



Lifting the Supreme Court's Thumb Off of the Scale: Promoting Technological and Entrepreneurial Innovation, While Protecting the Interests of Copyright Holders After MGM v. Grokster

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CASE NOTES AND COMMENTS

LIFTING THE SUPREME COURT'S THUMB OFF OF THE SCALE: PROMOTING TECHNOLOGICAL AND ENTREPRENEURIAL INNOVATION, WHILE PROTECTING THE INTERESTS OF COPYRIGHT HOLDERS AFTER *MGM V. GROKSTER*

I. INTRODUCTION

“Technology. . . brings you great gifts with one hand, and it stabs you in the back with the other.”¹

Over the years, society has become accustomed to numerous inventions that are used in daily life. Many of which have been brought by the proliferation in computer technology over the last twenty years.² Technology gets better all the time, thus raising policy concerns about the purposes for which it is used.³ Some inventions make it easier to infringe upon copyrights, which could hinder society from benefiting from artistic creations over the

1. Anthony Lewis, *Dear Scoop Jackson*, NY TIMES, Mar. 15, 1971 (citing CP Snow).

2. See Mary Bellis, *Microsoft Corporation, Part 1: The Dawn of Windows* (2005), at <http://inventors.about.com/library/weekly/aa080499.htm> (noting that Microsoft shipped Windows 1.0, [the first version of the Windows Operating System], on November 20, 1985”).

3. *Tech, Telecom, and Internet*, CATO INSTITUTE, at <http://www.cato.org/tech/univservice.html> (Nov. 19, 2005) (“The bottom line is: things are getting better all the time. The real question policy makers should be debating is not how to ensure Americans have a PC and Internet access, it’s what they expect Americans to do with these technologies once they have them.”).

long-run because artists will not have the incentive to create if their works can be easily copied at a mass scale. The music and movie industries have been concerned in recent years about file-sharing programs that allow users to share music and movie files effortlessly over the Internet.

The Supreme Court's recent decision in *Metro-Goldwyn-Mayer Studios v. Grokster*⁴ is a victory for copyright holders, but it also raises questions about what the future holds. Specifically, the Supreme Court adopted a new theory of liability for secondary infringers,⁵ but the minimum amount of evidence that a plaintiff will have to show in order to hold a defendant secondarily liable under the new inducement theory remains uncertain. More importantly, after *Grokster*, there is an apparent disagreement among the Court as to what type of evidence is sufficient under the *Sony* standard, which directly affects how much evidence is necessary to show that a party's product has "substantial non-infringing uses" so that it can escape contributory infringement liability.⁶

Part II of this article provides a historical overview of file-sharing and sets forth the important concepts of balancing interests between inventors and copyright holders, and the law of secondary liability. Furthermore, it explains the *Grokster* decision, including the concurring opinions. It also outlines key cases involving secondary liability and the *Sony* rule leading up to the Court's adoption of the inducement theory of liability. Part III examines how courts and parties will approach such liability after the *Grokster* decision. Moreover, it explores the impact that *Grokster*

4. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005).

5. *Id.* at 2780 ("[H]olding 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.").

6. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (holding that under the staple article of commerce doctrine, "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 non[-]infringing uses").

will have through an examination of a pending secondary liability case and a hypothetical scenario. International issues involving file-sharing and secondary liability are also addressed in order to illustrate that there is a movement for international enforcement of file-sharing copyright infringement, and to demonstrate the global importance that U.S. decisions, such as *Grokster*, have on the international community.

This article suggests that it is premature to introduce legislation to guide inducement cases, but it is an absolute necessity that legislation be adopted that resolves the disagreement among the Supreme Court in the application of the *Sony* rule because such legislation is directly granted to Congress in the Constitution. Finally, it suggests that in the realm of file-sharing, Congress should impose requirements on file-sharing companies to implement mechanisms to minimize copyright infringement so that such technology can thrive, while protecting copyright holders from getting injured.

II. BACKGROUND

A. Historical Overview of File-Sharing

In 1987, the Fraunhofer Institut Integrierte Schaltungen research center, part of a German company called Fraunhofer Gesellschaft, began a project called “EUREKA project EU147.”⁷ The purpose of the project was to research “high quality, low bit-rate audio coding.”⁸ Fraunhofer obtained a German patent for the resulting technology of the EUREKA project in April 1989.⁹ The Moving Picture Expert Group (“MPEG”) eventually set this as the standard for digital audio recording storage.¹⁰ The format was called

7. Mary Bellis, *The History of MP3* (2005), at <http://inventors.about.com/od/mstartinventions/a/MPThree.htm>.

8. *Id.*

9. *Id.*

10. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011 (9th Cir. 2001) (explaining that the “Moving Picture Experts Group set a standard file format for the storage of audio recordings in a digital format called MPEG-3, abbreviated as ‘MP3’”).

MPEG-3, commonly abbreviated as “MP3.”¹¹ Fraunhofer received a United States patent for the MP3 format on November 26, 1996.¹² These digital audio files are created through a process known as “ripping.”¹³ This process allows a computer user to extract audio files from a compact disc (“CD”) onto a computer’s hard drive, thereby compressing the digital audio data from the CD into MP3 format.¹⁴ This process allows substantially more audio files to be stored using less memory.¹⁵ In addition, MP3 technology has inspired innovation and created an entirely new market for music players¹⁶ to utilize the MP3 audio files to their full potential.¹⁷ It has also increased the ease at which music is sold to consumers. For example, iTunes is an online music store that allows people to download MP3s at the click of a button for a

11. *Id.*

12. Bellis, *supra* note 7.

13. *Napster*, 239 F.3d at 1011.

14. *Id.*

15. *See* Bellis, *supra* note 7 (noting that Fraunhofer Gesellschaft stated:

Without Data reduction, digital audio signals typically consist of 16 bit samples recorded at a sampling rate more than twice the actual audio bandwidth (e.g., 44.1 kHz for Compact Discs). So you end up with more than 1.400 Mbit to represent just one second of stereo music in CD quality. By using MPEG audio coding, you may shrink down the original sound data from a CD by a factor of 12, without losing sound quality).

16. *Id.* (noting that portable MP3 players began to appear in 1999); *see also* Maya Roney, *Apple Could Ship More Than 37 Million iPods In 2005*, at <http://www.forbes.com/markets/bonds/2005/11/01/apple-ipod-computer-1101markets13.html> (November 1, 2005) (noting that by the end of the 2005, Apple will have shipped 37 million iPods, which is a portable hard-drive based MP3 player).

17. *Compare* Bellis, *supra* note 7

(In the early 1990s, Fraunhofer developed the first, however, unsuccessful MP3 player. In 1997, developer Tomislav Uzelac of Advanced Multimedia Products invented the AMP MP3 Playback Engine, the first successful MP3 player. Two university students, Justin Frankel and Dmitry Boldyrev ported AMP to Windows and created Winamp. In 1998, Winamp became a free MP3 music player boosting the success of MP3. No licensing fees are required to use an MP3 player.).

mere ninety-nine cents each.¹⁸ In fact, some artists are entering agreements with iTunes to sell their music from their own websites in conjunction with the iTunes service.¹⁹ Paid music services like this and portable MP3 players are making the digital music market a common consumer experience.²⁰ This growing market is expected to continue at a rapid rate.²¹

Although the MP3 format has enhanced the way that people listen to music, it has also increased the ease at which people can infringe valid copyrights. New technologies that have spawned from the MP3 format help facilitate MP3 transfer from one party to another. Specifically, file-sharing programs allow users to

18. See *All Your Greatest Hits* (2005), at <http://www.apple.com/itunes/music/>

([The iTunes Music Store is open] 24/7 on Macs and Windows PCs...with music fans purchasing over 600 million songs worldwide to date. Featuring more than 2 million songs from major music companies, independent labels and individual artists alike...For just [ninety-nine cents] each, you get high-quality AAC music files that won't disappear at the end of the month, or ever.)

19. Online Interview with David Shayman, CEO, Disco D Productions, LLC (Nov. 9, 2005); see also Bill "Low-Key" Heinzelman, *Disco D: Defying Convention*, at http://discod.com/2005/index.php?option=com_content&task=view&id=48&Itemid=2 (April 9, 2005); David Shayman,

Disco D Biography, at http://discod.com/2005/index.php?option=com_content&task=view&id=19&Itemid=45 (Feb. 15, 2005) (David Shayman, aka Disco D, has an agreement with iTunes in which he will distribute his music through iTunes on his all-digital label called "Disco Digital." Those that want to buy Disco D music will eventually be able to go to his website, www.discod.com, which will directly link users to the iTunes store. Disco D, a graduate of the University of Michigan, has produced tracks for 50 Cent ("Ski Mask Way" from "The Massacre"), Nina Sky, Sara Stokes, and Kevin Federline (due out in 2006)).

20. *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 125 S.Ct. 2764, 2796 (2005) (Breyer, J., concurring) (citing Ashton, *{Int'l Fed'n of the Phonographic Indus.} Predicts Downloads Will Hit the Mainstream*, MUSIC WEEK, Jan. 29, 2005, at 6)).

21. *Id.* ("[G]lobal digital revenues will likely exceed \$3 billion in 2010.") (citing Press Release, *Informa Media Group Report*, at <http://www.informatm.com>; F. Oberholzer & K. Strumpf, *The Effect of File Sharing on Record Sales: An Empirical Analysis*, at www.unc.edu/cigar/papers/FileSharing_March2004.pdf (Mar. 2004)).

transfer MP3 files from one computer to another over the Internet.²² File-sharing technology, however, has changed over time. Such progressive technological innovation is likely due, in part, to legal controversy over one developer's technology, which then gives another developer incentive to create a similar technology that will avoid some of the features that led to the first developer's legal dispute.²³

The first type of technology that was developed to facilitate file transfers was Napster. That technology utilized central servers, which were computers that Napster used to index the files that were available on Napster users' computers.²⁴ While Napster was found secondarily liable for copyright infringement for providing the indices on their central server,²⁵ other companies were given incentive to innovate to provide similar services without falling under the *Napster* ruling. Companies such as Kazaa, Grokster, and StreamCast began to offer services that were similar to Napster, but were different because the search function was decentralized, allowing computers to communicate directly with each other.²⁶ This structure became known as a peer-to-peer ("P2P") network and offered many advantages over the centralized system.²⁷

22. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1011 (9th Cir. 2001).

23. See *id.* at 1012 (noting that "the names of MP3 files [were] uploaded from the user's computer to the Napster servers," thereby directly communicating with Napster's central server); See also *Grokster*, 125 S.Ct. at 2770 (explaining that peer-to-peer file networks do not communicate through central servers, but instead user's computers communicate directly with one another).

24. *Petition for Writ of Certiorari at 6, Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005) (No. 04-480) [hereinafter *Writ of Certiorari*].

25. *Id.*

26. *Id.*

27. *Grokster*, 125 S.Ct. at 2770

(Because they need no central computer server to mediate the exchange of information or files among users, the high-bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated. Since copies of a file (particularly a popular one) are available on many users' computers, file requests and retrievals may be faster than on other types of networks, and

Instead of storing the indices on a central mainframe, they were stored on individual computers, and a search for particular files would scan the individual users' computers.²⁸ While Napster offered only music files, these other services expanded offerings to video games, motion pictures, and other digital media.²⁹

1. Napster: Centralized

Napster used file-sharing technology to allow its software 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 the other users' computers; and (3) transfer exact copies of the contents of other users' MP3 files from one computer to another via the Internet.”³⁰ After downloading the Napster software, creating a username and password, and saving MP3s in a “user library” file on a computer, “the names of MP3 files [were] uploaded from the user's computer to the Napster servers,” but the “content of the MP3 file remain[ed] stored in the user's computer.”³¹ The names were stored on Napster's server in a “collective directory,” and were listed when the user logged into the Napster system.³² Napster users could search the collective directory for song names and artists, and would receive a list of file names from Napster's collective directory.³³ In addition, users could save other user names using a “hotlist” function which would notify the user when those listed in his hotlist were also logged into the server.³⁴ This allowed users to track who they had downloaded songs from in the past.³⁵ When a song was requested

since file exchanges do not travel through a server, communications can take place between any computers that remain connected to the network without risk that a glitch in the server will disable the network in its entirety.).

28. *Writ of Certiorari, supra* note 24, at 6.

29. *Id.*

30. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1011 (9th Cir. 2001).

31. *Id.* at 1011-12.

32. *Id.* at 1012.

33. *Id.*

34. *Id.*

35. *Id.*

for download, the Napster server would facilitate the connection of the requesting user's computer to the host user's computer to transfer the MP3 file between the two; hence, the term "peer-to-peer."³⁶

2. *Grokster and StreamCast: Decentralized*

Similar to Napster, services like Grokster and StreamCast Networks distributed free software that would allow users to share electronic files.³⁷ In contrast to Napster, however, users' computers shared files directly between their computers without the use of a central server.³⁸ This type of technology eliminated the need for costly storage space on a central server, and allowed for the exchange of files over a high-bandwidth communication between computers.³⁹

Grokster and StreamCast each used slightly different technologies.⁴⁰ Grokster, on one hand, used "FastTrack" technology, which gave computers an indexing capacity and designated them a "supernode."⁴¹ StreamCast, on the other hand, used software called "Morpheus," which relied on "Gnutella" technology.⁴² Under Grokster's protocol, when a user searched for a particular file, the request was sent to computers with designated supernodes, and a search of the index on that computer was conducted, which in turn would send the request to other supernodes.⁴³ If the file was located, the supernode would disclose its location to the requesting computer, which could then download the requested file directly from the host computer.⁴⁴ Once the file was copied to the requesting computer, it was stored in a designated sharing folder, and was made available to users to

36. *Napster*, 239 F.3d at 1012.

37. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2770 (2005).

38. *Id.*

39. *Id.*

40. *See id.* at 2771.

41. *Id.*

42. *Id.*

43. *Grokster*, 125 S.Ct. at 2771.

44. *Id.*

download, along with other files in that folder.⁴⁵

StreamCast's Gnutella technology operated similarly to FastTrack technology, but some versions did not use supernodes.⁴⁶ When supernodes were not used, computers communicated directly with each other.⁴⁷ For instance, the Morpheus software sent a user's search request to connected computers, which passed that search along to other connected peers.⁴⁸ The search results were relayed back to the requesting computer, at which time the user could download files directly from the host computers.⁴⁹ Unlike Napster, the information that was transferred did not pass through central servers.⁵⁰

B. Balancing Interests and Secondary Liability

Article I, Section 8 of the Constitution provides that: "Congress shall have Power. . .to 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."⁵¹ This grants a limited monopoly to authors and inventors.⁵² The Constitution assigns Congress with the task of determining the scope of this limited monopoly in order to provide the public with access to the work of inventors and authors.⁵³ To accomplish this task, Congress must balance "the interests of authors and inventors in the control and exploitation of their writings and discoveries" with "society's competing interest in the free flow of ideas, information, and commerce."⁵⁴ In a constant struggle to meet an appropriate balance, Congress has amended the patent and

45. *Id.*

46. *Id.*

47. *Id.*

48. *Id.*

49. *Grokster*, 125 S.Ct. at 2771.

50. *See id.*

51. U.S. CONST. art. I, § 8, cl. 8.

52. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 n.10 (1984).

53. *Id.* at 429.

54. *Id.*

copyright statutes repeatedly.⁵⁵

Although the Constitution only imposes liability on those that are direct copyright infringers,⁵⁶ courts have developed theories that impose secondary liability on those who are not directly infringing a copyright.⁵⁷ Until *MGM v. Grokster*,⁵⁸ there were two theories under which secondary liability could be found – vicarious liability and contributory infringement.⁵⁹ Vicarious liability can be imposed when a party “has both (1) the right and ability to supervise a direct infringer [and] (2) a financial interest in the infringement.”⁶⁰ Contributory infringement is found when a defendant “with knowledge of infringing activity, induces, causes or materially contributes to the infringing conduct of another. . . .”⁶¹ In *Sony Corp. of America v. Universal City Studios, Inc.*, the Supreme Court found that the sale of articles in commerce, including the sale of copying equipment, was not contributory infringement if the product is “widely used for legitimate, unobjectionable purposes,” and need only be capable of substantial non-infringing uses.⁶² The *Sony* rule limited the imputation of culpable intent from the uses or characteristics of a distributed product,⁶³ and found that a manufacturer was not liable solely on the basis of distribution.⁶⁴ In *Grokster*, the Supreme Court adopted

55. *Id.*

56. *See, e.g., A&M Records, Inc. v. Napster, Inc.* 239 F.3d 1004, 1013 (9th Cir. 2001) (noting that to establish a prima facie case for direct copyright infringement, a plaintiff must prove (1) that they owned the allegedly infringed material and (2) that the “alleged infringers violate[d] at least one exclusive right granted to copyright holders under 17 U.S.C. § 106”).

57. ROGER E. SCHECHTER & JOHN R. THOMAS, INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS, § 9.4 (1st ed. 2003) [hereinafter SCHECHTER & THOMAS].

58. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005).

59. SCHECHTER & THOMAS, *supra* note 57.

60. *E.g., id.*

61. *E.g., id.* (citing *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

62. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

63. *Grokster*, 125 S.Ct. at 2779.

64. *Id.* at 2777.

the inducement theory of liability, under which courts will consider direct evidence of a party's encouragement to induce others to use its products to infringe copyrights.⁶⁵

C. Supreme Court Adopts the Inducement Rule: Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 125 S.Ct. 2764 (2005)

1. Majority Opinion: Justice Souter

a. Finding of Fact

After a brief explanation of how the Grokster and StreamCast systems operated, the Court examined the findings of fact. First, it noted that although those companies did not know what files were copied due to the P2P nature of their software, searches using their software would easily reveal what was available on their networks.⁶⁶ For example, a statistician that MGM commissioned conducted a study revealing that nearly 90% of the files on the FastTrack network were copyrighted works.⁶⁷ It was also noted, in comparison, that 87% of the files on the Napster network were copyrighted.⁶⁸ Although MGM's statistical evidence did not demonstrate how often files were downloaded, it suggested that the majority of downloads constituted acts of infringement.⁶⁹ The fact that millions of copies of software had been downloaded, and billions of files had been shared, demonstrated the alarming scope of copyright infringement.⁷⁰

65. *Id.* at 2780 (“For the same reasons that *Sony* took the [staple article] doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright.”).

66. *Id.* at 2772.

67. *Id.*

68. *Id.* n.5 (citing *A&M Records, Inc. v. Napster, Inc.* 239 F.3d 1004, 1013 (9th Cir. 2001)).

69. *Grokster*, 125 S.Ct. at 2772.

70. *Id.* (noting that “well over 100 million copies of the software in question are known to have been downloaded, and billions of files are shared across the FastTrack and Gnutella networks each month”).

The Court explained that Grokster and SteamCast “took active steps to encourage infringement.”⁷¹ When Napster was sued, for example, StreamCast released a program called “OpenNap,” which allowed users to download files from Napster and other OpenNap users, thereby targeting old Napster users.⁷² In fact, it used its OpenNap network to release copies of Morpheus, and internal company documents demonstrated that Streamcast wanted to attract former Napster users if that network was shut down due to the lawsuit against Napster.⁷³ In addition, StreamCast promoted itself on its network as a company “which is similar to what Napster was.”⁷⁴ In addition, a company executive sent an internal e-mail that stated:

We have put this network in place 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.⁷⁵

Subsequently, StreamCast put together promotional advertisements that portrayed its service as a Napster alternative.⁷⁶ Although these advertisements were never actually released to the public, the Court noted that they clearly illustrated StreamCast’s intent.⁷⁷ In comparison, Grokster launched software called “Swaptor,” which was similar to OpenNap, but placed digital codes into its websites so that when computer users searched for “Napster” or “free file-sharing” on Internet search engines, they would be directed to Grokster’s website, where the Grokster

71. *Id.*

72. *Id.* at 2772-73.

73. *Id.* at 2773.

74. *Id.*

75. *Grokster*, 125 S.Ct. at 2773.

76. *Id.* (noting that one such advertisement read: “Napster Inc. has announced that it will soon begin charging you a fee. That’s if the courts don’t order it shut down first. What will you do to get around it?”).

77. *Id.* at 2773 n.7.

software was available for download.⁷⁸

Furthermore, other evidence showed that StreamCast executives kept track of the amount of commercial artists that were available on their networks, and an internal communication illustrated that one of StreamCast's goals was to have more copyrighted songs on their system than other file-sharing networks.⁷⁹ In addition, Morpheus allowed its users to search for "Top 40" songs, which most certainly were copyrighted.⁸⁰ Likewise, Grokster sent its users newsletters that promoted its service's capability of providing certain, popular copyrighted materials.⁸¹

Moreover, the business model of each company confirmed that their objective was for users to utilize their service to download copyrighted works.⁸² Since each company's software was free for download on the Internet, their income was generated from the sale of advertising space, where such advertisements were streamed to users' computer as searches were being performed.⁸³ Economically, as the number of users on each network increased, so did the value of advertising opportunities.⁸⁴ The Court noted that the evidence demonstrated that the services were used primarily for free access to copyrighted work, despite the fact that non-copyrighted work was also available on the networks.⁸⁵

Lastly, the Court explained that neither company made any attempts to stop users from downloading copyrighted material, such as through the use of filtering methods or otherwise.⁸⁶ Although Grokster sent e-mails warning its users about copyright infringing conduct, it never attempted to block anyone from using

78. *Id.*

79. *Id.* at 2773-74.

80. *Id.* at 2774; *Compare In re: Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 644 (N.D. Ill. 2002) (noting that Aimster users were presented with a list of "The Aimster Top-40," which was "a list of the 40 'hot new releases' most frequently downloaded by Aimster users").

81. *Grokster*, 125 S.Ct. at 2774 (citing Brief for Motion Picture Studio and Recording Company Petitioners 7-8).

82. *Id.* at 2774.

83. *Id.*

84. *Id.*

85. *Id.* (noting that there is some demand for free Shakespeare).

86. *Id.*

its software to download copyrighted material.⁸⁷ In fact, StreamCast refused offers from other companies to help monitor copyright infringement on its network, and also blocked Internet Protocol addresses of those that it believed were attempting to monitor its networks.⁸⁸ Clearly, StreamCast was blatantly trying to prevent people from ascertaining information regarding the copyrighted material that was being shared, thereby contributing to the encouragement of infringement.

b. A New Standard Adopted – Imputed Intent to Infringe vs. Direct Evidence of Specific Intent to Infringe

Many of the *amici*⁸⁹ were upset with the Court of Appeals in *MGM v. Grokster*⁹⁰ for disrupting “a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement.”⁹¹ The Supreme Court recognized that the tension between these two values was the crux of this case.⁹² Specifically, copyright infringement must be prevented, but imposing liability “could limit further development of beneficial technologies.”⁹³ It further explained, however, that the breadth of infringing

87. *Grokster*, 125 S.Ct. at 2774.

88. *Id.*

89. The amicus briefs filed by the *amici*, friends of the court, included, among others, Brief of Amici Curiae Sixty Intellectual Prop. & Tech. Law Professors and the U.S. Pub. Policy Comm. of the Ass’n for Computing Mach. in Support of Respondents at 1, *Metro Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005) (No. 04-480); Brief of Amici Curiae Nat’l Acad. of Recording Arts & Sci. & Am. Fed’n of Musicians of the U.S. and Canada, The Country Music Ass’n, Inc., The Gospel Music Ass’n, The Hip-Hop Summit Action Network, Jazz Alliance Int’l, Inc. & The Rhythm & Blues Found. Supporting the Petition for a Writ of Certiorari at 1, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005) (No. 04-480).

90. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004).

91. *Grokster*, 125 S.Ct. at 2775.

92. *Id.*

93. *Id.*

downloads makes it extremely difficult to effectively enforce such infringement against the direct violators – the networks' users.⁹⁴ These circumstances rendered a powerful argument for imposing indirect liability given the massive amount of infringing downloads that occurred daily on these networks.⁹⁵

First, the Supreme Court addressed the Ninth Circuit's application of *Sony*.⁹⁶ It noted that *Sony* dealt with secondary liability for copyright infringement arising from the distribution of a commercial product, in that case, the Betamax video tape recorders.⁹⁷ The Court further explained that the adoption of contributory liability in *Sony* was based on the staple article of commerce doctrine from patent law,⁹⁸ which was "devised to identify instances in which it may be presumed from distribution of an article in commerce that the distributor intended the article to be used to infringe another's patent, and so may justly be held liable for that infringement."⁹⁹ The doctrine adopted in *Sony* was based on the premise that there is no injustice in "imputing an intent to infringe" when an article is not good for anything except infringement.¹⁰⁰ In contrast, in order to leave "breathing room for innovation and . . . vigorous commerce," the *Sony* rule limited fault to instances of acute fault, and disdained from finding liability where a product is capable of substantial lawful uses, as well as unlawful uses.¹⁰¹

The Court went on to find that the Ninth Circuit misapplied *Sony*. Specifically, it rejected the Ninth Circuit's broad interpretation of *Sony*'s limitation that a producer of a product can never be held liable for contributory infringement for third parties' infringing use of that product whenever it is capable of substantial lawful use.¹⁰² It explained that *Sony* "barred secondary liability

94. *Id.* at 2775-76.

95. *Id.* at 2776.

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

97. *Grokster*, 125 S.Ct. at 2777.

98. *Id.* (referencing 35 U.S.C. § 271(c) (2005)).

99. *Grokster*, 125 S.Ct. at 2777.

100. *Id.* (citing *Canda v. Michigan Malleable Iron Co.*, 124 F. 486, 489 (6th Cir. 1903)).

101. *Id.* at 2777-78.

102. *Id.* at 2778.

64 based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement.”¹⁰³ The Ninth Circuit, however, read *Sony* broadly and found that even where there was evidence independent of the distribution and design of the product, such as evidence of “actual purpose to cause infringing use,” liability would not be imposed “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.’”¹⁰⁴ The Ninth Circuit determined that neither Grokster nor StreamCast could be liable because neither company had specific knowledge of unlawful uses because there was no central server.¹⁰⁵

The Supreme Court found this analysis erroneous because *Sony* was a case about imputed intent rather than liability on a specific theory.¹⁰⁶ The parties and many *amici* indicated that the key to resolving the *Sony* rule was to determine what it meant for a product to be “capable of commercially significant non-infringing uses.”¹⁰⁷ Despite this argument, however, the Court refused to revisit *Sony* further to determine a quantifiable description “of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur,”¹⁰⁸ leaving that issue for another day.

Moreover, the Court recognized that *Sony* was based on imputed intent and did not require that courts ignore instances where there was evidence of intent.¹⁰⁹ Specifically, it found that the *Sony* staple article rule does not preclude liability when “evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses” and there is direct evidence of promoting infringement.¹¹⁰ Referring to the common law of patents, the Court noted that a distributor has an affirmative intent to have its

103. *Id.*

104. *Id.*

105. *Grokster*, 125 S.Ct. at 2778.

106. *Id.*

107. *Id.*

108. *Id.*

109. *Id.* at 2779.

110. *Id.*

product used to infringe when there is “[e]vidence of ‘active steps . . . taken to encourage direct infringement,’ such as advertising an infringing use or instructing how to engage in an infringing use.”¹¹¹ As such, a showing of encouraged infringement “overcomes the law’s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.”¹¹² The Court thereby adopted patent law’s inducement rule for the same reasons that it adopted the staple article doctrine from patent law in *Sony*.¹¹³ Following this rule, 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.”¹¹⁴ The Court explained that the inducement rule is premised on “purposeful, culpable expression and conduct, and thus does nothing to compromise” the balance of copyright protection with legitimate commerce and innovation.¹¹⁵

Based on this newly adopted inducement rule, the Court found that Grokster and StreamCast intended to encourage copyright infringement.¹¹⁶ Specifically, StreamCast advertised its OpenNap program’s compatibility with Napster, while Grokster released an electronic newsletter advertising that its software could be used to access copyrighted music.¹¹⁷ In addition, both companies responded to users’ requests for help in finding and playing copyrighted music, thereby communicating their encouragement of such use of its software.¹¹⁸ Furthermore, StreamCast had a

111. *Grokster*, 125 S.Ct. at 2779 (citing *Oak Indus., Inc. v. Zenith Elec. Corp.*, 697 F. Supp. 988, 992 (N.D.Ill. 1988)).

112. *Id.*

113. *Id.* at 2780.

114. *Id.* (noting that the Court is “mindful of the need to keep from trenching on regular commerce or discouraging development of technologies with lawful and unlawful potential”).

115. *Id.* (explaining that “mere knowledge of infringing potential or of actual infringing uses, [like in *Sony*], would not be enough [in this case] to subject a distributor to liability, [n]or would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves”).

116. *See id.* at 2781-83.

117. *Grokster*, 125 S.Ct. at 2780.

118. *Id.* at 2781.

plethora of internal communications and advertising directed at Napster users, which illustrated StreamCast's intent regardless of whether or not any of it was actually used to advertise to the public.¹¹⁹

The Supreme Court highlighted three features that most clearly exemplified the companies' intent. First, each company specifically catered its software to the market of former Napster users, which showed a principal intent to encourage infringement.¹²⁰ Second, the companies' unlawful objectives were further supported by the fact that neither company attempted to implement filtering systems or other mechanisms to reduce the amount of infringing activity using their software.¹²¹ Third, since both companies generated money through advertising on their programs, the degree of advertising revenue was positively correlated with an increase in the use of the software.¹²² This contributed to infringement because of the commercial value of their respective companies was based on high-volume use.¹²³

Beyond direct evidence of encouragement, the inducement theory of liability also requires that there be a showing "of actual infringement by the recipients of the device," which, in this case, is the software.¹²⁴ The Court determined that this element was not an issue, given that the evidence of infringement was on such a massive scale.¹²⁵ Based on the substantial evidence that favors the elements of inducement, the Court found that the lower court's finding of summary judgment in favor of Grokster and StreamCast

119. *Id.* (noting such advertisements as "When the lights went off at Napster...where did the users go?").

120. *Id.* (noting StreamCast's references to Napster in internal documents, its advertising of its OpenNap program to Napster user, and its adoption of the name "Grokster," which was a derivative of the "Napster" name, it offered its own version of OpenNap, and it attempted to divert Internet queries for Napster to its own website).

121. *Id.*

122. *Id.* at 2782.

123. *Grokster*, 125 S.Ct. at 2782 (noting that this type of "evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import [was] clear").

124. *Id.*

125. *Id.*

was erroneous, and remanded the case.¹²⁶

*D. Actual Knowledge of Specific Infringement: A&M Records, Inc.
v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001)*

In *A&M Records, Inc. v. Napster Inc.*, the United States Court of Appeals for the Ninth Circuit addressed one of A&M Records' claims that Napster was contributory liable for copyright infringement.¹²⁷ Liability turned on whether an alleged infringer had "knowledge of the infringing activity, induce[d], cause[d] or materially contribute[d] to the infringing conduct of another."¹²⁸ The appellate court agreed with the district court, with little discussion, that Napster provided "the site and facilities" that enabled direct infringement.¹²⁹

The standard for "knowledge" is that the alleged secondary infringer must "know or have reason to know" of the infringement.¹³⁰ The district court determined that Napster had actual and constructive knowledge that its users shared copyrighted music.¹³¹ The appellate court upheld this decision and found that Napster's reliance on *Sony Corp. of Am. v. Universal City Studios, Inc.*¹³² was unfounded because "Napster's actual, specific knowledge of direct infringement render[ed] Sony's holding of limited assistance to Napster."¹³³ It noted that in *Sony*, the requisite level of knowledge was not imputed where the

126. *Id.* at 2778-83.

127. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001).

128. *Id.* (citing *Gershwin Publ'g Corp. v. Columbia Artist Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

129. *Id.* at 1022 (quoting *Fonovisa, Inc. v. Cherry Auction, Inc.* 76 F.3d 259, 264 (9th Cir. 1996)).

130. *Id.* at 1020 (citing *Cable/Home Communications, Inc. v. Network Prod.*, 902 F.2d 829, 845-46 n.29 (11th Cir. 1990) & *Religious Tech. Ctr. V. Netcom On-Line Communications Servs., Inc.*, 907 F. Supp. 1361, 1373-74 (N.D. Cal. 1995)).

131. *Id.*

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

133. *Napster*, 239 F.3d at 1020.

defendants made and distributed a product capable of both infringing and substantial non-infringing uses.¹³⁴ Likewise, the appellate court refused to “impute the requisite level of knowledge to Napster merely because peer-to-peer file-sharing technology may be used to infringe plaintiffs’ copyrights.”¹³⁵ As such, it rejected the district court’s reasoning that Napster failed to show that its service was capable of commercially significant non-infringing uses.¹³⁶ This result was reached because the district court ignored Napster’s capabilities and improperly limited its analysis to current uses.¹³⁷

The *Napster* Court noted “that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement.”¹³⁸ Finally, it held that Napster knew of and contributed to direct infringement because it had learned that specific infringing material was available on its system, it could have blocked its users’ access to such material, and it failed to remove the material.¹³⁹

E. Actual Knowledge is Not a Sufficient Condition: In re Aimster Copyright Litigation, 334 F.3d 643 (7th Cir. 2003)

The Seventh Circuit was presented with a Napster-like situation in *In re: Aimster Copyright Litigation*.¹⁴⁰ The file-sharing program in that case used AOL’s instant messaging service to facilitate file transfers.¹⁴¹ All communications over the messaging service,

134. *Id.* at 1020 (citing *Sony*, 464 U.S. at 439).

135. *Id.* at 1020-21 (referencing *Sony*, 464 U.S. at 436).

136. *Id.* at 1021.

137. *Id.* (noting that the *Sony* Court framed the inquiry as “whether the video tape recorder is *capable* of commercially significant non[-]infringing uses” (emphasis added)).

138. *Id.* at 1021 (citing *Religious Technology Center v. Netcom On-Line Communications Serv., Inc.*, 907 F. Supp. 1361, 1371 (N.D. Cal. 1995)).

139. *Napster*, 239 F.3d at 1021-22 (finding, in addition, that Napster was also liable because it “materially contribute[d] to the infringing activity”).

140. *In re: Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003).

141. *Id.* at 646.

including the file transfers, were encrypted.¹⁴² The court, however, found that such encryption did not shelter Aimster from liability because willful blindness constituted knowledge.¹⁴³ The Seventh Circuit rejected the Ninth Circuit's view in *Napster* that "actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer."¹⁴⁴ In doing so, it then addressed the *Sony* rule to determine whether Aimster was capable of substantial non-infringing uses.¹⁴⁵ Despite five possible non-infringing uses that the Seventh Circuit suggested, it explained that the important question was the *probability* of such non-infringing uses.¹⁴⁶ The *Aimster* Court ruled against Aimster because Aimster did not present evidence that its users' primary purpose was to transfer non-copyrighted files, and it did not show other evidence indicating a high probability that Aimster had substantially non-infringing uses.¹⁴⁷

F. Adopting Contributory Copyright Infringement: Sony Corporation of America v. Universal City Studios, Inc., 464 U.S. 417 (1984)

In 1976, Universal City Studios, Inc. ("Universal") brought an action against Sony Corporation of America ("Sony") in the United States District Court for the Central District of California, alleging that Sony's Betamax video tape recorders ("VTR's") were used to record some of Universal's copyrighted material that had been broadcasted on television.¹⁴⁸ Furthermore, Universal claimed that Sony was liable for the Betamax consumer's alleged infringement because Sony marketed their recorders for use in recording television shows and watching them at a later time.¹⁴⁹

142. *Id.*

143. *Id.* at 650.

144. *Id.* at 649 (citing 2 PAUL GOLDSTEIN, COPYRIGHT § 6.1.2 (2d ed. 2003)).

145. *See id.* at 649-54.

146. *Aimster*, 334 F.3d at 653.

147. *Id.* at 653.

148. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 420 (1984).

149. *Id.* at 420.

The District Court denied Universal's claim and ruled in favor of Sony.¹⁵⁰ The United States Court of Appeals for the Ninth Circuit, however, reversed the lower court's decision and found Sony liable for contributory infringement, and the United States Supreme Court granted *certiorari*.¹⁵¹

Adopting the District Court's finding of fact, the Supreme Court noted that the average person used a VTR to record a television show and watch it at a later time, which is known as "time-shifting."¹⁵² It explained that this practice expanded the television viewing audience and there was no evidence presented indicating that time-shifting impaired the commercial value of broadcasted copyrighted television shows or that there was a likelihood of future harm.¹⁵³ The Court warned that if it were to affirm the appellate court's decision, it would enlarge a copyright holder's statutory monopoly "to encompass control over an article of commerce that is not the subject of the copyright protection," and such an expansion was beyond what Congress had granted.¹⁵⁴

The issue that was presented to the Supreme Court in *Sony* was whether the sale of "copying equipment to the general public" violated the Copyright Act.¹⁵⁵ Sony introduced evidence that over 80% of people surveyed watched at least as much television prior to owning a VTR, and Universal offered no evidence showing a decrease in television viewing.¹⁵⁶ In addition, Sony presented evidence demonstrating that many programs, such as religious, educational, and sports programming, could be copied without any objection from the copyright holders.¹⁵⁷

150. *Id.*

151. *Id.* at 420-21.

152. *Id.* at 421.

153. *Id.*

154. *Sony*, 464 U.S. at 421.

155. *Id.* at 420.

156. *Id.* at 424.

157. *Id.*; see also *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2788 (2005) (Breyer, J., concurring) (referencing the Brief for Respondent Universal Studios et al. O.T. 1983, No. 81-1687, pp. 52-53, which mentioned a survey that showed that approximately nine percent of all VTR recordings were educational, religious, and sports programming, which were "owned by producers and distributors testifying on Sony's behalf who did not

As the Court noted, “[t]he Copyright Act does not expressly render anyone liable for infringement committed by another.”¹⁵⁸ The *Sony* Court explained that this was different from the Patent Act, which imputes vicarious liability on anyone who “actively induces infringement of a patent”¹⁵⁹ and on certain parties deemed to be “contributory”¹⁶⁰ infringers.¹⁶¹ Although vicarious liability is not explicit in the Copyright Act, such liability is imposed in many areas of law.¹⁶² Since this type of liability lacked precedent in copyright law, the Court referred to patent law for an analogy.¹⁶³ The Court expressed caution in using such analogies, but explained the close kinship between copyright and patent law, which made such an analogy appropriate in this circumstance.¹⁶⁴

The concept of contributory infringement is expressly defined in the statute, and explicitly “provides that the sale of a ‘staple article or commodity of commerce suitable for substantial non-infringing use’ is not contributory infringement.”¹⁶⁵ Furthermore, when liability for contributory infringement is based solely on the sale of an article of commerce that a purchaser uses to infringe a patent, the public’s interest in accessing that article of commerce is implicated.¹⁶⁶ The Court explained that under patent law, a remedy for finding contributory infringement is to “give the patentee effective control over the sale of that item,” which puts the item within the patentee’s monopoly.¹⁶⁷ The Court found that the sale of an article, which has been “adapted to an infringing use [and] is also adapted to other lawful uses, is not enough to make the seller

object to time-shifting”).

158. *Sony*, 464 U.S. at 434.

159. 35 U.S.C. § 271(b) (2005).

160. 35 U.S.C. § 271(c).

161. *Sony*, 464 U.S. at 435 (interestingly, the latter form of liability was adopted in *Sony*, while the inducement form of liability would be adopted nearly twenty years later in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005)).

162. *Id.* (noting further that the concept of “contributory infringement” is a subset of vicarious liability).

163. *Id.* at 439.

164. *Id.* at 439 n.19.

165. *Id.* at 440.

166. *Id.*

167. *Sony*, 464 U.S. at 440-41.

a contributory infringer.”¹⁶⁸ Although there are apparent differences between copyright and patent law, the Court recognized that the “staple article of commerce doctrine must strike a balance between a copyright holder’s legitimate demand for effective – not merely symbolic – protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce.”¹⁶⁹ Accordingly, the sale of articles of commerce, including the sale of copying equipment, does not constitute contributory infringement when “the product is widely used for legitimate, unobjectionable purposes”; it need only be capable of substantial non-infringing uses.¹⁷⁰

It then had to be determined whether Sony’s Betamax was capable of commercially significant non-infringing uses.¹⁷¹ The Court stressed that it was not necessary to examine *all* the potential uses, but only necessary to determine whether a significant number of the uses would not infringe copyrights.¹⁷² Although it was not specified how much use was commercially significant, the Court found that the potential use of “private, noncommercial time-shifting in the home” satisfied the standard.¹⁷³ The standard was met because Universal had “no right to prevent other copyright holders from authorizing it for their programs, and because the [d]istrict [c]ourt’s factual findings reveal[ed] that even the unauthorized home time-shifting of respondents’ program [was] legitimate fair[-]use.”¹⁷⁴

The Court then examined authorized time-shifting and unauthorized time-shifting. First, in its authorized time-shifting analysis, the Supreme Court noted that within the combined spectrum of television programming, Universal’s share was well below 10%.¹⁷⁵ It stressed that if Universal prevailed, the outcome would significantly impact both viewers and producers of the

168. *Id.* at 441.

169. *Id.* at 442.

170. *Id.*

171. *Id.*

172. *Id.*

173. *Sony*, 464 U.S. at 442.

174. *Id.*

175. *Id.* at 443.

remaining ninety percent of programming in the nation.¹⁷⁶ Although many producers likely shared Universal's concern of unrestricted copying, the Court agreed with the district court that time-shifting might increase the total viewing audience and, in fact, many producers might be willing to permit private time-shifting to continue for an experimental time-period.¹⁷⁷ Furthermore, Universal did not represent the entire class of all copyright holders.¹⁷⁸

In "an action for *contributory* infringement against the seller of copying equipment, the copyright holder may not prevail unless the relief that he seeks affects only his programs, or unless he speaks for virtually all copyright holders with an interest in the outcome."¹⁷⁹ In other words, a plaintiff that alleges contributory copyright infringement will only win if he is requesting a remedy that solely affects his product or if the plaintiff's action represents almost every copyright holder that has an interest in the plaintiff's litigation. Therefore, the Court concluded that there were numerous important producers of local and national television programs who found nothing wrong with enlarging the size of television audiences, which was a direct result of time-shifting for private home use.¹⁸⁰ As such, it held that a distributor of equipment that expanded producers' audiences could not be liable for contributory infringement when the distributor was not directly involved with any of the infringing activity.¹⁸¹

Finally, the Court found that unauthorized time-shifting constituted fair-use.¹⁸² Specifically, although some of the uses

176. *Id.*

177. *Id.*

178. *Id.* at 446.

179. *Sony*, 464 U.S. at 446.

180. *Id.*

181. *Id.*

182. *Id.* at 447-55; *see also id.* at 450 n.30

(In determining whether the use made of a work in any particular case is a fair[-]use the factors to be considered shall include – (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in

were not authorized, the respondents failed to show that time-shifting caused a likelihood of non-minimal injury to the potential market for the copyrighted works.¹⁸³ As such, the Supreme Court held that Sony's Betamax was capable of substantial non-infringing uses because there were a substantial amount of copyright holders that would authorize private viewers to time-shift the copyrighted broadcasts, and those broadcasts that were not authorized constituted fair-use.¹⁸⁴

G. Concurring Opinions in Grokster: "Substantial" or "Commercially Significant" Non-Infringing Uses

Although there was a unanimous decision as to the adoption and applicability of the inducement theory to the facts of *Grokster*, the concurring opinions in *Grokster* are particularly important because they expound upon the type of evidence that is sufficient for a showing of "substantial" or "commercially significant" non-infringing uses under contributory copyright infringement. Specifically, Justice Ginsburg's opinion suggested that anecdotal evidence is inconsequential when determining summary judgment for contributory infringement, urging for a more strict interpretation of *Sony*.¹⁸⁵ In contrast, Justice Breyer explained that the circumstances in *Grokster* were similar to those in *Sony*, and the evidence presented would be enough for *Grokster* and *StreamCast* to survive summary judgment.¹⁸⁶

1. Justice Ginsburg's Concurrence

Justice Ginsburg, joined by the late Chief Justice Rehnquist and Justice Kennedy in the concurrence, agreed with the Court's adoption of the inducement theory of liability, but wrote separately

relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work (citing 17 U.S.C. § 107)).

183. *Id.* at 447-56.

184. *Id.* at 456.

185. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2783-86 (2005) (Ginsburg, J., concurring).

186. *See id.* at 2787-96 (Breyer, J., concurring).

to suggest whether, under the facts of this case, the software in question is “capable of ‘substantial’ or ‘commercially significant’ non-infringing uses” in order to guide the Court of Appeals in reconsidering “its interpretation of *Sony*’s product distribution holding,” on a more complete record, if summary judgment was not granted to MGM on remand.¹⁸⁷

Justice Ginsburg outlined the evidence that Grokster and StreamCast had presented, all of which she considered to be anecdotal evidence. She argued that much of the evidence was from declarations that the defendants submitted, including assertions that “authorized copyrighted works or public domain works [were] available online and shared through peer-to-peer networks.”¹⁸⁸ Ginsburg urged that Grokster’s and StreamCast’s anecdotal evidence neither outweighed MGM’s statistical survey nor supported summary judgment.¹⁸⁹ She found that “the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant non-infringing uses were likely to develop over time.”¹⁹⁰ Justice Ginsburg concluded that the district court should not have granted summary judgment in favor of Grokster and StreamCast on the charge of contributory infringement.¹⁹¹

2. Justice Breyer’s Concurrence

Justice Breyer, with whom Justice Stevens and Justice O’Connor joined in the concurrence, agreed with the Court’s adoption of the inducement theory of liability, and also agreed that

187. *Id.* at 2783, 2787 (Ginsburg, J., concurring).

188. *Id.* at 2785.

189. *Id.* at 2785-86 (noting that general statements were made in support of Grokster and StreamCast’s position that the software was used for sharing public domain eBooks; file-sharing impacted music sales positively; P2P technology offers musicians an alternative channel for distribution and promotion; “President Bush speeches” on video, and copies of the declaration of independence and the bible were available on the networks; and these networks offered “content owners distinct business advantages over alternate online distribution technologies”).

190. *Id.* at 2786.

191. *Grokster*, 125 S.Ct. at 2786.

Sony should not be revisited.¹⁹² Breyer wrote separately, however, to explain his disagreement with Justice Ginsburg's concurrence on the matter of whether Grokster's software was capable of "commercially significant" or "substantial" non-infringing uses.¹⁹³ Contrary to Justice Ginsburg's opinion, Justice Breyer believed that the *Sony* opinion and the record of evidence presented in the *Grokster* case was sufficient to support the Ninth Circuit's conclusion of summary judgment based on contributory copyright infringement.¹⁹⁴

Justice Breyer reiterated the abovementioned "staple article of commerce" doctrine that was adopted in *Sony*.¹⁹⁵ He noted that "of all the taping actually done by Sony's customers, only around 9% was of the sort the Court referred to as authorized."¹⁹⁶ He emphasized that the Court considered the "magnitude of authorized programming" presented in *Sony* to be "significant" and that there was a "significant potential for future authorized copying."¹⁹⁷ This conclusion was based on evidentiary testimony of professional sports league officials, a religious broadcasting representative, a Los Angeles educational station whose programs were made available for taping, and a widely watched children's program called "Mr. Roger's Neighborhood."¹⁹⁸ Based on this testimony and similar evidence, the Court found that producers had authorized duplication of their copyrighted programs "in significant enough numbers to create a *substantial* market for

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

193. *Id.*

194. *Id.*

195. *Id.* at 2787-88 (noting 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 non[-]infringing uses'*") (citing *Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 417, 442 (1984)).

196. *Id.* at 2788; *Compare Id.* at 2778 (majority opinion) (emphasis added) (noting that since ninety percent of material on one of the networks was copyrighted, MGM assumed that the remaining ten percent was non-infringing; or in other words, authorized).

197. *Grokster*, 125 S.Ct. at 2788 (Breyer, J., concurring) (citing *Sony*, 464 U.S. at 444).

198. *Id.* (citing *Sony*, 464 U.S. at 444-45).

non[-]infringing use of the” Betamax.¹⁹⁹ Breyer further explained that the Court used the word “substantial” to specify that these circumstances alone were a sufficient basis for refusing to impose secondary liability.²⁰⁰

In contrast to Justice Ginsburg’s analysis, Justice Breyer suggested that “[w]hen measured against *Sony*’s underlying evidence and analysis, the evidence before” the *Grokster* Court passed *Sony*’s test – “whether the company’s product is capable of substantial or commercially significant non[-]infringing uses.”²⁰¹ Specifically, based on the findings of MGM’s own expert, 75% of the files on Grokster were infringing and 15% were “likely infringing,” which left 10% that were not infringing.²⁰² Breyer stressed that this percentage of non-infringing material was extremely similar to the 9% of authorized time-shifting uses of the Betamax that was presented to the Court in *Sony*.²⁰³ Justice Breyer argued that MGM’s offered evidence was not sufficient to create a quantitative difference from *Sony* and would not survive summary judgment.²⁰⁴ He stressed that although the total number of uses of Grokster’s product was only a small percentage in quantitative terms, this was also the case in *Sony*, “which characterized the relatively limited authorized copying market as ‘substantial.’”²⁰⁵

Next, Justice Breyer emphasized the importance of *Sony*’s use of the word “capable” in determining whether the product in that case was “capable of” substantial non-infringing uses.²⁰⁶ Specifically, he explained that *Sony*’s language and analysis suggested that 10% was a sufficient amount if there was a “reasonable prospect of expanded legitimate use over time.”²⁰⁷ He also noted that the language in *Sony* indicated that it was appropriate to look at “potential future uses of the product” when determining its

199. *Id.* (citing *Sony*, 464 U.S. at 447).

200. *Id.* (citing *Sony*, 464 U.S. at 456).

201. *Id.*

202. *Id.* at 2788-89.

203. *Grokster*, 125 S.Ct. at 2788-89 (Breyer, J., concurring).

204. *Id.* at 2789 (noting that the study showed that around 10% of the files were apparently non-infringing).

205. *Id.*

206. *Id.*

207. *Id.*

“capability.”²⁰⁸

In evaluating this interpretation of *Sony* in light of the facts of *Grokster*, Justice Breyer suggested that the record revealed “a significant future market for non[-]infringing uses of” P2P software.²⁰⁹ In particular, the fact that such software allowed the transfer of *any* type of digital file, whether copyrighted or not, indicated that lawful P2P file-sharing would become more prevalent as more un-copyrighted files are stored in a digital medium.²¹⁰ Specifically, legitimate non-infringing P2P file-sharing has come to include research information, public domain films, historical recordings and digital education materials, news broadcasts, and user-created audio and video files.²¹¹ Justice Breyer found these uses, along with the estimated 10% of non-infringing uses, to be enough to meet the *Sony* standard.²¹² He explained that *Sony*’s standard seeks to protect the development of technology generally, and not companies like *Grokster* who can be found liable under the inducement theory.²¹³

In order to determine whether a modification (as MGM requested) or a more strict interpretation of *Sony* (as Justice Ginsburg’s approach would do in practice) should be adopted, Justice Breyer answered three questions to determine which approach met the appropriate balance between copyright protection and new technology interests.²¹⁴ First, he found that *Sony*, as he interpreted it, “has provided entrepreneurs with needed assurance that they will be shielded from copyright liability as they

208. *Id.*

209. *Grokster*, 125 S.Ct. at 2789 (Breyer, J., concurring).

210. *Id.* at 2789-90.

211. *Id.* at 2790.

212. *Id.*

213. *Id.*

214. *Id.* at 2791 (explaining that:

to determine whether modification, or a strict interpretation, of *Sony* is needed, [Breyer asked] whether MGM has shown that *Sony* incorrectly balanced copyright and new-technology interests...in particular: (1) Has *Sony*...worked to protect new technology? (2) If so, would modification or strict interpretation significantly weaken that protection? (3) If so, would new or necessary copyright-related benefits outweigh any such weakening?).

bring valuable new technologies to market,” thereby protecting new technology.²¹⁵ Specifically, he explained that the *Sony* rule is clear, it purposely makes it difficult for courts to find secondary liability when new technology is at issue, it is forward looking, and it is “mindful of the limitations facing judges where matters of technology are concerned.”²¹⁶ In fact, over the last twenty years, there have been relatively few contributory infringement lawsuits brought against technology providers based on the product distribution theory, which bolstered the argument that *Sony* had achieved its innovation-protecting objective.²¹⁷

Since Justice Breyer found that the *Sony* rule had worked to

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

216. *Id.* at 2791-92

([The] clarity allows those who develop new products that are capable of substantial non[-]infringing uses to know, *ex ante*, that distribution of their product will not yield massive monetary liability. At the same time, it helps deter them from distributing products that have no other real function than – or that are specifically intended for – copyright infringement, deterrence that the Court’s holding today reinforces (by adding a weapon to the copyright holder’s legal arsenal).” Additionally, the *Sony* rule “establishes that the law will not impose copyright liability upon the distributors of dual-use technologies (who do not themselves engage in unauthorized copying) unless the product in question will be used *almost exclusively* to infringe copyrights (or unless they actively induce infringements).” *Sony* recognizes that copyright laws are not intended to control or discourage the emergence of new technologies. In addressing its forward looking nature, Breyer explained that the *Sony* rule “does not confine its scope to a static snapshot of a product’s current uses...[and] *Sony*’s word “capable” refers to a plausible, not simply a theoretical, likelihood that such uses will come to pass, and that fact anchors *Sony* in practical reality.” Finally, he explained that “Judges have no specialized technical ability to answer questions about present or future technological feasibility or commercial viability where technology professionals, engineers, and venture capitalists themselves may radically disagree and where answers may differ depending upon whether one focuses upon the time of product development or the time of distribution.).

217. *Id.* at 2792.

protect new technology, he then evaluated whether a strict interpretation or modification of the rule would significantly weaken protection.²¹⁸ Although Justice Ginsburg's more stringent evidentiary requirement would benefit copyright holders, Breyer believed that it would create legal uncertainty among inventors and entrepreneurs.²¹⁹ Specifically, inventors and entrepreneurs would have difficulty assessing whether they should continue creating new technology because they would not know how a court might later "weigh the respective values of infringing and non-infringing uses, determine the efficiency and advisability of technological changes, or assess a product's potential future markets."²²⁰ In other words, inventors and entrepreneurs would have increased time and development costs when creating, producing, or distributing the type of technology that could be used for copyright infringement.²²¹ If anecdotal evidence is not allowed, these increased costs would act as a significant disincentive for technological innovation because in the development stages of creating new technologies, there would be no statistics as to how a particular product is being used and, in fact, there is only anecdotal evidence in these early stages. Therefore, this legal uncertainty directly affects the balance between the rights of copyright holders and inventors.²²²

Finally, according to Justice Breyer, the most difficult question to answer was "whether a positive copyright impact would

218. *Id.*

219. *Id.* (explaining that Ginsburg's "approach would require defendants to produce considerably more concrete evidence – more than was presented here – to earn *Sony's* shelter [and this] heavier evidentiary demand, ... especially the more dramatic (case-by-case balancing) modifications that MGM and the Government seek... would... undercut the protection that *Sony* now offers").

220. *Id.* at 2793.

221. *Grokster*, 125 S.Ct. at 2793 (Breyer, J., concurring).

222. *Id.* at 2792-93

(To require defendants to provide, for example, detailed evidence – say business plans, profitability estimates, projected technological modifications, and so forth – would doubtless make life easier for copyright holder plaintiffs, [b]ut it would simultaneously increase the legal uncertainty that surrounds the creation or development of a new technology capable of being put to infringing uses.)

outweigh any technology-related loss.”²²³ He noted that the law favors protecting technology and, in fact, *Sony* clearly articulated that when liability is imposed on “the producer of a technology which *permits* unlawful copying [and he] does not himself *engage* in unlawful copying,” courts must be circumspect in allowing copyright laws to hinder distribution of new technologies.²²⁴ Although the Constitution provides that one should be rewarded for his creative works in order to induce him to provide those works to the public, the text of the Constitution does not give guidance on how to balance the interests involved.²²⁵ While it is true that unauthorized copying will likely diminish industry revenue, it is unclear to what extent production has actually declined as a result of any reduction in revenue from such copying.²²⁶ Justice Breyer noted that “there is good reason to believe that the decline, if any, is not substantial.”²²⁷

Finally, Breyer stressed that copyright holders have other means

223. *Id.* at 2793 (“[Breyer did] not doubt that a more intrusive *Sony* test would generally provide greater revenue security for copyright holders, [b]ut it [would] be harder to conclude that the gains on the copyright swings would exceed the losses on the technology roundabouts.”).

224. *Id.*

225. *Id.*

226. *Id.* at 2794 (noting various studies, including the Informa Media Group Report’s estimate that “total lost sales to the music industry [was] in the range of \$2 billion annually,” and an academic study by F. Oberholzer & K. Strumpf that concluded that “file[-]sharing has no statistically significant effect on purchases of the average album”) (citing *Informa Media Group Report*, *supra* note 21; Oberholzer, *supra* note 21).

227. *Grokster*, 125 S.Ct. at 2794 (referring to a report by M. Madden which found that “nearly 70% of musicians believe that file[-]sharing is a minor threat or no threat at all to creative industries,” and a Yale Law Review article by Yochai Benkler that said, “[m]uch of the actual flow of revenue to artists – from performances and other sources – is stable even assuming a complete displacement of the CD market by peer-to-peer distribution... It would be silly to think that music, a cultural form without which no human society has existed, will cease to be in our world [because of illegal file swapping]”) (citing M. Madden, *Artists, Musicians and the Internet*, PEW INTERNET & AMERICAN LIFE PROJECT, at http://www.pewinternet.org/pdfs/PIP_Artists.Musicians_Report.pdf (Dec. 5, 2004); Yochai Benkler, *Sharing Nicely: On Shareable Goods and the Emergence of Sharing as a Modality of Economic Production*, 114 Yale L.J. 273, 351 (2004)).

available to reduce piracy and to minimize any threat it poses to creative production.²²⁸ Specifically, the newly adopted inducement rule allows copyright holders to sue a “technology provider where a provable specific intent to infringe. . . is present.”²²⁹ Moreover, copyright holders have always had the legal authority to bring a lawsuit under a direct infringement theory against those who wrongfully copied protected works.²³⁰ In fact, such suits in the context of file-sharing have been successful in reducing the amount of piracy on P2P networks.²³¹ Furthermore, copyright holders can develop new technological devices to help curb unlawful infringement, such as “digital watermarking” and “digital fingerprinting,” which can help expose infringers by encoding data within the digital file that will provide “information about the author and the copyright scope and date.”²³²

In addition to technological advances that could help prevent copyright infringement, Breyer also noted that technological

228. *Id.*

229. *Id.*

230. *Id.*

231. *Id.* at 2794-95 (“[S]ince September 2003, the Recording Industry Association of America (RIAA) has filed ‘thousands of suits against people for sharing copyrighted material.’ These suits have provided copyright holders with damages; have served as a teaching tool, making clear that much file[-]sharing, if done without permission, is unlawful; and apparently have had a real and significant deterrent effect.” Specifically, the “number of people downloading files fell from a peak of roughly 35 million to roughly 23 million in the year following the first suits; 38% of current downloaders report downloading fewer files because of the suits.”) (citing Walker, *New Movement Hits Universities: Get Legal Music*, WASH. POST, Mar. 17, 2005, at E1; L. Rainie, M. Madden, D. Hess, & G. Mudd, *The State of Music Downloading and File-Sharing Online*, PEW INTERNET PROJECT & COMSCORE MEDIA METRIX DATA MEMO, at www.pewinternet.org/pdfs/PIP_Filesharing_April_04.pdf (Apr. 2004)).

232. *Id.* at 2795 (citing *RIAA Reveals Method to Madness*, WIRED NEWS, at <http://www.wired.com/news/digiwood/0,1412,60222,00.html> (Aug. 28, 2003)); June M. Besek, *Anti-Circumvention Laws & Copyright: A Report from the Kernochan Center for Law, Media and the Arts*, 27 COLUM. J.L. & ARTS 385 (2004); see also *id.* (mentioning that certain types of “technology can, through encryption, potentially restrict users’ ability to make a digital copy”) (citing J. Borland, *Tripping the Rippers*, at http://news.com/Tripping+the+rippers/2009=1023_3=273619.html (Sept. 28, 2001)).

advancement has discouraged infringement “by making *lawful* copying (e.g., downloading music with the copyright holder’s permission) cheaper and easier to achieve.”²³³ These legal paid services give consumers an incentive to move away from illegal services like Grokster because they offer the same, if not more, convenience and flexibility without the risk of being sued for direct copyright infringement.²³⁴ Breyer also urged that legislation remains a viable option.²³⁵

III. ANALYSIS: EVIDENTIARY THRESHOLDS, INTERNATIONAL IMPLICATIONS, AND THE NEED FOR FURTHER LEGISLATION

A. Secondary Liability Framework After Grokster

The Supreme Court explicitly stated that *Grokster* was not about “imputed intent,” but was about intent to encourage copyright infringement.²³⁶ As such, the *Sony* case did not have to be revisited since the Court adopted the inducement theory.²³⁷ The Court held that the Ninth Circuit’s interpretation of *Sony* was erroneous, and that evidence that a party has taken active steps to encourage direct infringement showed an “affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law’s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.”²³⁸

233. *Grokster*, 125 S.Ct. at 2795 (mentioning that Walmart.com only charges \$0.88 for each song downloaded); *See also All Your Greatest Hits*, *supra* note 18.

234. *Grokster*, 125 S.Ct. at 2795 (noting that the “percentage of current downloaders who have used paid services rose from 24% to 43% in a year; number using free services fell from 58% to 41%”) (citing M. Madden & L. Rainie, *Music & Video Downloading Moves Beyond P2P*, at www.pewinternet.org/pdfs/PIP_Filesharing_March05.pdf (Mar. 2005)).

235. *Id.* at 2796 (“Courts are less well suited than Congress to the task of ‘accommodating fully the varied permutations of competing interests that are inevitably implicated by such new technology.’”) (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984)).

236. *Id.* at 2778-79 (majority opinion).

237. *Id.*

238. *Id.* at 2779.

A showing of such intent prevents a party from seeking shelter under *Sony*'s staple article rule.²³⁹

In light of the *Grokster* ruling, it remains to be seen how lower courts will approach a secondary copyright infringement case when there is a product that has been used to infringe copyrighted works.²⁴⁰ As the Court stated in *Grokster*, while *Sony* is limited to imputing culpable intent based on the specific characteristics or use of a distributed product, "nothing in *Sony* requires a court to ignore actual evidence of an intent" to infringe copyrighted material.²⁴¹ Thus, the first step in the analysis is to determine if there is any evidence that would demonstrate that a third-party distributed a product and promoted its use "to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement."²⁴²

It is apparent from the *Grokster* decision that four types of evidence, taken as a whole, are sufficient to prove inducement to infringe a copyright: (1) advertisements for a product that directly promote its use for acts that infringe copyright, (2) actively recruiting the users of an existing product or service that was found to have been used for infringing purposes, (3) failure to develop mechanisms to prevent infringing activity, and (4) adopting business models that are dependent upon generating income from high-volume use of the product when the record shows that such use is infringing.²⁴³ Presumably, without the first

239. *Id.* ("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.").

240. See David Post, *The Impact of Grokster*, NAT'L LAW J., Aug. 3, 2005, at Col. 1.

241. *Grokster*, 125 S.Ct. at 2779.

242. *Id.* at 2780. See also Post, *supra* note 240.

243. David Leit & Matthew Savare, *Much Ado About Something: Grokster Decision Affects All Tech Companies*, 181 NEW JERSEY L.J., 1013 (2005), WL 181 N.J.L.J. 828 (noting that the four types of evidence in *Grokster* were:

- (1) both StreamCast and Grokster advertised through online ads and newsletters that their software could access popular copyrighted music;
- (2) both companies actively courted former Napster users;
- (3) neither company attempted to develop filtering tools to prevent infringing activity; and
- (4)

three types of evidence, the fourth would not be sufficient, because *Grokster* noted that the fourth type of “evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import [was] clear.”²⁴⁴ If the requisite amount of evidence is shown to demonstrate inducement to use a product for infringing purposes, then a third-party will be held secondarily liable for copyright infringement.²⁴⁵ *Grokster* provides the higher evidentiary extreme because there was overwhelming evidence that *Grokster* and *StreamCast* encouraged users to use its product toward infringement of copyrighted music. Following *Grokster*, however, district courts will develop the lower evidentiary extreme because there likely will be cases that will not have the abundance of evidence that was presented in *Grokster*, and it will be a closer call as to whether or not the company has the requisite intent under the inducement theory of liability.

If a court finds that there is not enough evidence to show intent to encourage copyright infringement, the extent of further analysis is unclear. The Ninth Circuit, for example, determined that “Napster’s actual, specific knowledge of direct infringement render[ed] *Sony’s* holding of limited assistance to Napster.”²⁴⁶ As such, the *Napster* Court evaluated Napster’s contributory liability based on whether it had “knowledge of the infringing activity, induce[d], cause[d] or materially contribute[d] to the infringing conduct of” its users.²⁴⁷ Some scholars have suggested that the courts’ next step after considering *Grokster’s* inducement theory

the business model of both companies [was] predicated on advertising revenue, which [was] driven by high-volume use of their software).

244. *Grokster*, 125 S.Ct. at 2769.

245. Post, *supra* note 240.

246. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001) (explaining that it was departing “from the reasoning of the district court that Napster failed to demonstrate that its system is capable of commercially significant uses.” Instead, the appellate court relied on *Technology Center v. Netcom On-Line Communications Services, Inc.*, 907 F. Supp. 1361, 1371 (N.D. Cal. 1995), “which suggests that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement”).

247. *Id.* at 1019 (citing *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

should be to evaluate liability under *Napster*, determining whether there was *actual* knowledge of *specific* infringements and whether the third-party distributor had the capability to stop those infringements.²⁴⁸ Specifically, the *Napster* Court noted that in *Sony*, liability rested on whether Sony had “*sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material.*”²⁴⁹ As such, the *Sony* Court refused to “impute the requisite level of knowledge where the defendants made and sold equipment capable of both infringing and substantial non-infringing uses.”²⁵⁰ The *Napster* Court did not “impute the requisite level of knowledge” based solely on the fact that P2P technology might be used to infringe copyrighted works.²⁵¹ Ultimately, one of the bases for its decision rested in finding that *Napster* had actual knowledge of specific infringing material,²⁵² without regard to whether or not *Napster* was utilized for substantial non-infringing uses. District courts in the Ninth Circuit have followed this framework.²⁵³

Other jurisdictions, however, have rejected “actual knowledge” as a sufficient condition for contributory copyright infringement. The Seventh Circuit, for example, has indicated that it does not agree with the Ninth Circuit’s suggestion “that actual knowledge of specific infringing uses is a sufficient condition for deeming [that] a facilitator [is] a contributory infringer.”²⁵⁴ The Seventh

248. Post, *supra* note 240 (Professor David Post has indicated that the *Napster* analysis is the next step in determining secondary liability after a court finds that there is no encouragement to infringe under *Grokster*); see also Leit & Savare, *supra* note 242.

249. *Napster*, 239 F.3d at 1020 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984) (emphasis added)).

250. *Id.*

251. *Id.* at 1020-21 (citing *Sony*, 464 U.S. at 436).

252. *Id.* at 1021-22.

253. See, e.g., *Marvel v. NCSOFT Corp.*, No. CV 04-9253RGKPLAX, 2005 WL 878090 (C.D. Cal. Mar. 9, 2005).

254. *In re: Aimster Copyright Litigation*, 334 F.3d 643, 649 (7th Cir. 2003) (agreeing “with Professor Goldstein that the Ninth Circuit erred in [*Napster*] in suggesting that actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer”) (citing Paul Goldstein, COPYRIGHT § 6.1.2 (2d ed. 2003)).

Circuit agreed with *Sony's* reasoning that prevention of copyright infringement "effectuated by means of a new technology" should not come at a price of potentially denying non-infringing consumers the benefits of technology.²⁵⁵ Relying only on actual knowledge, and not considering whether there were substantial non-infringing uses would clearly deny consumers the benefit of the technology because such a limited analysis does not consider the benefit that the technology has to society, thereby ignoring the need to balance the interests of innovators and copyright holders. The Seventh Circuit relied, instead, on whether the alleged third-party infringer's product had *probable*, not *possible*, substantial non-infringing uses – a reliance on the *Sony* rule.²⁵⁶ In fact, the Supreme Court left the question open as to when liability can rest solely "on distribution with knowledge that unlawful use will occur."²⁵⁷ In other words, the question as to whether a distributor of a product can be held liable solely on the fact that it knows that the product *will* be used primarily for unlawful use is an issue that the Supreme Court might resolve in the future.²⁵⁸

Whether or not the *Napster* Court's view that actual knowledge is a sufficient condition gets adopted among different jurisdictions, the next step is to determine whether a product is "capable of substantial non-infringing use" under *Sony*.²⁵⁹ In determining this standard, the *Sony* Court explained that it is not necessary for *all* potential uses of a product to be explored to determine whether there is contributory infringement, but rather only a significant number of uses need to be found non-infringing.²⁶⁰ The Court, however, did not define how much is considered commercially

255. *Id.*

256. *Id.* at 653 (noting that the question is not whether non-infringing uses are *possible*, but whether they are *probable*, and that it is not enough "that a product or service be physically capable...of a non-infringing use").

257. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2778 (2005).

258. *Cf. id.* ("MGM [urged] the Court [to] quantify [*Sony*] to the extent of holding that a product sued 'principally' for infringement does not qualify" under the *Sony* rule.)

259. Post, *supra* note 240.

260. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

significant.²⁶¹

Twenty years later, the *Grokster* Court refused to answer this question once again. Specifically, MGM asked the Court to find that a product that is used “principally” for infringement would not qualify under the “substantial non-infringing use” standard.²⁶² MGM’s statistical evidence explained that only 10% of the files available on one of the networks were not copyrighted, and this should not constitute a “substantial” non-infringing use.²⁶³ The Supreme Court, however, limited its holding to the appellate court’s erroneous misinterpretation of *Sony*, thereby refusing to quantify what constitutes a “substantial” non-infringing use.²⁶⁴

Although the Supreme Court did not answer this question, the issue was debated in the two concurring opinions of *Grokster*. Justice Ginsburg argued that the evidence presented on behalf of *Grokster* and StreamCast was anecdotal evidence and insufficient to survive summary judgment under *Sony* on a claim of contributory infringement.²⁶⁵ In contrast, Justice Breyer argued that since approximately 9% of all VTR recordings were authorized uses and met the *Sony* standard, then the 10% of the files shared on the network in *Grokster* also met the *Sony* standard.²⁶⁶ Obviously, interpretation of what constitutes a “substantial” non-infringing use under *Sony* is an issue that will continue to plague lower courts after *Grokster*.

Therefore, although there is a predictable framework as to how lower courts will approach secondary copyright infringement, it is unclear as to what evidentiary standards are required to find inducement under *Grokster* and “substantial non-infringing use” for contributory infringement under *Sony*. This lack of clarity leaves legal uncertainty for inventors and entrepreneurs.²⁶⁷ In *Grokster*, the two file-sharing companies’ conduct clearly encouraged their users to download copyrighted material, giving

261. *Id.*

262. *Grokster*, 125 S.Ct. at 2778 (majority opinion).

263. *Id.*

264. *Id.* at 2778-79.

265. *Id.* at 2783-87 (Ginsburg, J., concurring).

266. *Id.* at 2789 (Breyer, J., concurring).

267. *Id.* at 2792-93.

lower courts a high evidentiary extreme as a guidepost in making their decisions. It is unclear, however, how the lower courts will handle cases where a “defendant’s behavior is less than ‘mistakable.’”²⁶⁸ In other words, *Grokster* presented a blatant case of an entity encouraging copyright infringement, but lower courts will have to evaluate what the baseline amount of evidence is to deem someone liable of encouraging copyright infringement. Likewise, although not binding on lower courts, the concurring opinions in *Grokster* have blurred the evidentiary standard for contributory liability under *Sony*. Moreover, the type of evidence that is sufficient to demonstrate a “substantial non-infringing use” is called into question because now it is uncertain whether the *Sony* rule allows anecdotal evidence.

The lack of clarity presented after the *Grokster* decision as to the level of evidence required to find secondary liability for copyright infringement is particularly troublesome given the remedies in copyright law.²⁶⁹ Specifically, copyright law does not require a showing of actual damages.²⁷⁰ Instead, it allows a court to award statutory damages of anywhere between \$750 and \$30,000 per work infringed.²⁷¹ This potential threat of liability might have a chilling effect on inventors.²⁷² In a digital age, legal uncertainty can be a huge deterrent for inventors. In *Grokster*, for example, millions of programs were downloaded and billions of files were shared.²⁷³ If there is uncertainty as to potential liability when

268. Stephen W. Feingold et al., *Secondary Liability After MGM v. Grokster*, METRO. CORP. COUNSEL, Sept. 5, 2005, at Col. 1, WL 9/05 METCC 12, (col. 1).

269. Fred von Lohmann, *Supreme Court Didn't Help in Remediating Uncertainty in Grokster*, MIAMI DAILY BUS. REV., July 27, 2005, at 10, WL 7/27/2005 MIAMIDBR 10.

270. *Id.*; see also BLACK'S LAW DICTIONARY 394 (7th ed. 1999) (defining actual damages as “[a]n amount awarded to a complainant to compensate for a proven injury or loss; damages that repay actual losses”).

271. von Lohmann, *supra* note 269; See also BLACK'S LAW DICTIONARY 397 (7th ed. 1999) (defining statutory damages as “[d]amages provided by statute...as distinguished from damages provided under common law”).

272. von Lohmann, *supra* note 269.

273. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 125 S.Ct. 2764, 2772 (2005) (majority opinion) (noting that since “well over 100 million copies of the software in question are known to have been downloaded, and billions of

developing technology, then it will be difficult for inventors to account for future costs of litigation when they are evaluating whether the expenses associated with their technological innovation would outweigh their projected profits.²⁷⁴ For example, a technology that could provide the means for copyright infringement on a mass scale could lead to statutory damages that are impossible to ascertain at the time of development, even though such a use was not the purpose for which the inventor had envisioned his product. As such, the possible damages for distributing such a potentially infringing product are astronomical, and legal uncertainty in this area is a major disincentive for technological innovation.

B. Future Impact on Secondary Liability Cases

1. Impact of Grokster on Pending Cases

The decision in *Grokster* will have a profound effect on pending cases because it will change the approach that parties take in arguing cases, as well as how courts decide those cases.²⁷⁵ In *Marvel v. NCSOFT*, for example, Marvel sued NCSOFT based on

files are shared across the FastTrack and Gnutella networks each month, the probable scope of copyright infringement is staggering”).

274. *Cf. id.* at 2792 (Breyer, J., concurring)

(Inventors and entrepreneurs (in the garage, the dorm room, the corporate lab, or the boardroom) would have to fear (and in many cases endure) costly and extensive trials when they create, produce, or distribute the sort of information technology that can be used for copyright infringement. They would often be left guessing as to how a court, upon later review of the product and its uses, would decide when necessarily rough estimates amounted to sufficient evidence. They would have no way to predict how courts would weigh the respective values of infringing and non[-]infringing uses; determine the efficiency and advisability of technological changes; or assess a product's potential future markets.).

275. *Leit & Savare, supra* note 243 (noting that *Grokster* “will certainly have an impact on pending cases such as the *Marvel v. NCSOFT* case” (emphasis added)).

contributory copyright infringement.²⁷⁶ In that case, “Defendants NCSoft Corp., Cryptic Studios Inc., and NC Interactive Inc., produce[d] and distribute[d] ‘City of Heroes,’” which is described as a “massively multiplayer online game.”²⁷⁷ This game allows users “to create customized characters called ‘Heroes,’” with whom the users can interact with the characters of other players.²⁷⁸ Marvel contended that the defendants “created, marketed, distributed and hosted a computer game that allow[ed] players to play online and create characters that are virtually identical in name, appearance, and characteristics to characters owned by” Marvel, including Captain America, Iron Man, The Incredible Hulk, Magneto, and The Thing, to which Marvel alleged they held valid registered copyrights.²⁷⁹ Among other claims, Marvel alleged contributory copyright infringement.²⁸⁰ Although it was uncontested that the game had a substantial non-infringing use to invoke *Sony*, Marvel alleged that the “[d]efendants knew or should have known” that many online players were directly infringing Marvel’s copyrights.²⁸¹

Under *Napster*, Marvel claimed that the Defendants, “as operators of their online computer server system,” were aware of the infringing material and failed to remove it.²⁸² NCSoft filed a motion to dismiss, relying on *Sony* and *Napster* “for the proposition that the contributory infringement count cannot be sustained because the game is capable of a ‘substantial non-infringing use’ – the creation of other online ‘heroes’ that do not resemble Marvel characters.”²⁸³ The United States District Court for the Central District of California, however, denied the motion to dismiss and found that Marvel had stated a valid claim for

276. *Id.*

277. 22 No. 23 ANDREWS COMPUTER & INTERNET LITIG. REP. 8 (2005), WL 22 No. 23 ANCOMPILR 8.

278. *Id.*

279. *Marvel Enterprises, Inc. v. NCSoft Corp.*, CV 04-9253RGKPLAX, 2005 WL 878090, *1-2 (C.D. Cal. 2005).

280. *Id.* at *2-3.

281. *Id.* at *3.

282. *Id.*

283. *Leit & Savare*, *supra* note 243.

contributory copyright infringement.²⁸⁴

In light of *Grokster*, however, each party could address additional claims. If Marvel argues that the defendants actively encouraged its users to engage in copyright infringement under the *Grokster* inducement theory and the *Sony* safe harbor was an issue, then the defendants “cannot rely solely on the fact that the game is capable of a substantial non-infringing use to render itself immune from liability.”²⁸⁵ For Marvel to make this argument, however, it has to establish enough evidence to show that the defendants “provided software tools that enable the creation” of characters to which Marvel owned the copyright, and actively encouraged its users to create those characters.²⁸⁶ Since *Grokster* has only demonstrated one evidentiary extreme needed to establish inducement to infringe a copyright, it will be cases like *Marvel* that will flesh-out the inducement theory doctrine when the plaintiffs are determining whether they have enough evidence to proceed with a claim based on inducement. It remains to be seen what level of evidence lower courts will find sufficient to meet the *Grokster* standard.

Since *Marvel* is proceeding in the Ninth Circuit, and it is uncontested that the game has a substantial non-infringing use,²⁸⁷ it is unlikely that this will be the case that will help resolve the Supreme Court’s apparent disagreement over what constitutes a “substantial” non-infringing use, as illustrated in the *Grokster* concurrences. Had this case arisen in the Seventh Circuit, however, the outcome might have been different. Since it was uncontested that there were substantial non-infringing uses (which indeed were probable rather than merely possible), then courts in that jurisdiction would not find that knowledge of the user’s creation of Marvel Superheroes would be a sufficient condition for contributory liability. Thus, Marvel could only allege secondary

284. *Marvel*, 2005 WL at *3.

285. *Leit & Savare*, *supra* note 243.

286. *Id.* (suggesting that “Marvel cannot rely solely on the fact that NCSOFT [sic] has provided software tools that enable the creation of allegedly infringing characters, and ‘turned a blind eye’ to infringing characters on the system, without demonstrating that NCSOFT [sic] has actively encouraged the creation of infringing characters”).

287. *Marvel*, 2005 WL at *3.

liability based on vicarious liability or inducement theory, and could not bring a contributory infringement claim because it was uncontested that the product had a substantial non-infringing use.

2. *File-Sharing Products Under the Facts of Sony*

The threshold to show “substantial non-infringing uses” will become important in those instances where companies do not blatantly encourage their product users to infringe copyrights. Many future cases likely will involve new technologies, such as file-sharing and mass direct infringement via the Internet. Consider a scenario similar to the facts in *Sony*, but which incorporates the type of technology in *Grokster*. Suppose, for example, a company distributed software called “Minster,” which instead of being downloaded for free, it was distributed into commerce just as Sony distributed its Betamax recorders. In this scenario, the software company would gain all of its income from the sale of Minster itself, rather than from advertisements like those in *Grokster*. Unlike *Grokster*, this type of income-generating device is not dependent on the amount of files downloaded and the degree to which its software is actually used, but is limited to the price and quantity of programs sold.²⁸⁸ Therefore, the software company is not directly increasing their revenue from the volume of material that its users are downloading.

Moreover, assume that the company encourages the use of Minster for non-infringing uses, and takes steps to advertise to specific groups, such as local bands, aspiring film makers, etc., as a program that could easily distribute their creative works. Such a fact scenario is directly opposite to that of *Grokster* because Minster would not be focused on gaining a previous market of known copyright infringers, which the Supreme Court noted was a factor that indicated a “principal, if not exclusive, intent” to

288. *Cf. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2781-82 (2005) (explaining that “the more the software is used, the more the ads are sent out and the greater the advertising revenue becomes... 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”).

encourage infringement.²⁸⁹ In addition, like in *Sony*, assume that Minster expressly warns its users against downloading infringing material in its software's user manual,²⁹⁰ and there is no internal communication which indicates the company's actual purpose of encouraging users to download copyrighted material.²⁹¹ Furthermore, assume that Minster had implemented available preventative measures to minimize infringing activity, such as a filtering system or digital watermarking.²⁹²

Nevertheless, despite these efforts, suppose Minster users download copyrighted material using their software. Given these circumstances, this situation does not fall squarely under the inducement theory set forth in *Grokster*.²⁹³ Therefore, depending on the jurisdiction, when determining contributory liability, a court would have to determine if there was actual knowledge of specific

289. *Cf. id.* at 2781 (explaining that both *Grokster* and *StreamCast* aimed: to satisfy a known source of demand for copyright infringement, the market comprising former Napster users...[and their] efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement).

290. *Cf. Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 459 (1984) (noting that although Sony's Betamax advertising never contained warnings against copyright infringement, a warning did appear in the Betamax operating instructions).

291. *Cf. Grokster*, 125 S.Ct. at 2781 (noting that in *StreamCast*'s case there was additional evidence of "internal communications and advertising designs aimed at Napster users," which indicated an unlawful purpose).

292. *Cf. id.* (noting that "neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity" for which their software was used); *But cf. id.* n.12 (explaining that "in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial non[-]infringing uses [because such] a holding would tread too close to the *Sony* safe harbor").

293. *Cf. Id.* at 2781-82 (explaining that each company advertised to a market of known copyright infringers, failed to implement preventative measures to minimize infringing use of their product, and increased their profitability based on the amount of material that was downloaded, most of which was copyrighted).

instances of infringement, the capability to prevent infringement, and whether the product had a “substantial” non-infringing use that would trigger the *Sony* safe harbor.

If this scenario arose in the Ninth Circuit, then actual knowledge would be a sufficient condition for contributory liability. In *Napster*, the court found that Napster had knowledge of the infringing use of its software because “Napster had *actual* knowledge that *specific* infringing material was available using its system.”²⁹⁴ Evidence that Napster’s co-founder had mentioned “the need to remain ignorant of users’ real names and IP addresses ‘since they are exchanging pirated music’” in a document, and the Recording Industry Association of America’s (“RIAA”) notification to Napster that it had approximately 12,000 copyrighted files on its network, was sufficient to show actual knowledge.²⁹⁵

Assuming that there were no documents demonstrating knowledge of copyright infringement, the nature of the Minster file-sharing scenario is a much weaker case for contributory liability under *Napster*. If RIAA were to notify Minster’s distributors that a search on the Minster network turned up over 12,000 copyrighted files, then the issue would then be whether Minster knew about this infringement and whether it had the capability to block system access of those users who were supplying infringing material. As such, the court would then have to decide whether Minster had the “capability” to prevent users from downloading copyrighted material. Since file-sharing technology no longer uses a centralized server,²⁹⁶ it is questionable whether Minster would have the same capability as Napster to prevent infringing downloads. As such, the court would have to examine the current technology, and determine if this term meant “capable” of rectifying the situation as it stood at the time or

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

295. *Id.* at 1020 n.5.

296. *Cf. Grokster*, 125 S.Ct. at 2770 (noting that Grokster and StreamCast’s software allowed “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”).

“capable” of adopting additional measures to minimize copyright infringement because, given this hypothetical scenario, it is not clear whether Minster would be able to block users.

Assume, for whatever reason, Minster was found to be incapable of remedying the copyright infringing use of its product. In this case, Minster would have *actual* and *specific* knowledge of infringement based on RIAA’s notification, but would not be capable of remedying the situation and, therefore, could not remove the material. This situation illustrates a variation on the issue that the Supreme Court left open in *Grokster*. Specifically, MGM wanted the Court to hold “that a product used ‘principally’ for infringement” should be held liable “solely on distribution with knowledge that unlawful use will occur” when using the product.²⁹⁷ At this point, it seems that based on the statistics in *Napster*²⁹⁸ and *Grokster*,²⁹⁹ P2P software could be considered to be a product that is primarily used for copyright infringement. In the Minster hypothetical, however, Minster merely had knowledge that its software *will* be used for infringing purposes. Thus, this is the type of situation that could come before the Supreme Court which would answer whether secondary liability can be based solely on the distribution of a product with knowledge that infringing activity *will* occur.

If the Minster scenario arose in the Seventh Circuit, however, it

297. *Id.* at 2778-79 (explaining that MGM asked that where there is only 10% non-infringing use, it should be deemed as a product used “principally” for infringement and should not qualify as “substantial” under *Sony*, and noting that the Supreme Court would “not revisit *Sony* further...to add a more quantified description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur”).

298. *Napster*, 239 F.3d at 1013 (noting that “as much as eighty-seven percent of the files available on Napster may [have been] copyrighted and more than seventy percent may [have been] owned or administered by plaintiffs”).

299. *Grokster*, 125 S.Ct. at 2786 n.3 (Ginsburg, J., concurring) (noting a statistical survey that “identified 75% of the files available through Grokster as copyrighted works owned or controlled by the plaintiffs, and 15% of the files as works likely copyrighted...[and as] to the remaining 10% of the files, ‘there was not enough information to form reasonable conclusions either as to what those files even consisted of, and/or whether they were infringing or non-infringing’”).

would follow the analysis of *Aimster*, which also considered substantial non-infringing uses, and declined to adhere to the Ninth Circuit's finding that "knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer."³⁰⁰ In other words, the court would still consider whether the defendant fell under the *Sony* safe harbor, and if there was such a showing, then a defendant could escape contributory liability despite a showing of actual knowledge. In the Seventh Circuit, it must be shown that the non-infringing uses are *probable* and not just *possible* in order to fall under the *Sony* rule. The *Aimster* Court outlined five potential non-infringing uses for which the file-sharing service could be used.³⁰¹ *Aimster*, however, presented no evidence that its software had been used for a non-infringing use.³⁰²

At the appellate court level in *Grokster*, the Ninth Circuit analyzed the *Sony* decision differently than the Seventh Circuit in *Aimster*. The *Sony* 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 non[-]infringing uses."³⁰³ In its amicus brief, the American Intellectual Property Law Association ("AIPLA") urged the Supreme Court to resolve the ambiguities presented in *Sony*

300. *In re: Aimster Copyright Litigation*, 334 F.3d 643, 649 (7th Cir. 2003) (explaining that the Seventh Circuit disagrees with the Ninth Circuit's suggestion that "actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer").

301. *Id.* at 652-53 (noting that (1) not all of the shared music is copyrighted, suggesting that, for example, start-up bands might waive copyright protection to promote their music, (2) the file-sharing service "might increase the value of a recording by enabling it to be used as currency in the music-sharing community, since someone who only downloads and never uploads, thus acting as a pure free rider, will not be very popular," (3) "buddy" groups might use the service to exchange information about popular music, (4) users might use the service's encryption capability for privacy to send non-copyrighted dirty pictures or jokes, and (5) if a user owns a CD, but is out of town without access to it, then the service might be used to download a copy, which might constitute fair-use).

302. *Id.* at 653.

303. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

that lead to the different results between the Ninth Circuit in *Grokster* and the Seventh Circuit in *Aimster*.³⁰⁴ It explained that the Seventh Circuit relied on the first part of this holding as the standard to determine whether a product “is widely used for legitimate, unobjectionable purposes,” while the Ninth Circuit relied on the second part to preclude secondary liability when “a product is ‘merely capable’ of substantial non-infringing uses.”³⁰⁵ AIPLA further explained that “the Seventh Circuit required evidence it did not find,” while the “Ninth Circuit found evidence it did not need.”³⁰⁶ In concluding its brief, AIPLA expressed the need to reconcile the split as to whether the standard was “mere capability” or “wide use” because it leads to confusion and uncertainty in certain sectors of the economy.³⁰⁷ Specifically, it articulated that it is imperative that copyright holders have “protection from rampant infringement of their works,” while “software and equipment suppliers need predictable boundaries for the marketing of lawful products.”³⁰⁸

In its petition for *certiorari*, the respondents in *Grokster* shared the same concerns as AIPLA as to the split between the Ninth and Seventh Circuits and urged the Supreme Court to “clarify the principles of secondary copyright liability applicable to peer-to-peer services that facilitate copyright infringement.”³⁰⁹ Specifically, MGM asked the Court to revisit *Sony* in order to specify a quantifiable “description of the point of balance between protection and commerce when liability rests solely on distribution with knowledge that unlawful use will occur.”³¹⁰ In addition, in terms of what constitutes a substantial non-infringing use, MGM argued that only 10% of the files on one of the networks were not infringing copyrights, and such an amount should not qualify as

304. Brief of Amicus Curiae American Intellectual Property Law Association at 2-3, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005) (No. 04-480).

305. *Id.* at 5.

306. *Id.* at 10.

307. *Id.* at 11.

308. *Id.*

309. *Writ of Certiorari, supra* note 24, at 25; *see also id.* at 14.

310. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2778 (2005).

“substantial.”³¹¹ MGM also suggested that the Court should “quantify *Sony* to the extent of holding that a product used ‘principally’ for infringement does not qualify.”³¹²

The Seventh Circuit required an estimate of the “magnitude” of the infringing and non-infringing uses of a product or service to determine contributory infringement.³¹³ The Seventh Circuit noted that “the balancing of costs and benefits is necessary only in a case in which substantial non-infringing uses, present or prospective, are determined.”³¹⁴ In establishing that a product or service is capable of substantial non-infringing uses, *Aimster*, on one hand, provides one extreme because *Aimster* offered no evidence to support that its service was used for non-infringing uses.³¹⁵ *Sony*, on the other hand, offered the other extreme because it offered considerable evidence of instances where its product could be used without objection.³¹⁶ That evidentiary threshold in *Sony*, however, is in dispute among the Supreme Court. Justice Ginsburg, with whom the late Chief Justice Rehnquist and Justice Kennedy joined in concurrence, urged for a tightening of the *Sony* standard by not allowing anecdotal evidence to demonstrate whether a product or service has substantial non-infringing uses.³¹⁷ In contrast, Justice Breyer, with whom Justice Stevens and Justice O’Connor joined, argued that the evidence presented, anecdotal or not, would satisfy

311. *Id.*

312. *Id.*

313. *In re: Aimster Copyright Litigation*, 334 F.3d 643, 649 (7th Cir. 2003) (explaining that “[w]hat is true is that when a supplier is offering a product or service that has non[-]infringing as well as infringing uses, some estimate of the respective magnitude of these uses is necessary for a finding of contributory infringement”).

314. *Id.* at 650.

315. *Id.* at 653 (noting that *Aimster* failed “to produce any evidence that its service [had] ever been used for a non-infringing use, let alone evidence concerning the frequency of such uses”).

316. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 424 (1984) (noting that “Sony introduced considerable evidence describing television programs that could be copied without objection from any copyright holder, with special emphasis on sports, religious, and educational programming”).

317. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764, 2783-87 (2005) (Ginsburg, J., concurring).

the *Sony* rule and *Grokster* would survive summary judgment on a claim of contributory infringement.³¹⁸ Therefore, Justice Ginsburg would only accept evidence that factually or statistically supports that the product is being used for the potential infringing uses.³¹⁹

3. *International Implications of Technological Innovation*

The global nature of the Internet promotes the technological innovation of products and services that can be used worldwide. Both online games and file-sharing programs, for example, allow a massive amount of global users to either create their own characters, like in the “City of Heroes” game, or to share files across international borders nearly instantaneously.³²⁰ As seen with *Marvel*, *Grokster*, and other cases, however, some advances in technology raise copyright infringement issues.³²¹ When these emerging technologies use the Internet as a means to service their users, the issue transcends national borders. This can lead to enforcement problems because copyright law is enforced domestically. Therefore, there are more obstacles to enforcement, such as deciding whether the lawsuit should be pursued in the U.S. or in a foreign country.³²² Once a judgment is obtained, one must determine whether it can be enforced locally or if it should be enforced abroad.³²³

The concern for international copyright enforcement was apparent in the amicus brief of a group of parties referred to as the “International Rights Owners” (“IRO”) to the Supreme Court in *Grokster*.³²⁴ The IRO was concerned about the impact of the Ninth

318. *Id.* at 2787-96 (Breyer, J., concurring).

319. *Cf.* THE AM. HERITAGE COLLEGE DICTIONARY 53 (4th ed. 2002) (defining anecdotal as “[b]ased on casual observation or indications rather than rigorous or scientific analysis”).

320. *See generally* *Marvel v. NCSoft Corp.*, No. CV 04-9253RGKPLAX, 2005 WL 878090 (C.D.Cal 2005); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S.Ct. 2764 (2005).

321. *See generally id.*

322. Rufus Pichler, *Copyright’s Long Arm: Enforcing U.S. Copyrights Abroad*, 24 LOY. L.A. ENT. L. REV. 45, 47 (2004).

323. *Id.*

324. Brief of Amicus Curiae Int’l Rights Owners, *Metro-Goldwyn-Mayer*

Circuit's decision in *Grokster*. Specifically, it foresaw the impact as a disruption to the "harmonization of intellectual property law and the development and maintenance of uniform protection of intellectual property rights in the international arena."³²⁵ Clearly, if a global economic leader such as the U.S. condoned the type of infringement in which *Grokster* and StreamCast had engaged, this would send a court-approved message to international bodies that the United States was not willing to respect the laws of other countries in certain circumstances.

In the context of file-sharing, direct enforcement is very difficult because there are so many direct infringers. It is reassuring to know, however, that other countries are taking steps to prosecute file-sharing companies that are located abroad. In Japan, for example, a company called Yugen Kaisha Nippon MMO was found liable for copyright infringement in 2003 because MMO created an index of files to download, and users transferred "and copied files directly to each other."³²⁶ Similarly, two subscription P2P services called "EzPeer" and "Kuro" in Taiwan³²⁷ faced criminal and civil charges for encouraging their users to illegally share copyrighted material and ignoring injunctions to stop doing

Studios, Inc. v. Grokster, Ltd., 125 S.Ct. 2764 (2005) (No. 04-480) [hereinafter *Int'l Rights Owners*]

([The International Rights Owners] are trade associations and professional organizations based outside the United States, representing hundreds of thousands of owners of copyrights and related rights all over the world. Specifically, *amici* represent record companies, producers and distributors; musical and literary publishers; composers and authors of a variety of protected works; rights societies; film producers and video publishers, in more than 100 countries outside the United States.)

325. *Id.* at 1.

326. *Id.* at 14. (noting that Yugen Kaisha Nippon MMO "operated a peer-to-peer service used by approximately 42,000 persons, who collectively made available about 80,000 files at any one time.").

327. "Kuro [was] the largest file-swapping Internet software in Taiwan with more than 500,000 members online... 'by charging each user \$99 per month, the company [was] making NT\$600 million per year' off content it doesn't own." *P2P Case on Heels of Kazaa Verdict*, CHINA POST, Sept. 7, 2005, 2005 WLNR 14094997.

so.³²⁸ The services started out “centralized” like Napster, but eventually became “decentralized” and used encryption technology.³²⁹ Prior to the Supreme Court’s decision in *Grokster*, Kuro asked the Taiwanese trial court to consider the Ninth Circuit’s ruling in *Grokster*.³³⁰ This is a prime example of how decisions in the United States, although not binding on other jurisdictions, can play an influential role in other countries.

Some countries have imposed requirements that file-sharing companies implement mechanisms to fight against uses of their programs that infringe copyrighted works. In Australia, for example, an Australian court ruled that Kazaa³³¹ was in violation of Australian music copyright laws.³³² Ultimately, the court ordered Kazaa to implement a filtering system, which would modify the software “so that its search function would not display files with names matching a list of copyrighted music to be supplied by the industry.”³³³ This decision recognizes that the Australian court

328. *File-Swappers Sentenced to Jail*, CHINA POST, Sept. 10, 2005, 2005 WLNR 14284973

(Injunctions against Kuro and Ezpeer [had] been largely ignored, so Taiwan...had to employ criminal punishments.” Although the Taiwanese “court neglected to adjudicate the legality of P2P software, it found Kuro responsible for encouraging its members to illegally trade copyrighted content through advertising...In addition to NT\$300,000 fines for each of its top three executives, chairmen Chen Shou-teng received a sentence of two years in prison while CEO James Chen and general manager Victor Chen were each sentenced to three years...The court also handed down a four-month prison term to Chen Chia-hui, a member that used Kuro to download more than 900 songs, likely setting an explosive example for Kuro’s other estimated 500,000 users...Ruby Hsu, an attorney...in the Kuro lawsuit, said that the judgment [brought] Taiwan up to international judicial standards.)

329. *Int’l Rights Owners*, *supra* note 324, at 15.

330. *Id.*

331. Kazaa is “ranked the world’s third most-popular file-sharing network.” Maria Moscaritolo, *Blow to Pirates*, ADVERTISER (AUSTRALIA), Sept. 7, 2005 at Opinion 1, 2005 WLNR 14011749.

332. Wayne Arnold, *Australian Court Rules Kazaa Has Violated Copyrights*, NEW YORK TIMES, Sept. 6, 2005, at C1.

333. *Id.*

realized the importance of technological innovation while respecting the rights of copyright holders because it resorted to a remedy that would not hinder the technology, but would minimize copyright infringement.

Despite many countries' efforts to enforce their copyright laws against file-sharing companies, there are plenty of other countries where copyright laws are not enforced as vigorously, which gives companies an economic incentive to move offshore where they can collect high advertising costs with lower risk of litigation.³³⁴ Some of these different attitudes towards copyright laws can be attributed to historical views on property, which has led to less stringent foreign intellectual property laws that are inconsistent with those of the United States. In China, for example, ownership has historically been a community concept rather than an individual one.³³⁵ Although China's intellectual property laws are relatively new, globalization has had a profound effect on Chinese law.³³⁶ China's accession to the World Trade Organization, for

334. Dawn C. Chmielewski, *Squeeze Here – and File Sharers Will Just Go There*, SAN JOSE MERCURY NEWS, Sept. 23, 2005, 2005 WLNR 14994366. (“[There is] no way to know whether WinMX, [a file-sharing company], is taking a continental leap to escape legal entanglements in the United States. But it underscores how easily file-swapping companies could simply move offshore, to Russia, or Estonia or the Cayman Islands – or anyplace with little regard for U.S. copyright laws.”).

335. See Jolene Lau Marshall, *Online Music Piracy: Can American Solutions Be Exported to the People's Republic of China to Protect American Music?*, 14 PAC. RIM L. & POL'Y J. 189, 189 (2005).

336. Matt Jackson, *Harmony Or Discord? The Pressure Toward Conformity in Int'l Copyright*, 43 IDEA 607, 618 (2003)

(Copyright never developed in China, with its very different political, religious, and social culture. Only in the last few years has China established copyright – even though both paper and block printing were invented in China hundreds of years before Gutenberg's press...[T]he tradition of a paternalistic government and the strong reverence for ancient knowledge in China made that society less concerned about notions of intellectual property.);

see also Wu Shulin, *The Conditions of the Judicial & Admin. Protection of Copyright in China*, 9 DUKE J. COMP. & INT'L L. 241, 247 (1998)

([P]rotection of intellectual property rights is written into the Chinese Penal Code and other laws and regulations, China has

instance, has encouraged China to make its intellectual property laws stricter.³³⁷ As the movement to protect intellectual property rights proceeds globally, the value and degree of protection of cultural achievements will increase.³³⁸

4. *The Need for Legislation After Grokster*

The *Grokster* decision presented evidentiary uncertainties for future cases. For the newly adopted inducement theory, there is uncertainty as to the lower threshold for finding that a company has encouraged users of a service or product to infringe copyrights. The other evidentiary issue that likely will come before the Court in the future, which was the topic of dispute in *Grokster*'s concurring opinions, deals with the type and amount of evidence needed to demonstrate substantial non-infringing uses under *Sony*. The former evidentiary issue has more to do with developing the doctrine of the inducement theory adopted from patent law, while the latter is an evidentiary issue that has to do with weighing the evidence in favor of either inventors or copyright holders. When

joined a series of international copyright conventions...[and] as a country with over 5,000 years of civilized history, China has come to realize that the protection of intellectual property rights is significant factor that contributes greatly to scientific and technological advancement, to cultural development, to economic prosperity, and to social progress in general.)

337. See Stacey H. Wang, *Great Olympics, New China: Intellectual Property Enforcement Steps Up to the Mark*, 27 LOY. L.A. INT'L & COMP. L. REV. 291, 291 (2005)

(On one hand, China's accession to the World Trade Organization (WTO) promised unsurpassed access to China's markets. On the other hand, China's reputation for being an intellectual property black hole is not undeserved. Investors waited eagerly as China acceded to the WTO and the attached Agreement on Trade Related Aspects of Intellectual Property ("TRIPS Agreement") with the hope that China would soon become fertile ground for profitable technology investment. Unfortunately, although accession-motivated changes in intellectual property law brought China on par with the global powers in legislation, enforcement trails far behind.)

338. Shulin, *supra* note 336, at 247.

setting the threshold to determine at what point the scale tips in favor of the inventor or the copyright holder, Congress should legislate in order to give courts guidance. In addition, Congress should also impose requirements for file-sharing companies to implement standards to prevent their users from infringing copyrights. In doing so, Congress should consider new technologies and remedies that international courts have imposed.

a. Inducement Theory: Developing the Evidentiary Guideposts

The newly adopted inducement theory from *Grokster* needs time to develop into a coherent doctrine that serves to protect copyright holders, just as the staple article of commerce doctrine needed time to develop after it was adopted in *Sony*. Indeed, over the past few years, Internet piracy has evolved into a severe threat to copyright holders. In fact, last year Congress was considering legislation to address this issue that would have had a similar purpose as the *Grokster* inducement theory – The Intentional Inducement of Copyright Infringement Act (“IICIA”).³³⁹ It is unclear, however, how *Grokster* will develop, but it is premature to legislate and reconsider the IICIA at this time.³⁴⁰

Furthermore, while contributory infringement under the *Sony* rule dealt with imputed intent, the inducement theory is predicated on culpable intent because the secondary infringers are knowingly encouraging the users of their products and/or services to infringe on copyrights.³⁴¹ Moreover, the inducement theory arises in cases where there is direct evidence of unlawful intent to encourage infringement.³⁴² This type of culpability and evidence is easier for courts to flesh out because they are determining how much evidence is needed to show culpable intent to encourage copyright infringement. This evidentiary weighing is a process to which

339. *Copyright Infringement and File Sharing – Part 1*, 109th Cong. (2005) (testimony of Mary Beth Peters, U.S. Register of Copyrights, Copyright Office).

340. *Id.*

341. *Metro-Goldwyn-Mayer Studios, Inc., v. Grokster, Ltd.*, 125 S.Ct. 2764, 2778-79 (2005) (majority opinion).

342. *Id.* at 2779.

courts are accustomed. As such, it is not necessary to legislate on this issue unless such weighing of culpable evidence interferes with properly balancing the interests of inventors and copyright holders.

b. Sony: Finding the Evidentiary Threshold and Allowing Anecdotal Evidence

The evidentiary threshold dispute over *Sony*, however, is more directly related to the balancing of interests and should be left to Congress.³⁴³ Unlike the type of culpable evidence that courts consider under the inducement theory, evidence that is considered to determine what constitutes a “substantial” non-infringing use to trigger the *Sony* safe harbor, is of a different nature. Specifically, depending on where the threshold is set will determine whether the constitutional scale will weigh in favor of inventors or copyright holders. For example, Justice Ginsburg places a higher burden on inventors to show that their product is used for “substantial” non-infringing uses.³⁴⁴ In addition, she believes that anecdotal evidence should not carry any weight when balancing the interests of inventors and copyright holders.³⁴⁵ As Justice Breyer pointed out, however, such an approach would lead to legal uncertainty when entrepreneurs and inventors are developing technology.³⁴⁶ In order to foster technological innovation, anecdotal evidence must be allowed to prove non-infringing uses because, without such evidence, entrepreneurs and inventors would be deterred from proceeding forward with development of their technology.³⁴⁷

In fact, if anecdotal evidence was not allowed, then the outcome of such secondary copyright litigation would come down to a question of timing. Specifically, if a technology is released and initially used for an infringing purpose that the developer did not intend, enough time may not have passed for the technology to actually be used for its intended purpose. At this point, the

343. See generally U.S. CONST. art. I, § 8, cl. 8.

344. See generally *Grokster*, 125 S.Ct. at 2783-87 (Ginsburg, J., concurring).

345. *Id.* at 2785-86.

346. *Id.* at 2792-93 (Breyer, J., concurring).

347. See *id.* at 2793.

copyright holder might have statistical evidence available, while the entrepreneurs and inventors would only have anecdotal evidence on which to rely given the early stages of the technology, effectively eliminating a technology that would probably benefit the public in the future.

The *Sony* opinion clearly supports this reasoning. Particularly, *Sony* asked whether a product was “capable of” substantial non-infringing uses.³⁴⁸ As Justice Breyer explained, the language and analysis in *Sony* “suggests that a figure like 10% [of non-infringing use], if fixed for all time, might well prove insufficient, but. . .such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time.”³⁴⁹ Furthermore, *Sony*’s language also indicated that it is appropriate to look “to potential future uses of the product to determine its ‘capability.’”³⁵⁰ The concept of whether a product is capable of substantial non-infringing uses, by definition, requires anecdotal evidence. As Justice Breyer explained, the Court had similar statistical data before it in *Grokster*, as it did in *Sony*. In fact, in both cases, the evidence of non-infringing use was close to 10%.³⁵¹ The disagreement among the Court as to the type of evidence that will be allowed to establish non-infringing uses, and what evidentiary threshold constitutes “substantial,” goes to the heart of balancing the interests of inventors and copyright holders. Therefore, Congress, instead of the courts, is in a better position to weigh the interests of inventors and copyright holders, and should invoke its power under the Constitution to legislate in order to balance those interests, which directly relates to the evidentiary issues involving “substantial non-infringing uses.”³⁵²

348. *Id.* at 2789 (citing *Sony Corp. of Am. v. Universal Cities Studios, Inc.*, 464 U.S. 417, 444 (1984)).

349. *Id.* (noting a “significant potential for future authorized copying”) (citing *Sony*, 464 U.S. at 444).

350. *Grokster*, 125 S.Ct. at 2789 (noting that “the record reveal[ed] a significant future market for non[-]infringing uses of Grokster-type peer-to-peer software”).

351. *Id.* at 2789.

352. *See id.* at 2796 (“Courts are less well suited than Congress to the task of ‘accommodat[ing] fully the varied permutations of competing interests that are inevitably implicated by such new technology.’”) (citing *Sony*, 464 U.S. at

In addition to providing guidance to the courts as to what the optimal threshold level is to sustain the appropriate balance between inventors and copyright holders, Congress should legislate to impose certain safeguards that would apply specifically to file-sharing software companies. It should impose filtering requirements similar to what the Australian court did in the *Kazaa* case. This would allow music companies and artists to list their copyrighted material on a database with the P2P software company, and the material listed on the database will be filtered out through search inquiries. Presumably, there might be ways to get around such a filtering system, such as slightly altering the name of a file so that it would not be detected. As such, Congress should also require these companies to implement new technologies, such as digital watermarking.³⁵³ This technology attaches a “digital finger print” onto the specific file, which can then be identified as copyrighted material.³⁵⁴ Such technology has

431)).

353. Samuel Lewis, *Digital Watermarks A Gift From the Greeks to IP Owners*, BROWARD DAILY BUS. REV., Aug. 17, 2005 at 11

(D)igital watermarks [are] a combination of ancient coding concepts and modern technology.” Specifically, they are a modern version of ancient art of steganography, which is “a form of encryption where a message is hidden inside another message.” The earliest form of such encoding is found in the histories of Herodotus and had described how to conceal a message in a wax-covered tablet. This historic form of watermarking involved removing wax from a tablet; writing a message on wood beneath; and re-covering the wood with wax, making the tablet blank to anyone that did not know that the message was under the wax. Likewise, a copyright owner can apply the digital watermark to a file without a perceptible change to the file. The digital version of traditional watermarks, which are used to prevent counterfeiting of money and bank checks, allows information to be embedded in electronic files such as music and movies.);

see also THE AM. HERITAGE COLLEGE DICTIONARY 648 (4th ed. 2002) (“[Herodotus was known] as ‘the Father of History.’ [He was a] 5th cent. B.C. Greek historian whose writing are the earliest known examples of narrative history.”).

354. *Grokster*, 125 S.Ct. at 2793 (noting that new technology such as “digital watermarking” encodes information, within the digital file, “about the author

already been used to catch copyright infringers.³⁵⁵ In fact, there are services that will track the digital watermarks online.³⁵⁶

This technology can be used to identify both the owner of a file and the “distributor or end-user of an electronic file.”³⁵⁷ Artists that create works that can be transferred to a digital medium should implement such technology. Musicians, for example, should apply digital watermarks to the digital files on their compact discs so that when the file is transferred to a computer, it takes the mark with it wherever it goes. In the context of file-sharing, Congress should require that file-sharing companies implement digital watermarking technology so that their programs can identify whether or not an electronic file has a digital watermark. If the file does not have such a mark, then the program would embed a digital watermark on the file so that it could be tracked if a copyright dispute arose. Therefore, Congress’s implementation of such a requirement, along with filtering systems such as the one implemented in the *Kazaa* case, would greatly minimize copyright infringement with file-sharing programs, but would also allow the technology to thrive.

and the copyright scope and date,” which can assist in identifying direct infringers).

355. *RIAA Reveals Method to Madness*, *supra* note 232 (“[T]he Recording Industry Association of America examined song files on [a Brooklyn woman’s] computer and traced their digital fingerprints back to the former Napster file-sharing service,” thereby identifying her for allegedly sharing almost 1,000 songs over the Internet. The RIAA’s investigators can compare “fingerprints of music files on a person’s computer against its library [of digital fingerprints], [and] the RIAA believes it can determine in some cases whether someone recorded a song from a legally purchased CD or downloaded it from someone else over the Internet.” In addition, “[t]he recording industry also disclosed that it [has begun] examining so-called ‘metadata’ tags, [which are] hidden snippets of information embedded within many MP3 music files.”).

356. Lewis, *supra* note 353 (“The power of digital watermarks is that they can be tracked online. For a yearly fee, copyright owners now can use such automated services to detect unauthorized uses of their copyrighted material.” One such service provider is Digimarc Corporation, based out of Oregon, which provides many digital watermark solutions, “including a service that scans more than 50 million Web pages every month to determine whether and where digitally watermarked images are being used.”).

357. *Id.*

IV. CONCLUSION

The *Grokster* decision was a victory for copyright holders because it added another theory of liability (inducement) to protect them from infringement. There is uncertainty, however, where the evidentiary guideposts will be set in the lower courts. Certainty in this area of law will develop over time as the case law develops. As such, it is unnecessary at this stage to legislate on the inducement issue unless it is determined that waiting for its development will create further imbalance between the interests of inventors and copyright holders.

In contrast, the disagreement in the Supreme Court, as to the type and threshold of evidence that is sufficient, is more of a pressing matter. This uncertainty among the Court directly affects the balancing of interests between inventors and copyright holders, which the Constitution directly grants Congress the power to regulate. Therefore, Congress should create legislation in order to guide courts as to what type of evidence is sufficient under the *Sony* standard, and how much evidence is necessary to demonstrate that there is a “substantial non-infringing use” which would trigger the *Sony* safe harbor. Furthermore, it is clear that copyright law has a global impact and many countries look to the United States for guidance. Likewise, the U.S. should consider the technologies that foreign courts have required file-sharing companies to use, such as filtering systems, that are focused on minimizing copyright infringement without impeding the development of technology. Until Congress addresses these issues, it will be difficult for inventors to foster the many gifts that technology brings to society, while at the same time protecting copyright holders from the dangers that can come with advances in technology.

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