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Notes

Inducement Liability for Copyright Infringement is Born: The Supreme Court Attempts to Remedy the Law's Broken Leg With a Cast on the Arm

Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.[1]

I. INTRODUCTION

In 1987, a technology firm discovered a process in which an audio compact disk ("CD") could be copied onto a computer hard drive.[2] Although this process, colloquially known as "ripping,"[3] is now an afterthought, it was a novel idea at its inception. The ripping process creates an MP3, which is a compressed audio computer file that can be rapidly transmitted from one computer to another by any method of electronic file transfer, such as e-mail.[4]

One of the first companies to seize on the potential profitability of ripping was Napster.[5] Napster distributed free computer software that enabled users to share ripped MP3s with one another.[6] Napster derived substantial profits solely from advertisers attempting to reach its 32 million users.[7] Unfortunately for Napster, the vast majority of files transferred with its software were protected by copyright.[8] Accordingly, several record companies sued Napster for copyright infringement.[9] Ultimately, the record companies prevailed, and Napster went out of business.[10]

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1. 125 S. Ct. 2764 (2005).
2. A & M Records, Inc. v. Napster, Inc. 239 F.3d 1004, 1011 (9th Cir. 2001).
3. *Id.*
4. *Id.*
5. *Id.*
6. *Id.*
7. *See id.* at 1023.
8. *Id.* at 1013-14.
9. *Id.* at 1010-11.
10. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2773 (2005) [hereinafter MGM v. Grokster, Ltd]. Today, Napster actually remains in business, although not in the form in existence at that time.

In the wake of Napster's demise, several software companies emerged, intending to capitalize on the high demand for free software that would enable users to access copyrighted music.[11] Grokster, Ltd. ("Grokster") and StreamCast Networks, Inc. ("StreamCast") were two such software companies that, like Napster, were eventually sued for copyright infringement by numerous entertainment industry copyright holders.[12] In *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*,[13] the Supreme Court attempted to clarify when a product distributor could be held liable for the infringing acts of a third party that used its product.[14] This note argues that although the Supreme Court's decision introduced a beneficial new standard for liability, it left long-standing ambiguities in precedent unresolved.

II. FACTS AND HOLDING

Grokster and StreamCast distributed free software that enabled their users to share electronic files through peer-to-peer networks.[15] The beneficial features of peer-to-peer networks have led universities, government agencies, corporations, libraries, and other entities to employ them to store and distribute electronic files.[16] Personal computer users, such as those who used Grokster's and StreamCast's software in the instant case, also use peer-to-peer networks to share electronic files.[17] But unlike other peer-to-peer network users, personal computer users commonly enlist the networks to share copyrighted music and video files without authorization.[18] Such activity was the root of the instant litigation, in which a group of music and video copyright holders ("MGM") sued Grokster and StreamCast, alleging that the two companies knowingly and intentionally distributed their software to enable users

11. *See, e.g.*, *id.* at 2772.

12. *Id.* at 2771.

13. S. Ct. 2764 (2005).

14. *Id.* at 2770.

15. *Id.* Peer-to-peer networks have been praised for their many advantages and have substantially grown in popularity since their inception. *Id.* One noted advantage of peer-to-peer networks is that they lower the cost associated with electronic file sharing by eliminating the need for an expensive, high-powered central computer. *Id.* Peer-to-peer networks also decrease the amount of time it takes to locate and retrieve electronic files because users can locate and retrieve a desired file from any computer connected to the network instead of just a central computer. *Id.* Additionally, the networks are lauded for increasing the security of electronic file sharing because there is no risk that an error will occur in the central computer during the file transfer. *Id.* The only major disadvantage of peer-to-peer networks is that they make it difficult to police the content of the electronic files available on the network and the behavior of the network users. *Id.* at 2770 n.1.

16. *Id.*

17. *Id.* at 2770-71.

18. *Id.* at 2771.

to reproduce and distribute MGM's copyrighted works in violation of the Copyright Act, 17 U.S.C. §§ 101 – 1332.[19]

Both Grokster's and StreamCast's software enabled users to share files directly between their computers and the computers of other network users.[20] Neither company used a central computer to intercept the content of a user search request or mediate the file transfers between their software users.[21] Thus, neither Grokster nor StreamCast knew when particular files, including those protected by MGM's copyrights, were transferred.[22]

MGM submitted a study indicating that approximately 90% of the files available for download with Grokster's and StreamCast's software were copyrighted.[23] Other evidence revealed that well over 100 million copies of Grokster's and StreamCast's software had been downloaded and that billions of file transfers occurred each month, making the probable scope of copyright infringement in this case "staggering."[24]

Furthermore, evidence showed that both companies voiced the objective that their software be used to download copyrighted files and that each company took steps to encourage this infringement.[25] Both companies came into existence with the intention of supplying the demand left by Napster's downfall.[26] StreamCast distributed software known as "OpenNap," which was designed to work compatibly with the Napster program that many people had previously employed to download copyrighted files.[27] StreamCast used the OpenNap software to distribute updated versions of its software to be used for the same purpose.[28] StreamCast's internal documents conveyed the company's intention to attract Napster users and to become "the next Napster."[29]

19. *Id.* The Copyright Act is discussed *infra* Part III.

20. *Grokster*, 125 S. Ct. at 2771. Grokster's and StreamCast's software had some architectural differences that are irrelevant for the purposes of this Note. *Id.*

21. *Id.*

22. *Id.* at 2772.

23. *Id.*

24. *Id.*

25. *Id.*

26. *Id.* at 2773. Napster is discussed further *supra* Part I and *infra* Part III.

27. *Grokster*, 125 S. Ct. at 2772-73.

28. *Id.* at 2773.

29. *Id.* The evidence against StreamCast was very strong. *See id.* One internal e-mail from a StreamCast executive stated that StreamCast's software was created "so that when Napster pulls the plug on their free service . . . or if the Court orders them shut down prior to that . . . we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative." *Id.* (alteration in original). One proposed advertisement claimed StreamCast was the "'#1 alternative to Napster' and asked '[w]hen the lights went off at Napster . . . where did the users go?'" *Id.* (alteration in original). StreamCast's chief technology officer even boisterously claimed "[t]he goal is to get in trouble with the law and get sued. It's the best way to get in the new[s]." *Id.* (alteration in original).

Grokster also distributed software aimed at ex-Napster users.[30] Grokster disseminated this software to Napster users by implanting internal codes in its website that led computer users searching the internet for "Napster" to arrive at Grokster's website.[31] The record also showed that neither company attempted to filter copyrighted files from users' downloads, nor did they otherwise police copyrighted file sharing.[32]

Grokster and StreamCast conceded that, in most file transfers, their software users directly infringed on MGM's copyrights.[33] Both companies further conceded awareness that their software was used primarily to download copyrighted files, but noted the fact that the architecture of their software did not give them knowledge of which files were copied and when.[34] Grokster and StreamCast argued that the decentralized nature of their peer-to-peer file sharing software shielded them from liability because they lacked actual knowledge of their users' infringing acts.[35] The trial court agreed with this argument and granted summary judgment for Grokster and StreamCast.[36]

On appeal, the Ninth Circuit affirmed, additionally holding that the companies were not liable because they did not materially contribute to their users' infringement, as it was the users themselves who searched for, shared, and stored the infringing files with no involvement from either company after initially providing the software.[37] The court further held that liability was precluded because the companies' software had significant potential noninfringing uses.[38] Finally, the Ninth Circuit found in favor of the defendants because the companies did not monitor or control the use of their software, had no ability to supervise the software's use, and had no duty to police infringement.[39]

30. *Id.*

31. *Id.*

32. *Id.* at 2774.

33. *Id.* at 2772.

34. *Id.* The record indicated that both Grokster and StreamCast learned of their users' infringing activities via e-mails sent to them by users seeking assistance playing copyrighted movies downloaded with their software. *Id.* Both parties responded to these e-mails with guidance for the users. *Id.* Furthermore, MGM notified both companies that 8 million of MGM's copyrighted files could be obtained using the two companies' software. *Id.*

35. *See id.* at 2774.

36. *Id.*

37. *Id.* at 2774-75. This portion of the Ninth Circuit's opinion addressed contributory liability for copyright infringement. *See infra* Part III.

38. *Grokster*, 125 S. Ct. at 2774-75. Many files not protected by copyright have been transferred via peer-to-peer networks. *Id.* at 2772; *see also infra* Parts III, IV (discussing this argument's applicability and relevance).

39. *Grokster*, 125 S. Ct. at 2775. This portion of the Ninth Circuit's opinion addressed vicarious liability for copyright infringement. *See infra* Part III.

The Supreme Court of the United States granted certiorari, vacated the Ninth Circuit's decision, and remanded the case, holding that one who distributes a product with the object of promoting its use to infringe copyright is liable for a third party's infringing acts while using the product, regardless of whether the product has substantial noninfringing uses.[40]

III. LEGAL BACKGROUND

The United States Constitution gives Congress the express power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and Discoveries."[41] Pursuant to this power, Congress enacted the Copyright Act,[42] which protects original works of authorship fixed in any tangible medium of expression.[43] Under the Act, copyright holders are entitled to exclusive rights to reproduce, prepare derivative works of, distribute copies of, perform, and display their copyrighted work.[44] Anyone who violates these exclusive rights commits copyright infringement.[45]

Two primary considerations drive copyright law: securing a fair return for a person's creative labor and stimulating artistic creativity for the public good.[46] However, the primary purpose of the United States courts and legislature is to promote the general benefits to the public derived from the innovations of others.[47] And, when technology renders the Copyright Act ambiguous, it "must be construed in light of this basic purpose."[48]

As one court indicated, "[a]lthough the [Copyright] Act does not specifically delineate what kind or degree of participation in an infringement is actionable, it has long been held that one may be liable for copyright infringement even though he has not himself [committed the infringing act]."[49] Accordingly, courts have recognized two theories of secondary liability in copyright law prior to *Grokster*.[50]

40. *See generally Grokster*, 125 S. Ct. 2764.

41. U.S. CONST. art. I, § 8, cl. 8.

42. The Copyright Act, 17 U.S.C. §§ 101-1332 (2000).

43. *Id.* at § 102(a).

44. *Id.* at § 106.

45. *Id.* at § 501(a).

46. Sony Corp. of Am. v Universal City Studios, Inc., 464 U.S. 417, 431-32 (1984).

47. *Id.* at 432.

48. *Id.*

49. Gershwin Publ'g Corp. v. Columbia Artists Man., Inc., 443 F.2d 1159, 1161-62 (2d Cir. 1971).

50. *See, e.g.*, Shapiro, Bernstein & Co. v. H.L. Green & Co., 316 F.2d 304 (2d Cir. 1963); *Gershwin*, 443 F.2d 1159.

The Second Circuit promulgated one theory of secondary liability in *Shapiro, Bernstein & Co. v. H.L. Green Co.*[51] In *Shapiro*, a record store owner licensed twenty-three of its locations to a proprietor who engaged in selling records, including allegedly self-manufactured "bootlegged" copies of certain records.[52] The plaintiffs in *Shapiro* were copyright holders who sued the record store owner and proprietor for copyright infringement arising from the sale of these bootlegged copies.[53] Ultimately, the proprietor was found liable for copyright infringement.[54] Although there was no evidence to indicate that the record store owner directly participated in the manufacture and sale of the bootlegged copies of plaintiff's protected works, the licensing agreement between the record store owner and the proprietor provided that the store owner would receive between ten and twelve percent of the proprietor's earnings from the sale of all records.[55]

The court found the record store owner liable for copyright infringement under a theory of vicarious liability.[56] This theory evolved from the doctrine of *respondeat superior*, under which an employer is liable for his or her employee's unlawful actions committed within the scope of employment.[57] The court relied on a case that held a dance hall proprietor liable for a band's infringing performance of copyrighted musical composition where the performance provided the proprietor with enhanced income and the right and ability to supervise the infringer's activities.[58] This standard applied even if the proprietor did not have knowledge of the compositions to be played or control over their selection.[59] The finding of liability in this case was based on the rationale that "[t]he protection accorded literary property would be of little value if . . . insulation from payment of damages could be secured . . . by merely refraining from making inquiry."[60]

The Second Circuit developed an additional theory of secondary liability in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*[61] In *Gershwin*, the defendant promoted a concert at which copyrighted musical compositions were played.[62] The defendant was aware that the copyrighted compositions would be played at the concert because, prior to the concert, the defendant produced a list of songs to be performed, which was included in a

51. 316 F.2d 304 (2d Cir. 1963).
52. *Id.* at 305-06.
53. *Id.*
54. *Id.* at 306.
55. *Id.*
56. *Id.* at 308.
57. *See id.* at 307.
58. *Id.*
59. *Id.*
60. *Id.* at 308 (alteration in original).
61. 443 F.2d 1159 (2d Cir. 1971).
62. *Id.* at 1160.

program distributed to the audience.[63] The defendant made no attempt to obtain the copyright holder's permission to reproduce the copyrighted compositions, and the copyright holders subsequently sued the defendant for copyright infringement.[64]

The court held that "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."[65] This theory was extracted from basic tort law, under which "one who knowingly participates or furthers a tortious act is jointly and severally liable with the prime tortfeasor."[66] The court indicated that the defendant, acting as a promoter who would derive substantial benefits from the activities of the primary infringers, had a duty to secure a copyright license prior to the concert.[67]

The line between vicarious and contributory liability is blurred.[68] Plaintiffs frequently file suit under both theories jointly, and they are routinely merged in decisions.[69] In *Sony Corp. of America v. Universal City Studios, Inc.*, the Supreme Court seemingly used the terms interchangeably, stating that "vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another."[70] In *Sony*, Universal City Studios and other television and film copyright holders ("Universal") sued Sony for its production and distribution of a video cassette recorder ("VCR"),[71] contending that Sony was liable for VCR users' direct infringement in recording copyrighted programs.[72] The Supreme Court disagreed.[73]

Examining copyright precedent, the Court found that "in other situations in which the imposition of vicarious liability is manifestly just, the 'contributory' infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright

63. *Id.* at 1161.

64. *Id.*

65. *Id.* at 1162.

66. *Id.*

67. *Id.* at 1163.

68. Jiarui Liu, *Why is Betamax an Anachronism in the Digital Age? Erosion of the Sony Doctrine and Indirect Copyright Liability of Internet Technologies*, 7 VAND. J. ENT. L. & PRAC. 343, 345-46 (2005); *see also* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 435 n.17 (1984) ("[T]he lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn.").

69. Liu, *supra* note 68, at 345-46.

70. *Id.* (quoting *Sony*, 464 U.S. at 435).

71. *Sony*, 464 U.S. at 420. For those not readily familiar, a VCR can be used to record television programs either while the user is away from the television or is watching another program. *Id.*

72. *Id.*

73. *Id.* at 421.

owner."[74] In the Court's view, Sony was not in a position of control because the only nexus between Sony and the VCR users was at the moment of sale.[75]

The Court then examined whether Sony could have been liable under the theory that, when it sold VCRs, it had constructive knowledge that its product would be used to make unauthorized copies of copyrighted material.[76] To answer this, the Court borrowed a theory from patent law, known as the staple article of commerce doctrine, which states that "the sale of a 'staple article or commodity of commerce suitable for substantial noninfringing use' is not contributory infringement."[77]

Studies introduced by both parties at trial revealed that approximately 7.3% of VCR recordings were of professional sporting events.[78] This fact was important because the vast majority of televised sports program copyright holders did not object to VCR users recording their copyrighted programs.[79] The Court found this amount of noninfringing use to be sufficient to satisfy the staple article of commerce doctrine.[80] Specifically, the Court held that "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses."[81] Ultimately, however, the Court gave little express guidance into what constituted "substantial noninfringing uses."[82]

In considering the policy implications of its decision, the *Sony* Court attempted to balance the "interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand."[83] In weighing these two factors, the Court read the Constitution as indicating that "[c]reative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts."[84] The Court's reliance on these policy considerations has caused confusion in the lower courts that have attempted to apply *Sony*'s standards to similar facts.[85]

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74. *Id.* at 437.

75. *Id.* at 437-38.

76. *Id.* at 439.

77. *Id.* at 440 (quoting 35 U.S.C. § 271(c) (2000)). The Court decided that this was a proper method because patent law and copyright law share a "historic kinship." *Id.* at 439.

78. *Id.* at 424.

79. *Id.*

80. *Id.* at 442.

81. *Id.*

82. *Id.*

83. *Id.* at 429.

84. *Id.* at 431-32.

85. *See, e.g.*, A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001); *In re* Aimster Copyright Litig., 334 F.3d 643 (7th Cir. 2003).

The Ninth Circuit applied *Sony* in *A & M Records, Inc. v. Napster, Inc.*[86] In *Napster*, musical copyright holders ("A & M") sued Napster for contributory and vicarious copyright infringement.[87] Napster distributed free software that employed peer-to-peer file sharing to facilitate the transfer of music files between its users, allegedly enabling its software users to infringe on A & M's copyrights.[88] Napster provided technical support to assist its users in indexing and searching for files and also reserved rights to control the content and use of its network.[89] Napster also maintained a search index of available files on its server.[90] The majority of files transferred via Napster were the plaintiff's copyrighted musical compositions.[91]

The Ninth Circuit first examined Napster's liability on a contributory liability standard, which the court defined as attaching liability where "the defendant engages in personal conduct that encourages or assists the infringement."[92] To have been liable under this standard, Napster would have to have had either actual or constructive knowledge of its users' direct infringement.[93] The court noted that *Sony* could be read to preclude imputing "the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and 'substantial noninfringing uses.'"[94] The Ninth Circuit extended the substantial noninfringing use defense only to cases based on constructive knowledge, and held that where there is evidence of actual knowledge of direct infringement, a product manufacturer will be liable for contributory infringement when its product is used to commit direct infringement, regardless of whether the product has substantial noninfringing uses.[95]

The record indicated that Napster was actually aware of its users' direct infringement.[96] Furthermore, Napster had reserved the right to block content and users from the system and had failed to remove copyrighted files when it knew they were on the network.[97] Because of this, the court did not examine whether Napster's product was capable of substantial noninfringing uses.[98] The Court held that Napster materially contributed to its users' direct in-

86. 239 F.3d 1004 (9th Cir. 2001).
87. *Id.* at 1011.
88. *Id.*
89. *Id.*
90. *Id.* at 1012.
91. *Id.* at 1013-14.
92. *Id.* at 1019.
93. *Id.* at 1020.
94. *Id.* (quoting Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 442 (1984)).
95. *Id.* at 1021.
96. *Id.*
97. *Id.* at 1022.
98. *Id.* at 1021.

fringement by providing technical support on sharing copyrighted music files and was thus liable under the contributory infringement standard.[99]

In considering whether Napster could be vicariously liable for its users' direct infringement, the Court held that *Sony* did not apply to vicarious liability theories because that issue was not before the *Sony* court.[100] The Court read the use of the words "vicarious liability" in *Sony* broadly, meaning that "vicarious liability" was meant to refer only to secondary liability theories generally and not specifically to the vicarious liability theory of copyright law.[101] The Court determined two reasons why Napster could be vicariously liable for its users infringing acts.[102] First, Napster derived substantial financial benefit from its users' infringing activities.[103] In the Court's opinion, the number of users was directly related to the number of copyrighted files available on the system.[104] And, as the number of copyrighted files available for download increased, so too did the number of users and the subsequent financial benefit Napster derived from advertisers.[105] Thus, Napster's supervision of the network presented a second basis for a finding of vicarious liability.[106]

In In re *Aimster Copyright Litigation*, the Seventh Circuit interpreted *Sony* differently than the Ninth Circuit.[107] The plaintiffs (numerous record companies that owned the majority of popular American music copyrights) sued Aimster (a software company similar to Napster) for contributory and vicarious copyright infringement.[108] Aimster's software included both a tutorial that showed users how to download songs and a service that would automatically download the most frequently transferred songs to the user's computer.[109] The tutorial used *only* copyrighted songs in its demonstration and the download service almost exclusively downloaded the plaintiff's copyrighted compositions.[110]

The plaintiffs argued that *Sony* only applied as a defense to a charge of contributory infringement where there is nothing "more than a mere showing that a product may be used for infringing purposes," or in other words, where

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99. *Id.* at 1022.
100. *Id.*
101. *Id.* at 1022-23.
102. *Id.* at 1023.
103. *Id.*
104. *Id.*
105. *Id.*
106. *Id.* As previously mentioned, Napster offered technical support to its users in downloading copyrighted files, reserved the rights to monitor the use of its system, and maintained a server that enabled users to search for files. *Id.* at 1012, 1023.
107. *See In re* Aimster Copyright Litig., 334 F.3d 643 (7th Cir. 2003).
108. *Id.* at 645.
109. *Id.* at 651-52.
110. *Id.*

the defendant does not have actual knowledge of direct infringement.[111] The Seventh Circuit rejected this argument, which it thought closely mirrored the Ninth Circuit's holding in *Napster* that "actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer."[112]

Instead, the Seventh Circuit read *Sony* as "unwilling to allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying noninfringing consumers the benefit of the technology."[113] To clarify, the Court explained that this did not mean that a distributor of a product used solely for infringing uses could dodge contributory liability merely because the product *could* have substantial noninfringing uses.[114] Instead, the Court required Aimster to present evidence that its software had actually been used for something other than infringement.[115] The Court refined this standard by holding that a distributor of a product with substantial noninfringing uses that had nonetheless been used to infringe copyright could escape liability only where the distributor could "show that it would have been disproportionately costly for him to eliminate or at least reduce substantially the infringing uses."[116]

Aimster also diverged from *Napster* on the issue of whether the standards set forth in *Sony* were applicable to allegations of vicarious copyright infringement.[117] In the Seventh Circuit's words, "[h]ow far the doctrine of vicarious liability extends is uncertain. . . . [b]ut the [*Sony*] Court, treating vicarious and contributory infringement interchangeably, held that Sony was not a vicarious infringer."[118]

Aimster made clear that the Seventh Circuit disagreed with the Ninth Circuit in two respects. First, the courts reached incongruent holdings on whether a finding of liability based on a product distributor's actual knowl-

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111. *Id.* at 649. This argument is comparable to the Ninth Circuit's holding in *Napster* that when actual knowledge of direct copyright infringement is present, a defendant cannot use the staple article of commerce doctrine from *Sony* to escape contributory liability. A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1020 (9th Cir. 2001).

112. *Aimster*, 334 F.3d at 649. The Seventh Circuit specifically rejected the Ninth Circuit's holding in *Napster. Id.*

113. *Id.*

114. *Id.* at 651.

115. *Id.* at 652. The court listed a handful of noninfringing uses that could possibly have existed that Aimster failed to support with evidence. *Id.* Since the Seventh Circuit was only deciding whether the trial court's extension of a preliminary injunction to plaintiffs was proper, the evidentiary record had not been fully developed. *Id.* Thus, the examples cited in the opinion were merely postulates from Judge Posner and not actual evidence present by Aimster. *Id.* at 652-53.

116. *Id.* at 653.

117. *Id.* at 654.

118. *Id.* (citations omitted).

edge that the distributed product was being used to directly infringe copyrights could be overridden if that product had or was capable of substantial noninfringing uses.[119] Second, the Seventh Circuit clearly rejected the Ninth Circuit's belief that *Sony* was inapplicable in vicarious liability analyses.[120] *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.* gave the Supreme Court an opportunity to address the confusion over *Sony* that had arisen in lower courts.[121]

IV. THE INSTANT DECISION

In *Grokster*, the Supreme Court was faced with clarifying when a product distributor could be held liable for the infringing acts of a third party using that product.[122] The Court was cautious to respect the "sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement."[123] The Court believed copyright law to be an "exercise in managing the trade-off."[124] Implicit in this trade-off was the Court's fear "that imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies."[125]

Notwithstanding the Court's clear appreciation for the cause of technological innovation, the Court believed that "[t]he argument for imposing indirect liability in this case is . . . a powerful one . . . given the number of infringing downloads that occur every day using StreamCast's and Grokster's software."[126] This belief was founded on the presupposition that imposing either contributory or vicarious liability in this case may have been the only way to protect the copyright holder's rights, as suing each of the countless direct infringers would clearly be impractical, if not impossible.[127]

Writing for a unanimous court, Justice Souter attempted to explain why the Ninth Circuit misapplied *Sony* in deciding *Grokster*.[128] Because the Ninth Circuit "found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of *Sony* that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlaw-

119. *Id.* at 649.
120. *Id.* at 654.
121. *See generally* MGM v. Grokster, Ltd.,125 S. Ct. 2764 (2005).
122. *Id.*
123. *Id.* at 2775.
124. *Id.*
125. *Id.*
126. *Id.* at 2776.
127. *Id.*
128. *Id.* at 2778.

ful uses."[129] Dismissing this rationale, Justice Souter said "[i]t 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."[130] Instead of addressing the issues disputed by lower courts applying *Sony*, the Supreme Court adopted inducement as a new theory of secondary liability for copyright infringement.[131]

Grokster adopted the inducement theory from patent law for the same reasons that the *Sony* Court borrowed the staple article of commerce doctrine.[132] Under the inducement theory, one induces another to commit copyright infringement by enticement or persuasion, as by advertising.[133] The Court explained that advertising a product's infringing uses or instructing users how to use a product for infringement "overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use[]."[134] The Court reconciled this theory with *Sony*, stating that "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."[135] This standard, in the Court's view, did not compromise legitimate commerce or discourage lawful technological innovation.[136] Consequently, the Court found that inducement exists only in cases where purposeful, culpable expression or conduct is present.[137]

The record clearly showed that both Grokster and StreamCast acted culpably by inducing their software users to commit copyright infringement.[138] The Court found the evidence notable in three ways.[139] First, both companies demonstrated an intention to satisfy the demand for a vehicle for copyright infringement left by Napster's dissolution.[140] Second, this evidence of unlaw-

129. *Id.*

130. *Id.* at 2778-79.

131. *Id.* at 2779-80.

132. *Id.* at 2780. The *Sony* Court borrowed the staple article of commerce doctrine from patent law because patent law and copyright law share a "historic kinship." Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 439 (1984).

133. *Grokster*, 125 S. Ct. at 2779 (citing BLACK'S LAW DICTIONARY 790 (8th ed. 2004)).

134. *Id.*

135. *Id.*

136. *Id.* at 2780.

137. *Id.*

138. *Id.* at 2780-81. More specifically, the Court held that MGM had at least presented enough evidence to survive summary judgment. *Id.*

139. *Id.* at 2781.

140. *Id.* Both companies advertised to Napster's previous users that their software could be used in a manner similar to Napster's. *Id.* StreamCast did this with its OpenNap software that could be used by existing Napster users. *Id.* Grokster did this by supplanting internal codes in its own website that led internet users searching for

ful objective was reinforced by evidence that neither company attempted to filter or police their software's use in a way that would diminish infringing activity.[141] And third, since both companies distributed their software free-of-charge, their profits came solely from advertising revenues.[142] In the Court's opinion, this evidence made the companies' unlawful objective "unmistakable."[143]

The companies' liability under an inducement theory also required a showing that their software users had actually infringed on MGM's copyrights.[144] Although the Court did not definitively determine whether or not this had occurred, the factual dispute was sufficient for MGM to survive summary judgment.[145] For these reasons, the Court overruled the Ninth Circuit and remanded the case to the district court for a finding consistent with its opinion.[146]

Justice Ginsburg filed a concurring opinion, in which Chief Justice Rehnquist and Justice Kennedy joined.[147] Justice Ginsburg agreed with *Grokster*'s outcome, but believed that a new liability theory was unnecessary because this case could be resolved by applying *Sony*'s principles to a contributory liability theory.[148] Ginsburg found *Grokster* markedly different from *Sony* because there was "little beyond anecdotal evidence of noninfringing uses" for Grokster's and StreamCast's software.[149] Even though the companies' software could have been or was used for a large number of noninfringing uses, Ginsburg argued that those uses were dwarfed by the extreme

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"Napster" to come to Grokster's website. *Id.* Both companies also responded affirmatively to e-mails seeking guidance from uses on downloading and playing copyrighted files. *Id.* at 2772. In StreamCast's case, a large number of internal documents also conveyed its intention to induce infringement. *Id.* at 2781. Examples of such documents are discussed in Part II.

141. *Id.* at 2781.

142. *Id.* at 2781-82. This was important because the record indicated that advertising revenue increased proportionately with the extent of the software's use. *Id.* Since the software was used predominately to infringe on copyrighted material, an increase in use led to a corresponding increase in infringement and, subsequently, the companies' profits. *Id.* The Court explained that this alone would not be determinative of unlawful intent, but was important when viewed in the context of the entire record. *Id.* at 2782.

143. *Id.*

144. *Id.*

145. *Id.*

146. *Id.* at 2782-83.

147. *Id.* at 2783 (Ginsburg, J., concurring).

148. *Id.* *See supra* Part III (discussing contributory liability for copyright infringement).

149. *Grokster*, 125 S. Ct. at 2785. Justice Ginsburg believed the Ninth Circuit relied too heavily on evidence presented by Grokster and StreamCast that offered speculative proof of noninfringing uses. *Id.* Furthermore, Ginsburg believed much of that evidence was inadmissible hearsay. *Id.*

amount of infringement.[150] Ginsburg posited that the Ninth Circuit had given too much consideration to the potential noninfringing uses of peer-to-peer technology generally (which was not at issue in this case) and had not paid enough attention to the potential noninfringing uses for the companies' software specifically (which was at issue in this case).[151] Because the record yielded significant evidence that the companies' software did not have substantial noninfringing uses, Justice Ginsburg speculated that, on remand, this case would likely be resolved by summary judgment for MGM.[152]

Justice Breyer filed a separate concurrence, joined by Justice Stevens and Justice O'Connor, in which he agreed with the Court's opinion, but disagreed with Justice Ginsburg's application of *Sony*.[153] Breyer believed that *Grokster* could be decided without revisiting *Sony* and reasoned that *Sony*'s staple article of commerce doctrine indicated that a showing of substantial noninfringing uses was *alone* enough to constitute a sufficient basis for rejecting the imposition of secondary liability.[154] And when the software at issue in *Grokster* was considered in light of *Sony*, the software actually conformed to the standard *Sony* held as sufficient for a rejection of liability.[155] The record in *Sony* indicated that approximately 9% of VCR uses were noninfringing.[156] Similarly, the evidence in *Grokster* showed that approximately 10% of the software's uses were noninfringing.[157] Justice Breyer therefore believed that Grokster and StreamCast could not be liable for contributory infringement under a strict *Sony* analysis, as the companies' software clearly had a percentage of noninfringing uses that satisfied *Sony*.[158]

Breyer read *Sony* as seeking "to protect not the Groksters of this world . . . but the development of technology more generally."[159] Breyer believed that because the record in *Grokster* indicated elements of inducement that were not present in *Sony*, the Court's unanimous opinion was a good way to preserve the protections of *Sony* while still finding liability in *Grokster*.[160]

150. *Id.* at 2786.

151. *Id.*

152. *Id.* at 2786-87.

153. *Id.* at 2787 (Breyer, J., concurring).

154. *Id.* at 2788.

155. *Id.* at 2788-89.

156. *Id.*

157. *Id.* at 2789.

158. *Id.* at 2789-90. Furthermore, the record revealed a significant future market for noninfringing uses for peer-to-peer networks such as those offered by Grokster and StreamCast. *Id.* at 2790.

159. *Id.*

160. *Id.* In Justice Breyer's opinion, *Sony* did not need to be rehashed for examination until it could be shown that *Sony* no longer correctly balanced copyright and new technology interests. *Id.* at 2791. Justice Breyer noted three considerations that would need to be determined to indicate when this had occurred. *Id.* The first such consideration is whether *Sony* had "worked to protect new technology." *Id.* Breyer

V. COMMENT

While the addition of the inducement theory of secondary liability to copyright law benefits copyright holders seeking to protect their rights, the Supreme Court missed an opportunity in *Grokster* to clarify two ambiguities remaining from *Sony*: first, whether the *Sony* staple article of commerce doctrine is a defense to a charge of vicarious copyright infringement, and second, whether a product distributor's actual knowledge that the distributed product is being used to infringe copyright can be overridden by the *Sony* staple article of commerce doctrine.[161] With the Ninth and Seventh Circuits in dispute over these issues, it seemed likely that the Supreme Court would resolve the dispute in *Grokster*.[162] However, the Court avoided answering these questions by adopting inducement as a new theory for secondary copyright liability. The Court's failure to remedy the ambiguous standards set forth in *Sony* could have negative effects.

In *Napster*, the Ninth Circuit stated its belief that *Sony* did not apply to vicarious infringement cases because that issue was not before the *Sony* Court.[163] However, the Seventh Circuit rejected that interpretation of *Sony* because, in the court's opinion, *Sony* used the terms "contributory" and "vicarious" interchangeably.[164] This difference of opinion between the courts is important in infringement cases because, although they are similar and fre-

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believed that it had, and noted four reasons why. *Id.* at 2791-92. First, "*Sony*'s rule is clear." *Id.* at 2791 (emphasis omitted). The rule allows products "capable of substantial noninfringing uses" to be distributed with the assurance that the distributor will not face massive monetary liability unless the product has no other real function than (or is specifically intended for) copyright infringement. *Id.* Second, "*Sony*'s rule is strongly technology protecting." *Id.* (emphasis omitted). The rule favors new technology and makes it difficult for courts to find secondary liability. *Id.* Third, "*Sony*'s rule is forward looking." *Id.* at 2792 (emphasis omitted). The rule does not confine analysis of current noninfringing uses, but allows inquiry into a product's capability for substantial noninfringing uses. *Id.* Finally, *Sony*'s rule is mindful of limitations judges may have in deciding technology related issues. *Id.* Breyer's second consideration for determining when to revisit *Sony* was "whether a modified *Sony* rule (or a strict interpretation) would significantly weaken the law's ability to protect new technology." *Id.* He believed that a modified *Sony* standard would have potentially stifling effects on technological innovation. *Id.* at 2792-93. Breyer's third and final consideration for deciding when *Sony* needed reexamination was "whether a positive copyright impact would outweigh any technology-related loss." *Id.* at 2793. Breyer found the answer to this consideration "far from clear." *Id.*

161. *See, e.g.*, A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001); *In re* Aimster Copyright Litig., 334 F.3d 643 (7th Cir. 2003). *See also supra* Part III (providing a discussion of these two cases).

162. John Tehranian, *The High Court in Cyberspace: A Preview of* MGM Studios v. Grokster, 18-APR UTAH B.J. 24, 28 (2005).

163. *Napster*, 239 F.3d at 1022.

164. *Aimster*, 334 F.3d at 654.

quently intertwined,[165] the standards for contributory and vicarious infringement are not one in the same.[166] Vicarious liability for copyright infringement stands when one has the right and ability to supervise infringing activity and also has a financial interest in that activity.[167] On the other hand, contributory liability can be found when a person with knowledge of another's infringing activities induces, causes, or materially contributes to those activities.[168] The knowledge requirement is notably absent from the vicarious liability standard.[169]

One can reasonably envision a copyright infringement case with a defendant that lacks the knowledge required for contributory infringement but meets the requirements for a finding of vicarious liability. In such a case, the availability of the *Sony* staple article of commerce doctrine as a defense to vicarious infringement would depend on the forum in which the case was tried. If the case was tried in the Ninth Circuit, a vicarious liability defendant could not raise the *Sony* defense, but the exact opposite would be true in the Seventh Circuit.[170] Such incongruity encourages litigants to forum shop for venues that interpret *Sony* in their favor. Although it may seem improbable that a modern judge would not seize on this deceitful tactic, the emergence of the internet has blurred once clear jurisdictional doctrines,[171] and entities that exist predominantly online could potentially be subject to jurisdiction in a number of venues.[172]

Even if forum shopping, in its strictest sense, is not encouraged, a lack of clarity between jurisdictions, at minimum, gives plaintiffs an incentive to engage in "massive litigation of the same issues against multiple defendants in different jurisdictions."[173] The presumed aim of such a practice would be to achieve a "mean" outcome, in which the favorable decisions offset the

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165. Craig A. Grossman, *From* Sony *to* Grokster, *The Failure of the Copyright Doctrines of Contributory Infringement and Vicarious Liability to Resolve the War between Content and Destructive Technologies*, 53 BUFF. L. REV. 141, 234 (2005).

166. (176) *See, e.g.*, Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304 (2d Cir. 1963); Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159 (2d Cir. 1971).

167. *Shapiro*, 316 F.2d at 307.

168. *Gershwin*, 443 F.2d at 1162.

169. *Shapiro*, 316 F.2d at 307.

170. *Compare* A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1022 (9th Cir. 2001), *with In re* Aimster Copyright Litig., 334 F.3d 643, 654 (7th Cir. 2003).

171. Katherine C. Sheehan, *Predicting the Future: Personal Jurisdiction for the Twenty-First Century*, 66 U. CIN. L. REV. 385, 437 (1998).

172. *See, e.g.*, Yahoo! Inc. v. La Ligue Contre Le Racisme Et L'Antisemitisme, 379 F.3d 1120 (9th Cir. 2004); Toys "R" Us, Inc. v. Step Two, S.A., 318 F.3d 446 (3d Cir. 2003); Revell v. Lidov, 317 F.3d 467 (5th Cir. 2002); Young v. New Haven Advocate, 315 F.3d 256 (4th Cir. 2002); ALS Scan, Inc. v. Digital Serv. Consultants, Inc., 293 F.3d 707 (4th Cir. 2002); Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316 (9th Cir. 1998); Cybersell, Inc. v. Cybersell, Inc., 130 F.3d 414 (9th Cir. 1997).

173. Grossman, *supra* note 165, at 224.

unfavorable ones. Either scenario produces the undesirable result of burdening courts with misplaced and duplicative litigation.

Grokster also failed to remedy a similarly undesirable inconsistency between the Ninth and Seventh Circuits on the issue of whether a product distributor's actual knowledge that the distributed product is being used to infringe copyright can be overridden by the *Sony* staple article of commerce doctrine.[174] In *Napster*, the Ninth Circuit held that contributory liability based on a showing of a product distributor's actual knowledge that the product was being used for infringement could not be outweighed by a product's use for or capability of substantial noninfringing use.[175] The Seventh Circuit clearly rejected that principle, favoring a more economic approach.[176] The court was "unwilling to allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying noninfringing consumers the benefit of the technology."[177] Finding otherwise, in the Seventh Circuit's opinion, would have been contrary to copyright law's basic purpose of disseminating beneficial technological advances to the general public.[178]

The split of authority left unresolved by *Grokster* is inefficient.[179] For example, one commentator envisioned a situation in which an innocent software company learns of its product's use to infringe musical copyrights when notified of as much by the copyright holder record company.[180] Under the Ninth Circuit's heavy reliance on actual knowledge, the software company would be liable for contributory infringement if it was able to stop or reduce the infringement and chose not to do so, regardless of whether the product had substantial noninfringing uses.[181] The Seventh Circuit would likely conclude the opposite if sufficient evidence of the product's actual and potential noninfringing uses was introduced.[182] These disparate outcomes create inefficient results. In the Ninth Circuit, the formerly innocent, but now infringing, software company would lose any venture capital invested in software development, which, in the case of high-tech companies, might total hundreds of

174. *See, e.g.*, *Napster*, 239 F.3d 1004; *Aimster*, 334 F.3d 643. *See also* discussion *supra* Part IV. The Ninth Circuit even pinpointed this discrepancy in the instant litigation, but was unable to repeal its prior holding, as it was not sitting en banc. MGM v. Grokster, Ltd., 380 F.3d 1154, 1162 (9th Cir. 2004).

175. *Napster*, 239 F.3d at 1021.

176. *Aimster*, 334 F.3d at 649.

177. *Id.*

178. *Id.*

179. Grossman, *supra* note 165, at 224.

180. *Id.* at 234.

181. *Id.* The choice not to remedy the situation would likely satisfy the material contribution prong of contributory infringement. *See* Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971).

182. *See Aimster*, 334 F.3d 643 at 649.

millions of dollars.[183] But in the Seventh Circuit, the software company is likely to escape liability, which could mean an equally severe loss to the record company.[184] In either situation, the companies are likely to expend massive litigation costs to yield highly unpredictable results.[185] Because *Grokster* did not address which of these standards is correct, both the unpredictability and subsequent inefficiency remain.

VI. CONCLUSION

With six of the nine justices in *Grokster* disagreeing on how to apply *Sony*, it is clear that *Sony* presents confusing standards,[186] and the Supreme Court may have passed on a viable opportunity to clarify inconsistency in the lower courts.

The Court has held that "[s]ound policy, as well as history, supports [the Court's] consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the varied permutations of competing interests that are inevitably implicated by such new technology."[187] In light of this, it is possible that the *Grokster* Court abstained from resolving *Sony*'s ambiguities in hopes of a legislative remedy. However, this would be an odd result given the Court's past willingness to create doctrines of copyright law not recognized by the legislature.[188]

What can more likely be said of the result in *Grokster* is that the Court's decision represented a shift in copyright law's desired balance between securing a fair return for a person's creative labor and ensuring that the general public has access to the benefits of technological innovation.[189] Whereas *Sony* once favored benefit to the general public by allowing a device consistently used for infringement to be nonetheless disseminated,[190] *Grokster* swung the

183. Grossman, *supra* note 165, at 225-26.

184. *Id.* at 225. According to the recording industry, copyright infringement costs the industry billions in sales each year. *Id.*

185. *Id.* It is important to note that it is the unpredictability generally, and not either of the specific results from the two jurisdictions, that is inefficient. *Id.* at 227.

186. *Compare* Justice Ginsburg's concurrence, MGM v. Grokster, Ltd., 125 S. Ct. 2764, 2783 (2005), *with* Justice Breyer's concurrence. *Id.* at 2787.

187. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 431 (1984).

188. None of the three secondary liability theories (contributory, vicarious, and, now, inducement) are expressly recognized by Congress. *See* Copyright Act, 17 U.S.C. § 101 (2000). In 2004, an amendment to include inducement in the Copyright Act, the Induce Act, S. Res. 2560, 108th Cong. § 2 (2004) was proposed in the United States Senate, but the proposal stalled in committee. Timothy K. Andrews, *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, 420-21 (2005).

189. *See Sony*, 464 U.S. at 431-32.

190. *Id.*

pendulum back to protect copyright holders from obviously egregious infringement.[191] In the future, courts' favor for either side of this scale is likely to fluctuate until copyright law most closely resembles the legal abstraction of a true balance.

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191. *Grokster*, 125 S. Ct. 2764.