napster user was logged onto the server at that moment and was offering the requested recording, the requestor could then connect directly with the providing user and download the music file to her own computer. *Id.*

¹²² See *Grokster II*, 380 F.3d at 1163 (stating that under both StreamCast's decentralized network and Grokster's quasi-decentralized supernode, no central index is maintained); see also Graves, *supra* note 118, at 152-53 (explaining that the users select and download files directly from other users' hard drives to their own as neither the digital files nor the names of the files are stored on any Grokster-centralized server).

¹²³ See *Grokster II*, 380 F.3d at 1158 (explaining that in peer-to-peer distribution network, no one computer contains all the information as it is each computer that makes the information available to every other computer in the network); see also Graves, *supra* note 118, at 152 (explaining that the P2P Software provides an interface which allows users to select and download audio from files on other users' hard drives to their own and exchanging files "seamlessly").

¹²⁴ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1163 (9th Cir. 2004) (explaining because each computer acts as both server and client, even if Software Distributors deactivated all computers within their control, users of their product could "continue sharing files with little or no interruption"); see also Graves, *supra* note 118, at 152 (noting that Grokster's software allows user to connect through network not controlled by the Software Distributors).

the available files so that it may be easily accessed by its users; in other words, a file index is essential.¹²⁵

Grokster currently utilizes the “supernode” model of indexing.¹²⁶ When a user connects to a network computer designated as an index server and requests a particular file, the index server, or supernode, will search its index and provide the user with the results of the search.¹²⁷ StreamCast has recently been utilizing Gnutella software system, a totally decentralized indexing system, which requires each user to maintain an index of only those files she wishes to make available to other users in the network.¹²⁸ The software transmits a search request to all computers on the network and the combined results are sent back to the requesting user.¹²⁹

C. The Ninth Circuit Ruling – Software Distributors Not Liable

The Ninth Circuit found that Grokster and StreamCast were not liable for contributory infringement because their activity did not satisfy the required knowledge and material contribution elements of the cause of action.¹³⁰ Specifically, the court held

¹²⁵ See *Grokster II*, 380 F.3d at 1158 (explaining that because information in P2P network is decentralized, “the software must provide some method of cataloguing the available information so that users may access it”); see also *A&M Records, Inc. v. Napster, Inc. (Napster I)*, 114 F. Supp. 2d 896, 906 (N.D. Cal 2000) (noting necessity of indexing system in Napster’s P2P network).

¹²⁶ See *Grokster II*, 380 F.3d at 1159 (noting that “supernode” was developed by Dutch company KaZaa BV and later transferred to Sharmar Networks, licensed under name of “FastTrack”); see also Feder, *supra* note 1, at 865 (noting “supernode” model utilized by Grokster as one of three types of peer-to-peer file sharing).

¹²⁷ See *Grokster II*, 380 F.3d at 1159 (explaining that with the “supernode” model a number of select computers on the network are designated as indexing servers); see also Feder, *supra* note 1, at 865 (explaining that with “supernode” model, select number of nodes act as indexing servers).

¹²⁸ See *Grokster II*, 380 F.3d at 1159 (noting that with completely decentralized networks each node maintains indices of material that resides on that node); see also Feder, *supra* note 1, at 865 (explaining that decentralized networks of “fully distributed” model limits user’s access to entire network because of variety of sources for indexing information).

¹²⁹ See *Grokster II*, 380 F.3d at 1159 (explaining that under a decentralized index the software broadcasts a search request to all computers on network and search of individual index files, with collective results routed back to the requesting computer); see also Feder, *supra* note 1, at 865 (stating that every search request is broadcast to each node in order to locate desired material requested by user).

¹³⁰ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1163 (9th Cir. 2004) (noting that as neither StreamCast nor Grokster maintained control over the index files and even if they deactivated all computers within their control, users of their products could still share files with little or no interruption).

that liability for contributory copyright infringement requires the defendant to have knowledge of definite acts of direct infringement at a time when the defendant materially contributed to such direct infringement.¹³¹ Furthermore, the court found that the Defendants were also not liable for vicarious copyright infringement liability because they did not have the right and ability to supervise the infringing activity of their users.¹³²

i. Contributory Infringement

As discussed in Part I of this article, a finding of contributory copyright infringement requires knowledge of direct infringement and material contribution to that infringement.¹³³ The Ninth Circuit interpreted the knowledge requirement in this context to mean actual knowledge of the infringing activity at a time when the defendant materially contributed to the direct infringement, thereby creating a “temporal nexus.”¹³⁴ This interpretation stems from the same court’s decision in *Napster*,¹³⁵ which required a higher showing of knowledge when the direct infringement pertained to an article of commerce capable of substantial non-infringing uses; constructive knowledge of the direct infringement will not sustain a contributory liability claim in such cases.¹³⁶ The court noted

¹³¹ *Id.* at 1162 (stating contributory copyright infringement required Copyright Owners establish Software Distributors’ knowledge and material contribution).

¹³² *Id.* at 1165 (holding that it did not appear from any evidence on record that any defendants had ability to block access to individual users).

¹³³ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F.Supp.2d 1029, 1036 (C.D. Cal. 2003) (citing that liability for contributory infringement accrues where defendant has actual and not merely constructive knowledge of infringement at time during which defendant materially contributes to that infringement).

¹³⁴ See *A&M Records v. Napster, Inc. (Napster II)*, 239 F.3d 1004, 1021 (9th Cir. 2000) (noting that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement); see also *Graves, supra* note 118, at 148 (noting that the Ninth Circuit required a temporal nexus between this specific knowledge and the ability to block the infringement).

¹³⁵ See *Napster II*, 239 F.3d at 1022 (holding that case record supported finding that Napster had actual knowledge that specific infringing material was available using its system, that it could have blocked access to the system of suppliers of infringing material, and that it failed to remove that material); see also *Graves, supra* note 118, at 148 (noting that Napster court required that knowledge be linked to demonstrated infringing use of Napster).

¹³⁶ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1162 (9th Cir. 2004) (emphasizing the standard in the Ninth Circuit to shield a defendant from

further that actual knowledge of direct infringement occurring at a time when the defendant was not materially contributing to such activity will not constitute contributory infringement.¹³⁷

At trial, Plaintiffs demonstrated that the Defendants did have knowledge that their users had previously been engaging in, and continued to engage in, illegal infringing activity.¹³⁸ However, Grokster and StreamCast were also utilized by the software users to exchange public domain and authorized sound files, text files, software applications, and digital images, and were therefore deemed to be capable of substantial non-infringing uses.¹³⁹ Following *Napster*, plaintiffs were therefore subject to a heightened knowledge requirement and had to demonstrate that at the time of the alleged material contribution to the infringement, the defendants had specific knowledge of its occurrence.¹⁴⁰ Although the Defendants could have demonstrated that they did not have specific knowledge of the direct infringement at the time such infringement occurred, it was not

liability); see also Graves, *supra* note 118, at 149 (noting that Napster court appeared to offer only heightened knowledge requirement in contributory copyright infringement when infringing article of commerce is capable of substantial non-infringing uses).

¹³⁷ See *Grokster II*, 380 F.3d at 1157, 1163 (holding that Grokster and StreamCast did not materially contribute to their users' infringement because "the Software Distributors have not provided the site and facilities for infringement in the first place."); see also *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1163 (2d Cir. 1971) (finding that contributory infringer had actual knowledge that artists it was managing were performing copyrighted works, was capable of policing artists' infringing conduct, and also derived substantial benefit from primary infringers' actions).

¹³⁸ See *Grokster II*, 380 F.3d at 1157–58 (2004) (stating that Grokster and StreamCast freely distributed software that allowed users to share computer files with each other, including digitized music and motion pictures); see also Matthew J. Rust, Casenote, *Nobody Uses Betamax Anymore and Neither Should the Supreme Court: Why Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. Should be Overturned*, 28 HAMLINE L. REV. 549, 553 (2005) (discussing how Software Distributors had knowledge that software users used their product to infringe copyrights).

¹³⁹ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F.Supp.2d 1029, 1035–36 (C.D. Cal. 2003) (determining that plaintiffs do not dispute that defendant's software is being utilized and could be utilized for substantial noninfringing uses); see also Rust, *supra* note 138, at 556 (noting that it was "the users of the software that provided access and created the network on which the infringing activity occurred, not the Software Distributors" and therefore did not have knowledge of infringing activity).

¹⁴⁰ See *Grokster II*, 380 F.3d at 1162 (arguing that "[t]he Copyright Owners were required to establish that the Software Distributors had 'specific knowledge of infringement at a time at which they contribute[d] to the infringement, and . . . fail[ed] to act upon that information'") (citation omitted); see also Rust, *supra* note 138, at 555 (commenting that "the Copyright Owners were forced to show that the Software Distributors had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement").

necessary as the court ultimately found that there was no material contribution at all.¹⁴¹

The court further used the *Napster* decision to determine whether the plaintiffs had satisfied the material contribution requirement of the contributory liability cause of action.¹⁴² The Ninth Circuit asserted material contribution as offering the “site and facilities for infringement, followed by a failure to stop specific instances of infringement once knowledge of those infringements is acquired.”¹⁴³ The court carefully reviewed the manner by which the *Grokster* and *StreamCast* programs were designed and maintained, taking into consideration the structural elements outlined in Part II(b) of this article. Based on the *Grokster* and *StreamCast* structures, which were absent a centralized server, maintained no control over the user networks, and had no information regarding specific file transfers between users, the court found that the Software Distributors did not materially contribute to any direct infringement.¹⁴⁴ Although plaintiffs stressed that *Grokster* did in fact maintain an “ongoing relationship”¹⁴⁵ with its users because *Grokster* preserved a connection to the users’ computers in order to transmit advertisements, the court viewed the distribution of software,

¹⁴¹ See *Grokster II*, 380 F.3d at 1163 (stating that “[w]e also agree with the district court that with respect to their current software distribution and related activities, defendants do not materially contribute to copyright infringement”); see also Rust, *supra* note 138, at 553 (specifying that “the Software Distributors had knowledge that many users of their software used it to infringe copyrights, but found that the Software Distributors did not make a material contribution to the infringement, and therefore held the Software Distributors were not liable for contributory infringement”).

¹⁴² See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1163 (9th Cir. 2004) (clarifying that “In *Napster I*, we found material contribution after reciting the district court’s factual finding that ‘Napster is an integrated service’”); see also Rust, *supra* note 138, at 555 (explaining that “[t]he court followed the analysis it developed in *Napster* and applied the *Sony* doctrine to the knowledge requirement of contributory infringement”).

¹⁴³ *Grokster II*, 380 F.3d at 1157, 1163.

¹⁴⁴ *Id.* at 1164 (announcing that “[a]ll of these activities are too incidental to any direct copy-right infringement to constitute material contribution”); see also Rust, *supra* note 138, at 556 (noting that “the Software Distributors did not make a material contribution to the infringement, and therefore held the Software Distributors were not liable for contributory infringement”).

¹⁴⁵ The *Sony* court required an “ongoing relationship” between the direct infringer and the contributory infringer in order to make a finding of contributory copyright infringement. See *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 437 (1984). It is apparent that the Ninth Circuit did not regard the mere transmittal of advertisements to be an “ongoing relationship.” See *Grokster II*, 380 F.3d at 1164.

which allowed users to infringe, very differently from the facilitation of infringement.¹⁴⁶

ii. Vicarious Liability

The Ninth Circuit analyzed the claim of vicarious liability in a typical fashion by requiring both a financial benefit gained from the direct infringement and the right and ability to supervise the infringing activity.¹⁴⁷ Although neither Grokster nor StreamCast received payment for the use of their programs, both companies derived a financial benefit through advertising proceeds, thereby satisfying the first element.¹⁴⁸ The plaintiffs further asserted that the Software Distributors had certain measures readily accessible to reduce direct copyright infringement, including filters that would screen out copyrighted song titles and digital watermarking that would identify and block copyrighted works.¹⁴⁹ Yet the Ninth Circuit rejected this argument by concluding that the ability to change the underlying architecture of the peer-to-peer file sharing software did not amount to the “ability to supervise” the direct infringement of its users.¹⁵⁰ The

¹⁴⁶ See *Grokster II*, 380 F.3d at 1162 (positing that defendants did nothing to facilitate and could not stop infringement because users have access to infringing files); see also Graves, *supra* note 118, at 154 (highlighting that “the *Grokster* court viewed distribution of software that merely allows users to infringe very differently from facilitating infringement at the time of the infringement”).

¹⁴⁷ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster I)*, 259 F. Supp. 2d 1029, 1043 (C.D. Cal. 2003) (stating that “[t]he doctrine of vicarious infringement, an expansion of traditional *respondeat superior*, extends liability for copyright infringement to ‘cases in which a defendant ‘has a right and ability to supervise the infringing activity and also has a direct financial interest in such activities’”) (citation omitted); see also Rust, *supra* note 138, at 559 (noting that vicarious liability is found where party has rights and abilities to supervise infringing activity and also has direct financial interest in such activities).

¹⁴⁸ See *Grokster I*, 259 F. Supp. 2d at 1044 (suggesting that StreamCast and Grokster derive substantial revenue from advertising proceeds); see also Rust, *supra* note 138, at 554 n.27 (proposing that “[t]he Software Distributors generated revenue through advertising, not from selling their software”) (citation omitted).

¹⁴⁹ See *Grokster I*, 259 F. Supp. 2d at 1045 (explaining that “Plaintiffs note that Defendants’ software already includes optional screens for pornographic/obscene file names, and that it could just as easily screen out copyrighted song titles”); see also Rust, *supra* note 138, at 554 n.28 (stating that “the copyright holders noted that filters were already in place for certain types of files and could easily be added to screen out copyrighted files”) (citation omitted).

¹⁵⁰ See *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1165–66 (9th Cir. 2004) (holding that owners’ evidence of right and ability to supervise file sharing copyrighted files did not amount to “ability to supervise” direct infringement of individual users); see also Rust, *supra* note 138, at 556–57 (concluding that “[t]he court further rejected the copyright owners’ argument that the Software Distributors’ ability to alter

court explained that mandating software modifications might be a remedy for vicarious copyright infringement liability, but not a way to establish such a claim in the first place.¹⁵¹ The court therefore found that neither company was vicariously liable for the copyright infringement of its users.¹⁵²

D. The Supreme Court of the United States Reverses The Ninth Circuit

In June 2005, Justice Souter delivered the unanimous opinion of the United States Supreme Court.¹⁵³ The Court considered the circumstances under which the distributor of a product that is capable of both lawful and unlawful use is liable for acts of copyright infringement by the third parties using that product.¹⁵⁴ In reversing the Ninth Circuit, the Court held that “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”¹⁵⁵

the software to prevent swapping of copyrighted files amounted to the right and ability to supervise necessary to impose vicarious liability”) (footnote omitted).

¹⁵¹ See *Grokster II*, 380 F.3d at 1165–66 (finding that “the Copyright Owners confuse the right and ability to supervise with the strong duty imposed on entities that have already been determined to be liable for vicarious copyright infringement”); see also Rust, *supra* note 138, at 557 (discussing that “[t]he court distinguished these two types of abilities by pointing out that the duty to police unauthorized activity is a penalty imposed on entities that have already been found vicariously liable for copyright infringement”).

¹⁵² See *Grokster II*, 380 F.3d at 1165–66 (suggesting that “[w]e agree with the district court that possibilities for upgrading software located on another person’s computer are irrelevant to determining whether vicarious liability exists”) (citation omitted); see also Rust, *supra* note 138, at 557 (commenting that “[t]he court therefore upheld the district court’s grant of summary judgment for the Software Distributors on the issue of vicarious liability”) (footnote omitted).

¹⁵³ See *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2770 (2005) (noting that Justice Souter delivered Court’s opinion); see also Timothy K. Andrews, Note & Comment: *Control Content, Not Innovation: Why Hollywood Should Embrace Peer-to-Peer Technology Despite the MGM v. Grokster Battle*, 25 LOY. L.A. ENT. L. REV. 383, 422 (stating that “[o]n June 27, 2005, in a unanimous 9-0 decision, the Supreme Court reversed the Ninth Circuit and ruled that defendants Grokster and StreamCast could be liable for inducing copyright infringement”).

¹⁵⁴ See *Grokster III*, 125 S.Ct. at 2770 (announcing that “Respondents, Grokster, Ltd., and StreamCast Networks, Inc., defendants in the trial court, distribute free software products that allow computer users to share electronic files through peer-to-peer networks, so called because users’ computers communicate directly with each other, not through central servers”); see also Andrews, *supra* note 153, at 422 (determining that “[t]he unanimous Supreme Court majority shows an adept understanding of peer-to-peer technology and the competing interests of copyright and innovation”).

¹⁵⁵ *Grokster III*, 125 S.Ct. at 2770.

The Court began its analysis by noting the existing tension between the parties' warring value systems – the support of creative pursuits through copyright protection and the promotion of innovation in new communication technologies by limiting the liability of copyright infringement.¹⁵⁶ The more that artistic protection is favored, the more that technological advancements may be discouraged: “the administration of copyright law is an exercise in managing the trade-off.”¹⁵⁷ The Court recognized that this tension lies at the heart of the *Grokster* case; the claim being that the digital distribution of copyrighted material endangered copyright holders more than ever because “every copy is identical to the original, copying is easy, and many people (especially the young) use file-sharing software to download copyrighted works.”¹⁵⁸ These concerns are offset by the notion that imposing liability, not only on the direct infringers but also on the software distributors, could limit future innovations of beneficial technologies.¹⁵⁹ The Court added, however, that the argument made in favor of imposing indirect liability was strong in light of the high number of infringing downloads that occur every day with the use of the defendants' software.¹⁶⁰ “When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.”¹⁶¹

i. Analysis of the Sony Doctrine

Since the parties rely on the arguments and authority set forth in *Sony Corp. v. Universal City Studios*¹⁶² in support of their

¹⁵⁶ *Id.* at 2775 (noting respective values of supporting creative pursuits and promoting innovation in communication technology).

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

¹⁵⁹ *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2775 (2005) (highlighting concern that imposing liability on distributors of software could limit development of technology).

¹⁶⁰ *Id.* at 2776 (commenting on number of downloads that occur everyday using StreamCast's and Grokster's software).

¹⁶¹ *Id.* In re *Aimster Copyright Litigation (Aimster II)*, 334 F.3d 643, 645–46 (7th Cir. 2003) (explaining that due to the impracticability of suing a large number of individual infringers, the law lets a copyright holder sue a contributor to the infringement).

¹⁶² 464 U.S. 417 (1984).

positions on the issue of contributory infringement, the Court recognized the need for the consideration of such principles originally stated in *Sony*.¹⁶³ In *Sony*, the Court stated, “the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn.”¹⁶⁴ The Court recounted the facts of *Sony* and noted that because there was no evidence of stated or implied intent to encourage infringing uses, the only possible basis for imposing liability was on a theory of contributory infringement stemming from the sale of VCRs to consumers with knowledge that some of those users would use the VCRs to infringe.¹⁶⁵ The Court in *Sony* determined, however, that since the VCR was “capable of commercially significant non-infringing uses,” the manufacturer could not be held liable solely on the basis of the product’s distribution.¹⁶⁶

The Court noted that the *Sony* analysis followed the traditional staple-article of commerce theory and patent law, since codified, in that the distribution of a component of a patented product will not violate the patent if it is capable of other non-infringing uses.¹⁶⁷ The Court explained this theory to mean that “where an article is ‘good for nothing else’ but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe.”¹⁶⁸ On the other hand, the doctrine protects the same action of selling a product with lawful and unlawful uses by limiting the liability imposed in instances where there is only the simple understanding that a portion of one’s products will be used in an

¹⁶³ *Grokster III*, 125 S.Ct. at 2776 (explaining the need to examine the *Sony* holding as the copyright holders tailored their claim to the Court’s opinion in that case).

¹⁶⁴ *Sony*, 464 U.S. at 435, n.17.

¹⁶⁵ *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2777 (2005) (explaining that in the *Sony* case the only possible basis for holding manufacturer liable was the theory of contributory infringement).

¹⁶⁶ *Id.* (citing *Sony*, 464 U.S. at 442).

¹⁶⁷ *Id.* See 35 U.S.C. § 271(c) (stating that “[w]hoever offers to sell or sells within the United States . . . a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process . . . knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer”); see also Greg E. Upchurch and Roland L. Trope, “Staple Article:” *In Defense of Betamax and Its Progeny*, 60 BUS. LAW. 417, 419 (2004) (noting that as a result of *Sony*, the issue of contributory copyright infringement usually depends on whether the article is a staple article of commerce and the technology is capable of substantial non-infringing uses).

¹⁶⁸ *Grokster III*, 125 S.Ct. at 2777.

infringing manner.¹⁶⁹ As such, the staple article of commerce doctrine “leaves breathing room for innovation and vigorous commerce.”¹⁷⁰

The Plaintiffs argued that by granting summary judgment to the Defendants as to their current activities, the Ninth Circuit gave too much weight to the value of innovation and new technologies and not enough weight to the copyrights that were infringed upon by the activities of the Defendants, in that 90% of the works made available on one of the networks were under copyright.¹⁷¹ The Plaintiffs also contended that the remaining 10% should not qualify as “substantial” non-infringing uses and that the Court should clarify the standard, in that a product used “principally” for infringement should not qualify for protection.¹⁷² In response, Defendants offered evidence indicating that the software may be used to reproduce public domain works, there are copyright holders who encourage the use of such software, and that the non-infringing uses are significant and will grow over time.¹⁷³

The Court agreed with the Plaintiffs’ argument that the Ninth Circuit misapplied the Sony doctrine by reading it to limit secondary liability beyond the circumstances to which the case

¹⁶⁹ *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2777–78 (2005). See RAYMOND T. NIMMER, *DIGITAL COPYRIGHT & CYBERSPACE* § 4:44.3 (2005) (explaining that Supreme Court’s holding in *Grokster* was motivated by common law concept of inducement which requires actual and affirmative steps to promote infringement).

¹⁷⁰ *Grokster III*, 125 S.Ct. at 2778. See *Sony*, 464 U.S. at 442 (explaining balance must be struck between copyright holder’s need for protection and the rights of others to freely engage in areas of commerce); *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980) (noting Congress chose to compromise between the competing interests of free competition versus stimulating invention); *Henry v. A.B. Dick Co.*, 224 U.S. 1, 48 (1912), *overruled by* *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917) (discussing the fact that selling article that is adapted to both infringing uses and lawful uses is not enough to make seller a contributory infringer).

¹⁷¹ *Grokster III*, 125 S.Ct. at 2778 (explaining the argument by copyright holders that since 90% of works available on networks was copyrighted, granting summary judgment to the networks put too much value on innovative technology).

¹⁷² *Id.* See Brief of Petitioner at 31, *Grokster III*, 125 S.Ct. 2764, No. 04-480 (Jan. 24, 2005) (arguing that staple article of commerce defense should not be available when primary use of a product or service is infringing).

¹⁷³ *Grokster III*, 125 S.Ct. at 2778. See Brief of Respondent at 21, *Grokster III*, 125 S.Ct. 2764, No. 04-480 (March 1, 2005) (noting district court’s finding that the software is regularly used to facilitate and search for public domain materials, government documents, and authorized media content).

applied.¹⁷⁴ Specifically, the Ninth Circuit read the doctrine to mean that whenever a product is capable of substantial non-infringing uses, the manufacturer can never be held secondarily liable for the unlawful actions of its customers, the direct infringers.¹⁷⁵ Since this interpretation is overly broad, the limitations on liability would apply in situations even when “an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had ‘specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information.’”¹⁷⁶ As such, the Ninth Circuit felt justified in refraining from imposing liability on the Software Distributors in this case because there was no showing that their software, created without a central server, gave them knowledge of specific unlawful uses.¹⁷⁷

The Court concluded that this interpretation was made in error because it in essence converted the case from one about liability based on imputed intent to one about liability based on any theory.¹⁷⁸ It noted that nothing in *Sony* mandated a court to ignore evidence of intent if such evidence is present, and further that the case was not meant to foreclose common law rules of fault based liability.¹⁷⁹ “Thus, where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*’s staple-article rule will not preclude liability.”¹⁸⁰ After making this determination, the Court decided that it was not necessary to reconsider *Sony* any further and refused to add a more calculated explanation of the balance that lies between protection and innovation when liability is

¹⁷⁴ *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2778 (2005) (stating that Court of Appeals for the Ninth Circuit misapplied *Sony* doctrine).

¹⁷⁵ *Id.* (noting opinion of Ninth Circuit unnecessarily limited secondary liability).

¹⁷⁶ *Id.* (citing *MGM Studios, Inc. v. Grokster, Ltd. (Grokster II)*, 380 F.3d 1154, 1162–63 (9th Cir. 2004) (explaining that producer would not be liable under any circumstances when his product also serves a substantial legal use according to the Ninth Circuit’s application of the *Sony* doctrine)).

¹⁷⁷ *Id.* (discussing the holding in the Ninth Circuit opinion).

¹⁷⁸ *Id.* (describing Ninth Circuit’s error in reasoning).

¹⁷⁹ *Id.* at 2779 (elaborating on Ninth Circuit’s misapplication of *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)).

¹⁸⁰ *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2779 (2005) (clarifying the extent of rule found in *Sony*).

founded solely upon distribution with knowledge that unlawful use will occur.¹⁸¹ “It is 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.”¹⁸²

ii. Application of the Inducement Theory

The Supreme Court was not compelled to further discuss the *Sony* doctrine in this case in large part because it decided that the Ninth Circuit had erred in granting summary judgment on the Copyright Holders’ claim of inducement.¹⁸³ “The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or ‘entices or persuades another’ to infringe,¹⁸⁴ as by advertising.”¹⁸⁵ As such, at common law, a defendant in a copyright or patent law case who “not only expected but invoked [infringing use] by advertisement” was liable for infringement “on principles recognized in every part of the law.”¹⁸⁶ The law is the same today; evidence that active steps have been taken to promote direct infringement, by advertising an infringing product or demonstrating how to infringe, for example, coupled with a showing that the infringement was encouraged, will demonstrate an affirmative intent that the product be used to infringe and will overcome the law’s hesitation to find a defendant who sells a product capable of non-infringing uses liable.¹⁸⁷ The Court in this case adopted the inducement

¹⁸¹ *Id.* at 2778 (limiting *Sony*’s application in present case).

¹⁸² *Id.* at 2778–79.

¹⁸³ *Id.* at 2779 (commenting that where evidence of intent is shown, nothing in *Sony* obligates courts to ignore such evidence).

¹⁸⁴ BLACK’S LAW DICTIONARY 781 (6th ed. 1990) (defining infringement as “[u]nauthorized use of copyrighted material; *i.e.* use without permission of a copyright holder”).

¹⁸⁵ *Grokster III*, 125 S.Ct. at 2779 (describing situation where infringement occurs).

¹⁸⁶ *Id.* (describing infringement by advertisement at common law). See *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 62–63 (1911) (holding that defendant infringed on copyright of author by creating film based on book); see also *Henry v. A. B. Dick Co.*, 224 U.S. 1, 48–49 (1911) (holding that defendants committed contributory infringement), *overruled by Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

¹⁸⁷ *Grokster III*, 125 S.Ct. at 2779 (noting that rule of inducement of infringement is indistinguishable from that found in early cases). See *Oak Industries, Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (ND Ill. 1988) (discussing contributory infringement and inducement of infringement); see also *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988) (describing inducement of infringement); *Fromberg, Inc. v. Thornhill*, 315 F.2d 407, 412–13 (5th Cir. 1963) (holding defendants

theory, as it had adopted patent law's staple-article theory as a model for its copyright safe-harbor rule in *Sony*.¹⁸⁸ As such, it held that "one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."¹⁸⁹ Mindful of the holding's potential for inhibiting future innovations and new technologies, the Court was careful to note that mere knowledge of infringing capabilities or of actual infringing activities is not enough to subject the manufacturer or distributor to liability.¹⁹⁰ Instead, the rule of inducement imposes liability only where "purposeful, culpable expression and conduct" are evident and, as such, would not inhibit future innovations or commerce with a lawful function.¹⁹¹

Utilizing the inducement theory, the Plaintiffs would have to demonstrate that the Defendants communicated an inducing message to the software users in order to overcome summary judgment.¹⁹² As mentioned earlier, the traditional form of inducement is an advertisement or solicitation that depicts a message created to encourage others to commit violations.¹⁹³ In this case, it is undisputed that StreamCast emitted advertisements on the computer screens of users of Napster-compatible programs which urged the acceptance of the "OpenNap" program, designed to provide services similar to those offered by Napster.¹⁹⁴ Grokster provided an electronic newsletter

liable for inducing infringement); *Sims v. Mack Trucks, Inc.*, 459 F. Supp. 1198, 1215 (E.D. Pa. 1978) (holding defendant guilty of inducement by infringing on patent), *vacated*, 608 F.2d 87 (3d Cir. 1979).

¹⁸⁸ *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2780 (2005) (stating that inducement rule is appropriate for copyright); *see also Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (holding that defendants did not commit copyright infringement by selling home videotape recorders).

¹⁸⁹ *Grokster III*, 125 S.Ct. at 2780 (adopting the inducement rule).

¹⁹⁰ *Id.* (stating that distributor is similarly not automatically subject to liability when engaging in acts related to product distribution including offering product updates).

¹⁹¹ *Id.* (showing requirements necessary to impose liability).

¹⁹² *Id.* (applying inducement rule to present case).

¹⁹³ *Id.* (noting MGM's claim of such a message by StreamCast and Grokster).

¹⁹⁴ The program was designed to lure patrons of Napster and those who accepted the invitation were offered software that performed the same services as Napster. The Court noted that a factfinder could conclude that these services included the ability to download copyrighted music files. *Grokster III*, 125 S.Ct. at 2780. Grokster and Streamcast targeted Napster users by beaming ads onto the screens of these users urging them to use the

containing links to articles that promoted its software's ability to download copyrighted music.¹⁹⁵ Additionally, the Court noted that both companies conveyed a clear message by affirmatively responding to questions seeking help in retrieving and playing copyrighted materials.¹⁹⁶

Further, the Court pointed out the fact that the record contained other evidence which tended to show that the Defendants acted with the purpose of causing copyright violations by its software's users.¹⁹⁷ The Court noted three specific features of this evidence.¹⁹⁸ First, both companies portrayed themselves to be satisfying a known source of demand for copyright infringement, former Napster users.¹⁹⁹ Second, neither company attempted to implement or design filtering tools or other instruments to decrease the unlawful activity.²⁰⁰ The Court explicitly disagreed with the Ninth Circuit's determination that the Defendants were under no obligation to create or utilize such tools, as such behavior, or lack thereof, "underscores Grokster's and StreamCast's intentional facilitation of their users' infringement."²⁰¹ Third, the Court acknowledged that the Defendants earn money through advertising; the more the software is used, the more the advertisements are distributed,

OpenNap program. See David Post, *The Impact of 'Grokster,'* 27 NAT'L L. J., Aug. 3, 2005, at 10.

¹⁹⁵ The Court equated both the Napster and Grokster programs in stating that [A]nyone whose Napster or free file-sharing searches turned up a link to Grokster would have understood Grokster to be offering the same file-sharing ability as Napster, and to the same people who probably used Napster for infringing downloads; that would also have been the understanding of anyone offered Grokster's suggestively named Swaptor software, its version of OpenNap.

MGM Studios, Inc., v. Grokster, Ltd. (*Grokster III*), 125 S.Ct. 2764, 2780–81 (2005). Grokster distributed an electronic newsletter which promoted its software's ability to access copyrighted music, and that the name "Grokster" was derived from "Napster." See Michael R. Graif, *A Bow to Innovation: The Supreme Court's Decision in MGM v. Grokster*, PAT. STRATEGY & MGMT., August 2005, at 1.

¹⁹⁶ *Grokster III*, 125 S. Ct. at 2781 (stating that Grokster and Napster both helped users locate and play copyrighted materials).

¹⁹⁷ *Id.* (discussing how summary judgment record is replete with such additional evidence).

¹⁹⁸ *Id.* (stating that these aspects are "particularly notable").

¹⁹⁹ *Id.* (explaining how both companies targeted former Napster users); see Post, *supra* note 194, at 10 (noting that both companies aimed to satisfy source of known copyright infringement demand, former Napster users).

²⁰⁰ *Grokster III*, 125 S. Ct. at 2781 (noting the absence of filtering tools to decrease the extent of unlawful infringement).

²⁰¹ *Id.*

and the more money the companies receive.²⁰² “Since the extent of the software’s use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.”²⁰³ The Court noted that while this piece of evidence alone would not be sufficient to sustain an inference of unlawful intent, taken as a whole its implications are clear.²⁰⁴ In rejecting an argument set forth by the Defendants, the Court explained that the basis for potential liability is not only that promoting a user to infringe a copyright can give rise to secondary liability, but instead that the distribution of a product can in it of itself give rise to liability in instances where the evidence demonstrates that the distributor intended and encouraged the product to be used in an infringing manner.²⁰⁵

The inducement theory also requires evidence of actual infringement by the software users.²⁰⁶ The Court noted that in this case there was evidence of infringement on a large scale, though the exact calculation of unlawful use was in dispute.²⁰⁷ Ultimately, it determined that the summary judgment evidence was at the very least adequate to allow the Plaintiffs to proceed with claims for damages and equitable relief.²⁰⁸

The Supreme Court concluded by determining that the present case is significantly different from *Sony* and reliance on same to rule in favor of the Defendants was error.²⁰⁹ The evidence presented in this case addresses a different basis of liability which is supported by the Defendants’ actions and words which show a purpose to cause and profit from third party acts of

²⁰² *MGM Studios, Inc., v. Grokster, Ltd. (Grokster III)*, 125 S.Ct. 2764, 2782 (2005) (explaining that higher use of software results in higher volume of advertisements sent out, which increases the advertising revenue).

²⁰³ *Id.*

²⁰⁴ *Id.* (noting that viewed in entire context, import of evidence is unclear).

²⁰⁵ *Id.* (explaining that in such case, culpable act is not only encouraging infringement but also distributing the tool intended for infringing uses).

²⁰⁶ *Id.* (stating that in addition to intent to infringe and distribution of infringing tools, inducement theory requires evidence of actual infringement by recipients).

²⁰⁷ *Id.* (noting there was infringement on a “gigantic scale”).

²⁰⁸ *Id.* (stating that summary judgment evidence was sufficient to allow MGM to go forward with its claims).

²⁰⁹ *Id.* (finding that this case differed substantially from *Sony* and that the Ninth Circuit should not have relied on *Sony* to decide this case).

copyright infringement.²¹⁰ The Court further stated that there was “substantial evidence in MGM’s favor on all elements of inducement, and summary judgment in favor of Grokster and StreamCast was error.”²¹¹ The Court ultimately called for a reconsideration of the Copyright Holder’s motion for summary judgment on remand.²¹²

III. THE FUTURE OF PEER-TO-PEER FILE SHARING

The Supreme Court’s decision in *Metro-Goldwyn-Mayer v. Grokster, Ltd.* will undoubtedly have a momentous effect on both the Software Distributors and the Copyright Owners because the stakes in this case are so high.²¹³ Andrew Lack, the Chairman of Sony BMG Music Entertainment, has summarized the implications of *Grokster* in the following excerpt, “I think this court’s decision is a game changer. It will dramatically affect behavior, and behavior will dramatically affect how music is sold and distributed and consumed. It will clarify the law and establish right from wrong.”²¹⁴

Four months after the Supreme Court’s decision, Grokster entered into a settlement agreement with the Copyright Owners.²¹⁵ Under the terms of the agreement, Grokster was required to immediately discontinue supporting its file-sharing network and Grokster’s owners agreed to pay a total of \$50 million in damages to the movie studios, record labels and music

²¹⁰ *Id.* (noting MGM’s evidence addresses a different basis of liability for distributing products open to alternative uses).

²¹¹ *Id.*

²¹² *Id.* (holding that judgment of Court of Appeals is vacated and case is remanded for further proceedings consistent with the Court’s opinion).

²¹³ Julie Hilden, *File Sharing Goes Before Supreme Court* (2005), available at www.cnn.com/2005/LAW/02/16/hilden.fileswap/index.html (hereinafter “Hilden”) (explaining the immense damages that will likely befall the software distributors); see also Jeffrey L. Dodes, *Beyond Napster, Beyond the United States: The Technological and International Legal Barriers to Online Copyright Enforcement*, 46 N.Y.L. SCH. L. REV. 279, 316 (2003) (explaining that “[t]he industry will have to grapple with these major issues and the public will have to be patient”).

²¹⁴ See Saul Hansell and Jeff Leeds, *A Supreme Court Showdown for File Sharing*, N.Y. TIMES, March 28, 2005, at A2 (noting that industry executives believe that Supreme Court’s *Grokster* decision will significantly change behavior of software providers vis-à-vis the music industry).

²¹⁵ John Borland, *Last Waltz for Grokster*, available at http://news.com/Last+waltz+for+Grokster/2100-1027_3-5937832.html.

producers.²¹⁶ Mitch Bainwol, CEO of the Recording Industry Association of America, issued the following statement: "This settlement brings to a close an incredibly significant chapter in the story of digital music. This is a chapter that ends on a high note for the recording industry, the tech community and music fans and consumers everywhere."²¹⁷

Although the settlement agreement indicates that the four-year legal battle between the Copyright Owners and the Software Distributors has come to an end, the war wages on.²¹⁸ Grokster's co-defendant, StreamCast Networks, continues to operate its peer-to-peer file sharing network and has previously stated that it would pursue the case in lower courts.²¹⁹ Despite StreamCast's persistence, however, the Supreme Court's decision has had a significant impact on the file-sharing industry.²²⁰ The distributors of WinMX, a peer-to-peer file sharing program that runs on the Microsoft Windows operating system, removed their product from the Internet a few months following the decision.²²¹ Mark Gorton, the CEO of the brokerage firm that produces LimeWire, a file sharing alternative to Grokster, stated that he would likely cease the distribution of LimeWire in reaction to the Court's ruling since it appeared too difficult to satisfy the implied standard for inducement.²²² "Some people are saying that as long as I don't actively induce infringement, I'm O.K.," he said. "I don't think it will work out that way."²²³ Meta Machine, the company that distributes eDonkey, one of the most popular file-sharing programs, stated that it hopes to reach a settlement with the music industry and convert their business into a

²¹⁶ *Id.*

²¹⁷ *Id.*

²¹⁸ *Id.*

²¹⁹ *Id.*

²²⁰ *Id.*

²²¹ *Id.*; see also Richard Menta, *WinmX Shut Down*, available at http://www.mp3newswire.net/stories/5002/winmx_down.html.

²²² Tom Zeller, Jr., *Sharing Culture Likely to Pause But Not Wither*, available at <http://www.nytimes.com/2005/06/28/technology/28peer.html?pagewanted=1&ei=5090&en=41f5ea71b5f92739&ex=1277611200&adxnnl=0&partner=rssuserland&emc=rss&adxnnlx=1153411907-IhDfRpnMphZzBY9s4J9HUA>.

²²³ *Id.*

licensed, industry-approved service.²²⁴ It seems that Grokster is headed in this direction, as well. Michael Page, an attorney speaking on behalf of Grokster, stated, "The brand will live on. It is shut down, but we look forward to launching a licensed, legal new version of Grokster."²²⁵

Some believe that the Supreme Court's decision may help define the terms of a "cease-fire."²²⁶ An end to litigation might revive negotiations between certain music labels and some file sharing companies to find ways for users to share some files for free and others for a charge.²²⁷ For example, some executives have contemplated a plan in which users could download free, low quality tracks with a promise to buy "higher quality versions" in the future.²²⁸ In fact, two of the biggest music companies, Universal Music Group and Sony BMG, recently signed a deal to offer music through Snocap, a software package designed to control the sharing of unauthorized music.²²⁹ Designed by Shawn Fanning, the original founder of Napster, the program identifies music files being shared through file sharing networks and then attaches a price to them.²³⁰ In addition to Universal and Sony, Snocap will also be utilized by Mashboxx, a new, legal file-sharing program supported by the record labels

²²⁴ See Borland, *supra* note 215.

²²⁵ *Id.*

²²⁶ See Hansell, *supra* note 214; see also Richard Swope, *Peer-To-Peer File Sharing and Copyright Infringement: A Danger Ahead for Individuals Sharing Files on the Internet*, 44 SANTA CLARA L. REV. 861, 896 (stating that "[u]nfortunately for patrons of P2P file-sharing networks, under current statutory and case law there is no "safe harbor" for those users wishing to download or share copyrighted material without an express license or authorization from the copyright owner").

²²⁷ See Hansell, *supra* note 214 (noting that some independent labels are trying to sell their music on file-sharing networks); see also Swope, *supra* note 226, at 896 (explaining the possible scenarios that file-sharers may encounter in the future).

²²⁸ See Hansell, *supra* note 214; see also Swope, *supra* note 226, at 895 (explaining potential options to file sharers through the "fair-use" exception).

²²⁹ See Hansell, *supra* note 214; see also Swope, *supra* note 226, at 895.

²³⁰ See John Borland and Stefanie Olsen, *Napster's Fanning Has Snocap-ped Vision* (Jan. 26, 2004), CNET NEWS.COM, available at http://news.com.com/Napsters+Fanning+has+Snocap-ped+vision/2100-1025_3-5147386.html. Snocap claims to be the first music licensing platform. Essentially the program utilizes Napster's centralized peer-to-peer structure, without the peer-to-peer client. The centralized server acts as a licensing manager by ensuring that only licensed content is shared or downloaded and noting which tracks are copied for royalty purposes. See Tony Smith, *Shawn Fanning's Snocap Touts Vision of P2P Heaven*, (Dec. 3, 2004), THE REGISTER, available at www.theregister.co.uk/2004/12/03/snocap_launch/ (relating a system of how licensed content can be shared with a royalty fee included).

and initiated by Wayne Russo, the former president of Grokster.²³¹ A source close to the Grokster company indicated that the file-sharing network's assets would be acquired by Mashboxx and that the new Grokster will in essence be a re-branded version of the Mashboxx service.²³²

Although Snocap may be the future, or at least an indication of the future, of peer – to – peer file sharing, it will face some significant challenges. The company has not yet released an effective version of the program and many advocates of file-sharing have dismissed the idea as unworkable.²³³ Michael Weiss, chief executive of StreamCast networks stated, “Snocap will fail miserably in the market. If I was looking for a download, and I got some sort of truncated file with a message that says buy this or do that, I don't see why anybody would embrace that. If you wanted to buy music, you could go to the online stores that are doing a great job like iTunes.”²³⁴ Mr. Russo countered by saying, “There are 2.5 billion music files traded every month. . . If we can capture 1 percent of that, 25 million files, and we convert 5 to 10 percent of those to paid, I am very happy.”²³⁵ Regardless of the successes or failures of these new ventures, one thing is certain; the tug-of-war between software developers and copyright owners will not yield any clear winners in the foreseeable future.

CONCLUSION

MGM v. Grokster will be a landmark case in the realm of peer-to-peer file sharing. Not only are the stakes high for the parties involved, but the court's ruling will also affect individual network users, software distributors of all types and copyright owners in the music and movie industries. Through the use of file sharing software, 2.6 billion music files are downloaded each month, and

²³¹ See Hansell, *supra* note 214 (noting that Snocap also has “endorsements” from Universal and Sony BMG).

²³² See *supra* note 215.

²³³ *Id.* (stating that some think Snocap will “fail miserably”).

²³⁴ *Id.*

²³⁵ *Id.*

one-half of a million movies are downloaded every day.²³⁶ Regardless of the outcome of this case, one thing is certain, new software and Internet technologies will continue to push the envelope of freedom of information, and profit-driven copyright owners will continue to fight back. Until now, the lower courts have relied in large part on the original holding in *Sony* to determine copyright infringement liability. The fast-paced growth of Internet technologies and several ambiguous court decisions have demonstrated the need for a more applicable, more modern rule. The Supreme Court had before it the opportunity to set forth that rule, yet it refused to do so. Instead, the Court determined that the *Sony* doctrine was inapplicable in the present case and reserved judgment for another time. Its ruling, however, demonstrates the Court's disdain for the encouragement and promotion of copyright infringement and made clear that it would not tolerate a distributor's inducement of unlawful activity.

²³⁶ See Erroll Louis, *Music Moguls on Wrong Side of Copyright Fight*, DAILY NEWS, Apr. 1, 2005, at 43 (explaining popularity of music downloading); see also Swope, *supra* note 226, at 863 (stating that "P2P file sharing consumes as much as seventy percent of overall Internet bandwidth").