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Control Content, Not Innovation: Why Hollywood Should Ebrace Peer-to-Peer Technology Despite the MGM v. Grokster Battle

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I. INTRODUCTION

Despite Napster's legal defeat in 2001[1] and thousands of lawsuits against individual file sharers,[2] peer-to-peer ("P2P") file sharing has continued to flourish.[3] Estimates of the economic impact of illegal file sharing on music album sales vary considerably.[4] The recording industry largely blames P2P file sharing for the drop in revenue from sales of CDs from $13.2 billion in 2001 to $11.2 billion in 2003.[5] However, a recent

* This Comment was written prior to the decision of the United States Supreme Court handed down on June 27, 2005. All arguments and analysis were construed with no knowledge of how the court had ruled. A Postscript is included at the end of this Comment to breakdown the unanimous Supreme Court decision.

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

2. *See* Katie Dean, *RIAA Legal Landslide Begins,* WIRED NEWS.COM, (Sept. 8, 2003) *at* http://www.wired.com/news/digiwood/0,1412,60345,00.html.

3. *See* Thomas Karagiannis et al., *Is P2P Dying or Just Hiding?*, *available at* http://www.caida.org/outreach/papers/2004/p2p-dying/p2p-dying.pdf (concluding that "P2P traffic volume has not dropped since 2003" and "is likely to continue to grow in the future, RIAA behavior notwithstanding."); *see also* Brian Hindo, *Did Big Music Really Sink the Pirates?*, BUSINESS WEEK ONLINE (Jan. 16, 2004), *at* http://www.businessweek.com/technology/content/jan2004/tc20040116_9177_tc024.htm (Data gathered by Big Champagne showed a 35% increase in illegal traffic from 2002–2003. Additionally, Bay TSP noted a "steady migration from older, virus-ridden programs like Kazaa to hipper peer-to-peer networks such as eDonkey and Bit Torrent.").

4. *Compare* Stan Liebowitz, *Will MP3 Downloads Annihilate the Record Industry? The Evidence So Far* (June 2003), *available at* http://www.utdallas.edu/~liebowit/intprop/records.pdf (concluding that file sharing has contributed to the decline in CD sales) *with* Felix Oberholzer & Koleman Strumpf, *The Effect of File Sharing on Record Sales: An Empirical Analysis* (Mar. 2004), *available at* http://www.unc.edu/~cigar/papers/FileSharing_March2004.pdf (concluding that file sharing does not reduce CD sales).

5. *See* David McGuire, *Hollywood Sues Suspected Movie Pirates*, WASHINGTONPOST.COM (Nov. 16, 2004), *at* http://www.washingtonpost.com/wp-dyn/articles/A54423-2004Nov16.html ("Record companies' sales have plummeted as the popularity of free 'peer-to-peer' file sharing services like Kazaa and eDonkey has grown.").

study suggests that P2P file sharing does not reduce album sales at all, and may actually increase sales of popular albums.[6] This claim is corroborated by Recording Industry Association of America ("RIAA") data, stating that retail unit sales of CDs increased in 2004 for the first time since 2000.[7]

Even more indicative of the growth in legal music consumption is the fact that paid downloads of digital singles, which are not included in the RIAA totals, skyrocketed from 19.2 million tracks in the last half of 2003 to nearly 140 million in 2004.[8] In January 2005, Apple's iTunes online music store sold its 250 millionth song and was selling 1.25 million songs per *day*.[9] Later in 2005, the CEO of the RIAA stated, "The public's excitement for new music formats, coupled with the music community's enthusiasm for distributing its content in new ways, have been a real spur to innovation for our industry."[10]

Given this tremendous growth in legal distribution of digital content, it comes as less of a surprise that artists themselves view P2P file sharing as more of an opportunity than a threat.[11] A recent independent survey of artists and musicians reported that the "vast majority of artists believe file sharing poses only a minor threat or no threat at all to creative industries like music and film."[12] Despite these positive reports on the state of the music industry and the effects of P2P file sharing on content owners and creators, the recording industry has turned primarily to the courts to stop or deter illegal file sharing.[13] By May 2005, the RIAA had launched over

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6. *See* Oberholzer & Strumpf, *supra* note 4 (Because P2P users are able to download and listen to songs from albums that they do not own and would not have otherwise bought, they are more likely to sample new music, end up liking it, and then purchase the entire album.).

7. *See* Recording Industry Association of America, *2004 RIAA Yearend Statistics*, *available at* http://www.riaa.com/news/newsletter/pdf/2004yearEndStats.pdf (stating that manufacturers' shipments rose 2.8% to 766.9 million units).

8. *See* Edna Gundersen, *Music Fans Reach for the Stars*, USA TODAY, Mar. 10, 2005, at 1D, *available at* http://www.usatoday.com/life/music/news/2005-03-09-internet-jukebox_x.htm (stating that 139.4 million digital singles were sold in 2004 and that "these figures are not reflected in the overall totals").

9. Peter Cohen, *iTunes Music Store Tops 250 Million Songs Sold*, MACWORLD.COM (Jan. 24, 2005), *at* http://www.macworld.com/news/2005/01/24/itunes/index.php.

10. *See* Press Release, Recording Industry Association of America, RIAA Issues 2004 Year-End Shipment Numbers (Mar. 21, 2005), *available at* http://www.riaa.com/news/newsletter/032105.asp.

11. *See Artists, Musicians and the Internet*, PEW INTERNET & AM. LIFE PROJECT, Dec. 5, 2004, at ii, *available at* http://www.pewinternet.org/pdfs/PIP_Artists.Musicians_Report.pdf.

12. *Id.* at 21.

13. *See* Electronic Frontier Foundation, RIAA v. The People, *at* http://www.eff.org/IP/P2P/riaa-v-thepeople.php (last visited Apr. 2, 2005) (providing links to court documents in hundreds of industry suits against individual "Doe" defendants).

10,000 copyright infringement lawsuits against individual P2P users.[14]

The film industry has largely escaped the P2P threat—until now.[15] Next generation P2P networks enable file sharers to swap not only music, but also feature films and nearly any form of digital content.[16] In 2003, former Motion Picture Association of America ("MPAA") president Jack Valenti cited an estimate that 400,000 to 600,000 movies are illegally downloaded daily.[17] At the end of 2004, the MPAA launched their own legal and marketing campaign to deter illegal file sharing of copyrighted motion pictures.[18] Indeed, one cannot rent a movie or sit in a theater today without being bombarded with previews branding illegal file sharing as "Rated I: Inappropriate for All Ages."

However, the strategy of deterring individual P2P file sharers does not provide content owners with an effective remedy to the alleged copyright infringement that occurs through P2P networks.[19] Therefore, the content industries have also sued P2P network operators in hopes of shutting them down or forcing them to remove unauthorized copyrighted works from the networks. In these cases, the central legal issue is whether providing P2P file sharing software renders operators secondarily liable for the direct infringement committed by the individual users of the P2P software. Although the courts have addressed the issue of secondary liability in more traditional contexts with some degree of clarity, they have

14. *See* Frank Ahrens, *Music Industry Sues Hundreds of File Sharers at Colleges*, WASHINGTON POST, Apr. 13, 2005, at E1; Bill Werde, *Congress vs. File-Sharing*, ROLLING STONE, Oct. 28, 2004, at 21 (After the content industry's defeat in *MGM v. Grokster* in August 2004, the RIAA announced it was launching another 762 lawsuits.).

15. *See* Chris Taylor, *Invasion of the Movie Snatchers*, TIME MAGAZINE, Oct. 4, 2004, at A2 (The MPAA estimates that, "as many as a half a million movies are swapped online every day."); *see also infra* Part V.A (discussing the factors that have inhibited using various business models to legally distribute films).

16. *See id.*

17. *See* GARTNERG2 & THE BERKMAN CENTER FOR INTERNET AND SOCIETY AT HARVARD LAW SCHOOL, *Copyright and Digital Media in a Post-Napster World*, at 12 (ver. 2, Jan. 2005), *available at* http://cyber.law.harvard.edu/media/wp2005 (citing the MPAA, *at* http://www.mpaa.org/jack/2003/2003_02_24.htm).

18. *See* McGuire, *supra* note 5 (MPAA President Dan Glickman stated, "The future of our industry, and of the hundreds of thousands of jobs it supports, must be protected from this kind of outright theft using all available means.").

19. *See generally* Mark A. Lemly & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1350–51 (2004) (explaining that the high of cost litigation against individuals and relatively small settlements have driven the recording industry to bring suits against the P2P network operators). Nevertheless, to the extent that this strategy heightens public awareness of the illegal nature of P2P file sharing, increases the stigma attached to "piracy," and induces P2P users to convert to legal distribution channels, the lawsuits may be successful long term.

struggled to apply these doctrines in the context of P2P networks.[20]

In a 1984 Supreme Court case known as "*Sony-Betamax*," the Court protected VCRs and technologies that are "capable of substantial noninfringing uses"[21] from secondary liability.[22] Despite the protection afforded to providers of such technologies under *Sony-Betamax*, the content industries have largely prevailed in the courts. For instance, in 2001, in *A&M Records Inc. v. Napster, Inc.*, the Ninth Circuit held that the *Sony* doctrine offered little protection to Napster, a P2P software provider who had knowledge of its users' infringements and provided the "site and facilities" for infringement.[23] Then, in 2003, the Seventh Circuit held in *In re Aimster* that the *Sony* doctrine did not shield Aimster, another P2P software provider, from liability for contributory copyright infringement where the software's purpose and primary use was to facilitate illegal file sharing.[24]

With the legality of P2P file sharing software seemingly in jeopardy, in 2003 the Central District Court in California reached what appeared to be the opposite conclusion in *MGM v. Grokster*.[25] The court relied on its decision in *Napster* and held that defendants Grokster and StreamCast, both providers of P2P software, were not liable for either contributory copyright infringement or vicarious liability.[26] The content industries appealed the trial court's decision, but the Ninth Circuit Court of Appeals affirmed the decision on August 19, 2004.[27] The Supreme Court agreed to review the Ninth Circuit's *MGM v. Grokster* decision and heard oral arguments on March 29, 2005.[28]

This Note analyzes the central legal issues raised in *MGM v. Grokster* within the context of current technological and market developments. Specifically, Part II discusses the legal doctrines of secondary liability in copyright and examines how courts have applied them in the context of

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20. *See generally infra* Part II.C (discussing secondary liability in copyright as applied to P2P technology).

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

22. *Id.* ("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.").

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

24. *See In re* Aimster, 334 F.3d 643, 655 (7th Cir. 2003).

25. *See* MGM Studios, Inc. v. Grokster, Ltd., 259 F. Supp. 2d 1029 (C.D. Cal. 2003).

26. *Id.* at 1043.

27. MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1167 (9th Cir. 2004).

28. Linda Greenhouse, *Lively Debate as Justices Take on File Sharing*, NY TIMES, Mar. 30, 2005, at C1.

P2P technology. Part III analyzes the Ninth Circuit's decision in *MGM v. Grokster* and articulates a multi-factor balancing test that provides a workable compromise between the interests of copyright holders, innovators, and consumers. Turning away from legal analysis, Part IV assesses the social and commercial value of P2P networks. Part V surveys the technological and market developments that are increasing the ability of copyright holders to control their content and fueling the rapid growth of business models designed to legally distribute digital content online. Lastly, Part VI examines the evolving roles of the courts and Congress in resolving copyright disputes and providing effective remedies in this digital era.

In conclusion, this Note will argue that—given the value of P2P networks, the current pace of technological and market developments, and the institutional limitations of the courts to provide a fair, efficient, and consistent standard—the Supreme Court should demonstrate restraint when deciding whether to rewrite the law of secondary liability for copyright infringement. Rather, the Court can further the interest of copyright owners, innovators, and consumers by adhering to *Sony*, affirming the Ninth Circuit's decision in *MGM v. Grokster*, and deferring to Congress to draft appropriate legislation.

II. BACKGROUND OF RELEVANT LAW

A. Direct Copyright Infringement

Under Title 17 of the United States Code, copyright[29] holders have the exclusive rights to (1) reproduce works, (2) prepare derivative works, (3) distribute copies of works to the public, (4) perform works publicly, (5) display works publicly, and (6) perform works publicly by means of digital audio transmission.[30] Under certain circumstances, these exclusive rights are limited.[31] In order to prove a claim of direct copyright infringement, "a plaintiff must show that he owns the copyright and that the defendant himself violated one or more of the plaintiff's exclusive rights under the

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29. 17 U.S.C. § 102 (2000) (The subject matter of copyright includes original works of authorship fixed in any tangible medium of expression. Works of authorship include the following categories: (1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works.).

30. *Id.* § 106.

31. *See generally id.* §§ 107–22 (limiting and defining the scope of copyright exclusivity).

Copyright Act."[32] File sharers who make copyrighted works available for others without the permission of the copyright holder are illegally reproducing and distributing those copyrighted works. So long as the copyright holder can prove ownership,[33] the file sharer is liable for copyright infringement. In lawsuits against P2P software providers for secondary copyright infringement, the issue of direct liability is rarely contested.[34]

B. *Secondary Copyright Infringement and the* Sony *Doctrine*

Secondary liability is a common law doctrine, derived from tort law, which holds a second party liable for direct infringement by others.[35] A party may be secondarily liable under either of two theories, contributory infringement or vicarious liability. Contributory infringement requires (1) knowledge of a second party's infringing conduct, and (2) causation, inducement, or material involvement with respect to the infringing conduct.[36] Vicarious infringement, rooted in the respondeat superior doctrine, which holds employers liable for the illegal conduct of their employees and agents, requires (1) the right and ability to supervise the infringing conduct, and (2) a direct financial interest in that conduct.[37] Vicarious liability, unlike contributory infringement, does not require that the defendant be aware of the infringement.[38] Courts have applied the doctrine of vicarious liability outside the context of the employer-employee relationship to other relationships or arrangements, such as franchise owner-concessionaire,[39] dance hall-dance band,[40] talent agency-concert

32. Ellison v. Robertson, 357 F.3d 1072, 1076 (9th Cir. 2004) (citing A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1013 (9th Cir. 2001).

33. *See* 17 U.S.C. § 101 (2000) (defining a copyright owner as one who owns any one of the exclusive rights comprised in a copyright).

34. *See, e.g.,* MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1160 (9th Cir. 2004) (declaring that direct liability is undisputed and, therefore, is not an issue in the case).

35. Elizabeth Miles, *In re* Aimster *&* MGM, Inc. v. Grokster, Ltd.*: Peer-to-Peer and the Sony Doctrine*, 19 BERKELEY TECH L.J. 21, 22 (2004).

36. *See, e.g.*, Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971) (stating that "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer.").

37. *See* Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963); *see also* Buck v. Jewell-LaSalle Realty Co., 283 U.S. 191, 198–99 (1931); Dreamland Ball Room, Inc. v. Ager, Yellen & Bornstein, Inc., 36 F.2d 354, 355 (7th Cir. 1929) (holding dance hall proprietors liable for hiring bands that played infringing music).

38. *See Shapiro*, 316 F.2d at 307.

39. *See id.*

40. *See Buck*, 283 U.S. at 191.

promoter,[41] swap meet provider-vendor.[42] Traditionally, developers or suppliers of technologies such as musical instruments, typewriters, printing presses, and photocopy machines were not subject to secondary liability for copyright infringement committed by users.[43]

This changed in the 1980s. In *Sony Corp. of America v. Universal City Studios, Inc.*,[44] the Supreme Court applied secondary liability for copyright infringement in the context of new copying technology.[45] Plaintiffs Universal and Disney, which owned copyrights in many motion picture and television shows, sued Sony for contributory copyright infringement arising from Sony's sale of Betamax videocassette recorders ("VCRs"), which could be used to tape movies and television programs.[46] Without guidance from the Copyright Act, the Supreme Court drew on patent law's "staple article or commodity of commerce" doctrine, which prevents patent holders from extending their exclusive patent rights to control the sale of products that could infringe a patent but have other legitimate uses.[47] The *Sony* Court created a parallel exemption in copyright law for contributory copyright infringement, stating, "The sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be *capable* of substantial noninfringing uses."[48]

Despite evidence of widespread infringing use of Sony's VCRs, a five to four Supreme Court majority found that VCRs were capable of "private, noncommercial time-shifting in the home"—recording television programming using their VCR for later home viewing.[49] Time shifting, held to be a noninfringing "fair use" under copyright law, was sufficient to shield Sony from contributory copyright liability.[50] As such, the Court did

41. *See Gershwin*, 443 F.2d at 1163 (holding a talent agency liable for infringement for promoting its clients' infringing public performances).

42. *See* Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 260 (9th Cir. 1996) (holding the proprietors of a swap meet liable for their vendors' sale of illegal recordings).

43. *See* Lemly & Reese, *supra* note 19, at 1356.

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

45. *See id.*

46. Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429, 432 (C.D. Cal. 1979).

47. *Sony*, 464 U.S. at 440; *see also* 35 U.S.C. § 271(c) (2000) (articulating the staple article or commodity of commerce doctrine).

48. *Sony*, 464 U.S. at 442 (emphasis added).

49. *Id.*

50. *Id.* at 442.

not find Sony liable for contributory infringement.[51]

Significantly, the VCR's purpose and the proportion of infringing use were not relevant to the Supreme Court's decision in *Sony*.[52] The Court stated that "in order to resolve this case we need not give precise content to the question of how much use is commercially significant. For one potential use of the Betamax plainly satisfies this standard, however it is understood: private, noncommercial time-shifting in the home."[53] Having determined that the VCR had a substantial noninfringing use, the Court overturned the Ninth Circuit, which had held that Sony sold VCRs for the "primary purpose" of copying protected works and that "virtually all" of the recorded material was copyrighted. Thus, the Supreme Court rejected the Ninth Circuit's invitation to balance infringing and noninfringing uses. The *Sony* dissent sided with the Ninth Circuit and argued that the Court had upset the traditional copyright balance and proposed that the Court look to the technology's purpose and the proportion of noninfringing uses.[54]

C. Secondary Liability Applied to P2P Technology

P2P technology is a recent technological innovation, which, courtesy of Napster, became widely available in 1999.[55] P2P technology is unique in that it enables users to share digital content through a decentralized, user-driven platform.[56] The architecture of P2P networks allows users to communicate through the Internet in order to conduct search requests and execute file transfers among the users of the network.[57] Users may join a P2P network by downloading and installing P2P software onto their computers.[58] When launched, the software automatically connects the user to the network of P2P users, scans the user's computer for shared files, and posts a list of the user's shared files to an index.[59] Any users on the

51. *Id.* at 456; *see* Lemly & Reese, *supra* note 19, at 1356 ("Although the issue directly before the Court in *Sony* was a claim of contributory infringement, the [majority] opinion strongly suggested that its analysis applied to secondary liability for copyright infringement generally and that the principles in its decision would bar using copyright's vicarious liability doctrine.").

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

53. *Id.*

54. *See id.* at 467, 491 (Blackmun, J., dissenting).

55. *See* Tim Wu, *When Code Isn't Law*, 89 VA. L. REV. 679, 728 (2003).

56. Miles, *supra* note 35, at 26.

57. *Id.*

58. *See, e.g.*, CNET DOWNLOAD.COM, *at* http://www.download.com (providing links to "most popular" downloads, which lists many popular P2P software programs available for immediate download) (last visited Apr. 11, 2005).

59. *See* Miles, *supra* note 35, at 26.

network may search the index for specific files and download them to their own computers, free of charge.

The lower courts have attempted to apply the *Sony* doctrine to P2P networks. The Ninth Circuit's decision in *Napster* and the Seventh Circuit's decision in *Aimster* suggest that the *Sony* doctrine does not shield providers of P2P technology who are aware that infringement occurs on their networks and maintain some degree of control over user activity.[60]

1. Napster

Napster began operating in 1999.[61] Napster's file sharing technology facilitated the transmission of MPEG-3 ("MP3") files—compressed digital files that are created when a user copies, or "rips," a CD onto the hard drive of his or her computer.[62] Napster's free software, "MusicShare," could be downloaded to an individual user's computer, enabling the user to "(1) make MP3 music files stored on individual computer hard drives available for copying by other Napster users; (2) search for MP3 music files stored on other users' computers; and (3) transfer exact copies of the contents of other users' MP3 files" onto the user's own computer.[63] This process of searching and downloading digital files takes place over the Internet.[64]

New users are required to register with Napster and create a user name and password.[65] The Napster software searches the user's computer for MP3 files and posts their file names to a centralized indexing server.[66] When a user enters the name of a song or other digital file into the Napster search engine, Napster searches the central index, returns the Internet address of the host user or users, a connection is established between the requesting user and the host user, and the requesting user begins to download the file.[67] Once the download is complete, the receiving user can copy the file to a CD, play it from a computer, or transfer it to a portable device, such as an MP3 player.

Music and copyright owners sued Napster in the Northern District Court of California for contributory and vicarious infringement.[68] In

60. *See generally* Lemly & Reese, *supra* note 19, at 1356 (noting that "lower court decisions have cut back the protection that the *Sony* doctrine offers developers of dual-use technologies").

61. *See* Wu, *supra* note 55, at 728.

62. *See* A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1011 (9th Cir. 2001).

63. *Id.*

64. *Id.*

65. *Id.*

66. *See id.* at 1011–12.

67. *Id.* at 1012.

68. *Napster*, 239 F.3d at 1010–11.

response, Napster argued that the *Sony* doctrine shielded it from secondary liability because its software and network were capable of substantial noninfringing uses.[69] The district court granted plaintiffs' motion for preliminary injunction.[70] On appeal from the district court, the Ninth Circuit read *Sony* narrowly and concluded that *Sony* merely barred imputing constructive knowledge of another party's infringement if the defendant's copying technology was capable of "substantial noninfringing uses."[71] In other words, a defendant who had actual knowledge of the users' infringements and materially contributed to them would get "limited assistance" from *Sony*.[72]

The Ninth Circuit found that Napster had actual knowledge of the infringements occurring on its network based on both Napster's centralized file index[73] and the notices of infringement it had received from plaintiffs.[74] This was sufficient to meet the knowledge element of contributory copyright infringement.[75] With respect to the material contribution element, the Ninth Circuit found that Napster was an "integrated service" which provided the "site and facilities for direct infringement."[76] As such, Napster materially contributed to the infringement and, therefore, had a duty to police the use of its network.[77]

The Ninth Circuit also found Napster liable for vicarious copyright infringement.[78] Napster stated on its website that it retained the express right to control access to its system.[79] Moreover, through its centralized indexing servers, Napster had the ability to supervise and control infringing

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69. *See id.* at 1014.

70. A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 927 (N.D. Cal. 2000).

71. *Napster*, 239 F.3d at 1020–21.

72. *See id*; *see also* Lemly & Reese, *supra* note 19, at 1356 (It is not clear whether *Sony* itself would have passed the Ninth Circuit's interpretation of the *Sony* doctrine, as there was evidence in *Sony* that users of VCRs had accumulated video libraries. This evidence could have been presented to Sony, which would have resulted in Sony having actual knowledge.).

73. *Napster*, 239 F.3d at 1022 (holding that Napster had "*actual* knowledge [of] *specific* infringing material . . . available using its system" and "that it could block access to the system by suppliers of the infringing material[s]").

74. *Id.* at 1021 n.6; *id.* at 1021 (citing Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc., 907 F. Supp 1361, 1371 (N.D. Cal 1995) ("[I]n 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")).

75. *Id.* at 1021.

76. *Id.* at 1022 (citing Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 264 (9th Cir. 1996) (finding that swap meet proprietors had provided the site and facilities for the sale of infringing recordings)).

77. *Id.* at 1023.

78. *Id.* at 1024.

79. *Id.* at 1023.

conduct by locating infringing material on its centralized search indices and terminating infringing users.[80] In addition, Napster received a financial benefit from advertising revenue that it generated by drawing users to the infringing material on the Napster network.[81] More importantly, the Ninth Circuit refused to apply the *Sony* doctrine as a defense to vicarious liability.[82] Rather, the court stated that the issue of vicarious liability was not directly before the court and dismissed the *Sony* discussion of vicarious liability as "outside of a technical analysis of the doctrine of vicarious copyright infringement."[83]

2. Aimster

Aimster operated on America Online's ("AOL") client-server platform and used AOL's Instant Messenger service ("AOL IM") to create a network of users.[84] The AOL IM network allows Aimster users to designate all Aimster members as "buddies," which enables Aimster users to search for any digital files located in any Aimster user's shared folder. Upon locating the file, the Aimster software opens an encrypted connection between the file owner and the requester and the file is transferred between them.[85] In addition to its free P2P software, Aimster provided a feature called "Club Aimster," which allowed users to download the most popular songs on the network for a small monthly fee.[86]

As in *Napster*, the RIAA and multiple record companies sued Aimster for contributory copyright infringement and vicarious liability.[87] Like Napster, Aimster argued that the *Sony* doctrine shielded it from liability because the software could be used for substantial noninfringing purposes, including transferring non-copyrighted files.[88] Nevertheless, the district

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80. *See Napster*, 239 F.3d at 1024.

81. *See id.* at 1023.

82. *See id.* at 1020-24.

83. *Id.* at 1023; *see* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 435 n.17 (1984) (The Supreme Court stated, "The lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn." Thus, although the issue directly before the Court was a claim of contributory infringement, the majority strongly suggested that the *Sony* doctrine applied to vicarious liability.); *see also Sony*, 464 U.S. at 437 n.18 (citing and discussing vicarious liability cases as examples of imposing liability on "the 'contributory' infringer").

84. *See In re* Aimster Copyright Litig., 252 F. Supp. 2d 634, 642 (N.D. Ill. 2002).

85. *Id.* at 642–43.

86. *Id.* at 644–45 (Club Aimster members could visit the Aimster website, view the "Aimster Top 40" list, and click on a song title to search the network and download the file.).

87. *Id.* at 639, 646.

88. *Id.* at 653.

court rejected Aimster's argument and distinguished *Aimster* from *Sony*.[89] In *Sony*, the VCR was used for time shifting, a noninfringing fair-use.[90] Aimster, on the other hand, had not presented any evidence that its service was actually used for any of the potential noninfringing uses that Aimster had identified.[91]

The Seventh Circuit Court of Appeals affirmed the district court's decision in *Aimster*, but departed significantly from the Ninth Circuit's decision in *Napster*. The *Aimster* court disagreed with the Ninth Circuit's holding that "actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer."[92] After all, such a rule would seemingly foreclose *Sony's* protection so long as a plaintiff provided defendant with actual notice of the infringement occurring on its network. Therefore, although the *Napster* court found the *Sony* doctrine to be of "limited assistance" to Napster due to Napster's actual knowledge of infringement,[93] the *Aimster* court applied the *Sony* doctrine.[94]

However, rather than determining whether Aimster's technology was "capable of substantial noninfringing use," the court held that "some estimate of the respective magnitudes of [noninfringing and infringing] uses" must be made.[95] Although the *Sony* majority rejected such a rule, the Seventh Circuit concluded "it is not enough . . . that a product or service be physically capable, as it were, of a noninfringing use. Aimster has failed to produce any evidence that its service has ever been used for a noninfringing use, let alone evidence concerning the frequency of such uses."[96] Thus, the court was unable to quantify the magnitude or frequency of noninfringing use, which, under its interpretation of *Sony*, would have enabled it to balance the proportion of infringing and noninfringing uses.

89. *Id.* at 653–54.

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

91. *See In re* Aimster, 334 F.3d 643, 649 (7th Cir. 2003).

92. *Id.* (citing 2 PAUL GOLDSTEIN, COPYRIGHT 6.1.2 at 6:12-1 (2d ed. 2003)).

93. A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1020 (9th Cir. 2001).

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

95. *Id.*

96. *Id.* at 653.

III. *MGM v. GROKSTER*

A. Factual Overview

In 2001, defendants Grokster, Ltd. and StreamCast Networks Inc.[97] entered into licensing agreements with defendant Kazaa BV[98] to use Kazaa's proprietary P2P file sharing network called FastTrack.[99] Grokster, StreamCast, and Kazaa were each independently branded, marketed, and distributed file sharing software, but their respective networks were interoperable.[100] Defendants' users formed one network of FastTrack users.[101] When a user logs on to the FastTrack network, the FastTrack software identifies all of the user's files available to be shared and adds them to an index.[102] The indexing function is delegated to user computers known as "supernodes," temporary storage locations for network information which are located on users' computers.[103] Defendants' software periodically updates the list of supernodes, so that users receive a fresh list of supernodes each time they log on to the network.[104]

In February 2002, StreamCast had a licensing dispute with Kazaa and, as a result, Kazaa disconnected all StreamCast users permanently from FastTrack.[105] StreamCast developed and distributed its own branded "Morpheus" P2P software based on the Gnutella open-source network architecture.[106] Gnutella, unlike FastTrack, is a "pure" P2P network in that it is completely decentralized—it relays search requests from one "peer" to another without the use of a central index, as in Napster, or supernodes, as in Kazaa.[107]

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97. MGM Studios, Inc. v. Grokster, Ltd., 243 F. Supp. 2d 1073, 1080 (C.D. Cal. 2003) (StreamCast Networks, Inc. was formerly known as MusicCity.com, Inc.).

98. *Id.* (Kazaa BV was formerly known as Consumer Empowerment BV.).

99. *Id.*

100. *See id.* ("As a result, users of all three software platforms . . . were able to exchange files seamlessly.").

101. *Id.* ("When the actions were originally filed, Grokster, MusicCity and Kazaa BV each independently branded, marketed and distributed file-sharing software. All three platforms were powered, however, by the same 'FastTrack' networking technology. . . . As a result, users of all three software platforms were connected to the same peer-to-peer 'FastTrack network,' and were able to exchange files seamlessly.").

102. MGM Plaintiffs-Appellants' Opening Brief at 13, MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004) (No. 03-55894, No. 03-56236, and No. 03-55901).

103. *See id.* at 14.

104. *See id.* at 15.

105. *See id.* at 19.

106. *See id.* at 20.

107. *See* Wu, *supra* note 55, at 731–33 (describing Gnutella as a child of the open-source

B. Procedural History

On October 2, 2001, the recording industry filed suit against defendants StreamCast Networks, Inc. and Grokster, Ltd. for contributory copyright infringement and vicarious liability arising from their provision of P2P software.[108] On April 25, 2003, the district court granted plaintiffs' motions for summary judgment with respect to the "current versions" of their products and denied defendants' cross motion for summary judgment on liability.[109] On May 23, 2003, plaintiffs filed a notice of appeal from the district court's April 25, 2003 order pursuant to 28 U.S.C. § 1292(b)(1).[110] Then, on June 18, 2003, the district court amended its prior order and directed entry of partial final judgment under Federal Rule of Civil Procedure 54(b).[111] Plaintiffs filed an amended notice of appeal on July 10, 2003, and the Ninth Circuit Court of Appeals affirmed the district court's decision on August 19, 2004.[112] Plaintiffs filed a petition for certiorari with the Supreme Court of the United States on October 8, 2004, which was granted on December 10, 2004.[113] The Court heard oral arguments on March 28, 2005.[114]

C. The Ninth Circuit Court of Appeals' Decision

1. Contributory Copyright Infringement

The first theory of liability addressed by the Ninth Circuit Court of Appeals was contributory copyright infringement.[115] "The three elements required to prove a defendant liable under the theory of contributory copyright infringement are (1) direct infringement by a primary infringer, (2) knowledge of the infringement, and (3) material contribution to the

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movement and a "radically decentralized design" that was "an intentional effort to create a filesharing protocol that could avoid a lawsuit").

108. MGM Studios, Inc. v. Grokster, Ltd., 243 F. Supp. 2d 1073, 1080 (C.D. Cal. 2003).

109. MGM Studios, Inc. v. Grokster, Ltd., 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2003).

110. District Court Order Directing Entry of Partial Final Judgment at 4, MGM Studios, Inc. v. Grokster, Ltd., 259 F. Supp. 2d. 1029 (C.D. Cal. 2003) (No. 01–08541 and No. 01–09923).

111. *Id.* at 111.

112. *See* MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1167 (9th Cir. 2004).

113. *Id. cert. granted,* 125 S. Ct. 686 (Dec. 10, 2004) (No. 04-480); *see also* Linda Greenhouse, *Justices Agree to Hear Case on Sharing of Music Files,* NY TIMES, Dec. 11, 2004, at B1.

114. *See* Greenhouse, *supra* note 28.

115. *Grokster,* 380 F.3d at 1160.

infringement."[116] Since the element of direct infringement was undisputed on appeal, the court needed only to determine whether defendants had knowledge of the infringement and materially contributed to the infringement.[117]

In determining the level of knowledge required, the court applied *Sony* and first inquired as to whether the product at issue was capable of noninfringing uses. Specifically, the court stated:

> If the product at issue is not capable of substantial or commercially significant noninfringing uses, then [the *Sony* shield *does not* apply and] the copyright owner need only show that the defendant had constructive knowledge of the infringement. On the other hand, if the product at issue *is* capable of substantial or commercially significant noninfringing uses, then [the Sony shield *does* apply and] the copyright owner must demonstrate that the defendant had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement.[118]

Thus, a finding of substantial or commercially significant noninfringing use bars the court from imputing constructive knowledge on the part of defendants and significantly raises the level of knowledge required for liability.

To prove their networks were capable of substantial noninfringing uses, defendants presented undisputed evidence that their P2P software was capable of, and actually was, used to distribute movie trailers, free songs, and public domain literary works.[119] Plaintiffs' failure to present evidence to rebut defendants' showing led the court to conclude there are "substantial noninfringing uses" of the software, and the uses have "commercial viability."[120] As such, plaintiffs' assertion that the software was used primarily for infringing uses was immaterial.[121]

Having found substantial and commercially significant noninfringing uses, the court addressed whether the defendants possessed the requisite level of knowledge—that is, whether defendants had "specific knowledge

116. *Id.* (citing Ellison v. Robertson, 357 F.3d 1072, 1076 (9th Cir. 2004)).

117. *See id.*

118. *Id.* at 1161 (citing A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1027 (9th Cir. 2001)).

119. *Id.* at 1161–62 ("Indeed, the record indicates that thousands of other musical groups have authorized free distribution of their music through the Internet.").

120. *Id.* at 1162.

121. *Grokster*, 380 F.3d at 1162.

of infringement . . . and fail[ed] to act upon that information."[122] Agreeing with the district court, the Ninth Circuit noted the "time at which such knowledge is obtained is significant," because knowledge obtained when "[d]efendants do nothing to facilitate, and cannot do anything to stop, the alleged infringement" is irrelevant.[123] Therefore, the knowledge element of contributory infringement overlaps with the material contribution element. The court concluded defendants did not have the requisite knowledge and admitted that "software design is of great import," distinguishing StreamCast's "decentralized" network and Grokster's "quasi-decentralized" network from Napster's network.[124] The fact that defendants maintained no control over index files was dispositive. Napster, on the other hand, had employed a centralized set of servers that "maintained an index of available files."[125]

Regarding the last element, material contribution, the Ninth Circuit upheld the district court's conclusion that defendants had "not materially contribut[ed] to copyright infringement."[126] In *Napster*, the Ninth Circuit found material contribution based on the finding that Napster was an "integrated service" which provided the "'site and facilities' for direct infringement."[127] Here, the court declined to find material contribution because defendants did not provide the "site and facilities for infringement."[128] Moreover, although defendants communicated with users, the court deemed these communications "too incidental to any direct copyright infringement."[129] Reconciling this conclusion with the one in *Napster*, the court highlighted that defendants "are not access providers, and they do not provide file storage and index maintenance. Rather, it is the users of the software who, by connecting to each other over the internet, create the network and provide the access."[130] Since defendants had not materially contributed to direct copyright infringement, the plaintiffs' claim for contributory copyright infringement failed.

2. Vicarious Copyright Infringement

The plaintiffs' second theory of secondary liability was vicarious

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122. *Id.*
123. *Id.*
124. *Id.* at 1163.
125. *Id.*
126. *Id.*
127. *Napster*, 239 F.3d at 1022.
128. *Grokster*, 380 F.3d at 1163.
129. *Id.* at 1164.
130. *Id.* at 1163.

copyright infringement. Since the elements of direct infringement and direct financial benefit were undisputed on appeal, the court focused on "whether defendants ha[d] the right and ability to supervise the direct infringers" using their P2P networks.[131] The court reiterated that "Napster had the right and ability to supervise . . . because it controlled the central indices of files, users were required to register with Napster, and access to the system depended on the validity of a user's registration."[132]

Since StreamCast did not maintain a licensing agreement with Morpheus users, and Grokster "ha[d] no ability to actually terminate access to file sharing functions, absent a mandatory software upgrade," the court determined that defendants did not have the right to supervise its users. The court found that "none of the communication between defendants and users provide[d] a point of access for filtering or searching for infringing files, since infringing material and index information [did] not pass through defendants' computers."[133] Plaintiffs further contended that defendants could have prevented infringement by simply shutting down their operations.[134] The court foreclosed this argument, stating that "[i]n the case of StreamCast, shutting down its XML file altogether would not prevent anyone from using the Gnutella network. In the case of Grokster, its licensing agreement with [Kazaa] does not give it the ability to mandate that root nodes be shut down."[135] As such, the court concluded that defendants did not operate an "integrated service" that they could monitor and control.[136]

The plaintiffs further contended that defendants could alter their software to detect infringing content and prevent it from passing through their network.[137] Here, the court stated that plaintiffs "confuse the right and ability to supervise with the strong duty imposed on entities that have already been determined to be liable for vicarious copyright infringement."[138] Thus, alternative design options were not relevant to determining whether the defendants had the right and ability to supervise users.[139]

131. *Id.* at 1164.

132. *Id.* at 1165 (citing A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1011–12, 1023–24 (9th Cir. 2001)).

133. *Id.*

134. *See* MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1165 (9th Cir. 2004).

135. *Id.*

136. *Id.* at 1165.

137. *Id.* at 1165–66.

138. *Id.* at 1166.

139. *See id.*

D. *Analysis and Implications*

1. The *Sony* Doctrine in the P2P World: What's a VCR?

The Ninth Circuit's decision in *Grokster* raises a critical issue regarding the interpretation and application of *Sony*—what level, if any, of noninfringing use is "substantial" or "commercially significant"? This determination is critical because meeting this standard shields a defendant's product or service from liability for contributory copyright infringement. In *Sony*, the VCR's "primary use" was private, noncommercial time-shifting.[140] The Court found that time shifting was a noninfringing "fair use."[141] Significantly, in *Sony*, there was insufficient evidence that VCR users were accumulating video libraries, a use that would have been infringing.[142] Thus, the proportion of infringing use was believed to be relatively low.

However, the Supreme Court refused to consider the proportion of infringing to noninfringing uses, and instead, focused on whether the VCR was "merely . . . capable of substantial noninfringing uses."[143] Thus, the Court focused on the noninfringing capabilities of the technology. Consequently, *Sony* appears to shield defendants who make only a minimal evidentiary showing of noninfringing use. The Court declined an invitation to balance infringing and noninfringing uses.[144] However, the fact that a significant use of VCRs was noninfringing time shifting suggests that the Court was, at least on the facts, aiming to preserve a balance between copyright protection and technological innovation.

It does not appear that the same balance exists in the context of P2P file sharing. Compared to VCRs, P2P networks present notably unique capabilities. The decentralized, user-driven nature of P2P networks makes it very easy for users to retrieve (download) copyrighted files and maintain personal digital libraries. More importantly, P2P networks enable users to make perfect copies of copyrighted works at almost zero cost and to distribute (upload) those copyrighted works instantaneously on a global scale.[145] Thus, regardless of whether maintaining personal digital libraries

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

141. *Id.* at 454–55.

142. *See id.* at 424 n.4.

143. *Id.* at 442.

144. *See id.* at 492–93 (Blackmun, J., dissenting).

145. *See* Aaron Burnstein, et al., *The Rise of Internet Interest Group Politics*, 19 BERKELEY TECH L.J. 1, 4 (2004).

constitutes fair-use under *Sony*,[146] the distributive capability of P2P networks enables a much greater degree of infringement than was possible by means of Sony's VCRs. In short, P2P technology is qualitatively and quantitatively different than VCR technology.

Aware of the unique threat posed by P2P technology, the Seventh Circuit, in *Aimster*, read *Sony* as an attempt to balance copyright protection and technological innovation.[147] There, the court stated that "some estimate of the respective magnitudes of [noninfringing and infringing] uses" must be made.[148] Under the *Aimster* test, it was not sufficient that a technology was merely capable of noninfringing uses. Since defendants in *Aimster* produced no evidence of noninfringing uses, the court could not quantify what degree of non-infringing use would be "substantial" enough to warrant protection under *Sony*. The *Aimster* court continued to state that the service provider's ability "to prevent its customers from infringing is a factor to be considered in determining whether the provider is a contributory infringer."[149]

Although the Seventh Circuit indicated that P2P software providers may have a duty to prevent the infringing activity that their software enables, the court expressed concern for the impact such a duty could have on the development of new online services, stating:

> If a service facilitates both infringing and noninfringing uses . . . and the detection and prevention of the infringing uses would be highly burdensome, the rule . . . could result in the shutting down of the service or its annexation by the copyright owners . . . because the provider might find it impossible to estimate its potential damages liability to the copyright holders and would anyway face the risk of being enjoined.[150]

Despite this potential impact on innovation, the court elaborated on this policing duty and placed a relatively heavy burden on innovators, stating that "if the infringing uses are substantial . . . the provider of the service must show that it would have been disproportionately costly for [defendant] to eliminate or at least reduce substantially the infringing

146. *See Sony*, 464 U.S. at 442 (implying that library building is an infringing use and, therefore, not covered under the fair use doctrine).

147. *See In re* Aimster, 334 F.3d 643, 649 (7th Cir. 2003) (stating that in *Sony*, "the [C]ourt was unwilling to allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying noninfringing consumers the benefit of the technology").

148. *Id.*

149. *Id.* at 648.

150. *Id.* at 648–49.

uses."[151] This suggests that innovators may have to consider potential future uses of a product or service, alternative designs, the costs of such alternatives, and whether a court would determine that such costs are "disproportionately costly."[152] As such, the Seventh Circuit's standard can properly be seen as an attempt to strike a balance between innovation and copyright, by shifting the burden of producing evidence to the defendant when the proportion of infringing use is relatively high.

Unlike in *Aimster*, the defendants in *Grokster* presented considerable evidence—albeit largely anecdotal—of noninfringing use. They contended that they had "entered into partnerships with several groups of independent artists, all of whom expressly authorize[d] distribution of their works via [P2P] networks."[153] For instance, defendants introduced evidence that GigAmerica, one group representing approximately 7000 independent artists, had its songs downloaded thousands of times per week.[154] Moreover, the defendants argued that numerous bands including Phish, Pearl Jam, The Dave Matthews Band, and John Mayer authorized P2P networks to share live concert recordings among fans.[155] Defendants also introduced evidence that P2P networks are also used to distribute authorized "shareware" and "freeware."[156] Additionally, defendants noted that P2P networks are used to distribute public domain works.[157] For instance, Project Gutenberg has been working since 1973 to convert public domain works into digital form so that they can be distributed over the Internet.[158]

After reviewing this evidence and the lack of evidence presented by plaintiffs to controvert it, the district court concluded that "[p]laintiffs do not dispute that the [d]efendants' software is being used, and could be used, for substantial noninfringing purposes."[159] Rather, plaintiffs presented evidence that over 90% of the content on defendants' networks was

151. *Id.* at 653.

152. *See* Lemley & Reese, *supra* note 19, at 1362.

153. Appellee Grokster, Ltd.'s Brief at 17, MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004) (No. 03-55894 and No. 03-55901).

154. *Id.*

155. Appellee Streamcast Networks, Inc.'s Opening Brief at 15, MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004) (No. 03-55894, No. 03-56236, and No. 03-55901).

156. *Id.*

157. *Id.* at 16.

158. *See id.*; Project Gutenberg, *at* http://www.gutenberg.org ("Project Gutenberg is the oldest producer of free electronic books (eBooks or etexts) on the Internet. Our collection of more than 15,000 eBooks was produced by hundreds of volunteers. Most of the Project Gutenberg eBooks are older literary works that are in the public domain in the United States. All may be freely downloaded and read, and redistributed for non-commercial use.").

159. MGM Studios, Inc. v. Grokster, Ltd., 259 F.Supp.2d 1029, 1036 (C.D. Cal. 2003).

infringing and over 70% was under copyright by the plaintiffs.[160] The court found this evidence to be irrelevant to defendants' showing of substantial noninfringing use.[161] In adhering to the letter of *Sony*, the Ninth Circuit refused to balance noninfringing and infringing uses of the technology and explicitly disagreed with the balancing test that the Seventh Circuit adopted in *Aimster*.[162] The result, it appears, is that defendants escaped contributory liability despite the fact that up to 90% of the files traded on the networks were infringing. Essentially, innovation trumped copyright.

It is not clear whether the *Sony* Court intended to let innovation trump copyright. In sum, *Sony* cited evidence that a primary use of the VCR was noninfringing time-shifting. Thus, *Sony* preserved a balance between innovation and copyright. In *Aimster*, there was no actual evidence of noninfringing uses, so the court refused to let innovation trump copyright. However, if *Aimster* had presented evidence of noninfringing use, the Seventh Circuit would have applied a balancing test to the facts to determine whether the primary use of Aimster software was noninfringing. In *Grokster*, there was evidence of "substantial noninfringing uses," but the volume of such noninfringing use clearly did not approach the level of the technology's "primary" purpose. As such, *Grokster* appears to have let innovation trump copyright by setting a very low evidentiary threshold for protection under *Sony*. Nevertheless, this appears to be exactly what the *Sony* majority intended to do—and what the *Sony* dissent wanted to prevent.

2. Technical Design: Inability to Control or Willful Blindness?

After finding that the defendants' P2P networks were capable of substantial noninfringing uses, the Ninth Circuit, following *Napster*, stated that the plaintiffs must establish that the defendants had "specific knowledge of infringement at a time at which they contribute[d] to the infringement, and [ ] fail[ed] to act upon that information."[163] Under this standard, the decentralized nature of the defendants' networks was dispositive because the defendants, unlike Napster, did not maintain any central servers.[164] Therefore, evidence that the defendants knew of

160. MGM Plaintiffs-Appellants' Opening Brief at 8, MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004) (No. 03-55894, No. 03-56236, and No. 03-55901).

161. MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1162 (9th Cir. 2004).

162. *Id.* at 1162 n.9 ("*Aimster* is premised specifically on a fundamental disagreement with Napster[ ]'s reading of *Sony-Betamax*.").

163. *Grokster*, 380 F.3d at 1162 (alteration in the original) (citation omitted).

164. *Id.* at 1163.

infringing activity (based on receiving notice of alleged infringement occurring on the defendant's networks) was immaterial because the technical architecture of the defendants' networks prevented them from blocking specific acts of infringement.[165] As such, it appears that the Ninth Circuit's narrow approach renders the knowledge element essentially meaningless, so long as the defendant cannot stop the infringement.

Viewed in the context of *Sony*, this application is correct. Indeed, a primary purpose of the *Sony* decision was to bar imputing knowledge to defendants who have only *general* awareness of the infringement occurring on their networks. Under the *Sony* doctrine, the knowledge element becomes much stricter, requiring specific knowledge of infringement—actual knowledge of illegal trading of specific copyrighted files. Thus, notices of specific illegal trades obtained *after* users traded the files might meet the knowledge requirement, as in *Napster*, but will fail the material contribution element unless the defendant had knowledge at a time when it was able to prevent the specific acts of infringement. Although there was evidence that the defendants in *Grokster* communicated with users and provided technical support and product upgrades, none of these interactions enabled the defendants to control or block the specific acts of infringement.

Therefore, when a product is capable of substantial noninfringing uses, the inquiry under contributory infringement necessarily turns to product design to determine whether the defendant provided the "'site and facilities' for infringement."[166] Vicarious liability also invites a similar inquiry into product design in order to determine whether defendants have the "right and ability to supervise" user activity.[167] In *MGM v. Grokster*, the Ninth Circuit stated that "Grokster nominally reserves the right to terminate access, while StreamCast does not maintain a licensing agreement with persons who download Morpheus."[168] Nevertheless, the court found that "even Grokster has no ability to *actually* terminate access."[169] Thus, the ability to control trumped any "nominal" right that Grokster retained in its software licensing agreement and became the dispositive issue in determining vicarious liability. Consequently, both contributory infringement and vicarious liability theories turned on the question of whether the technical architecture of the defendants' software is

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165. *Id.*

166. *Id.* at 1163.

167. *Id.* at 1164. Since the "financial benefit" element of vicarious liability is easily satisfied by the fact that P2P networks typically receive money from advertising, the "right and ability to supervise" element is often dispositive.

168. *Id.* at 1165.

169. *Grokster*, 380 F.3d at 1165 (emphasis added).

such that they retain the ability to monitor and control the P2P transactions.

The ease with which Grokster and StreamCast were able to avoid liability by technical design prompts one to ask whether such willful blindness should allow the defendants to avoid liability.[170] The Ninth Circuit indicated that the ability to block individual infringing users would likely suffice as a right and ability to supervise,[171] but declined the plaintiffs' invitation to find liability under a "separate 'blind eye' theory or element of vicarious liability that exists independently of the traditional elements of liability."[172] Nevertheless, it is important to note the differences in the defendants' software designs.[173]

It is quite evident that the defendants chose their particular designs so as to attempt to avoid copyright liability.[174] For instance, the defendants do not require users to register, so it is impossible to terminate infringing users. Napster, on the other hand, had a user-registration requirement and an express policy reserving the right to block infringers' access for any reason.[175] Additionally, since defendants merely license access to the FastTrack network, they do not have the legal right to alter the FastTrack source code. Moreover, the defendants' decentralized, or quasi-decentralized networks and lack of registration requirements made blocking the illegal exchange of copyrighted files with filtering technology futile. Based on expert testimony at trial, the court found that there was insufficient evidence that filtering technology could block specific infringing files.[176] Even shutting down the defendants' networks completely would not end illegal file sharing. However, the Ninth Circuit indicated that shutting down operations altogether went beyond merely

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170. *See generally* Wu, *supra* note 55, at 734–37 (discussing the development of the FastTrack network architecture used by Grokster and the Gnutella architecture used by StreamCast).

171. *Grokster*, 380 F.3d at 1165 (citing Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262–63 (9th Cir. 1996) (holding that the "right and ability to supervise existed where a swap meet operator reserved the right to terminate vendors for any reason, promoted the swap meet, controlled access by customers, patrolled the meet, and could control direct infringers through its rules and regulations")).

172. *Id.* at 1166.

173. *See* MGM Studios, Inc. v. Grokster, Ltd., 259 F. Supp. 2d 1029, 1033 (C.D. Cal. 2003) (Only the current versions of the defendants' P2P software, at the time of trial, were at issue in the case.). Therefore, the fact that defendants altered their software to remove or reduce their ability to control users prior to the commencement of litigation was not relevant.

174. *See* Wu, *supra* note 55, at 734–737.

175. *A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1023 ("The ability to block infringers' access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.").

176. *Grokster*, 380 F.3d at 1165.

policing the network and blocking infringing users.[177] Regardless, the Ninth Circuit reiterated that any duty to alter a product would only come after a defendant was found liable for secondary copyright infringement.[178]

In short, the *Grokster* defendants are unable to identify and terminate infringing users and unable to block infringing content.[179] Therefore, despite being *functionally* equivalent to Napster, defendants do not *technically* provide the "site and facilities" for infringement or have the "right and ability to control" its users. Although the courts have not formally recognized a "willful blindness" theory of secondary copyright liability or an affirmative duty to design software to detect or prevent copyright infringement, the Seventh Circuit's decision in *Aimster* has highlighted the schizophrenia of the modern *Sony* doctrine and invited the Supreme Court to balance the harm caused by a technology with the feasibility of alternative designs.

3. Goodbye *Sony*, Hello *Grokster*: A New Standard Proposed

The confusion over *Sony* and the subsequent split between the Ninth and Seventh Circuits is before the Supreme Court for resolution. If the Supreme Court is willing to recognize that P2P networks—and their ability to enable user-driven, decentralized distribution of digital copies of copyrighted works on an unprecedented scale—pose a new and grave threat to copyright, then the Court may choose to revisit *Sony* and impose a balancing test similar to the one adopted by the Seventh Circuit. The Court could reiterate that, on the facts, *Sony* was an attempt to strike a balance between copyright and innovation. Under such a standard, anecdotal evidence that a technology is capable of noninfringing uses would most likely be insufficient. The problem lies in determining where to set the evidentiary threshold—what proportion of non-infringing works is "substantial."

However, the Court may prefer to articulate a new test that would clarify how contributory infringement and vicarious liability should be applied to new technologies. This would allow the Court to rearticulate the balance between copyright protection and technological innovation. Any such balancing test should apply to products and services and should

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177. *Id.*

178. *Id.* at 1166 (citing A&M Records v. Napster Inc., 284 F.3d at 1098) (It was only *after* Napster was found liable for contributory and vicarious copyright liability and the case was remanded to the District Court that Napster was required to "do everything feasible to block files from its system which contain[ed] [ ] the copyrighted works.").

179. *Id.* at 1165.

consider the following factors: (1) the foreseeable proportion of infringing to noninfringing use at the time the product is distributed; (2) the economic harm suffered by the copyright holder caused by the product or service; (3) the financial benefit the product or service derives from infringing uses; (4) the relationship between the product or service and its users; and (5) the benefit the product or service provides to society. These five factors need not all be present. Rather, they should be balanced under the totality of the circumstances.

Under this balancing test, courts would not need to assess the feasibility of adopting alternative designs, because the costs of potential liability would be factored into design decisions. If a defendant is held liable under this standard, then the court could issue an injunction and the defendant could develop an alternative design that would be more likely to avoid liability, or alternatively, determine to shut down operations completely. This test avoids enumerating specific products or services, such as P2P, or uses thereof, such as distribution, because the second factor accounts for damages caused by products or services that enable widespread distribution of copyrighted content. Moreover, any attempt to specify technology would be futile considering the pace of technological change and the need for a flexible, evolving standard.

This proposed balancing test provides guidance to judges and better aligns the incentives of innovators with the rights of content owners. Moreover, as the development of content encryption systems and digital rights management ("DRM") systems continue to reduce the costs of preventing infringement on P2P networks,[180] this test provides a workable compromise without imposing an undue burden on innovators.

a. Foreseeable Proportion of Infringing to Noninfringing Use at the Time the Product or Service Is Distributed

Under the first factor of the proposed test, proprietors would not be held liable for unforeseeable future uses of their product or service. This would help to mitigate any chilling effects on technological innovation that may result from abandoning the *Sony* doctrine's protection of products that are "merely capable of substantial non-infringing use." This factor would require defendants to prove that (a) the current uses of the network are not infringing, or (b) the current infringing uses were not foreseeable, or (c) the current infringing uses were not foreseeable in the current proportion. As discussed previously, the Supreme Court should not underestimate the

180. *See infra* Part V.B (discussing content encryption technologies).

burden that making such a showing may place on innovators.[181] In *Grokster*, plaintiffs presented evidence that nearly 90% of the files traded on defendants' P2P networks were infringing. Additionally, the evidence in *Grokster* indicates that at the time of distribution defendants knew that their networks would be used primarily for copyright infringement. Thus, it is unlikely that the *Grokster* defendants would pass muster under the first factor.

b. Economic Harm Suffered by the Copyright Holder Caused by the Product or Service

The second factor specifies that the content owner has the burden of presenting evidence of actual economic damages caused by the defendant. Thus, the defendant could either rebut the amount of damages or prove an alternate cause of those damages. It would not be sufficient for a plaintiff to present data on revenue losses and the proliferation of P2P file sharing because such data does not prove that these losses were caused by the defendant. Given new data regarding increased sales of CDs and digital singles,[182] it is unclear whether P2P networks are causing the amount of damage that the content industries have presumed. Additionally, developments in DRM technology that allow content owners to control the digital distribution of their works will greatly reduce the harm caused to copyright holders by P2P networks.[183] Furthermore, under this factor, P2P network operators and service providers will have a legal incentive to cooperate with content owners seeking to implement DRM technology to reduce copyright infringement.

c. Financial Benefit the Product or Service Derives from Infringing Uses

The third factor borrows from the doctrine of vicarious liability and favors liability where defendant derives a financial interest from the infringing use of its product or service.[184] By including this factor, the

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181. *See supra* Part III.D.1 (citing *In re* Aimster, 334 F.3d 643, 648–49 (7th Cir. 2003)) ("If a service facilitates both infringing and noninfringing uses . . . and the detection and prevention of the infringing uses would be highly burdensome, the rule . . . could result in the shutting down of the service or its annexation by the copyright owners . . . because the provider might find it impossible to estimate its potential damages liability to the copyright holders and would anyway face the risk of being enjoined.").

182. *See supra* Part I (discussing RIAA data showing an increase in 2004 sales of CDs and digital singles).

183. *See infra* Part V.B (discussing content encryption and recent developments in DRM technology).

184. *See supra* Part II.B (discussing the elements of vicarious liability for copyright

balancing test essentially combines the doctrine of contributory infringement with vicarious liability and reduces the ambiguity that has arisen regarding the distinction between the two doctrines. Since no single factor is required, this balancing test retains the characteristics of secondary liability, which does not require that the defendant derive a financial benefit from infringement. In *Grokster*, there was no dispute that defendants received a financial benefit from operating their P2P networks.[185] Accordingly, this factor cuts in favor of liability where, as here, a defendant operates its P2P network for a profit.

d. Relationship Between the Product or Service and Its Users

The fourth factor parallels the "material contribution" element of contributory infringement and the "right and ability to supervise" element of vicarious liability.[186] Conflating these two elements from their respective doctrines removes the elusive distinction between providing the "site and facilities" and having the "right and ability to supervise" infringing conduct. However, rather than focusing solely on defendant's technical ability to control—which allows a defendant to escape liability by designing a technically decentralized network—this factor relaxes the inquiry to assess any contractual or other ongoing relationship with users. Therefore, evidence such as that presented by the plaintiffs in *Grokster*, which indicated that defendants provided ongoing technical support for users and promoted the infringing uses of the network,[187] could weigh in favor of secondary liability.

e. The Benefit the Product or Service Provides to Society

The fifth factor serves as a catch-all which protects innovators who have created a product that advances greater social and economic public policies, such as preserving the public domain, promoting freedom of expression, or fostering innovation.[188] Therefore, although a product or service may fail under the first factor when the foreseeable proportion of infringing to noninfringing uses is high, the fifth factor may cut in favor of the defendant if the noninfringing uses substantially further these public

infringement).

185. *See* MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1164 (9th Cir. 2004).

186. *See supra* Part II.B (discussing the background of secondary copyright infringement).

187. *See supra* Part III.D.2 (discussing the evidence presented by plaintiffs regarding the relationship defendants maintained with users and the courts, finding that, despite such evidence, defendants did not have the ability to block or control the specific acts of infringement).

188. *See infra* Part IV (discussing the social value of P2P technology).

policy goals. This fifth factor, unlike the previous four, looks outside the defendant's conduct and its effects on the plaintiff to protect the interests of consumers and society. Hence, in *Grokster*, the anecdotal evidence that was presented regarding the non-infringing uses of defendants' networks would be assessed in light of the networks' contribution to the public domain, freedom of expression, and innovation.

IV. THE VALUE OF P2P TECHNOLOGY

P2P file sharing is not just downloading music and movies for free. P2P has tremendous social value. Neil Netanel put it quite clearly when he described P2P file sharing as:

> a vehicle for finding works that are otherwise not available, discovering new genres, making personalized compilations, and posting creative remixes, sequels, and modifications of popular works. By engaging in such activities, people who might previously have been passive consumers now assert a more active, self-defining role in the enjoyment, use, and creation of cultural expression. They also share their interests, creativity, and active enjoyment with others.[189]

According to Lawrence Lessig, this is "the art through which free culture is built."[190] Moreover, the Ninth Circuit has realized the social value of P2P networks, stating, "The technology has numerous other uses, significantly reducing the distribution costs of public domain and permissively shared art and speech, as well as reducing the centralized control of that distribution."[191]

In addition to its social value, P2P technology has significant commercial value. The true potential of P2P is in its increased efficiency as compared to traditional means of distribution—put simply, P2P dramatically reduces transaction costs.[192] P2P's decentralized user-driven nature pushes costs to the users of the system and does not require any investment in centralized servers.[193] Furthermore, P2P networks enable independent artists and entrepreneurs who could not previously afford to

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189. Neil Weinstock Netanel, *Impose a Noncommercial Use Levy to Allow Free Peer-to-Peer File Sharing*, 17 HARV. J.L. & TECH. 1, 3 (2003).

190. LAWRENCE LESSIG, THE FUTURE OF IDEAS: THE FATE OF THE COMMONS IN A CONNECTED WORLD 9 (2001).

191. MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1164 (9th Cir. 2004).

192. *See* Lemly & Reese, *supra* note 19, at 1382–83.

193. Appellee Grokster, Ltd.'s Brief at 18–19, MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004) (No. 03-55894 and No. 03-55901).

reach global audiences the ability to do so at practically zero cost. For instance, when AOL Time Warner's Reprise Records refused to release the album YANKEE HOTEL FOXTROT by the band Wilco, the band turned to P2P and distributed its album free of charge.[194] Wilco received so much interest that various labels bid on the album's release. Soon after, Wilco signed with Nonesuch Records, another AOL Time Warner label, and the album went gold on May 20, 2003.[195]

Individual artists may offer songs for distribution via Grokster using the increasingly popular Creative Commons licenses.[196] These licenses allow artists to distribute their works while retaining some, but not all, copyrights.[197] StreamCast has already modified its Morpheus software so that users can search for MP3 files bearing a Creative Commons license.[198] Additionally, commercial ventures including Microsoft, Altnet, Trymedia, and GigAmerica are taking advantage of P2P technology to reach enormous audiences at a very low cost.[199]

The strongest testament to the value of P2P technology is the fact that Hollywood is beginning to embrace P2P technology. Industry executives have realized that they must embrace P2P as a valuable component of their marketing and distribution strategy. For instance, the head of new media at Maverick Records, an AOL Time Warner label, confessed that "P2P is a likely distribution channel for our wares" and stated, "If we're going to be intelligent businesspeople, it behooves us to understand it."[200] P2P networks provide Hollywood with more meaningful data and a new distribution channel to reach new customers. By looking at P2P download data provided by firms such as BigChampagne, album promoters, radio stations, and retailers can efficiently respond to consumer demand and adjust the resources that are devoted to particular artists, albums, and

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194. *Id.* at 19–20.

195. *Id.* at 20.

196. *See* Creative Commons, *at* http://creativecommons.org ("Creative Commons offers a flexible range of protections and freedoms for authors and artists. We have built upon the 'all rights reserved' of traditional copyright to create a voluntary 'some rights reserved' copyright. We're a nonprofit. All of our tools are free.").

197. *See* Creative Commons; License, *at* http://creativecommons.org/license/ (providing authors the option of allowing use for non-commercial purposes and the option of specifying whether they wish to allow modifications, sampling, etc.).

198. Jon Healy, *Musicians to Place Songs on File Sharing Network*, L.A. TIMES, Oct. 30, 2004, at C1.

199. Appellee Grokster, Ltd.'s Brief at 20–21, MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004) (No. 03-55894 and No. 03-55901).

200. Jeff Howe, *BigChampagne Is Watching You*, WIRED, Oct. 2003, *available at* http://www.wired.com/wired/archive/11.10/fileshare.html.

songs.[201] In short, P2P networks are the equivalent of "the world's biggest focus group."[202]

Therefore, it comes as no surprise that Lava/Atlantic Records, a division of plaintiff Atlantic, has distributed free songs from its artists' current albums via Grokster.[203] Additionally, plaintiffs Sony BMG, Universal Music Group, and Warner Music Group announced a deal in November 2004 with Wurld Media to provide music for its P2P service called Peer Impact.[204] Universal has also signed a deal with Napster founder Shawn Fanning's new business venture, Snocap, whose advanced filtering technology will enable Universal to distribute its entire catalog of music through P2P networks.[205] Indeed, even Hollywood is realizing the value of P2P technology.

V. LEGAL DISTRIBUTION OF DIGITAL CONTENT

A. Business Models

While the content industries have been busy litigating against P2P networks and their users, there has been a dramatic increase in competition amongst legal for-pay business models.[206] Apple stampeded its way into the online music distribution business in April 2003 with its iTunes music store, which sold more than three million songs a la carte at ninety-nine cents each in its first month in business.[207] By January 2005, iTunes had sold 250 million songs and was selling 1.25 million songs per day.[208] iTunes' phenomenal success has since attracted numerous rivals into the marketplace. In 2004, software giant Microsoft and retail behemoth Wal-

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201. *See id.* ("They'll call these stations and say, 'You need to bang this shit. You're barely playing it, and it's already in the top 15 among alt-rock downloaders in your market. You need to step on this at least 20 more times a week, and not while people are sleeping.'").

202. *Id.*

203. Appellee Grokster, Ltd.'s Brief at 20–21, MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004) (No. 03-55894 and No. 03-55901).

204. Katie Dean, *P2P Tilts Towards Legitimacy*, WIRED NEWS.COM (Nov. 24, 2004), *at* http://www.wired.com/news/digiwood/0,1412,65836,00.html.

205. *See infra* Part V.B (discussion content encryption and digital rights management technologies, including digital fingerprinting); Brian Garrity & Carolyn Horowitz, *Universal in Deal with Napster Founder*, BILLBOARD.COM (Nov. 12, 2004), *at* http://www.billboard.com/bb/daily/article_display.jsp?vnu_content_id=1000718557.

206. *See generally* GARTNERG2, *supra* note 17, at 18 (describing the growth and evolution of online content distribution business models).

207. Laurianne McLaughlin, *Music Downloads: Is It Time to Pay?*, PCWORLD, June 5, 2003, *available at* http://www.pcworld.com/resource/article/0,aid,111040,00.asp.

208. Cohen, *supra* note 9.

Mart opened online music stores selling single downloads for ninety-nine cents and eighty-eight cents respectively.[209]

In addition to these a la carte business models, many subscription services have emerged that allow temporary, or "streaming," access to digital libraries of copyrighted music. For instance, Napster has reentered the market as a subscription service providing instant access to over one million songs.[210] Additionally, Sony has created a similar model, dubbed Connect, which serves as a one-stop portal for music fans.[211] In 2004, Yahoo spent $160 million to buy MusicMatch,[212] whose free Jukebox software enables user to organize their music and purchase single songs.[213] MusicMatch also offers a premium On Demand service, which allows users to instantly stream over 800,000 songs.[214]

Until recently, competition in the market for online digital film distribution had been considerably slow.[215] Many factors are responsible for the anemic growth of this market. The large size of movie files and limited bandwidth have been key limitations, because full-length films often take hours to download. Moreover, legitimate for-pay models face competition from illegal models, such as Film88, operating anonymously in foreign countries with more lenient copyright laws.[216] Furthermore, stiff competition between Netflix and Blockbuster has driven the cost of DVD-by-mail subscription rental services to as low as $15 per month.[217] By the

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209. *See* Steven Levy, *Forecast: Song Costs May Fall Like Rain*, NEWSWEEK, Sept. 27, 2004, at 13; *see, e.g.*, Walmart.com, Music, *at* http://musicdownloads.walmart.com (last visited Apr. 2, 2005) (selling single track downloads for eighty-eight cents each; MSN Music, at http://music.msn.com (last visited Apr. 2, 2005) (selling single track downloads for ninety-nine cents each).

210. *See* Napster, *at* http://napster.com.

211. *See* Connect, *at* http://connect.com.

212. Levy, *supra* note 209, at 13.

213. *See* MusicMatch, *at* http://musicmatch.com (last visited Apr. 2, 2005) (offering premium version for one-time fee of $19.99, which allows users to create custom CDs from MP3 files, create custom CD labels, get personal slideshows, and more).

214. *See id.*

215. *See generally* Stefanie Olsen, *Net Movies: Ready for Prime Time?*, CNET NEWS.COM (Nov. 4, 2002), *at* http://news.com.com/Net+movies+Ready+for+prime+time/2100-1023_3-964285.html? ("The major Hollywood movie studios are finally getting serious about delivering movies over the Internet.").

216. *See, e.g.*, Stefanie Olsen, *Hollywood Faces Recurring Net Nightmare*, CNET NEWS.COM (June 5, 2002), *at* http://news.com.com/Hollywood+faces+recurring+Net+nightmare/2100-1023_3-932743.html (Film88, operating out of Iran, runs on a video-store model, which lets people download or "rent" movies for three days in return for a payment of $1 to $1.50.).

217. Verne Kopytoff, *Netflix in for Blockbuster Battle Competition Heats up for Online Company that Rents DVDs*, S.F. CHRON., Jan 31, 2005, *available at* http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2005/01/31/BUG46B1QLD1.DTL&type=business.

end of 2004, Netflix had acquired 2.6 million customers.[218] As with the online music market, Wal-Mart has entered the DVD-by-mail business. Amazon.com launched a pilot business in Britain in December 2004 and is rumored to be planning for a U.S. launch.[219] Although these businesses are currently limited to sending DVDs by mail, advances in compression and encryption technology coupled with increasing Internet bandwidth will soon enable these companies to add online video distribution services.[220]

Despite the current limitations on online digital video distribution and stiff competition from DVD-by-mail businesses, online distribution business models have emerged.[221] MovieLink, which is backed by the major studios, including MGM, Paramount Pictures, Sony Pictures Entertainment, Universal Studios, and Warner Bros., provides streaming feature film "rentals" for as low as $1.99 for a single viewing.[222] Another competitor, CinemaNow, is backed by Microsoft and offers downloadable rentals of over 1500 films for around $3 each.[223] Additionally, Starz Ticket on RealNetworks launched a third alternative in June 2004, which allows users to download up to three movies onto their PCs for unlimited time.[224] More recently, Napster has indicated that it may enter the competition for online films.[225]

In short, these business models, like P2P networks, provide instant downloads of individual songs and movies. However, unlike P2P networks, these online stores offer consistently high-quality digital content without the threat of being labeled "pirates"—or worse, "felons." The proliferation of online digital music and movie stores exemplifies the fact that P2P networks are *not* bringing about the demise of the content industries. In fact, quite the opposite may be occurring. P2P popularity appears to have jump-started the market for legal digital content by creating global demand for digital music and other content. Thus, to the extent that

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218. *Id.*

219. *Id.*

220. *Id.*

221. *See* GartnerG2, *supra* note 17, at 10–12.

222. *See* MovieLink, *at* http://www.movielink.com; *see also* Press Release, Department of Justice (June 3, 2005), available *at* http://www.usdoj.gov/atr/public/press_releases/2004 /203932.htm (announcing that the DOJ had dropped its antitrust charges against MovieLink).

223. Stefanie Olsen, *Microsoft, Cinema Now Expand Net Movie Alliance*, CNET NEWS.COM (Jan. 6, 2005), *at* http://news.com.com/Microsoft%2C+CinemaNow+expand +Net+movie+alliance/2100-1025_3-5515995.html.

224. Jefferson Graham, *Click for a Flick from Starz, RealNetworks*, USA TODAY, June 14, 2004, at 3B, *available at* http://www.usatoday.com/tech/webguide/internetlife/2004-06-13-downloads_x.htm.

225. Jo Best, *Napster Eyes Movie Downloads*, CNET NEWS.COM (Jan. 24, 2005), *at* http://news.com.com/Napster+eyes+movie+downloads/2100-1027_3-5548022.html.

consumers continue to find value, and perhaps protection from lawsuits, in for-pay business models, fierce competition will continue amongst these legal alternatives to P2P networks.

B. Content Encryption

Legal online distribution of copyrighted digital content is premised on advanced encryption technologies, often referred to as DRM.[226] Since the development of the compressed MP3 file format and subsequent rise in P2P file sharing, the music industry has struggled to develop an encryption system that would prevent or deter music piracy.[227] The movie industry, on the other hand, adopted the Content Scrambling System ("CSS") standard for DVD encryption which prevents unauthorized duplication of DVDs.[228] Additionally, the movie industry successfully lobbied Congress to pass the Digital Millennium Copyright Act of 1998 ("DMCA"), which makes it illegal to reverse engineer or circumvent encryption technology such as the CSS or other DRM systems.[229]

Ironically, CSS encrypted files can be decrypted fairly easily.[230] Decrypted movies are increasingly available on P2P networks. However, the large file size of movies and limited bandwidth of users' Internet connections has limited the illegal downloading of movies.[231] Nevertheless, as bandwidth increases and storage costs continue to fall, illegal P2P file sharing of decrypted movies is likely to increase.[232] Consequently, it will be increasingly necessary for the film industry to develop and successfully employ DRM systems.

Technically, DRM systems consist of "secure packaging and delivery software designed to prevent purchasers and third parties from making

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226. *See generally* Lionel S. Sobel, *DRM as an Enabler of Business Models: ISP's as Digital Rights Retailers*, 18 BERKELEY TECH. L.J. 667 (2003) (describing various copyright protection models premised on DRM technology).

227. *See* Christopher Jones, *SDMI: Divide or Conquer?*, WIRED NEWS.COM (Nov. 18, 1999), *at* http://www.wired.com/news/technology/0,1282,32513,00.html (discussing the Secure Digital Music Initiative's struggle to create a system for protecting and controlling digital content that matches MP3's ease of use).

228. *See* Andy Patrizio, *DVD Piracy: It Can Be Done*, WIRED NEWS.COM (Nov. 1, 1999), *at* http://www.wired.com/news/technology/0,1282,32249,00.html.

229. *See* Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in sections of Titles 5, 17, 28, and 35 of United States Code).

230. *See* Patrizio, *supra* note 228 (describing the illegal DeCSS program that enabled the decryption of DVDs).

231. *See* Taylor, *supra* note 15.

232. *See, e.g.*, BURNWORLD.COM, DVD Burning Hardware Review, *at* http://www.burnworld.com/dvd-burner/index.htm (listing comparison information for multiple DVD burners and links for purchase) (last visited Apr. 2, 2005).

unauthorized uses of digital works."[233] Practically, DRM systems have the ability to prevent users from duplicating or transferring digital content.[234] Content owners employing DRM technology could limit the number of times users can view or listen to a file, or could fix the number of copies permitted. For example, songs purchased from Apple are encoded with Apple's proprietary FairPlay DRM technology and can be burned to CDs, transferred to iPod MP3 players, or copied onto three different computers.[235] Adobe's eBook reader allows publishers to determine how many times a reader may copy, print, or read aloud an eBook.[236] Most importantly, DRM technology enables copyright holders to control their content *after* initial distribution.

Developments in encryption technology will continue to enable legal online business models and protect copyrights. For example, advanced "watermarking" and "fingerprinting" DRM technologies allows content owners to monitor and control how their content passes through P2P networks.[237] Digital watermarks are essentially identification tags built into digital files when they are created that can be tracked by computers when users play the files.[238] Digital fingerprinting works by applying an algorithm to selected features of the content, which then converts the content into a unique digital identification mark.[239] Napster founder Shawn Fanning's new business venture, Snocap, Inc., has developed audio fingerprint filtering technology that will allow content owners to register, identify, and track music files as they make their way from user to user on P2P networks.[240] Most importantly, fingerprinting and watermarking enable copyright owners to specify the terms of use and sale of their content, such as pricing and the number of times a file or song can be viewed or played for free.[241]

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233. Dan L. Burk & Julie E. Cohen, *Fair Use Infrastructure for Rights Management Systems*, 15 HARV. J. L. & TECH. 41, 48 (2001).

234. *See* LAWRENCE LESSIG, FREE CULTURE 147–54 (2004) (describing how Adobe's DRM for e-books restricts the uses of the content).

235. *See* John Borland, *Apple's Music: Evolution, Not Revolution*, CNET NEWS.COM (Apr. 29, 2003), *at* http://news.com.com/2100-1027-998675.html.

236. *See* LESSIG, *supra* note 234 at 148–154.

237. *See* Sobel, *supra* note 226 at 681.

238. *See id.*

239. *See id.*

240. *See* Katie Dean, *Napster Star Changes His Tune*, WIRED NEWS.COM (Dec. 3, 2004), *at* http://www.wired.com/news/digiwood/0,1412,65893,00.html?.

241. *See id.*

C. The Benefits (and Costs) of Control

P2P has evolved from a centralized "free-content, controlled-network" model (e.g., Napster) to a decentralized "free-content, free-network" model (e.g., Gnutella). As DRM systems are enabling content owners to control their digital works after initial distribution, P2P is moving towards a "controlled-content, free-network" model. Advanced DRM technologies will continue to reduce content owners' need to regulate P2P networks themselves. In other words, control is shifting from the network to the content itself.

Consequently, rather than suing the P2P networks, the content industries should distribute DRM-protected content directly to consumers through P2P networks. This mitigates their two primary problems: (1) losses due to illegal P2P file sharing and (2) lack of their own viable online business models. By distributing through P2P networks, the content industries can begin to earn their piece of the lucrative online market for digital content. Indeed, behind the scenes of the *MGM v. Grokster* battle, content industry executives are inking deals with companies, such as Snocap, which enable controlled copyrighted content to be distributed through P2P networks.[242]

It is important to note that advanced DRM technologies have the potential to control digital content beyond the protections afforded by copyright law itself.[243] Specifically, DRM systems have the potential to eliminate the fair use of digital content[244] and infringe on individual privacy.[245] After all, the market has every incentive to control content exclusively, completely and indefinitely. As previously discussed, the explosion in popularity of online music and film has attracted huge inflows of capital and corporate interest into the online marketplace for digital content distribution. These interests, whether aligned with the best interests of creators and artists or not, will continue to develop technologies

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242. *See infra* Part IV (describing record labels' acknowledgement of the value of P2P networks and partnerships with P2P-based businesses); *see also* Garrity & Horowitz, *supra* note 205.

243. *See* LAWRENCE LESSIG, CODE AND OTHER LAWS OF CYBERSPACE 136 (1999) ("When the software protects in a particular way without relying in the end on the state, where can we challenge the nature of the protection? Where can we demand balance when the code takes it away?").

244. *See generally* LESSIG, *supra* note 234 (discussing the ability of new DRM technologies to provide control over digital content beyond that offered by fair-use law).

245. *See* Julie E. Cohen, *DRM and Privacy*, 18 BERKELEY TECH. L.J. 575, 617 (2003) (arguing that the law must provide remedies for intellectual privacy violations and that intellectual privacy must also be built into DRM code).

that provide content owners greater control over their digital content. Traditionally, these corporate interests have been opposed to decentralized networks. Understandably, they prefer to operate gated digital communities where they can be the gatekeepers and control the distribution and use of their copyrighted content.

In short, the new corporate business models embody a "complete control" model—content *and* distribution networks are controlled. Given the recent advances in DRM technology, controlling networks are no longer necessary to control content. Therefore, as the market continues to shift from a free market to a controlled market, allowing P2P networks to survive as a quasi-public commons, despite their infringing uses, may be a workable compromise.

VI. THE COURTS OR CONGRESS: WHO SHOULD DECIDE?

A. The Courts Defer to Congress on P2P

In its *Sony* decision in 1984, the Supreme Court emphasized its reluctance to enter the realm of technology policy without Congressional approval. The Court stated, "Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials."[246] The Court also acknowledged that creating liability for the makers of new technologies that have lawful uses threatened to "block the wheels of commerce."[247] Thus, the Court protected makers of products that were "merely capable of substantial noninfringing uses," sending a clear message to the courts that they must be cautious not to extend copyrights so far as to deter innovation. Accordingly, the Supreme Court deferred to Congress, which has Constitutional authority to balance copyright holders' rights with the policy goal of promoting innovation, so as "to promote the progress of science and the useful arts."[248] The Court elaborated, "When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress."[249]

In 2004, the Ninth Circuit faced quite a predicament with *MGM v. Grokster*. After all, in 1981 the content industries persuaded the Ninth Circuit that adopting a balancing test would better protect copyrights.

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

247. *Id.* at 441.

248. *Id.* at 456 (citing Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 530 (1972)).

249. *Id.*

However, the Supreme Court in the *Sony* decision overruled the Ninth Circuit. Twenty years later, the Ninth Circuit was faced with essentially the same balancing invitation. It prudently declined. Although the Ninth Circuit's *Grokster* decision mirrored *Sony* by overtly deferring to Congress, its decision may be seen as one of deference to the Supreme Court.

However, taking the Ninth Circuit's *Grokster* decision at face value, the court indicated that it was not the place of the courts to extend secondary liability for copyright infringement by balancing infringing and noninfringing uses. This time, the Ninth Circuit went out of its way to chastise the content industry for attempting once again to preserve their market position in the face of threatening new technology, stating:

> [W]e live in a quicksilver technological environment with courts ill-suited to fix the flow of internet innovation. The introduction of new technology is always disruptive to old markets, and particularly to those copyright owners whose works are sold through well-established distribution mechanisms. Yet, history has shown that *time and market forces often provide equilibrium in balancing interests*, whether the new technology be a player piano, a copier, a tape recorder, a video recorder, a personal computer, a karaoke machine, or an MP3 player. Thus, it is prudent for courts to exercise caution before restructuring liability theories for the purpose of addressing specific market abuses, despite their apparent present magnitude.[250]

Surely, adopting a balancing test might have served the more immediate interests of content owners, but its long term potential to reduce the value of P2P networks and chill technology development led the court to defer to Congress.

B. Congress Considers the Solution

Congress has amended the Copyright Act multiple times to address new technologies and the threats that they pose to copyrighted works. For instance, Congress amended the Copyright Act to address digital audio recorders,[251] satellite television broadcasting,[252] webcasting,[253] and analog video cassette recorders.[254] The Digital Millennium Copyright Act

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250. MGM Studios, Inc. v. Grokster, Ltd., 380 F.3d 1167 (9th Cir. 2004) (emphasis added) (citation omitted).

251. *See* 17 U.S.C. §§ 1001–10 (2000).

252. *See id.* § 119.

253. *See id.* § 114(f)(5)(A) (Supp. 2004).

254. *See id.* § 1201(k).

("DMCA") of 1998 made it a crime to circumvent the technological measures that control access to copyrighted works,[255] or to manufacture and distribute any technology or tool designed to circumvent encryption technology.[256] Most importantly, Congress enacted numerous narrow exemptions from liability under the DMCA to ensure that the courts were clear on when to impose liability on service providers.[257] Recently, Congress has enacted a host of bills regarding piracy and the need for copyright holders to control the distribution of their intellectual property.[258]

Congress has a variety of policy levers to create effective remedies for these complex copyright problems. For instance, Congress has employed compulsory licensing,[259] imposed limited technology mandates,[260] and modified copyright's remedial scheme.[261] Moreover, Congress may determine to let the market function without intervention.

In 2004, Congress considered a bill, known as the Induce Act, that stood at the center of the file sharing debate.[262] The Induce Act was aimed at the providers of P2P file sharing software, such as Grokster and StreamCast. A draft of the bill would have held anyone liable who "intentionally aids, abets, induces or procures" copyright infringement.[263] Opponents of the Induce Act argued that such language was overly broad and likely to chill technological innovation.[264] After much opposition, the Induce Act stalled in Congress when powerful interest groups and

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255. *See* Digital Millennium Copyright Act, Pub. L. No. 105-304, § 103(a), 112 Stat. 2860, 2863, 17 U.S.C. §§ 1201–05 (1998).

256. *See id.*

257. *See* 17 U.S.C. § 512 (2000).

258. *See, e.g.*, Protecting Intellectual Rights Against Theft and Expropriation Act of 2004 ("PIRATE"), S. Res. 2237, 108th Cong. § 1 (2004); Artists' Rights and Theft Prevention Act of 2004 ("ART"), S. Res. 3021, 108th Cong. § 101 (2004); Piracy Deterrence and Education Act of 2004, H.R. Con. Res. 4077 (2004).

259. *See* 17 U.S.C. §§ 111(c) (cable TV), 114 (sound recordings), 119 (satellite television broadcasting).

260. *See* 17 U.S.C. § 1201(k) (analog VCRs).

261. *See* 17 U.S.C. §§ 512 (safe harbors for online service providers), 506(a)(2) (criminal liability imposed on noncommercial infringers).

262. Inducing Infringement of Copyrights Act of 2004, S. Res. 2560, 108th Cong. § 1 (2004) [hereinafter Induce Act]; *see also* Tom Zeller Jr., *Senate Bill Aims at Makers of File-Sharing Software*, N.Y. TIMES, Sept. 30, 2004, at C7 ("[Induce Act] was introduced by Senator Orrin G. Hatch, Republican of Utah, and [was] supported by a bipartisan coalition of 10 senators, including Democrats like Patrick J. Leahy of Vermont, Hillary Rodham Clinton of New York and Barbara Boxer of California, as well as Republicans like Bill Frist of Tennessee and Lindsey O. Graham of South Carolina.").

263. Induce Act, S. Res. 2560, 108th Cong. § 2 (2004).

264. *See* Zeller, *supra* note 262.

legislators were unable to compromise on a draft of the bill.[265]

In addition to the Induce Act, alternative solutions have been developed that aim to balance the competing interests at stake. For instance, Congress could impose a compulsory collective licensing scheme, such as the models proposed by Neil Netanel[266] and William Fisher,[267] which would retain the value of P2P while paying revenues to copyright holders. Under Fisher's model, the creator of a recording would register it with the U.S. Copyright Office and would receive, in return, a unique file name, which would be used to track Internet transmissions of the work.[268] The government would tax devices and services used to gain access to digital entertainment.[269] The Electronic Frontier Foundation has endorsed such an "industry-led collective licensing solution that would ensure compensation for copyright owners while minimizing the need for governmental intrusion into the digital music marketplace."[270]

VII. CONCLUSION

Under *MGM v. Grokster*, a defendant can seemingly avoid secondary liability for copyright infringement so long as its P2P software is capable of substantially or commercially significant noninfringing uses and is unable to actively police its network to detect and prevent direct infringement. Both elements are easy to satisfy given the noninfringing uses of P2P networks and the ease with which software developers can design P2P software to avoid any ability to control user activity. Nevertheless, the Ninth Circuit's decision prudently applied *Sony* and declined to adopt the Seventh Circuit's balancing standard. The *Sony* doctrine, as applied in *MGM v. Grokster*, provides a bright-line test that guides lower courts and appropriately restricts judicial regulation of emerging technologies.

The conflict between emerging technologies and incumbent interests is as old as innovation itself. While the content industries are in court suing individual users and providers of P2P networks, the market is responding

265. *See* Jeff Howe, *Keep Your Laws off My Technology*, WIRED, Oct. 2004, *available at* http://www.wired.com/wired/archive/12.10/start.html?pg=5 (commenting on how the Business Software Alliance withdrew its support for the bill because of internal disagreement over language within the bill).

266. *See* Netanel, *supra* note 189 at 31.

267. *See* WILLIAM W. FISHER III, PROMISES TO KEEP: TECHNOLOGY, LAW, AND THE FUTURE OF ENTERTAINMENT 199–258 (2004).

268. *See id.*

269. *See id.*

270. Letter from Shari Steele, Executive Director, Electronic Frontier Foundation, to U.S. Senators, *available at* http://www.eff.org/IP/eff_induce_letter.php.

with more entrepreneurial and efficient solutions that are enabling the legal distribution of digital content *and* preserving the value of P2P networks. The dramatic pace of innovation in content encryption technologies and business models proclaims the soundness of *Sony* and *Grokster*. Thus, the Supreme Court need not radically revise *Sony*, because the balance between copyright and innovation will be struck in the marketplace, and if necessary, in Congress.

VIII. POSTSCRIPT

Added July 20, 2005

On June 27, 2005, in a unanimous 9-0 decision, the Supreme Court reversed the Ninth Circuit and ruled that defendants Grokster and StreamCast could be liable for inducing copyright infringement.[271] While Hollywood executives and content owners celebrate their apparent victory,[272] technologists and venture capitalists bemoan the inevitable chilling effects the decision will have on innovation.[273] However, a closer reading of the Court's decision reveals an ambitious attempt to strike the elusive balance between copyright and innovation, a balance that may prove to serve the long-term interests of both.

A. The Supreme Court Decision

1. The Majority

The unanimous Supreme Court majority shows an adept understanding of peer-to-peer technology and the competing interests of copyright and innovation. The Court overtly endeavors to realign the "balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communications technologies by limiting the incidence of liability for copyright infringement."[274] To that end, and in light of the volume of infringement occurring via defendants' networks, the Court finds that "the

271. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 125 S. Ct. 2764 (2005) [we have not spelled out MGM yet, so lets not start here].

272. *See* William Triplett, *Grokster Tuned Out: High Court Puts Unanimous Kibosh On File Sharing*, DAILY VARIETY, June 28, 2005 at 1.

273. *See* Heather Green, *Coming to Grips With Grokster: Now the Only Thing Innovators Are Sure of Is That They'll Have to Watch Their Step*, BUS. WK., July 11, 2005, at 37.

274. *MGM Studios Inc.*, 125 S. Ct. at 2775.

argument for imposing indirect liability in this case is, however, a powerful one."[275]

To establish the legal standard for secondary liability, the Court turns to its 1984 *Sony*[276] decision. Rather than revisiting *Sony*, the Court distinguishes *Sony* from *Grokster*.[277] The Court explains that, in *Sony*, "[t]here was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping."[278] Therefore, in *Sony*, "the only conceivable basis for imposing liability was on a theory on contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe."[279] However, the *Sony* Court created an exception "because the VCR was 'capable of commercially significant noninfringing uses'" to ensure that "the manufacturer could not be faulted solely on the basis of its distribution."[280]

By distinguishing *Sony*, the Court avoids answering the most disputed issue before it: What level of infringing use qualifies as "substantial"? The Court refuses to determine whether the alleged ten-percent noninfringing use is substantial.[281] More significantly, the Court refuses to hold—as MGM had urged them to—that a product used "principally" for infringement does not qualify for protection under *Sony*.[282] The Court explicitly leaves these questions for another day.[283]

Then, the Court determines that the Ninth Circuit misapplied *Sony*. The Ninth Circuit had interpreted *Sony*'s protection as applying "whenever a product is capable of substantial lawful use . . . 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.'"[284] The Court clarifies that *Sony* was about imputing defendant's intent to infringe from the characteristics or uses of a distributed product.[285] *Sony* was not meant to be applied so broadly as to immunize defendants "when an actual

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275. *Id.* at 2776.

276. Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984).

277. *SAME (etc., etc., ...) Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2778.

278. *Id.* at 2777.

279. *Id.*

280. *Id.*

281. *See id.* at 2778.

282. *Id.*

283. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2778–79 ("It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of Sony and to leave further consideration of the Sony rule for a day when that may be required.").

284. *Id.* at 2778.

285. *Id.*

purpose to cause infringing use is shown by evidence *independent of design and distribution* of the product."[286] Accordingly, the Ninth Circuit erred in concluding that defendants could not be held liable.[287]

Holding that *Sony* does not dispose of the case at hand, the Court articulates the *Grokster* "inducement" standard for secondary liability.[288] First, to render its holding consistent with *Sony* and common law precedent, the Court emphasizes that "*Sony* did not displace other theories of secondary liability" and that "nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law."[289] Then, after laying a foundation in precedent, the Court sets forth the *Grokster* "inducement" standard:

> [O]ne 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 inducement by third parties . . . . [M]ere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor here to liability. Nor would ordinary acts incident to the product distribution, such as offering customers technical support or product updates, support liability in and of themselves.[290]

The Grokster "inducement" test leaves *Sony* fully intact. Therefore, a defendant who is not found to have induced infringement under *Grokster* may still be found liable under *Sony*. In other words, absent "clear expression or other affirmative steps taken to foster infringement,"[291] a defendant will not be liable under *Grokster*. However, if there is no commercially significant use of the product, intent to cause infringement may be imputed, rendering defendant liable for contributory copyright infringement under *Sony*.

2. The Concurring Opinions: Saving Betamax?[292]

Although the unanimous majority of the Court avoids clarifying or

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286. *Id.* (emphasis added).

287. *Id.* at 2778–79.

288. *Id.* at 2779.

289. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2778–79.

290. *Id.* at 2780 (emphasis added).

291. *Id.*

292. Betamax refers to the *Sony* case, where the potentially infringing technology was the Betamax video tape recorders. *Sony Corp. of America*, 464 U.S. at 422.

quantifying *Sony's* "substantial noninfringing use" test, Justices Ginsburg and Breyer each wrote separate concurring opinions debating *Sony's* future. Justice Ginsburg's concurring opinion was joined by Chief Justice Rehnquist and Justice Kennedy.[293] Justice Breyer's concurring opinion was joined by Justice Stevens and Justice O'Connor.[294] Read together, these two concurrences reveal that the Justices are deeply divided over the future of *Sony*. Indeed, given the fact that the unanimous majority declined to revisit *Sony*, future cases regarding contributory infringement which do not clearly involve inducement are likely to turn on the Justices' conflicting interpretations of *Sony* set forth in these concurring opinions.

a. Ginsburg's Concurrence: Overwhelming Proportion and Future Uses

Rehnquist, Kennedy, and Ginsburg would deny defendants' motion for summary judgment under *Sony*. Their concurrence begins by stating that "[t]here is here at least a 'genuine issue of material fact, on the liability of Grokster or StreamCast, not only for actively inducing copyright infringement, but also or alternatively based on the distribution of their software products, for contributory copyright infringement."[295] In short, defendants could be liable under *Sony*, regardless of *Grokster*'s newly established inducement test.

Ginsburg notes that the *Sony* Court "homed in on one potential use—private, non-commercial time-shifting of television programs in the home" and determined that time-shifting was noninfringing, because "in some cases trial testimony showed it was authorized by the copyright holder, . . . and in others it qualified as legitimate fair use."[296] Because this noninfringing use was clearly established, there was "no need in *Sony* to 'give precise content to the question of how much [actual or potential] use is commercially significant.'"[297] However, because *Grokster's* evidence of noninfringing use was much less persuasive than that in *Sony*, the *Grokster* case presented the Court with an ideal opportunity to clarify *Sony's* "commercially significant use" standard.

Ginsburg compares and distinguishes *Sony's* and *Grokster's* treatment of noninfringing use.[298] She bluntly states, "This case differs markedly from *Sony*. Here there has been no finding of fair use and little beyond

293. *Id.* at 2783.
294. *Id.* at 2787.
295. *Id.* at 2783.
296. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2784.
297. *Id.* at 2784 (quoting *Sony Corp. of America*, 464 U.S. at 442).
298. *Id.* at 2785.

anecdotal evidence of noninfringing uses."[299] After summarizing all of the evidence that defendants presented to the District Court to prove noninfringing use, Ginsburg concludes that summary judgment in favor of defendants was not proper.[300] Unlike the District Court and the Court of Appeals, Ginsburg believes that plaintiffs raised a material issue of fact about whether the level of noninfringing use was "substantial."[301]

Ginsburg indicates that courts should look at the *proportion* of noninfringing use relative to the infringing use, instead of merely looking at evidence offered by defendants.[302] Ginsburg repeatedly emphasizes that the "overwhelming" use of defendants' software was infringing and encouraged the District Court to deny summary judgment in favor of defendants.[303] As such, Ginsburg's *Sony* standard can be seen as a balancing test, where summary judgment is only warranted when the scales tip "overwhelmingly" to one side or the other.

Perhaps most striking, Ginsburg adopts what appears to be a forward-looking approach to determining substantial noninfringing use under *Sony*. In her conclusion, Ginsburg states, "Fairly appraised, the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant uses *were likely to develop over time*."[304] Therefore, defendants should present evidence of potential noninfringing uses of their products, even when these noninfringing uses have not fully materialized in the marketplace. Of course, it is doubtful that evidence of potential future noninfringing uses, absent actual noninfringing uses, would be sufficient to meet Ginsburg's *Sony* standard, but such evidence could tip the balance in favor of a defendant. In short, by lifting an eye to future uses, Ginsberg's interpretation of *Sony* is more innovation friendly than it first suggests.

b. Breyer Concurrence: Save Betamax

Justices Stevens, O'Connor, and Breyer agree with the majority's decision not to revisit *Sony*.[305] However, they directly rebut the Ginsburg concurrence by arguing that granting summary judgment under *Sony* is

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299. *Id.* (citations omitted).

300. *Id.* at 2786.

301. *Id.* at 2786 n.4.

302. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2786 ("Even if the absolute number of noninfringing files copied using [defendants'] software is large, it does not follow that the products are therefore put to substantial noninfringing uses and are thus immune from liability.").

303. *Id.*

304. *Id.* (emphasis added).

305. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2787.

proper.[306] Essentially, Breyer argues that the evidence of noninfringing use in *Grokster* is analogous to that in *Sony*. Breyer reminds the Court that, in *Sony*, the "magnitude of authorized programming was 'significant'" and that the *Sony* Court noted "significant potential for future authorized copying."[307] This was based on references to television programs authorized for copying, educational programming, religious programming, and other public broadcasting programs.[308] Breyer argues that the District Court appropriately granted summary judgment because the evidence of noninfringing use offered by defendants in *Grokster* is roughly approximate to that offered in *Sony*.[309]

Breyer is very concerned about chilling legitimate technological innovation. For example, he focuses on *Sony*'s use of the word "capable" in asking whether a product is "capable of substantial noninfringing uses."[310] To Stevens, O'Connor, and Breyer, this implies that "a figure like 10%, if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a *reasonable prospect of expanded legitimate uses over time*."[311] Breyer states that defendants' evidence "reveals a significant future market for noninfringing uses of Grokster-type peer-to-peer software" and that "it seems a likely inference that lawful peer-to-peer sharing will become increasingly prevalent."[312] Based on current noninfringing uses, which are likely to continue to grow, and "other *now-unforeseen* noninfringing uses," Breyer concludes that defendants satisfy *Sony*'s standard.[313]

Moving beyond the facts of *Grokster*, Breyer provides three arguments to save the Sony-Betamax standard.[314] First, he argues that Sony has worked to protect new technology by "provid[ing] entrepreneurs with needed assurance that they will be shielded from copyright liability as they bring valuable new technologies to market."[315] In short, Breyer would preserve *Sony*'s rule because it is "clear,"[316] "strongly technology protecting,"[317] "forward looking,"[318] and "mindful of the limitations facing

306. *Id.*
307. *Id.* at 2788.
308. *Id.* (citing *Sony Corp. of America*, 464 U.S. at 444–45).
309. *Id.* at 2788–89.
310. *Id.* at 2788.
311. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2789 (emphasis added).
312. *Id.*
313. *Id.* at 2790 (emphasis added).
314. *Id.* at 2791–95.
315. *Id.* at 2791.
316. *Id.*
317. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2792.

judges where matters of technology are concerned."[319]

Second, Breyer fears that a modification of *Sony*'s rule would significantly weaken the law's ability to protect new technology.[320] Unlike Ginsburg, Breyer addresses the practical implications of a potential modification of *Sony*. For instance, he states "[t]o require defendants to provide, for example, detailed evidence—say business plans, profitability estimates, projected technological modifications, and so forth—would . . . increase the legal uncertainty that surrounds the development of a new technology capable of being put to infringing uses."[321] Innovators would be "left guessing" about how a court might decide whether its noninfringing uses were sufficient to avoid liability.[322]

Third, Breyer argues that the positive copyright impact of modifying *Sony* would not clearly outweigh technology-related losses.[323] Breyer does not dispute the importance of protecting copyright.[324] Rather, he asserts that there is simply not a good enough reason to change "the current rules of the game."[325] Moreover, Breyer refers to many of the same studies cited herein and concludes that it is simply is not clear that leaving *Sony* as is would "lead to a significant diminution in the amount or quality of creative work produced."[326]

Finally, and most importantly, Breyer recognizes the role that new technology plays in the *solution* to this copyright dilemma. For instance, he notes that "copyright holders may develop new technological devices that will help curb unlawful infringement."[327] Breyer goes on to discuss digital watermarking, digital fingerprinting, and other encryption technologies.[328] As this article repeatedly stresses, these new technologies provide content owners the ability to control their copyrighted content after initial distribution.[329] Breyer also recognizes that the *legal* market for

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318. *Id.*

319. *Id.*

320. *Id.*

321. *Id.* at 2792–93.

322. *Id.* at 2793.

323. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S .Ct. at 2793.

324. *Id.* "The Constitution itself stresses the vital role that copyright plays in advancing the 'useful Arts.' Art. I, § 8, cl. 8. No one disputes that 'reward to the author or artist serves to induce release to the public of the products of his creative genius.'" *Id.* (citing United States v. Paramount Pictures, Inc., 334 U.S. 131, 158 (1948)).

325. *Id.* at 2793.

326. *Id.* at 2794.

327. *Id.* at 2795.

328. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2795.

329. *Id.*

digital music has grown rapidly and provides consumers an attractive alternative to P2P networks.[330] Indeed, Breyer notes that "lawful music downloading services . . . have continued to grow and to produce substantial revenue."[331] In light of all these reasons, Stevens, O'Connor, and Breyer see no reason to revisit *Sony*.[332]

B. The Inducement Standard: Workable Balance or Legal Quagmire?

Although the Supreme Court may have solved the problem before it, the *Grokster* decision raises more questions than it answers. Thankfully, the Court articulated certain conduct that would not give rise to liability.[333] For instance, neither "mere knowledge of infringing *potential* or of actual infringing *uses*" nor "ordinary acts incident to the product distribution, such as offering customers technical support or product updates" is sufficient to support liability under *Grokster*.[334] Additionally, footnote twelve reinforces *Sony*'s rule by stating that "in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses."[335]

These safe-harbors appear to provide considerable protection for emerging technologies. Nevertheless, content owners and innovators will debate how to interpret and apply *Grokster* for years to come. As a practical matter, the *Grokster* inducement standard raises four important issues.

1. Impact On Dual-use Products

Until *Grokster*, products capable of being used for both legal and illegal uses, dual-use products, received considerable protection under *Sony*, which forbid imputing intent to cause infringement from the distribution and use of a product.[336] Now, the Supreme Court has turned the focus from distribution and use of a product to the *conduct* of the

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330. *Id.* (noting that the affordability lawful copying alternatives has caused consumers to "migrat[e] to lawful paid services (services with copying permission) where they can enjoy at little cost even greater convenience and flexibility without engaging in unlawful swapping.").

331. *Id.*

332. *Id.* at 2796.

333. *Id.* at 2780.

334. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2780.

335. *Id.* at 2781 n.12.

336. *Id.* at 2778.

innovator or entrepreneur.[337] Accordingly, innovators and entrepreneurs who are developing emerging media and communications technologies must watch their step now. Rather than spending their hard-earned venture capital on research and development, entrepreneurs will be asking their attorneys what "clear expression or other affirmative steps taken to foster infringement"[338] really means. Even worse, entrepreneurs who fail to get good advice face an increased threat of litigation brought by copyright holders. As a precaution, entrepreneurs and innovators should seek legal counsel early and often and include counsel in product development and marketing discussions.

2. Impact On Communications, Advertising, and Customer Service

The Supreme Court repeatedly stresses how Grokster and StreamCast represented themselves in the marketplace. Specifically, the Court cites to internal documents evidencing defendants' intent to capture the Napster user base.[339] Additionally, the Court cites to a kit developed by StreamCast for delivery to advertisers and to promotional materials used to market its materials as the best Napster alternative.[340] Astonishingly, the Court cites to promotional ideas that were *never even used*, stating that "StreamCast even planned to flaunt the illegal uses of its software."[341] The Court goes out of its way to explain that "even if these advertisements were not released to the public and do not show encouragement to infringe, they illuminate StreamCast's purposes."[342] Unfortunately, it appears that this is precisely the type of "other evidence of intent" that may lead to liability under *Grokster*.[343] Therefore, entrepreneurs and advertisers must be very careful about what they put in writing. It would be wise to hold advertising meetings in person and to counsel support staff not to provide advice that may be related to a customer's infringing use of a product.

3. Impact On Entreprenuer's Choice of Business Model

The Supreme Court demonstrates business model bias in *Grokster*.

337. *Id.* at 2780.

338. *Id.*

339. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2773.

340. *Id.*

341. *Id.*

342. *Id.* at 2773 n.7.

343. *See id.* at 2782 ("Whether the messages were communicated is not to the point on this record. The function of the message in the theory of inducement is to prove by a defendant's own statements that his unlawful purpose disqualifies him from claiming protection.").

Significantly, the Court notes that "the business models employed by Grokster and StreamCast confirm that their principle object was use of their software to download copyrighted works."[344] Interestingly, to support this premise, the Court states that the defendants "generate income by selling advertising space" and "receive no revenue from users."[345] However, the Court does not connect the dots. Instead, it merely states, "As the number of users of each program increases, advertising opportunities become worth more" and that "substantive volume is a function of free access to copyrighted work."[346] Later, the Court attempts to clarify this ambiguity by stating that "the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing."[347] Essentially, the Court is saying that defendants are culpable because they rely on advertising for revenue and make more money the more users they have.

However, a subscription-based business model premised on unauthorized access to copyrighted work would also, presumably, seek to maximize its number of users so as to maximize revenue. The central issue is unauthorized access to copyrighted work, not how a company chooses to profit from that unauthorized access. The Court confuses its concern with businesses based on infringement with a business' choice of revenue model. In doing so, the Court reveals its business model bias and casts a shadow over advertising-based businesses. The practical result is that having a business model based on advertising may render a defendant liable under *Grokster* since its choice of business model apparently indicates its purpose to induce infringement. Unfortunately for consumers, this may be the death knell of free content services.

4. Impact On a Company That Becomes Aware Its Product Is Being Used for Infringement

Perhaps most importantly, *Grokster* raises the question of how a company should react to information that its product is being used to facilitate infringement. The Supreme Court states that "there is no evidence that either company made an effort to filter copyrighted material from users' downloads or otherwise impedes the sharing of copyrighted files."[348] The Court also notes that "StreamCast not only rejected another company's offer to help monitor infringement, . . . but blocked the Internet

344. *Id.* at 2774.
345. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2767.
346. *Id.* at 2781 n.12.
347. *Id.* at 2782.
348. *Id.* at 2774.

Protocol addresses of entities it believed were trying to engage in such monitoring on its networks."[349] Accordingly, the Supreme Court states that "this evidence of unlawful objective . . . underscores [defendants'] intentional facilitation of their users' infringement."[350] Therefore, P2P operators who become aware of infringement occurring by means of their product should take steps to limit that infringement. Specifically, businesses should pursue Digital Rights Management ("DRM") solutions and other encryption-based systems that allow them to control content and reduce infringement.

C. On Remand: District Court Should Set the Inducement Bar High

The Supreme Court makes it abundantly clear that defendants have an uphill battle to survive summary judgment on remand in the Central District.[351] However, MGM must present compelling evidence that defendants "communicated an inducing message to their software users."[352] The District Court will examine StreamCast advertisements "beamed" to its users urging them to adopt its P2P software and Grokster's electronic newsletter touting the ability of its software to provide access to copyrighted material. Additionally, the District Court will examine responses by customer service personnel helping users to locate copyrighted materials.[353]

It is critical that the District Court clearly and narrowly apply the new *Grokster* standard. Applying *Grokster* broadly would introduce even more ambiguity and costs to innovators and entrepreneurs. Specifically, "clear expression or other affirmative steps taken to foster infringement" should not be found in anecdotal evidence of product development ideas, advertising strategies, and customer support records. Rather, the District Court should only find inducement if the evidence taken as a whole shows that defendants consistently and systematically undertook to foster infringement. Indeed, the evidence may well show this was the case with Grokster and StreamCast. However, by setting the bar high, the District Court will ease the chilling effects of the Supreme Court's *Grokster* decision on innovators and entrepreneurs while still accomplishing its primary objective—stamping out businesses intentionally based on infringement.

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349. *Id.* (citations omitted).

350. *Metro-Goldwyn-Mayer Studios Inc.*, 125 S. Ct. at 2781.

351. *Id.* at 2782.

352. *Id.* at 2780.

353. *Id.* at 2781.

D. Conclusion: Hollywood, Meet Silicone Valley

Although the Justices express concern for potential chilling effects on technological innovation, they have handed copyright holders a powerful tool in *Grokster*. It remains to be seen what the true effects of the decision will be. Of course, the effects on current innovators will be more immediate and noticeable. However, the gravest threat is to *future* innovators. If *Grokster* is applied broadly or inconsistently, innovators and their investors may determine, as a purely financial matter, that they simply could not sustain the potential legal costs and, consequently, determine to never enter the market at all.

Most importantly, content owners should turn to the market and not the courts if they want to increase profits and meet their customers' needs. The long-term success of the music industry is dependent on Hollywood's ability to adapt to new technologies and distribution models and not their ability to win copyright infringement lawsuits. Indeed, after the Supreme Court issued its decision in *Grokster*, Hillary Rosen, the former head of the Recording Industry Association of America, stated that "[k]nowing we were right legally really still isn't the same thing as being right in the real world."[354] Perhaps the tide is turning after all.

Hollywood, meet Silicone Valley.

*Timothy K. Andrews**

354. Tom Zeller, *The Imps of File Sharing May Lose in Court, But They Are Winning in the Marketplace*, N.Y. TIMES, July 4, 2005, at C3.

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