

Copyright and Sharing Property: The *GROKSTER* Court Was Putting Square Pegs in Round Holes

Deborah J. Kemp*

The belief that *Grokster*¹ is about indirect liability for others' copyright infringement is so 2005. In 2006, *Grokster* is about sharing nicely.² Massive use of the internet for copying music and video works is frustrating the copyright owners, referred to hereafter as the entertainment industry.³ So the entertainment industry has sought judicial and legislative help in solving the illegal copying dilemma.⁴ By and large, pursuing suits against each individual copier is too expensive, although the entertainment industry still pursues individual copiers who use the internet.⁵ So the entertainment industry has pursued the companies that provide the technology for music and video copying on the internet, on indirect liability theories, for enabling the copiers to copy works illegally. Indirect copyright liability has been judicially created and recognized.⁶ Holding these modem defendants liable for copyright infringement has required some stretching of the indirect liability doctrines. Some

* Professor, Finance and Business Law Department, Craig School of Business, California State University, Fresno.

¹ Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913 (2005) [hereinafter *Grokster*].

² Yochai Benkler, *Sharing Nicely: On Shareable Goods and the Emergence of Sharing as a Modality of Economic Production*, 114 YALE L.J. 273 (2004). Justice Breyer cited the article in his concurring opinion in *Grokster*, 545 U.S. at 949,962.

³ In this situation the copyright owners are not the musicians and movie makers, but the industries, the companies that market for the artists. The two groups that are representative of the entertainment industry are the Recording Industry Association of America (RIAA) and the Motion Picture Association of America (MPAA). They are non-profit trade associations. According to the "About Us" section on its website, the RIAA members are the record companies, purportedly the distributors of about 90% of the lawful sound recordings produced and marketed in the United States. Recording Industry Association of America, *About Us*, at <http://www.riaa.com/about/default.asp> (Oct. 2006). According to the "About Us" section on its website, the MPPA members are the six major Hollywood studios: Walt Disney Studios (Buena Vista), Sony Pictures, Paramount Pictures (Viacom), 20th Century Fox (News Corporation), Universal Studios (NBC Universal), and Warner Bros (Time Warner). Motion Picture Association of America, *About Us*, at <http://www.mpaa.org/AboutUs.asp> (Oct. 2006).

⁴ With courts, the entertainment industry has gone beyond direct infringement suits and into the indirect liability doctrines recognized from earlier copyright case law and developed for modem application. With legislatures, the entertainment industry, or members of it, has lobbied for and received portions of the Digital Millennium Copyright Act (DMCA), Pub. L. No. 105-304, 105th Cong., 2d Sess. Oct. 8, 1998, codified in 17 U.S.C. §§ 1201 *et seq.* (2005) and the Copyright Term Extension Act (CTEA), Pub. L. No. 105-298, 102(b) and (d), 112 Stat. 2827-2828 (amending 17 U.S.C. §§ 302, 304). The CTEA is primarily private rights protectionist legislation sought and received by the entertainment industry.

⁵ See, e.g., *BMG Music v. Cecilia Gonzalez*, 430 F.3d 888 (7th Cir. 2005 (not fair use to use KaZaa file sharing network to download music)), *Elektra Entertainment Group, Inc. v. Robert Brimley*, Civ. Action No. CV205-134, 2006 U.S. Dist. LEXIS 56798 (S.D. Geo. 2006) (reproduction and distribution of copyrighted recordings by use of peer-to-peer media distribution system infringes copyright), and *Interscope Records v. Lindsey Duty*, 79 U.S.P.Q.2d (BNA) 1043 (D.C. Ariz. 2006) ("mere presence of copyrighted sound recordings in [defendant's] share file may constitute copyright infringement"). These are recent suits against individuals by the entertainment system.

⁶ See discussion accompanying notes 37-69, *infra*.

copyright scholars have commented on the wisdom of expanding the judicially created doctrine to impose liability without explicit legislative endorsement.⁷

Last year the Supreme Court decided *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* (*Grokster*),⁸ its third copyright decision dealing with indirect liability for others' wrongful copying. Each decision has modified the doctrines addressing indirect copyright liability. The first decision is *Kalem Co. v. Harper Brothers (Kalem)*,⁹ where in 1911 the Court recognized indirect liability for one who invoked infringing use of a copyrighted work through advertising.¹⁰ The second decision is *Sony Corp. of America v. Universal City Studios, Inc. (Sony)*,¹¹ where in 1984 the Court confirmed the applicability of indirect liability in forms called contributory infringement and vicarious liability. Then the Court adopted patent law's "staple article of commerce" doctrine to deny liability for contributory and vicarious infringement, if the product is capable of substantially noninfringing uses.¹² The third case is *Grokster*¹³ where in 2005 the Court adopted patent law's inducement theory to impose liability on marketers of peer-to-peer (P2P) file sharing software.

⁷ See Brief Amici Curiae of Sixty Intellectual Property and Technology Law Professors and the United States Public Policy Committee of the Association for Computing Machinery in support of Respondents, *Metro-Goldwyn-Mayer Studios, Inc., et al., Petitioners, v. Grokster, Ltd.* (U.S.) (No. 04-480), 20 BERKELEY TECH. L.J. 535 (2005). "[W]e respectfully suggest that the Court is not the proper forum for such a wholesale change of the law. As the Court has recognized many times, only Congress has the institutional competence to accommodate fully the various competing interests that are inevitably implicated by new technologies." Other commentators have suggested not just legislative means to define the parameters, but even other judicial paths to take. The following articles were cited by one or more Supreme Court justices in *Grokster*: Yochai Benkler, *Sharing Nicely: On Shareable Goods and the Emergence of Sharing as a Modality of Economic Production*, 114 YALE L.J. 273 (2004); Richard J. Gilbert & Michael L. Katz, *Perspectives on Intellectual Property: When Good Value Chains Go Bad: The Economics of Indirect Liability for Copyright Infringement*, 52 HASTINGS L.J. 961 (2001); Jane Ginsburg, *Copyright and Control Over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613 (2001); Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STANFORD L. REV. 1345, 1386-1390 (2004); Douglas Lichtman & William Landes, *Indirect Liability for Copyright Infringement: An Economic Perspective*, 16 HARV. J. L. & TECH. 395 (2003); Molly Shaffer Van Houweling, *Distributive Values in Copyright*, 83 TEXAS L. REV. 1535, 1539-1540, 1562-1564 (2005); and Tim Wu, *When Code Isn't Law*, 89 VA. L. REV. 679,724-726 (2003).

⁸ *Grokster*, *supra* note 1.

⁹ *Kalem Co. v. Harper Brothers*, 222 U.S. 55,62-63 (1911).

¹⁰ Quoting *Grokster* at 7, describing the holding in *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 62-63 (1911).

¹¹ 464 U.S. 417 (1984).

¹² *Sony*, 464 U.S. at 789. "Accordingly, 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." The Court found that the practice of time sharing, approximately 9% of the usage of the VCR is fair use. *Id.* at 455. But see dissent at 486. "It is thus apparent from the record and from the findings of the District Court that time-shifting does have substantial adverse effect upon the 'potential market for' the Studios' copyrighted works." Reasonable minds differed on the parameters of fair use in the case.

¹³ 545 U.S. 913, 936-937 (2005). "For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." The guidelines that follow truly seek a middle

This article reviews the Supreme Court's decision in *Grokster* in relation to indirect liability in copyright doctrines. The opinion was unanimous, but two concurring opinions were submitted by six justices, three on each side. The case has much value, however, for scholars debating the wisdom and parameters of copyright or for exploring the newer technologies that strain the seams of the copyright fabric.¹⁴ First, this article explains copyright infringement and P2P file sharing. Second, it summarizes the history of indirect copyright liability. Third, it examines the three opinions in *Grokster*. Fourth, it explores legal scholars' predictions and views on the legal order of intellectual property in the digital age. Articles cited by the Supreme Court in *Grokster* provide insights into this economic phenomenon of social sharing of intellectual property.¹⁵

I. COPYRIGHT INFRINGEMENT AND P2P FILE SHARING

Copyright gives the owner of an original work of authorship an exclusive right to make and market copies of its work.¹⁶ Copyright's goal is to promote creation and dissemination of original works.¹⁷ It is presumed that enabling an owner of a work to reap a financial reward from marketing copies of the work will promote the progress of science and useful arts. The incentive to create more and better works of authorship arises through copyright's marketing reward, purportedly an exclusive or monopoly right. This reward system was statutorily created as a result of a technological innovation that enabled copiers to make multiple copies of books with more ease than hand copying had previously allowed.¹⁸ That first invention was the

ground between the private interests of the copyright holder and the public interest in promoting technological development.

¹⁴ Shepardization of Lexis-Nexis indexed law journals that have cited *Grokster* revealed 86 citations as of May 23, 2006.

¹⁵ See articles cited *supra* note 7 and text accompanying notes 107-127, *infra*.

¹⁶ The 1976 Copyright Act, 17 U.S.C. § 106 (2005).

¹⁷ U.S. CONST, art. I, § 8, cl. 11. "The Congress shall have power ... To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries. . . ." Inherent in the recognition of copyright is the protection of two conflicting interests: the public right to access and the private right to exclusive ownership.

¹⁸ Statute of Anne 1710 (8 Anne, c. 19):

Whereas printers, booksellers, and other persons have of late frequently taken the liberty of printing, reprinting, and publishing, or causing to be printed, reprinted, and published, books and other writings, without the consent of the authors or proprietors of such books and writings, to their very great detriment, and too often to the ruin of them and their families: for preventing therefore such practices for the future, and for the encouragement of learned men to compose and write useful books. . . . [T]he author of any book or books already printed, who hath not transferred to any other the copy or copies of such book or books, share or shares thereof, or the bookseller or booksellers, printer or printers, or other person or persons, who hath or have purchased or acquired the copy or copies of any book or books, in order to print or reprint the same, shall have the sole right and liberty of printing such book and books for the term of one and twenty years..

Authors could hold the copyright, but it was often transferred to the publisher, so the Act was considered one to protect publishers in their monopolies of copyright. Its purpose was to encourage more writing by

printing press. Since that time, there have been numerous new technologies that have enabled copiers to copy more easily others' original works of authorship.¹⁹ Some of the technological advances that have spurred copyright litigation and legislative reconsideration of the scope of the copyright statute are cameras, piano rolls, movie cameras, copy machines, computers, video cassette recorders, and MP3 song players. A recent technology is internet services that provide programs that enable internet users to download and copy works of authorship.²⁰ Copying is commonly performed on musical and video works.

The courts have sought a balance between promoting technological progress through innovative internet services and thwarting creative activity through failure to adequately protect the exclusive right to make and market copies of the work.²¹ Courts, legislatures, and scholars do not always agree on where to draw the line. That has happened with P2P file sharing systems. The courts have considered the balance between the competing interests inherent in copyright. On one side is the right of the owner to exclude others from access to the work unless payment is made for access, a private property right view.²² On the other side is the interest of society in having access to intellectual property for the public good.²³ The strict concept is that one who copies a copyrighted work is liable for copyright infringement. There are exceptions to this rule, of course, so the copyright owner's right is not as exclusive, but is considered a bundle of rights.²⁴ Copyright is protected by federal statute.²⁵

the authors of useful books. So copyright protected the one who made the copies and marketed them against interlopers who would compete without authorization. It indirectly protected the writers, the creators. The French system was a bit different and the creator maintained a right to control the integrity of the work, as to protect against painting a mustache on the Mona Lisa. See Susan P. Leimer, *How We Lost Our Moral Rights and the Door Closed on Non-Economic Values in Copyright*, 5 J. MARSHALL REV. INTELL. PROP. L. 1,10 and notes 49-63 (2005).

¹⁹ The technology enabling copying is numerous: cameras, piano rolls, movie cameras, copy machines, computers, and videocassette recorders, to name a few.

²⁰ Napster was the first system that became commercial and that was used primarily for song copying among peers. The story is that Shawn Fanning created the program to help his roommate and other friends share and download songs in MP3 format. See <http://www.infoplease.com/spot/napster2.html> (accessed Sept. 29, 2006). The technology had been used before for noninfringing uses. The advent of the MP3 player for digitized song copying made online music copying popular.

²¹ This is the precarious balance that the Supreme Court ultimately maintains and readdresses each time a new technology causes the courts to decide where the proper balance lies. One scholar identified the conflicting interests as the public right and the private property interest. That scholar advocated leaning toward the public right of access, believing that the private right is inordinately represented in the legislation due to special interest lobbying. See Christina Bohannon, *Reclaiming Copyright*, 23 CARDOZO ARTS & ENT. L.J. 567 (2006).

²² This is favored in Justice Ginsburg's opinion in *Grokster*, 545 U.S. at 942-949, and in Judge Posner's opinion in *In re Aimster Litigation*, 334 F.3d 643 (7th Cir. 2003).

²³ This is favored in Justice Breyer's opinion in *Grokster*, 545 U.S. at 949-966, and in the majority opinion in *Sony*, *supra* note 11. See also Bohannon, *Reclaiming Copyright*, *supra* note 21. The premise of her article is stated in the first sentence: "As a result of special-interest capture, the Copyright Act confers overly broad rights to copyright owners at the expense of the public interest in having access to creative works."

²⁴ 17 U.S.C. § 106 (2005):

Courts interpret statutes. Courts apply common law concepts to statutory law problems and have done so in copyright law.

Courts now hold some defendants liable for copyright infringement even though the defendant did not illegally copy the copyrighted work.²⁶ Those who enable others to infringe copyright may be liable on the basis of two indirect liability doctrines: contributory copyright infringement and vicarious liability for copyright infringement. This article refers to them as contributory and vicarious infringement. They overlap in applicability. Both theories require that the technology enable an underlying act of direct infringement.²⁷ Contributory liability attaches when the defendant also knows of the infringement and materially contributes to it.²⁸ Vicarious liability requires that the defendant directly financially benefit from the infringement and have the right and ability to control the infringer's actions.²⁹ The factors for each form will be examined in the next section.

The entertainment industry³⁰ has brought some suits against individuals for direct copying.³¹ It is felt that the illegal copying is on such a large scale that

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies of phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

²⁵ 17 U.S.C. §§ 101 *et seq.* (2005). The 1976 Copyright Act, under which copyright is administered at present, abolished common law copyright. Prior to 1978, when the Act became effective, the courts were free to determine the parameters of common law copyright, similarly to the way in which trademark is dealt with judicially even today.

²⁶ See text accompanying notes 37-69, *infra*.

²⁷ *Sony*, 464 U.S. at 434: "To prevail, they have the burden of proving that users of the Betamax have infringed their copyrights and that Sony should be held responsible for that infringement.

²⁸ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 380 F.3d 1154, 1160 (9th Cir. 2004), *remanded*, 545 U.S. 913 (2005).

²⁹ *Id.* at 1164. See also John Tehranian, *Copyright Liability After Grokster*, CALIFORNIA LAWYER, Nov. 2005, at 37.

³⁰ See *supra* note 3, describing the non-profit trade groups that advocate on behalf of the copyright holders. A common plaintiff in copyright infringement actions is the Recording Industry Association of America (RIAA), a group of record companies that have banded together to enforce their copyrights in their musicians' works. See, e.g., *In re Aimster Copyright Litigation*, 334 F.3d 643, 645 (7th Cir. 2003) ("Owners of copyrighted music filed a number of closely related suits. . . . The numerous plaintiffs, who among them appear to own most subsisting copyrights on American popular music....").

³¹ See *BMG Music v. Cecilia Gonzalez*, 430 F.3d 888 (7th Cir. 2005), and *Interscope Records v. Lindsey Duty*, 2006 U.S. Dist. LEXIS 20214 (D. Ariz. 2006).

individual suits against each copier are too burdensome for the copyright owner, so the industry has sued the providers of the copying services for their role in inducing or enabling the individual copying.³² It has also sued owners of premises where illegally copied works are sold.³³ Since P2P file sharing is a new technology, its possible socially beneficial uses are barely being realized.³⁴ It is agreed that P2P file sharing technology holds much promise for facilitation of communication for far more than music and movie copying. The music and movie industries would like to have the P2P services prohibited. Actually, the entertainment industry would like to have control of the technology. As the companies are sued, the industry reaches agreements allowing them to operate under control of the industry.³⁵ If the incentive model that forms the foundation for copyright is true, innovation will be thwarted, because the reward for innovation will go to the entertainment industry, not to the innovator. Those who foresee future noninfringing uses of the services would like to have the opportunity for innovative growth.³⁶

II. HISTORY OF INDIRECT COPYRIGHT LIABILITY

A Justice Holmes Supreme Court opinion from 1911, *Kalem*,³⁷ is the Supreme Court's first imposition of copyright liability for contributing to another's actual infringement. In that case, Kalem Company made a motion picture based on the book *Ben Hur*,³⁸ At that time, copyright law gave the author of the book the exclusive right to dramatize a book. Kalem made the movie without permission from the author. That was not copyright infringement, however. Displaying or performing the movie was illegal. Kalem did not directly infringe the copyright, because he did

³² *Grokster*, *supra* note 1; *Sony*, *supra* note 11; In re Aimster Copyright Litigation, 334 F.3d 643, 645-646 (CA7 2003); A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (CA9 2001).

³³ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (owner of swap meet liable for CD bootlegger's infringement); *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361 (N.D. Cal. 1995) (ISP not liable for subscribers' copyright infringement).

³⁴ *Grokster* 545 U.S. at 952-953. Justice Breyer lists types of works available on a P2P network that are noninfringing: authorized copies of music, free electronic books, public domain and authorized software, licensed music videos and television and movie segments.

³⁵ Internet sites can be accessed to keep abreast of the business status of the various companies that have been sued by the RIAA or by individual entertainment industry companies. For instance, www.riaa.com/news/newsletter/110705_2.asp reported the Grokster settlement. For StreamCast, aka KaZaa, look at www.usatoday.com/tech/news/2006-07-27-skype-kazaa-settlement_x-htm StreamCast held out longer than did Grokster. Napster has continuing litigation, but it also reached a settlement. See In re Napster, Inc. Copyright Litigation v. Hummer Windblad Venture Partners, 2006 U.S. Dist. LEXIS 30338 (N.D. Cal. May 17, 2006) (citing *Grokster* in its most recent opinion).

³⁶ See, e.g., Bryan H. Choi, Note, *The Grokster Dead-End*, 19 HARV. J.L. & TECH. 393,394 (2006):

[T]his Note argues not that secondary suits should not be brought, but that they will not be a sustainable policy against increasingly elastic technologies in the future- regardless of their merits in the past. While the immediate impact of Grokster on the peer-to-peer ("P2P") community remains in dispute, one thing is certain: file-sharing technologies have not disappeared.

³⁷ *Supra* note 9.

³⁸ Lew Wallace, *Ben-Hur: A Tale of the Christ* (1880).

not show the movie. He sold the movie to jobbers, who did the actual playing of the movie. Foreshadowing the problem in *Sony* over 70 years later, Justice Holmes said, “In some cases where an ordinary article of commerce is sold nice questions may arise as to the point at which the seller becomes an accomplice in a subsequent illegal use by the buyer.”³⁹ Then he pronounced the language that formed the basis for the *Grokster* holding regarding invoking infringement, particularly by advertising: “The defendant not only expected but invoked by advertisement. . . .”⁴⁰ Finally, Justice Holmes applied common law principles of liability for contributing to an illegal act.⁴¹ He used the word “contribute” as a verb, not as an adjective, as it is being used by courts today. In other words, it was not a doctrine in 1911, but it is now.

In 1984, the Supreme Court considered indirect liability for copyright infringement by the manufacturer of the video cassette recorder Betamax, Sony. The defendant argued that it did not directly copy, that it did not control what others did with the device, and that, even if there was indirect liability for enabling others to copy, the copying that was done was primarily fair use. Sony lost on the first two arguments, but prevailed on the fair use defense. The *Sony*⁴² Supreme Court studied cases that had built law on the *Kalem* foundation of indirect liability for copyright infringement.⁴³ Some of these are referred to as the dancehall cases.⁴⁴ The Court acknowledged the doctrine of contributory infringement.⁴⁵ It said the claimant would have to prove direct infringement and the defendant should be held responsible for that direct infringement. Note that the *Sony* decision was close, a 5-4 decision.⁴⁶ Ultimately, the majority found that much of the copying was not infringing, but was

³⁹ 222 U.S. at 62.

⁴⁰ *Id.*

⁴¹ *Id.* at 63.

⁴² *Supra* note 11.

⁴³ *Sony*, 464 U.S. at 438 n. 18, summarizing the case law on contributory infringement and on vicarious liability. *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assn., Inc.*, 554 F.2d 1213 (1st Cir. 1977) (one of the “dancehall” cases, where owner of premises hired infringer to supply music); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929) (owner of dancehall hired orchestra to supply infringing music); *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963) (store owner licensed right to run record department to infringer); *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159 (2d Cir. 1971) (manager of music performers who infringed).

⁴⁴ *See*, *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Assn., Inc.*, 554 F.2d 1213 (1st Cir. 1977) (one of the “dancehall” cases, where owner of premises hired infringer to supply music); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929) (owner of dancehall hired orchestra to supply infringing music).

⁴⁵ *Sony*, 464 U.S. at 438-440. The Court seemed to find contributory infringement a subspecies of the broader area of vicarious liability. But case law has now bifurcated the doctrines and the requirements for each are unique, although they overlap.

⁴⁶ *Id.* at 418. The majority opinion by Justice Stevens was joined by Chief Justice Burger, and Justices Brennan, White, and O’Connor. The dissenting opinion by Justice Blackmun was joined by Justices Marshall, Powell, and Rehnquist. The *Grokster* Court had two of the justices from the *Sony* decisions. Justice O’Connor joined Justice Breyer in his concurring opinion. Chief Justice Rehnquist joined Justice Ginsburg in her concurring opinion. Justice Breyer’s and Justice Ginsburg’s opinions were at odds with one another. It seems the justices followed their *Sony* leanings in *Grokster*.

fair use.⁴⁷ It found an overriding public interest in access to the article of commerce.⁴⁸ For years, *Sony* was the guidepost for any decision on and scholarly analysis of fair use. Indirect liability in copyright infringement received less attention. *Sony* did not develop the doctrines, but the Court reaffirmed its acceptance of common law doctrines of indirect liability for copyright infringement. Its summary of the lower court decisions was adoptive and not critical.⁴⁹ It acknowledged the law that had developed between the 1911 *Kalem* decision and the 1984 *Sony* decision.⁵⁰ The Supreme Court's attention to the indirect liability doctrines was used for a swap meet,⁵¹ an Internet service provider,⁵² and the MP3 player⁵³ by the lower courts.

Three Internet file sharing cases led to the Supreme Court's decision to review the Ninth Circuit's opinion in *Grokster*. They are *Napster*,⁵⁴ *Aimster*,⁵⁵ and the Ninth

⁴⁷ *Id.* at 455. The holding does not actually mention fair use. *Id.* at 456:

In summary, the record and findings of the District Court lead us to two conclusions. First, Sony demonstrated a significant likelihood that substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers. And second, respondents failed to demonstrate that time-shifting would cause any likelihood of no minimal harm to the potential market for, or the value of, their copyrighted works. The Betamax, is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondents' copyrights.

The Ninth Circuit had found contributory infringement, reversing the district court. 239 F.3d 1004 (9th Cir. 2001) (reversing 114 F. Supp. 2d 896 (N.D. Cal. 2000)). The Supreme Court's reversal of the Ninth Circuit's reversal of the district court may have contributed to the Ninth Circuit's very careful readings of the Supreme Court decision in *Sony* when it considered *Napster* and *Grokster*. The history of the cases in the lower courts indicates that the Ninth Circuit very carefully applied *Sony* and did not misread it, as Justice Ginsburg would lead the reader to believe. See *Grokster*, 545 U.S. at 948-949 (Justice Ginsburg advising, "If, on remand, the case is not resolved on summary judgment in favor of MGM based on *Grokster* and Streamcast actively inducing infringement, the Court of Appeals, I would emphasize, should reconsider, on a fuller record, its interpretation of *Sony*'s product distribution holding."). Justice Breyer, on the other hand, agreed with the Ninth Circuit's interpretation of *Sony*. He compared the facts in both cases and found that the 1984 Court would have found as the Ninth Circuit did in *Grokster*. He would not reverse or force reconsideration of *Sony*. *Id.* at 949. "The Court's opinion in *Sony* and the record evidence . . . together convince me that the Court of Appeals' conclusion has adequate legal support."

⁴⁸ *Sony*, 464 U.S. at 440. See Bohannon, *Reclaiming Copyright*, *supra* note 21. The article tracks the legislature's movement away from public right in copyright since the *Sony* decision.

⁴⁹ *Sony*, 464 U.S. at 434-435: "The Copyright Act does not expressly render anyone liable for infringement committed by another. . . . The absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity."

⁵⁰ *Id.* at 435-439.

⁵¹ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996) (owner of swap meet liable for CD bootleggers' infringement).

⁵² *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361 (N.D. Cal. 1995).

⁵³ *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (9th Cir. 1999) (Rio portable music player under Audio Home Recording Act of 1992 is not infringing, following *Sony*'s staple article of commerce doctrine).

⁵⁴ 239 F.3d 1004 (9th Cir. 2001).

Circuit's opinion in *Grokster*.⁵⁶ All three cases interpreted the doctrines refined in the aftermath of *Sony*: contributory copyright infringement, vicarious copyright infringement, and the staple article of commerce doctrine. The courts that have applied *Sony* to cases involving technology that enables direct copyright infringement have become sophisticated in their understanding and articulation of the theories of indirect liability.

First, in 2001 the Ninth Circuit found Napster liable for contributory and vicarious forms of copyright infringement. College student Shawn Fanning designed and maintained a central server system that connected song providers and song copiers. It enabled individuals to download music files to which the Napster server maintained access. Both forms of indirect copyright infringement require that the technology enable an underlying act of direct infringement. Contributory liability attaches when the defendant also knows of the infringement and materially contributes to it. Note three requirements: direct infringement, knowledge of the direct infringement, and materially contributing to the direct infringement. Vicarious liability results when the defendant directly financially benefits from the infringement. It must also have the right and ability to control the infringers' actions.⁵⁷ Again, note three requirements: direct infringement, financial benefit from the direct infringement, and ability to control the direct infringer's actions.

Napster users committed copyright infringement by downloading copyrighted music. So there was direct underlying copyright infringement which was not a fair use. Napster knew about and could track the copying. It presumably had actual knowledge of specific infringing uses. Napster actively participated in illegal music copying, by operating a central server that received requests, found owners of the requested music, and transferred the music to the requester. Therefore, it was liable for contributory copyright infringement.⁵⁸ Napster was also liable for vicarious infringement, even though the service was free.⁵⁹ It did have the capability to control the direct infringers' actions, although it did not actively do so.

The *Napster* Ninth Circuit attributed indirect liability to the central server design, giving the service provider control over the infringers' behavior. After Napster was stopped from its activity, numerous other services developed technology that enabled music copiers to download music files. The newer systems used two main strategies. The first was locating overseas, where it was hoped the U.S. courts could not have jurisdiction. The second was eliminating the use of a central server

⁵⁵ 334 F.3d 643 (7th Cir. 2003).

⁵⁶ 380 F.3d 1154 (9th Cir. 2004).

⁵⁷ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

⁵⁸ *Id.* at 1020-1022. "We agree that if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement." *Id.* at 1021. "We agree that Napster provides the site and facilities for direct infringement... Napster materially contributes to direct infringement." *Id.* at 1022.

⁵⁹ *Id.* at 1022-1024. On the direct financial benefit requirement: "Ample evidence supports the district court's finding that Napster's future revenue. . . ." *Id.* at 1023. On the right to supervise requirement. "Napster has an express reservation of rights policy. . . . To escape imposition of vicarious liability, the reserved right to police must be exercised to its fullest extent." *Id.* at 1023.

that received requests and found links to providers.⁶⁰ Grokster eliminated the central server and thought it would be immune from liability. Its logic worked in the Ninth Circuit, because that court found it immune from liability.

Second, in 2003, the Seventh Circuit's Judge Posner in *Aimster* differed from the Ninth Circuit's interpretation of *Sony* when it considered a factual situation similar to *Napster*,⁶¹ That case also involved a P2P file sharing system used primarily for illegal copying of music and movies. First, the Seventh Circuit said *Sony's* doctrine protecting makers of instruments that enable copyright infringement if the instrument is capable of substantial noninfringing uses meant more actual use than the Ninth Circuit had been requiring. The Ninth Circuit had interpreted the "capable of substantial noninfringing uses" language to mean capable, but not necessarily actually used for much noninfringing use. The *Aimster* court said *Sony* would require more actual noninfringing use.⁶² In other words, the Seventh Circuit thought the Ninth Circuit had misinterpreted *Sony*. Second, the court pointed out the difference between a machine and a service. Sony provided a machine through sales. It had no control over the use of the machine once sold.⁶³ Internet providers did have an ability to control the uses of the service, through monitoring and maintenance. Third, the court thought that there was no need for the P2P file sharing provider to actually know of specific infringing uses to be liable for contributory copyright infringement.⁶⁴ In comparison, the *Napster* court had implied that actual knowledge would be a prerequisite to contributory copyright infringement liability.

Indeed, that was the basis for the Ninth Circuit's decision in *Grokster*, where it found that Grokster was not liable for contributory or vicarious infringement,

⁶⁰ *Grokster*, 545 U.S. at 923.

⁶¹ *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003). In describing P2P file sharing systems, Judge Posner said, "Its function is similar to that of a stock exchange, which is a facility for matching offers rather than a repository of the things being exchanged. . . . *Id.* at 647. He acknowledged that an "Internet file-sharing system . . . might be created for innocuous purposes such as the expeditious exchange of confidential business data among employees of a business firm." *Id.* But when deciding how much noninfringing use must be made under *Sony*, Judge Posner differed from the Ninth Circuit. He did not disagree with the result of *Napster* as he disagreed with the result of *Grokster*. He did disagree with the reasoning in both cases. Sony provided a machine through sales. It had no control over the use of the machine once sold. Internet providers sell a service and do have ability to control the uses of the service through monitoring and maintenance. *Id.* at 648. Judge Posner thought that there was no need for the P2P provider to actually know of specific infringing uses to be liable for contributory copyright infringement. *Id.*

⁶² *Id.* at 649: "[W]hen a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement."

⁶³ *But see Kalem*, 222 U.S. 55, 62: "In some cases where an ordinary article of commerce is sold nice questions may arise as to the point at which the seller becomes an accomplice in a subsequent illegal use by the buyer."

⁶⁴ *Aimster*, 334 F.3d at 648: "We therefore agree with Professor Goldstein that the Ninth Circuit erred in *A&M Records, Inc. v. Napster, Inc.* in suggesting that actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer," citing 2 PAUL GOLDSTEIN, COPYRIGHT, § 6.1.2, at 6:12-1 (2d ed. 2003).

because it had no actual knowledge of specific infringing uses of the program.⁶⁵ The third case was the Ninth Circuit's *Grokster* decision, which found that the company's file sharing methods and P2P network were not contributorily or vicariously infringing, although the network users probably were engaging in direct copyright infringement.⁶⁶ The court said that the service had no actual knowledge of infringement by the users, which it said was a requirement of indirect liability.⁶⁷ *Grokster* was not contributorily liable. There was direct infringement; it might have materially contributed to the direct infringement, but it lacked actual knowledge of the direct infringement. *Grokster* was not vicariously liable.⁶⁸ There was direct infringement and it financially benefitted from the direct infringement, but it lacked the ability to control the direct infringement. The Ninth Circuit's tone indicated that it was not entirely comfortable with finding no indirect liability when the *Grokster* defendants were so brazen about enabling copying of music.⁶⁹ The stage was set for the Supreme Court to review the law, since two circuits were in conflict over the law on indirect liability for copyright infringement.

III. The Supreme Court's *GROKSTER* Opinions

The Supreme Court actually published three opinions.⁷⁰ The first opinion was unanimous. It chose to vacate the Ninth Circuit's opinion and remand *Grokster* to the lower court.⁷¹ The second opinion was written by Justice Ginsburg and joined by two other justices. The third opinion was written by Justice Breyer and joined by two other justices. The second and third opinions disagreed with each another.

⁶⁵ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004). This interpretation of *Sony's* staple article of commerce doctrine became the point of discord in the Seventh Circuit and then in the Supreme Court.

⁶⁶ *Id.*

⁶⁷ *Id.* at 1161 -1163: "[I]f the product at issue is capable of substantial... noninfringing uses, 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." *Id.* at 1161. The Ninth Circuit determined that *Grokster* was certainly capable of substantial noninfringing uses. *Id.* So, "the Copyright Owners were required to show that the Software Distributors had reasonable knowledge of specific infringement. . .

Id. at 1162. The defendants did not have control over infringing files, so could not know about specific infringing uses at the time that the uses could be stopped. *Id.* at 1163.

⁶⁸ *Id.* at 1164-1166. Two of the elements for vicarious infringement were not disputed: direct infringement and direct financial benefit from advertising revenue. But the court determined that the defendant lacked the right and ability to supervise the activity. *Id.* at 1166.

⁶⁹ *Id.*

⁷⁰ 545 U.S. 913 (2005). There is a unanimous opinion vacating and remanding. There is a concurring opinion by Justice Ginsburg, joined by Chief Justice Rehnquist and Justice Kennedy. There is a concurring opinion by Justice Breyer, joined by Justices Stevens and O'Connor.

⁷¹ *Id.*

A. *Unanimous Opinion*

The unanimous opinion cited evidence that placed the *Grokster* defendants⁷² closer to Napster than what the lower courts found. The Ninth Circuit had found the intent of the network operators was irrelevant if there was not actual participation in the illegal copying activity.⁷³ In *Napster*, it was clear that the operator actively participated in helping users illegally download music and video files. The *Grokster* defendants did not use servers to intercept search requests, nor did the users' communications enter a central server. Nevertheless, the Court was bothered by the fact that the *Grokster* defendants targeted Napster users, enticing them to engage in their illegal copying through newer decentralized services. The program was even named "OpenNap."⁷⁴ The Supreme Court's concern over the marketer of the service that enables infringement is similar to Judge Posner's opinion in *Aimster*. The *Aimster* court had disagreed with the Ninth Circuit's interpretations of *Sony's* theories of indirect liability for copyright infringement, but the Supreme Court avoided direct decision on the indirect liability quagmire and added a new inquiry based on patent's inducement theory. The inducement theory may be useful for imposing liability on the defendants who skirt the letter of the law, even though they have "illegal" intentions. Here the "illegal" intentions are to brazenly aid others to copy copyrighted music without paying the copyright owner.

The Supreme Court acknowledged its obligation to balance the competing interests inherent in copyright: the public interest in the free flow of information against the private interest in an exclusive right to own and control distribution of one's intellectual property. To that end, the Court identified four advantages to P2P networks: (1) no need for a central computer server, (2) high-bandwidth communications are not necessary, (3) requests can be filled quickly from a variety of connected computers, and (4) fewer crashes in systems occur.⁷⁵ The Court identified two disadvantages: that it is difficult to control (1) the content of files available and (2) the behavior of users.⁷⁶ The Court also acknowledged that P2P networks have lawful uses by universities, government agencies, corporations, and

⁷² Although not previously mentioned, Streamcast was a second defendant. While its P2P service was a little different from *Grokster's*, the Supreme Court came to the same conclusion for both.

⁷³ 380 F.3d at 1166. The Ninth Circuit ignored the amount of illegal copying and adhered to the prior legal precedent precisely.

⁷⁴ *Grokster*, 545 U.S. 924:

StreamCast monitored both the number of users downloading its OpenNap program and the number of music files they downloaded. . . . Internal company documents indicate that StreamCast hoped to attract large numbers of former Napster users if that company was shut down by court order or otherwise, and that StreamCast planned to be the next Napster. . . . [I]t introduced itself to some potential advertisers as a company 'which is similar to what Napster was.

This intentional advertising to induce infringement by others was also present in *Kalem Co. v. Harper Brothers*, 222 U.S. 55, 62-63. Under those circumstances, Justice Holmes found contributory copyright infringement.

⁷⁵ *Grokster*, 545 U.S. 920.

⁷⁶ *Id.*

libraries.⁷⁷ Had the *Sony* Court looked at the potential for lawful uses of the technology, it would have found substantial noninfringing uses.

The Court reviewed the district court and Ninth Circuit opinions and interpretations of *Sony*.⁷⁸ It reiterated *Sony*'s recognition of contributory infringement and vicarious infringement, even though the Copyright Act does not expressly provide a cause of action for those activities.⁷⁹ The Court acknowledged that MGM argued those two theories and lost in the lower courts. The Court expressly declined to review the merits of the two theories of copyright liability. It chose instead to incorporate the inducement theory into copyright law.⁸⁰ But the Court did look at *Sony*, because it is the most recent time the Supreme Court has addressed indirect liability⁸¹ in copyright law. It also admitted that MGM, the party the Court wished to benefit, had based its claim against *Grokster* on the *Sony* opinion and adoption of indirect liability theories into the copyright law.⁸² Logically, if the *Aims ter* court and the MGM plaintiffs can apply *Sony* to the facts and find copyright liability, but the Ninth Circuit cannot, there is most certainly conflict among the circuits on the reach of indirect liability that was recognized in *Sony*. Hence, the Supreme Court should have explained *Sony*.

The Court continued from *Sony*, which had said that if the defendant had knowledge of infringing uses of the technology, then it could be held indirectly liable. The Court added that, even without actual knowledge of specific acts of infringement, a defendant could be liable for indirect infringement if it actively induced infringement.⁸³ The Court found three facts that caused it concern about inducing others to copy. First, the defendants publicly stated that the objective of using the programs was to copy copyrighted works. Second, the defendants did not develop safeguards or deterrents to prevent infringing activity. Third, the defendants profited from the activity by selling advertising.⁸⁴

But when one reviews the facts and findings in the trial court in *Sony*, as Justice Breyer did, it is difficult to distinguish between the inducement done by Sony in its advertising of the Betamax and its training of sales personnel to demonstrate how to copy and store copies of television programs and televised movies and the inducement done by the defendants in *Grokster*. Clearly, the lower courts will

⁷⁷ *Id.*

⁷⁸ *Id.* at 927.

⁷⁹ *Id.* at 930.

⁸⁰ *Id.* at 930-931. The inducement theory is based on secondary liability also. It is inducing another to infringe rather than directly infringing oneself. Here the Supreme Court just went one step farther and said if you cannot prevail against the defendant under vicarious or contributory due to *Sony*'s staple article of commerce doctrine, pursue the defendant for indirect liability under vicarious or contributory infringement due to the inducement theory.

⁸¹ The Supreme Court uses the term "secondary liability" where I use the term indirect liability.

⁸² *Id.* at 931.

⁸³ *Id.* at 935: "Thus, where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability."

⁸⁴ John Tehranián, *Copyright Liability After Grokster*, CALIFORNIA LAWYER, Nov. 005, at

continue to grapple with finding the appropriate balance between the competing interests in copyright as technology continues to change at breakneck speeds. The Supreme Court did not decide which side of the fence to be on.

B. Justice Ginsburg's Concurring Opinion

Justice Ginsburg was joined by the late Chief Justice Rehnquist and Justice Kennedy. She believed the Ninth Circuit misunderstood and misapplied *Sony*. She said that the Ninth Circuit's summary judgment for *Grokster* was inappropriate, that at least the district court should have conducted a trial. She found there were issues of fact for possibly engaging in active inducement of copyright and for contributory infringement based on the distribution of the software products.⁸⁵ The two categories overlap, but "they capture different culpable behavior."⁸⁶

Justice Ginsburg reviewed the *Sony* Court's reasoning and its findings based on the evidence. Her summary of the case is accurate. She then explained that the Ninth Circuit erred three years ago in *Napster*,⁸⁷ when it held that "if substantial noninfringing use was shown, the copyright owner would be required to show that the defendant had reasonable knowledge of specific infringing files."⁸⁸ It appears that Justice Ginsburg disagrees with the Ninth Circuit's application of the standard in *Sony* that the "product need only be capable of substantial noninfringing uses."⁸⁹ She agrees more with *Aims ter* that there is a requirement to show some substantial amount of actual noninfringing uses. The burden would be shifted to the provider of the facility for copying. This was not done in *Sony*. Therefore, Justice Ginsburg is advocating a change in application of *Sony*. Shifting burdens of proof is an effective tool for changing the law through its application without changing its actual substance.

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

⁸⁸ *Grokster*, 545 U.S. at 944. This is a misstatement of what Justice Ginsburg said. She did not say that *Napster* held the above, but that the *Grokster* decision held that and that it arose from *Napster's* reasoning. The result in *Napster* was liability for contributory and vicarious copyright infringement. That is because the Ninth Circuit found that the company did have reasonable knowledge of specific infringing uses, because it had to receive the requests for files to be copied and had to send those requests on to the group of users. Since *Grokster* and *Streamcast* had no central server for receiving and sending requests, they would not be presumed to have knowledge of specific infringing files. Their operation of the website was totally passive. See also *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), in which Justice Ginsburg said the Ninth Circuit requires evidence of specific infringing acts and contrasted this with *In re Aimster Copyright Litigation*, 334 F.3d 643,645-646 (7th Cir. 2003) (if product widely used to infringe, then go against producer of product for secondary liability, without consideration of knowledge of specific infringing uses).

⁸⁹ *Sony*, *supra* note 11.

C. Justice Breyer's Concurring Opinion

Of course, the technology should not be thwarted, according to Justice Breyer. He agreed with the Court that a “distributor of a dual-use technology may be liable for the infringing activities of third parties where he or she actively seeks to advance the infringement.”⁹⁰ He also agreed “that, in light of our holding today, we need not now ‘revisit’ *Sony*.”⁹¹

Having said this, he indicated that the lower courts did correctly interpret and apply *Sony*.⁹² So why did he feel the need to support and delve so deeply into the facts in *Sony*? He believed Justice Ginsburg indicated that the lower courts misinterpreted *Sony*.⁹³ So Justice Breyer reviewed *Sony* in its factual details, just to show that, by comparison, if anything, *Grokster* looks better than *Sony* did in the VCR uses. Consider that a VCR is good only for copying and playing videocassettes. *Grokster*'s P2P file sharing is capable of more than simply copying. It is a communication device among internet users. It does not have to be used for copying music or movies. It can actually be used for discourse. Justice Breyer found three factual parallels between *Sony* and *Grokster*. The *Sony* facts follow and the reader should apply each to P2P file sharing.

[First,] [i]n *Sony*, the Court considered the potential copyright liability of a company that did not itself illegally copy protected material, but rather sold a machine ... that could be used to do so.

A buyer could use that machine for noninfringing purposes [or] for infringing purposes as well [o]r, the buyer might use the machine to record copyrighted programs under circumstances in which the legal status of the act of recording was uncertain. ...”⁹⁴

Second, “*Sony* knew many customers would use its VCRs to engage in unauthorized copying and ‘library-building.’” But that fact was insufficient to make *Sony* itself an infringer. The Court ultimately held that *Sony* was not liable for its customers’ acts of infringement.⁹⁵

Third, “[t]he Court had before it a survey commissioned by the District Court and then prepared by the respondents showing that roughly 9% of all VCR recordings were of the type — namely religious, educational, and sports programming

⁹⁰ 545 U.S. at 949.

⁹¹ *Id.*

⁹² *Id.* “The Court’s opinion in *Sony* and the record evidence (as described and analyzed in the many briefs before us) together convince me that the Court of Appeals conclusion has adequate legal support. J. Breyer also relied on *Sony*’s literal language. He went farther than the Ninth Circuit by indicating that indeed *Sony*’s public interest policy is good copyright policy.

⁹³ *Id.* Justice Ginsburg did indeed strongly indicate that *Sony* has been misread.

⁹⁴ *Id.* at 949-950.

⁹⁵ *Id.* at 950.

- owned by producers and distributors testifying on Sony's behalf, who did not object to time-shifting."⁹⁶

Comparing the facts in *Sony* to the facts in *Grokster*, Justice Breyer concluded that "the evidence now before us shows that *Grokster* passes *Sony's* test - that is, whether the company's product is capable of substantial or commercially significant noninfringing uses."⁹⁷ Justice Breyer believed that more lawful uses for P2P file sharing would develop so long as P2P file sharing sites were permitted to operate.⁹⁸

He said the issue is not whether the *Grokster* facts satisfy the *Sony* standard, but whether the Court should change the *Sony* standard to be stricter.⁹⁹ He presented a three point inquiry: "(1) Has *Sony* . . . worked to protect new technology? (2) If so, would modification or strict interpretation significantly weaken that protection? (3) If so, would new or necessary copyright-related benefits outweigh any such weakening?"¹⁰⁰ This is a worthy inquiry. It has an economic and social basis. It is forward looking. It asks whether the policy is based on protecting the *status quo* when change is desirable. Justice Breyer then proceeded to answer the three

⁹⁶ *Id.* at 950-951.

⁹⁷ *Id.* at 952. "When measured against *Sony's* underlying evidence and analysis, the evidence now before us shows that *Grokster* passes *Sony's* test - that is, whether the company's product is capable of substantial or commercially significant noninfringing uses." *Id.* He noted that *Grokster* is factually similar to *Sony* item by item and even better in showing noninfringing uses: "The nature of these and other lawfully swapped files is such that it is reasonable to infer quantities of current lawful use roughly approximate to those at issue in *Sony*." *Id.* at 953. "To be sure, in quantitative terms these uses account for only a small percentage of the total number of uses of *Grokster's* product. But the same was true in *Sony*, which characterized the relatively limited authorized copying market as 'substantial.'" *Id.* "Importantly, *Sony* also used the word 'capable,' asking whether the product is 'capable of substantial noninfringing uses.'" *Id.*

⁹⁸ *Id.* at 954.

Such legitimate noninfringing uses are coming to include the swapping of: research information (the initial purpose of many peer-to-peer networks); public domain films (*e.g.*, those owned by the Prelinger Archive); historical recordings and digital educational materials (*e.g.*, those stored on the Internet Archive); digital photos (OurPictures, for example, is starting a P2P photo-swapping service); "shareware" and "freeware" (*e.g.*, Linux and certain Windows software); secure licensed music and movie files (intent MediaWorks, for example, protects licensed content sent across P2P networks); news broadcasts past and present (the BBC Creative Archive lets users "rip, mix and share the BBC"); user-created audio and video files (including "podcasts" that may be distributed through P2P software); and all manner of free "open-content" works collected by Creative Commons (one can search for Creative Commons material on StreamCast).

⁹⁹ *Id.* at 956.

¹⁰⁰ *Id.* at 957:

Sony's rule is strongly technology protecting. . . . Thus Sony's rule shelters VCRs, typewriters, tape recorders, photocopiers, computers, cassette players, compact disc burners, digital video recorders, MP3 players, Internet search engines, and peer-to-peer software. But *Sony's* rule does shelter descramblers, even if one could theoretically use a descrambler in a noninfringing way. . . . Given the nature of the *Sony* rule, it is not surprising that in the last 20 years, there have been relatively few contributory infringement suits - based on a product distribution theory - brought against technology providers...."

In summary, J. Breyer concluded that *Sony* has achieved its "innovation protecting objective."

questions he had posited. (1) *Sony's* rule has given authors an "assurance that they will be shielded from copyright liability as they bring valuable new technologies to market."¹⁰¹ (2) Strict interpretation of the *Sony* rule would cause a "chill of technological development."¹⁰² (3) New copyright-related benefits do not outweigh "technology-related loss."¹⁰³ Justice Breyer pointed out that, although *Grokster* involved music sharing, other uses of P2P file sharing would also suffer from a narrow interpretation of *Sony*. He recognized other solutions for the copyright holder to be protected even while others are protecting their activities by suing.

D. Case Analysis

The unanimous opinion sounds ominously as if would reinterpret *Sony* to lower the threshold for imposing liability for contributory infringement. If this is the case, there is likely to be deluge of contributory infringement cases against numerous internet server systems. Justice Breyer mentioned that a good thing about *Sony* is that there have been few contributory infringement copyright cases dealing with the newer technologies that make copying simple.¹⁰⁴

Indeed, in the district court and in the Ninth Circuit Court of Appeal, the *Sony* and *Napster* line of cases dictated that the *Grokster* defendants were not liable for contributory infringement or for vicarious infringement.¹⁰⁵ Logically, if the Supreme Court opinion chose not to readdress *Sony*, the reasoning that led the circuit and district courts to find no liability is still intact. The courts now have another layer of inquiry to place upon the analysis after the finding of no contributory or vicarious infringement. That is the inducement theory. There is now a problem of having no guidelines for what constitutes inducement that gives rise to vicarious and contributory liability.

There actually is a distinction between *Sony* and *Grokster* in regards to the item that was being distributed. *Sony's* VCR is a machine that *Sony* sold and did not continue to participate in. *Grokster's* program is an intangible copyrighted (presumably) software program that *Grokster* continually participated in running and reaping financial benefits from. It did this through advertising. It continued to interact with its users. *Sony* did not do that. The Court did not identify this distinction, but it may have been in the minds of the justices as they perceived *Grokster* as being more actively engaged in promoting infringing uses of its product than was *Sony*. The Court did, however, write, "Although *Sony's* advertisements urged consumers to buy the VCR to 'record favorite shows or build a library of

¹⁰¹ *Id.*

¹⁰² *Id.* at 960

¹⁰³ *Id.*

¹⁰⁴ *Id.* at 959. "Given the nature of the *Sony* rule, it is not surprising that in the last 20 years, there have been relatively few contributory infringement suits. .brought against technology providers....

¹⁰⁵ See *MGM Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004) (*Grokster* not indirectly liable); *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cai. 2003)(*Grokster* not indirectly liable).

recorded programs, neither of these uses was necessarily infringing. . . .”¹⁰⁶ Those are the same type of copying that *Grokster* was enabling its users to do. Why is recording a TV show and saving it a fair use and not illegal, when recording a song and saving it is infringing use? This is an issue to be addressed in a later analysis.

Sony could have been held liable on an inducement theory also, but the Court was predisposed to allow the technology. Now the Court is tired of allowing infringing technology. This was a problem with copy machines, even with printing presses. So we are back to the original copyright problem of stopping a technology simply because it is used to infringe copyright. We know *Grokster* is capable of substantially noninfringing uses.

The problem with Justice Ginsburg’s opinion is that it complains about the evidence the Ninth Circuit relied on in *Grokster* to show that it met *Sony*’s standard. She did not compare the actual facts and evidence before the Court in *Sony* with the actual facts and evidence before the Ninth Circuit in *Grokster*. This was, however, done by Justice Breyer in his concurring opinion that disagreed with Justice Ginsburg’s concurring opinion. So we have one unanimous opinion and two concurring opinions that concur with the unanimous opinion, but disagree with one another. This will prove difficult for the lower courts that must revisit the case on remand. Justice Ginsburg did indeed spend pages reviewing the evidence relied on by the Ninth Circuit in *Grokster*. But, unlike Justice Breyer’s review of the evidence, she did not compare the *Grokster* facts to the *Sony* facts. That comparison reveals the difference is in philosophy, not in what *Sony* said the law was. She was persuaded that, when the primary use is infringing, the court should not grant summary judgment. She did not mention that in *Sony* the primary use of the VCR was certainly infringing also. She referred to the issue on which she disagreed with the Ninth Circuit as “*Sony*’s product distribution holding.”¹⁰⁷ She suggested that the Ninth Circuit should revisit it if it does not find liability on the inducement theory.¹⁰⁸ The lower courts might find *Grokster* liable under the inducement theory and not try to second guess what the Supreme Court thought *Sony* meant.

IV. LAW AND ECONOMICS CONSIDERATIONS

The operative term in this new technology is “sharing.” Whether there is room in copyright law for sharing is the actual issue. As is typical of the adversary process, the white knight and the black knight have polarized. The Supreme Court’s unanimous decision does not amount to a compromise. The polarities are still present, embodied in Justice Ginsburg’s and Justice Breyer’s concurring opinions, so the entertainment industry will continue to seek judicial and legislative help in

¹⁰⁶ *Grokster*, 545 U.S. at 931.

¹⁰⁷ *Id.* at 949. This is how Justice Ginsburg distinguished the two cases, *Grokster* and *Sony*. She found that the Ninth Circuit misinterpreted *Sony*’s holding. Unfortunately for this analysis, the Ninth Circuit applied *Sony*’s literal language.

¹⁰⁸ *Id.*

solving the massive copying dilemma.¹⁰⁹ One scholar pointed out that music is an integral part of human society and, with or without the RIAA providing it, there will

, 110 0 5
be music.

The courts, legislatures, and entertainment industry heads believe the issue is copyright infringement. The copyists and facilitators of copying believe it is about sharing. So the Supreme Court has been studying economics. Copyright law is based on a selfish society model; it provides the owner with the right to make copies, to market, and to exclude others from copying, from obtaining access to the intellectual property.¹¹¹ The internet's facilitation of digital online copying has possibly facilitated society's change to a somewhat less selfish and more sharing economic system, as information and communication are more rapidly accessed.¹¹² Is there a role for copyright in a sharing technology? Where do ownership rights in intellectual property fit into this new world?

Indirect liability suits will not resolve the problem of copying. As one scholar said,

While the immediate impact of *Grokster* on the peer-to-peer ('P2P') community remains in dispute, one thing is certain: file-sharing technologies have not disappeared. Rather, they have deftly adapted to the new legal landscape and, indeed, have already subverted the intent-based analysis of the Supreme Court's *Grokster* decision.¹¹³

Another scholar described the philosophies of three of the P2P sharing developers, two of which espouse a sharing philosophy and a lack of interest in making a profit.¹¹⁴

¹⁰⁹ With courts, the industry has gone beyond direct infringement suits and into the indirect liability doctrines recognized in earlier copyright case law. With legislatures, the industry has lobbied for and received the Digital Millennium Copyright Act, the Copyright Term Extension Act, and broadened copyright protection in the 1976 Copyright Act. See Bohannon, *Reclaiming Copyright*, *supra* note 21.

¹¹⁰ Yochai Benkler, *Sharing Nicely: On Shareable Goods and the Emergence of Sharing as a Modality of Economic Production*, 114 YALE L.J. 273, 351-52 (2004). Justice Breyer quoted the following passage: "Much of the actual flow of REVENUE to artists - from performances and other sources - is stable even assuming a complete displacement of the CD market by peer-to-peer distribution. ... It would be silly to think that music, a cultural form without which no human society has existed, will cease to be in our world. . . ."

¹¹¹ U.S. CONST, art. I, § 8, cl. 7: "The Congress shall have power ... To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries. . . ." Exclusive means the power to exclude.

¹¹² See Benkler, *Sharing Nicely*, *supra* note 110. Two examples of sharing in modern social context are carpooling and SETI, the search for extraterrestrial intelligence.

¹¹³ Choi, *supra* note 36, at 394.

¹¹⁴ Galen Hancock, *Intellectual Property: Copyright: Note: Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.: Inducing Infringement and Secondary Copyright Liability*, 21 BERKELEY ECH. . . . 203 (2006). The three are BitTorrent, Freenet and GUNet.

How can sharing be wrong? We think of copyright infringement as a wrongful copier making a profit from theft of another's original work of authorship.¹¹⁵ Shawn Fanning was not originally making a profit from the copying facility he created, called Napster. Purportedly, he was just using, not even marketing, the technology to permit, not even promote, sharing among peers. The Ninth Circuit stopped all that sharing. It used the indirect liability doctrines of contributory infringement and vicarious liability to impose copyright liability on Napster for facilitating and profiting from others' copying.¹¹⁶ Not all scholars agree that the *Napster* Ninth Circuit correctly applied *Sony*.¹¹⁷ The indirect liability model is expanding, in an attempt to protect the copyright owner against the increasingly creative methods digital copying facilitators employ to enable sharing on the internet are using to avoid detection by and liability to the entertainment industry.¹¹⁸

If sharing is good, in the legal dichotomy construct the entertainment industry is the bad guy and the copiers are just sinless sharers. Unfortunately, the sharers are sharing primarily copyrighted works. If there really is a new economy of sharing, then the problem of sharing copyrighted works should not be able to be used to thwart the growth of a technology that may change the concept of property ownership in the world. The entertainment industry, the owner of the artists' copyrights, probably does not mind sharing, so long as it can make a profit every time the copiers share. The sharing instrumentality should not be thwarted to protect the exclusive interests of "the bad guy."

Society without a concept of private property ownership is not particularly successful, as evidenced by the communist experiment. But in the sharing modality today, there is no central governmental controller forcing people to give to the cause.

¹¹⁵ 17 U.S.C. § 102 (2005):

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. 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.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

¹¹⁶ *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

¹¹⁷ See generally Lemley and Reese, *supra* note 7, at 1386-1390, and Benkler, *supra* note 7.

¹¹⁸ See Choi, *supra* note 36. The author summarized new techniques for facilitating music downloading that may be less detectable.

Sharing itself is the cause.¹¹⁹ If it is communist, it is a purer form than the communist governments that nations develop, which force communal ownership of property, rather than eschewing ownership of the property at all. A scholar identified sharing phenomena in society as a “modality of economic production.”¹²⁰

The private property interests are strongly embodied in the entertainment industry’s ardent pursuit of both individuals who use internet technology to copy and share, and the entities who (or which) provide the facility for internet users to copy and share. It is not good policy for courts and legislatures to give the entertainment industry control over the instrumentality of the copying. One colleague said protect the content, not the medium of delivery. Freedom of speech may pay a high price, if the entertainment industry is given power through copyright to control the P2P and other internet systems of sharing. The entertainment industry is selfish and profit oriented; it will not promote sharing for other than its own ends. Those who wish to use the technology for other than the entertainment industry’s profit-oriented ends will be denied freedom of speech through that vehicle.

Similarly, movie makers and songwriters (the actual artists) want to share their works, but they also want to receive value for the value they have created. It’s a give-and-take world. So copyright is not dead. Even without the RIAA and MPAA and with direct marketing enabled by the P2P technology, copyright has a place.

Perhaps the sharing phenomena is a reaction to an overly restrictive copyright regime. One scholar says the private interest protection is overbroad and courts should use statutory interpretation to move it back to protecting public interest.¹²¹ She classified the competing interests as private and public rights.¹²² In her view, the courts should not wait for the legislature to decide the parameters of the P2P file sharing technology. Congress is swayed by special interests and the lobbyists are the associations like the RIAA and MPAA. They have succeeded in expanding the private property reach of copyright, through legislation such as the Copyright Term Extension Act (CTEA), parts of the Digital Millennium Copyright Act (DMCA), and the derivative rights provisions in the 1976 Act.¹²³ She identified the RIAA as promoting private interests.¹²⁴ There may already be a chilling effect to development on the internet of sharing technology. That is what *Sony* tried to prevent with the VCR case. That is what Justice Breyer tried to prevent with the *Grokster* P2P file-sharing case.

¹¹⁹ See generally Benkler, *supra* note 7.

¹²⁰ *Id.* at 275. Benkler discussed carpooling, SETI (search for extraterrestrial intelligence) computer power lending.

¹²¹ Bohannan, *supra* note 21. A colleague reported that the technology managers at his university say that they fear to innovate, because of fear of possible lawsuits against them individually or against the university.

¹²² *Id.*

¹²³ *Id.* at 569.

¹²⁴ *Id.* at 570.

The courts are trying to keep up. The legislature's participation is expected. It has already acted once, in the Digital Millennium Copyright Act (DMCA).¹²⁵ The Amicus Brief in *Grokster* proposed leaving the P2P phenomena alone and not taking judicial steps to measure what users are actually doing with the technology, as the *Aimster* court advocated.¹²⁶ The amici advised that Congress is the appropriate body to legislate changes in the copyright law's coverage.¹²⁷

The three opinions in *Grokster* indicate that the Court agrees on the adoption of another patent doctrine into copyright law, but that it disagrees on the standards for finding or absolving a defendant of indirect liability for copyright infringement. At least three justices agree with the *Aimster* point of view. At least three justices agree with the *Napster* and Ninth Circuit's *Grokster* point of view. So examining how lower courts are interpreting *Grokster* is important to businesses who wish to use P2P file sharing technology. Of twelve cases examined that cited *Grokster* within the first year of the decision, only one applied the holding to a copyright case.¹²⁸ Whether the Supreme Court is swinging more toward protecting the rights of the copyright holder will be examined by the lower courts in the next few years. It is not good policy to hinder or prevent technology that is going to be widely used throughout the world, possibly for noninfringing uses.

¹²⁵ Pub. L. 105-304, Oct. 28, 1998, 112 Stat. 2860. Title I amends U.S. copyright law to make it in compliance with World Intellectual Property Organization's treaty standards. This extends U.S. copyright law in a sense by identifying works that previously may not have received copyright protection such as sculptures that decorate buildings. Title II limits copyright liability of internet service providers (ISPs) from direct liability. It is quite limited in its exemption and does not address indirect liability at any rate. Admittedly it is a catchall piece of legislation, even containing a provision protecting boat hull designs for a period of ten years. But its very limited exemption for ISPs is of interest to companies that share files on the internet, many of which may be copyrighted.

¹²⁶ Brief Amici Curiae, *supra* note 7, at 557-568.

¹²⁷ *Id.* at 564-565.

¹²⁸ First, *In re: Charter Communications, Inc.*, 393 F.3d 771 (8th Cir. 2005) cited the Ninth Circuit's *Grokster* opinion, which was vacated by the Supreme Court. So this case is not a *Grokster* citation. Second and third are cases where the music industry had sued direct infringers for using P2P file sharing to illegally download music. *Grokster* was cited primarily because of the similarity in subject matter, but not for its holding. *BMG Music v. Cecilia Gonzalez*, 430 F.3d 888 (7th Cir. (2005)); *Interscope Records v. Lindsey Duty*, 2006 U.S. Dist. LEXIS 20214 (D. Ariz. 2006). Fourth, fifth, and sixth were three patent infringement cases. *Golden Blount, Inc. v. Robert H. Peterson Co.*, 438 F.3d 1354, 1365 (Fed. Cir. 2006); *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corporation*, 420 F.3d 1369, 1379 (Fed. Cir. 2005); and *Aventis v. Barr Laboratories, Inc.*, 411 F. Supp. 2d 490, 517 (D.N.J. 2006). Although *Grokster* was not a patent case, the Federal Circuit cited it approvingly for its guidance on inducing infringement. Seventh, eighth, and ninth were opinions that cited *Grokster* generally for recognition of indirect liability, while noting that there must be direct infringement accompanying if indirect liability can attach. *Perfect 10 v. Google, Inc.*, 2006 U.S. Dist. LEXIS 6664 (C.D. CA 2006); *Terry Newborn v. Yahoo, Inc.* *Terry Newborn v. Yahoo, Inc.*, 391 F. Supp. 2d 181 (D.D.C. 2005); and *Monotype Imaging, Inc. v. Bitstream Inc.*, 376 F. Supp. 2d 877 (N.D. Ill. 2005). Tenth, eleventh, and twelfth were opinions that cited *Grokster* for its holding on inducing infringement. *Contessa Food Products, Inc. v. Lockpur Fish Processing Co. Ltd.*, 123 Fed. Appx. 747 (9th Cir. 2005); *Arista Records, Inc. v. Flea World, Inc.*, 2006 U.S. Dist. LEXIS 14988 (D.N.J. 2006); and *AMC Technology, L.L.C. v. SAP AG, SAP America, Inc.*, 2005 U.S. Dist. LEXIS 27095 (E.D. Pa. 2005). Only AMC Technology, L.L.C. used the *Grokster* holding to impose liability on the defendant for contributory and vicarious copyright infringement.

V. CONCLUSION

Grokster “will impact the way in which the law balances public rights of access to copyrighted works with the legitimate interests of copyright owners in reaping just rewards for their creative labors.”¹²⁹ This tension between public interest and private ownership is the inherent tension in copyright. The Supreme Court in *Grokster* addressed the balancing of the competing interests by building on previous intellectual property doctrine. The Supreme Court continued the judicial construction of indirect liability and added consideration of patent law’s inducement theory to copyright infringement cases.

The unanimous opinion eschewed interpretation of *Sony*, simply choosing to invite application of a second patent doctrine not previously adopted into copyright law. Justice Ginsburg’s concurring opinion¹³⁰ called for a rereading, a reinterpretation, of *Sony*.¹³¹ Justice Breyer’s concurring opinion¹³² indicated that the Ninth Circuit and the district court both applied *Sony* as it was meant to be interpreted.¹³³ Under his scheme of the law, the lower courts would be applying the new Supreme Court decision on the inducement doctrine. When one reviews the facts and findings in the trial court in *Sony*, as Justice Breyer did, it is difficult to distinguish between the inducement done by Sony in its advertising of the Betamax and its training of sales personnel to demonstrate how to copy and store copies of television programs and televised movies from the inducement done by the defendants in *Grokster*. It is difficult to predict how the lower court may decide the applicability of the inducement theory in *Grokster*’s case.

There is a distinction between *Sony* and *Grokster* in regards to the item that was being distributed. Sony’s VCR is a machine that Sony sold and did not continue to control. *Grokster*’s program is an intangible software program that *Grokster* continually participated in running and reaping financial benefits from. It continued to interact with its users. Sony did not do that. This may have been in the minds of the justices when they perceived *Grokster* as being more actively engaged in promoting infringing uses of its product than was Sony. The Court said that Sony’s advertising and training induced consumers to buy the VCR to record favorite shows and to build a library of recorded programs, but that these uses were fair. Those are the same types of copying that *Grokster* was enabling its users to do. The question becomes why recording a TV show and saving it is a fair use and not illegal, while recording a song and saving it is infringing use.

The unanimous opinion did not find either with the Ninth Circuit or with the Seventh Circuit, so practitioners and scholars are left to ponder the issue. But at

¹²⁹ Terhanian, *supra* note 29, at 27.

¹³⁰ Concurring in by Chief Justice Rehnquist and Justice Kennedy.

¹³¹ *Grokster*, 545 U.S. at 945. Justice Ginsburg’s opinion runs from page 942 to page 949. It is shorter than Justice Breyer’s concurring opinion. The opinion actually calls for the Ninth Circuit to reread *Sony* to be consistent with the Justice Ginsburg opinion.

¹³² Concurring in by Justices Stevens and O’Connor.

¹³³ *Id.* at 949. Justice Breyer reviewed *Sony* by comparing facts with the instant case, finding similarities.

times the decision will not have to be made, because they can apply the most recent interpretations of the newly recognized inducement theory. It will give the courts something to do, just as *Sony* gave them fair use to consider for twenty years.

The lower courts will continue to struggle, as technology continues to change at breakneck speeds and the copyright law attempts to address the parameters of protection.¹³⁴ *Grokster's* adoption of the inducement doctrine from patent law for use in indirect liability for copyright infringement cases may prove less valuable than hoped for lower courts grappling with internet file sharing.¹³⁵ Expanding indirect liability doctrines to include prohibiting P2P file sharing that includes copyright infringing activities is not appropriate. Allowing copyright to coexist with the technology of sharing that is developing in 2006 and the future is appropriate.

¹³⁴ See generally Tehranian, *supra* note 29.

¹³⁵ See note 128, *supra*, summarizing actual use of *Grokster* in cases citing it. The inducement doctrine was actually used in only one out of twelve cases summarized.