
SOFTWARE DOESN'T INFRINGE, USERS DO?¹ A CRITICAL LOOK AT *MGM V. GROKSTER* AND THE RECOMMENDATION OF APPROPRIATE P2P COPYRIGHT INFRINGEMENT STANDARDS

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I. INTRODUCTION

In 1998, Shawn Fanning took a complaint from his roommate that there was no easy way to find free music on the Internet, and made this wish a reality by creating Napster Inc. (“Napster”).² Any individual with computer access could go on to Napster’s website and download its free file-sharing software.³ With Napster software, users could perform a search for various artists and music, and then download the songs they wanted from that search list onto their computer.⁴ The concept was simple – individual computer users could store various songs on their computers and then upload them onto Napster’s central servers.⁵ From the central servers, the files would then be shared with other

¹ Cynthia L. Webb, *Software Doesn’t Break Laws . . .*, WASHINGTONPOST.COM, at www.washingtonpost.com, (Aug. 20, 2004). Peer-to-Peer (P2P) software distributors have successfully argued in some of the following cases to be discussed, that similar to the National Rifle Association’s argument that guns do not kill people, people kill people, and that P2P software distributors do not infringe copyrights, only users of that software infringe. *Id.* This Note challenges that argument and others.

² *The Brain Behind Napster*, CBSNEWS.COM, at <http://www.cbsnews.com/stories/2000/10/10/60II/main239876.shtml> (Oct. 10, 2000).

³ *Id.* For further discussion on how the recording industry has brought thousands of lawsuits against individual users in an effort to combat P2P piracy, see Brandon Michael Francavillo, Comment, *Pretzel Logic: The Ninth Circuit’s Approach to Contributory Copyright Infringement Mandates that the Supreme Court Revisit Sony*, 53 CATH. U. L. REV. 855 (2004).

⁴ *The Brain Behind Napster*, CBSNEWS.COM, at <http://www.cbsnews.com/stories/2000/10/10/60II/main239876.shtml> (Oct. 10, 2000).

⁵ See *id.*; see also *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 901 (N.D.

Napster users.⁶ The consequences of this system, however, were not so simple.

Significant players in the music recording industry brought suit against Napster claiming copyright infringements on the reproduction and distribution rights of the copyrighted works that were uploaded and subsequently downloaded from the Napster site.⁷ Although the software itself was free to download, its effect was costly to the artists and innovators who created the songs.⁸ The artists and innovators never gave Napster users permission to copy or distribute their works, nor were they paid royalty payments they would otherwise be paid.⁹ The courts eventually held in favor of the recording industry.¹⁰ As a result, Napster was shut down in its original form.¹¹

In 2000, two software distributors, Grokster Ltd. (“Grokster”) and StreamCast Networks Inc., provided the public with new software that enabled users to exchange digital media via a peer-to-peer network (P2P).¹² Unlike the technology in Napster, Grokster and StreamCast’s software did not rely on a central server.¹³ Grokster and StreamCast users could now share directly with each other, rather than through some central location.¹⁴ The sound recording and music publishing industries, in conjunction with the motion picture indus-

Cal. 2000) [hereinafter Napster I].

⁶ Napster I, 114 F. Supp. 2d at 901.

⁷ See generally Napster I, 114 F. Supp. 2d 896; *A & M Records, Inc. v. Napster*, 239 F.3d 1004 (9th Cir. 2001) [hereinafter Napster II].

⁸ See *Protecting Innovation and Art While Preventing Piracy: Hearing Before the Senate Comm. on the Judiciary*, 108th Cong. (2004) (statement of Mitch Bainwol, Chairman and CEO, Recording Industry Association of America) [hereinafter *Hearings*] (discussing loss of unit sales due to P2P copyright infringement); see also Jefferson Graham, *Students Score Music Perks as Colleges Fight Piracy*, USA TODAY, Aug. 24, 2004, at 1A. The Recording Industry Association of America (RIAA) states that \$4.2 billion is lost each year due to file-swapping. *Id.*

⁹ See Napster I, 114 F. Supp. 2d at 902, 903; Napster II, 239 F.3d at 1011, 1013 (discussing lack of permission by authors); 17 U.S.C. §§801, 1004 (2000) (recalling royalty payments).

¹⁰ See generally Napster II, 239 F.3d 1004.

¹¹ *Id.*

¹² See generally *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 259 F. Supp.2d 1029 (C.D. Cal. 2003) [hereinafter Grokster I]; see also Grokster’s website, at <http://www.grokster.com/aboutus.html> (last visited Feb. 14, 2005). Grokster refers to itself as

[A]n advanced peer to peer file sharing program that enables users to share any digital file including images, audio, video, reports, documents, etc. Content developers and owners may . . . easily broadcast their files through the Grokster software . . . [and users can their own] works . . . Grokster, LTD. is an international software company . . . providing . . . person-to-person software . . . [It] is privately held and headquartered in Nevis, West Indies.

Id.

¹³ Grokster I, 259 F. Supp.2d at 1031, 1039-40.

¹⁴ *Id.*

try, filed suit against both companies for copyright infringement.¹⁵ Though the same court was responsible for shutting down Napster years earlier, the Ninth Circuit held in favor of the software distributors in *Metro-Goldwyn-Mayer Studios, Inc. (MGM) v. Grokster Ltd.* (“*Grokster I*”¹⁶ and “*Grokster II*”¹⁷).¹⁸ In making its decision, the Ninth Circuit ignored credible allegations that showed that over ninety percent of the material being shared on these sites was copyrighted.¹⁹

The *Grokster* decisions (*I* and *II*) ostensibly relied on existing copyright law, and courts have struggled with the application of the current law to varying P2P software. Copyright infringement is running rampant via P2P technology, and the financial health and survival of the entertainment industry is suffering as a result.²⁰ Technology that has legitimate, non-infringing uses must continue to be protected for public use, but copyright law must be modernized in light of recent P2P technologies that have led to the substantial infringement. Courts alone cannot adequately solve the problem. For this reason, a new legislative standard should be enacted to remedy the problem.

The new standard should create an atmosphere that is beneficial to the industry, the artists, authors, and consumers. The standard should be technology neutral, look to actual infringing use,²¹ determine whether the creator of the product or service turns a blind eye to the infringement,²² analyze the effect the infringement has on the market,²³ and establish whether the product or service was created with the intent to induce, encourage, or materially contribute to the infringing activity.²⁴

Part I of this Note will explain the varying P2P file-sharing technologies. Part II will discuss the primary and secondary liability laws pertaining to P2P

¹⁵ See generally *Grokster I*, 259 F. Supp.2d 1029.

¹⁶ *Id.*

¹⁷ See generally *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1157 (9th Cir. 2004) [hereinafter *Grokster II*].

¹⁸ *Id.*

¹⁹ *Id.* at 1158.

²⁰ See *Hearings, supra* note 8 (discussing the loss of unit sales as a result of P2P technology); *Graham, supra* note 8.

²¹ See Jesse M. Feder, *Is Betamax Obsolete?: Sony Corp. of America v. Universal City Studios, Inc. in the Age of Napster*, 37 CREIGHTON L. REV. 859, 910 (2004); see also *In re Aimster Copyright Litigation*, 334 F.3d 643, 653 (7th Cir. 2003) [hereinafter *Aimster II*] (referring to probable versus actual); *Hearings, supra* note 8 (statement of Senator Hatch, Chairman, Senate Comm. on the Judiciary) (referring to technology neutral).

²² *Aimster II*, 334 F.3d at 650.

²³ Francavillo, *supra* note 3, at 884 (“Perhaps it would be better for copyright law to consider the effect that an alleged infringer’s ‘actions [have] had on the copyright holder’s opportunities for commercial exploitation.’ This standard would hold P2P services, rather than individuals, generally liable for infringement.”).

²⁴ *Hearings, supra* note 8 (statement of Senator Orrin Hatch) (referring to Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Cong. §g (2004)).

technology and copyright infringement, including the landmark copyright infringement case, *Sony Corp. of Am. v. Universal City Studios* (“Sony”),²⁵ known as the “Magna Carta of innovation.”²⁶ In Part III, this Note will examine the judicial attempts to effectively apply *Sony* to P2P technologies in *A & M Records, Inc. v. Napster, Inc.* (“*Napster P*”²⁷ and “*Napster IP*”²⁸), and *In re Aimster Copyright Litig.*, (“*Aimster P*”²⁹ and “*Aimster IP*”³⁰). Part IV will show that the current law is ineffective in protecting copyrights as evidenced by the rampant copyright infringement occurring through P2P software. Part V will examine a new copyright infringement standard for secondary liability. Finally, this Note will conclude that the entertainment and P2P technology industries can still have a symbiotic relationship when the right law is in place.

II. PEER-TO-PEER TECHNOLOGY

Special Legal Advisor to the U.S. Copyright Office, Jesse Feder, defined P2P technology as, “interactions between machines of equal status on the network.”³¹ Most computer users experience similar “interactions” when they access the web through an Internet service provider (ISP), such as AOL.³² This interaction is typically considered a client-server relationship: a website is hosted on a server, and the client, or “user”, accesses that website by connecting to that server.³³ Once peer-to-peer software is downloaded to a user’s computer, it adds an index component to the client-server relationship.³⁴ The index mechanism “maintains a list of the resources available on the peer-to-peer network at any given time and the . . . addresses of computer where those resources may be found.”³⁵ An index function can be either centralized or de-

²⁵ See generally *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984).

²⁶ Amol Sharma, *Technology Groups Propose Language to Narrow File-Sharing Bill*, CONGRESSIONAL QUARTERLY, at <http://www.cq.com/display.do?dockkey=lcqonline/prod> (Aug. 24, 2004).

²⁷ See generally *Napster I*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).

²⁸ See generally *Napster II*, 239 F.3d 1004 (9th Cir. 2001).

²⁹ See generally *In re Aimster Copyright Litig.* 252 F. Supp. 2d 634 (N.D. Ill. 2002) [hereinafter *Aimster I*].

³⁰ See generally *Aimster II*, 334 F. 3d 643 (7th Cir. 2003).

³¹ Feder, *supra* note 21, at 862. Feder argues that this definition is too broad. He states that a more specific, useful definition is “a class of applications that takes advantage of resources – storage, cycles, content, human presence – available at the edges of the Internet.” *Id.*

³² AOL, or America Online, is an Internet Service Provider that supplies its users with software that allows them to connect to the Internet. See AOL website, at <http://www.corp.aol.com/whoware/history.shtml> (last visited Feb. 12, 2005).

³³ Feder, *supra* note 21, at 863.

³⁴ *Id.* at 864 (discussing adding an index component); *Grokster II*, 380 F.3d at 1160 (referring to downloading software to a users’ computer).

³⁵ Feder, *supra* note 21, at 864.

centralized.³⁶ In the former, a single central server is used to sustain a catalog of resources, and in the latter, all computers in the P2P network act as indexing servers.³⁷ The centralized-decentralized distinction is critical because it distinguishes the *Grokster* and *Napster* decisions.³⁸ With the addition of the index component, the client-server relationship in P2P technology becomes murky.³⁹ With this technology, a client can now act as a server, and a server as a client.⁴⁰ In other words, information stored on one client's computer can now be transferred to another client's computer, meaning it is now acting as a server, rather than as a client.⁴¹

The interaction between computers is varying and intricate, particularly with P2P technologies. This Note will discuss how the slightest variation in a product has been the determining factor in whether or not it withstands judicial scrutiny. Having discussed the basic workings of P2P technologies, Part II will now look to basic copyright law and how the law is applied to P2P technology.

III. PRIMARY AND SECONDARY LIABILITY

A. The U.S. Constitution and the Copyright Act

Copyright law is a creature of federal statute and preempts state law.⁴² Congress' authority to create copyright legislation stems from Article I, Section 9, Clause 8 of the U.S. Constitution, which provides that Congress has the power "[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."⁴³ Congress has tried to carry out the Constitution's intent by passing various pieces of copyright legislation, including the Copyright Acts of 1908 and 1976.⁴⁴

The Copyright Act protects copyrights in the form of "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 . . . including

³⁶ *Id.*

³⁷ *Id.* at 864-65.

³⁸ *See* *Grokster II*, 380 F.3d at 1163 (discussing the differing technologies in *Grokster* and *Napster*).

³⁹ Feder, *supra* note 21, at 863-64.

⁴⁰ *Id.*

⁴¹ *Id.* at 863.

⁴² 17 U.S.C. §912 (2000).

⁴³ U.S. CONST. art. I, §8, cl. 8.

⁴⁴ The Copyright Act, 17 U.S.C. §§101 – 1332 (2000).

musical works . . . [and] sound recordings.”⁴⁵ Such protection begins at creation and lasts for the life of the author plus seventy years.⁴⁶ This copyright safeguard gives the author, among other rights, exclusive authority “to reproduce the copyrighted work[s,] . . . prepare derivative works based upon the copyrighted work[s,] . . . distribute copies or phonorecords of the copyrighted work to the public[,] . . . perform the copyrighted work publicly[, and] display the copyrighted work publicly . . .”⁴⁷ A copyright infringement, on the other hand, is a violation of “any of the exclusive rights of the copyright owners as provided by sections 106 through 121.”⁴⁸ The author’s copyright is infringed upon when his copyright is exercised without his or her permission, or when it does not fall under one of the listed exceptions, such as fair use.⁴⁹

Changes to copyright law have been intentionally avoided by the courts, and the courts’ reliance on Congress to make amendments in this area of the law has been strong.⁵⁰ As the *Sony* Court indicated, copyright law changes are often in response to an advancement in technology.⁵¹ The fine line that courts and Congress try to balance is motivating creativity without blocking public access to that creativity, the original intent of Article I, §8.⁵²

B. Theories of Liability in Copyright Law

Liability under the Copyright Act arises in two ways: direct infringement and secondary liability.⁵³ Direct infringement occurs when an individual makes use of rights without authorization from the author or under the permis-

⁴⁵ 17 U.S.C. §102 (a)(2) (2000).

⁴⁶ *Id.* §302(a) (2000).

⁴⁷ *Id.* §106 (1)-(5) (2000).

⁴⁸ *Id.* §501(a) (2000).

⁴⁹ *See generally* 17 U.S.C. §§107 – 122 (providing the subject matter and scope of copyright, including exceptions to the author’s exclusive rights).

⁵⁰ *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 429-30 (1984).

⁵¹ *Id.* at 430.

⁵² *Id.* at 429; *see also* Glynn S. Lunney, Jr., *The Death of Copyright: Digital Technology, Private Copying, and the Digital Millennium Copyright Act*, 87 VA. L. REV. 813, 817-18 (2001) (providing a discussion about balancing interests of protecting authors, while providing the public access to authors’ works); *See Sony Corp. of Am.*, 464 U.S. at 429:

[T]he limited [Constitutional] grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.

Id. (citing H.R. REP. NO. 2222, 60th Cong., 2d. Sess., 7 (1909)). With regard to Congress’ role, *see id.* at 429 (“As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product.”).

⁵³ *Feder*, *supra* note 21, at 868.

sion of the listed exceptions.⁵⁴ An example of direct infringement would be copying and distributing a copyrighted piece of sheet music without the composer's permission.⁵⁵ Secondary liability occurs when an individual has had "some degree of involvement in a direct infringement."⁵⁶ Secondary liability currently involves two court-developed theories of law: vicarious liability and contributory infringement.⁵⁷ Vicarious liability occurs when the infringer (1) has the "right and ability" to control the infringing conduct and (2) receives a benefit from the infringement.⁵⁸ Contributory infringement, on the other hand, asks whether the alleged infringer has knowledge and participation of the direct infringers' activities.⁵⁹ An example of secondary liability would be where third-party vendors of a flea market are selling counterfeit sound recordings without the owners' permission, and the operators of the flea market are held liable for the direct infringement of those vendors.⁶⁰

C. *Sony*: The Case that Shaped Secondary Liability for all Future Technology

The Supreme Court decided *Sony* in 1984.⁶¹ The decision dealt with the then-new technology of Betamax VTRs, or Video Tape Recorders, manufactured and sold by Sony.⁶² Plaintiffs Universal City Studios Inc. and Walt Disney Productions brought suit against Sony because the VTRs sold by the com-

⁵⁴ *Id.*

⁵⁵ See 17 U.S.C. §§102, 106, 114, 501, 114 (2000). The composer, as the copyright owner, has the exclusive right to copy and distribute its work. Without the author's permission, an individual who copies and distributes the author's work, is infringing on that copyright. *Id.*

⁵⁶ Feder, *supra* note 21, at 868.

⁵⁷ *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1161-63 (2d Cir. 1971).

⁵⁸ *Id.* at 1162.

⁵⁹ *Id.*; see also *Napster II*, 239 F.3d at 1004, 1019. Although the *Napster II* court recites the *Gershwin Publ'g Corp.* test word-for-word, it leaves out the element of induce when applying the standard to the facts at hand. *Id.*

⁶⁰ See *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996). The flea market operators were found vicariously liable for the direct infringement of their vendors: they controlled the infringing activity because they "direct[ed] infringers through its rules and regulations; (2) policed its booth to make sure the regulations were followed; and (3) promoted the show in which direct infringers participated . . ." *Id.* at 263. The operators received a financial benefit because they received "admission fees, concession stand sales and parking fees, all of which flow directly from customers who want to buy the counterfeit recordings at bargain basement prices." *Id.* The flea market operators were also found contributory liable for the direct infringement of the vendors because: first, "[t]here is no question that the plaintiff adequately alleged the element of knowledge in this case[.]" and second, the operators materially contributed when they provided the "space, utilities, parking, advertising, plumbing, and customers." *Id.* at 264.

⁶¹ 464 U.S. 417 (1984).

⁶² *Id.* at 419-420.

pany were being used by consumers to record copyright protected broadcasts.⁶³ The question in the case was whether sale of the copying equipment, the VTR, to consumers violated aspects of the Copyright Act.⁶⁴

The Supreme Court in *Sony* did not parse out the elements of contributory or vicarious infringement and apply them to the case at hand.⁶⁵ Rather it looked to the *Kalem Co. v. Harper Bros.*⁶⁶ case to determine whether contributory liability was present.⁶⁷ The Court in *Kalem* found contributory liability where there was “an ongoing relationship between the direct infringer and the contributory infringer at the time the infringing conduct occurred.”⁶⁸ Applying this standard to the facts before it, the *Sony* Court found no contributory infringement since there was no ongoing relationship between the alleged contributor and direct infringer at the time the infringing conduct occurred.⁶⁹ Second, the Court found that no Sony employee had contact with the ongoing infringing activities of the VTR purchasers.⁷⁰

⁶³ *Id.* at 421-22.

⁶⁴ *Id.* at 420.

⁶⁵ Feder, *supra* note 21, at 875.

The Opinion of the Court did not focus on the individual elements of contributory infringement, instead framing the issue thus: If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory.

Id.; see also discussion in *Sony* about “the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn.” *Sony Corp. of Am.*, 464 U.S. at 435 n. 17 (quoting *Universal Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 457-58 (D.C. Cal. 1979)). Regardless, the Court states that the question of liability under the direct infringement and vicarious liability were not before the Court. *Id.* Note that the Court uses the terms “contributory infringement” and “vicarious liability” interchangeably throughout the decision. *Sony* states that vicarious liability can be found if the contributory infringer was, “in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner,” but vicarious liability is not imposed in this case. *Id.* at 437. It stated that although there was no prior copyright law to support the theory, vicarious liability would only be imposed on Sony if it “[had] sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material.” *Id.* at 439.

⁶⁶ *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911).

⁶⁷ *Sony Corp. of Am.*, 464 U.S. at 435-37. Justice O’Connor, the swing vote in the holding, urged the Court to recognize the relevancy of the *Gershwin* decision, which stated the two secondary theories of liability (i.e., contributory infringement and vicarious liability), and the two elements of each respective theory. Lee Hollar, *Sony Revisited: A New Look at Contributory Copyright Infringement*, at <http://digital-law-online.info/papers/lah/sony-revisited.htm> (Aug. 26, 2004) [hereinafter *Sony Revisited*] (quoting letter of June 21, 1983, from Justice O’Connor to Justice Blackmun.). Regardless, the Court framed the issue based on *Kalem*. *Sony Corp. of Am.*, 464 U.S. at 435-37.

⁶⁸ *Sony Corp. of Am.*, 464 U.S. at 437 (citing *Kalem*, 222 U.S. 55 (1911)).

⁶⁹ *Id.* at 437-38.

⁷⁰ *Id.* at 438.

Despite the Supreme Court finding Sony not contributory liable, it held that the public's interest is implicated when a "staple article of commerce" is being used for copyright infringement.⁷¹ If a "staple article of commerce" is found to be contributorily liable, it does not automatically get removed from the stream of commerce.⁷² The Court was concerned about continuing the public's access to such a "staple article of commerce," despite the product's infringing activities.⁷³ In borrowing language from patent law, the Supreme Court created a complete defense to contributory infringement in copyright infringement cases: "a 'staple article or commodity of commerce suitable for substantial noninfringing use' is not contributory infringement."⁷⁴ If an article of commerce is "widely used for legitimate, unobjectionable purposes[, or] merely . . . capable of substantial noninfringing uses," it is not contributory infringement.⁷⁵ The Court went on to find that:

[T]he question is thus whether the Betamax is capable of commercially significant noninfringing uses. In order to resolve that question, we need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement. Rather we need only consider whether on the basis of the facts as found by the District Court a significant number of them would be noninfringing . . . we need not give precise content to the question of how much use is commercially significant.⁷⁶

Applying this standard to the VTR, the Court found commercially significant noninfringing uses based on the VTR's primary use, time-shifting, or recording of live broadcasts to be watched at a later time.⁷⁷

In sum, the *Sony* Court did not find contributory infringement because there was no ongoing relationship between the alleged infringer and the direct infringer at the time the infringing conduct occurred. Regardless of its finding, it borrowed language from patent law, and created a complete defense to con-

⁷¹ *Id.* at 440.

⁷² *Id.* at 440-441.

⁷³ *Sony Corp. of Am.*, 464 U.S. at 440.

⁷⁴ *Id.* at 440-42.

[T]he [Patent] Act expressly provides that the sale of a "staple article or commodity of commerce suitable for substantial noninfringing use" is not contributory infringement . . . 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.

Id.

⁷⁵ *Id.* at 443.

⁷⁶ *Id.*

⁷⁷ *Id.* Time shifting occurs when an individual records a program with his VTR that he knows he cannot view during the time of the live broadcast. *Id.* at 422. Once recorded, the VTR user simply views the VTR taping at a later time. *Id.* Studies performed by both parties in the case showed that the VTR's primary use was time shifting. *Id.* at 423. The Court agreed that the VTR's primary use was time-shifting, which was deemed fair use, meaning non-infringing, due to its "noncommercial nature." *Id.* at 442-51.

tributory infringement, the “staple article of commerce” doctrine.⁷⁸ The doctrine is such that if an article is deemed capable of substantial non-infringing use, its manufacturer or distributor is not found secondarily liable for the infringement activities of its user.⁷⁹ Here, the VTR was found capable of commercially significant non-infringing uses because of its primary use, time-shifting.⁸⁰ Thus, Sony’s sale of the VTR to the general public did not violate aspects of the Copyright Act.⁸¹

The *Sony* case is most potent not for its flimsy analysis of contributory liability, nor its lack of applying vicarious liability, but rather its creation of the “*Sony* defense” to contributory infringement. The *Sony* defense has been routinely applied to various technologies, including the recent P2P technology cases discussed in the Note. However, its application in the P2P cases has been inconsistent and difficult to apply.

IV. RECENT P2P CASES: JUDICIAL ATTEMPTS TO APPLY *SONY* EFFECTIVELY

Some 20 years after the *Sony* decision, P2P technology emerged as one of the fastest and most convenient ways to share files both copyrighted and non-copyrighted.⁸² The technology allows its users to copy and distribute digital files, including copyrighted works.⁸³ P2P users who copy and distribute copyrighted works are, by definition, directly infringing.⁸⁴ These users are in violation of Section 106 of the Copyright Act, which gives the author or copyright owner the exclusive right to reproduce or distribute the copyrighted work(s), among others.⁸⁵ It would be difficult to hold the creators or distributors of the infringing software *directly* liable for copyright infringement because they are not performing the actual infringing acts. Rather, P2P software distributors can be found *secondarily* liable through the direct copyright infringement by their users. The following decisions discuss the two secondary liability theories, contributory infringement and vicarious liability, and the available *Sony* defense.

⁷⁸ *Id.* at 440-42.

⁷⁹ *Sony Corp. of Am.*, 464 U.S. at 440-42.

⁸⁰ *Id.* at 440-56.

⁸¹ *Id.* at 456.

⁸² *See Feder, supra* note 21, at 860-68.

⁸³ *Id.*

⁸⁴ *See Napster I*, 114 F. Supp.3d at 911 (discussing proof of direct infringement); *Grokster I*, 259 F. Supp.2d at 1034-35 (discussing proof of direct infringement.); *see generally Francavillo, supra* note 3 (providing a discussion why it was more efficient to sue distributors and manufacturers, rather than individual infringers).

⁸⁵ 17 U.S.C. §106 (2000).

A. *A & M Records, Inc. v. Napster, Inc.*

The plaintiffs in *Napster I* and *II* included a strong contingency of the music recording industry, who brought suit against Napster Inc. on the basis of contributory infringement and vicarious liability.⁸⁶ Napster's free software allowed users to store their music files in a way that would allow them to share the files with other Napster users.⁸⁷ The software had a search component which allowed Napster users to find music files kept on other Napster users' computers.⁸⁸ The software permitted Napster users to swap exact replicas of the music files between one Napster user and another.⁸⁹ Napster's technology used a modified version of centralized indexing, meaning that instead of using one single central server to maintain the indexed information, several servers are chosen to act as indexing servers.⁹⁰

In *Napster*, the Ninth Circuit performed a more element-specific analysis than the *Sony* Court. The *Napster II* court relied on *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.* to define contributory infringer as "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."⁹¹ With regard to the first element of knowledge, the Ninth Circuit affirmed the District Court by finding that Napster had actual and constructive knowledge of its users' infringement activities.⁹² The court found this "actual and constructive" knowledge in two ways. First, an internal company document written by one of Napster's co-founders, stated that company officials knew Napster users were exchanging copyrighted music.⁹³ Second, Napster had knowledge when the RIAA informed the company of over 12,000 di-

⁸⁶ See *Napster II*, 239 F.3d at 1010-11, 1013. The court noted that secondary liability for copyright infringement cannot exist without direct infringement of a third-party. *Id.* at 1013 n. 2. The District Court found direct infringement by Napster's users, an issue not appealed by Napster. *Id.* at 1013. Nevertheless, in order to address the threshold requirement, the court analyzed whether there was direct infringement by Napster's users. *Id.* To prove direct infringement, plaintiffs must show (1) ownership of the allegedly infringed material, and (2) alleged infringers violated at least one exclusive right granted to copyright holders under 17 U.S.C. §106. *Id.* The court found that the plaintiff sufficiently demonstrated both prongs. *Id.* at 1013-14.

⁸⁷ *Napster II*, 239 F.3d at 1011.

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ Feder, *supra* note 21, at 864-65.

⁹¹ *Napster II*, 239 F.3d at 1019 (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159 (2d Cir. 1971) and *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996)).

⁹² *Napster II*, 239 F.3d at 1020.

⁹³ *Napster I*, 114 F. Supp. 2d at 918. The internal memo stated the "need to remain ignorant of users' real names and IP addresses 'since they are exchanging *pirated* music.'" *Id.*

rect infringement acts.⁹⁴

Napster counter-argued that even if it had knowledge, the company should not be held contributory liable based on the *Sony* defense.⁹⁵ Napster pointed to the contributory liability defense: if a product is capable of substantial noninfringing uses, its creators or distributors cannot be found contributory liable.⁹⁶ Regardless of the balance between Napster's infringing and non-infringing uses, the Ninth Circuit found enough knowledge on behalf of Napster to show contributory liability, and thus held that the *Sony* defense would not apply.⁹⁷ The court went on to find that Napster's conduct met the second element of contributory infringement, material contribution.⁹⁸ By allowing its users to locate and download music files, the court found Napster's software provided its users with the "site and facilities" for their direct infringement constituting material contribution.⁹⁹ Thus, the court held that Napster's conduct met the two elements of contributory infringement, knowledge and material contribution, and that the *Sony* defense was not available to the corporation.¹⁰⁰

The Ninth Circuit next turned to the vicarious liability claim. By looking to *Gershwin*, the court noted that one can be held vicariously liable if he "has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities."¹⁰¹ Here, Napster had a financial interest in the infringing activity because its software's ability to copy and transfer copyrighted music was the main attraction of their website, for which the company received profit.¹⁰² Napster had the "right and ability to supervise the infringing activity" because, as stated on its website, it had the right to end a user's access to the website for any cause.¹⁰³ Second, Napster had control over its users when it was clear that Napster had the ability to police its network and combat infringement by blocking infringing users' access to Napster.¹⁰⁴ Based on these facts, the court held in favor of the plaintiffs, finding defendant Napster vicari-

⁹⁴ *Id.*

⁹⁵ Napster II, 239 F.3d at 1020.

⁹⁶ *Id.*

⁹⁷ *Id.* at 1022. ("The record supports the district court's finding that Napster has *actual* knowledge that *specific* infringing material is available using its system, that it could block access to the system by suppliers of the infringing material, and that it failed to remove the material.").

⁹⁸ *Id.*

⁹⁹ *Id.* ("Napster is an integrated service designed to enable users to locate and download MP3 music files . . . [and] Napster provides the 'site and facilities' for direct infringement.").

¹⁰⁰ *Id.*

¹⁰¹ Napster II, 239 F.3d at 1022 (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

¹⁰² *Id.* at 1023.

¹⁰³ *Id.* at 1022, 1023.

¹⁰⁴ *Id.* at 1023.

ously liable for copyright infringement.¹⁰⁵

B. *In re Aimster Copyright Litig.*

After *Napster II*, the next judicial examination of P2P technologies came from the Seventh Circuit via *In re Aimster Copyright Litigation*.¹⁰⁶ Aimster's technology differed from that of Napster in that it was "built on top of an existing peer-to-peer network . . . [and] adds a searchable database of files available on the network . . ." ¹⁰⁷ Aimster's users could only exchange files when more than one party was online and individuals wanting to exchange files were linked in a chat room via an instant messaging service.¹⁰⁸ Aimster's server collected and organized information obtained from its users, but it did not make copies of the exchanged files.¹⁰⁹ Aimster's software appears to have operated a "central database index" based on the limited facts presented in the case.¹¹⁰

Again, the recording industry brought suit against the creators of Aimster for contributory infringement and vicarious liability.¹¹¹ Addressing contributory infringement, the Seventh Circuit found that "constructive knowledge" is sufficient to satisfy the knowledge element required for contributory infringement.¹¹² Specifically, the defendant here could not "escape liability by . . . us-

¹⁰⁵ *Id.* at 1023-24. Defendant Napster tried to use the *Sony* defense in response to the vicarious liability claim. *Id.* at 1022. However, the court here found that although the "lines between direct infringement, and vicarious liability are not clearly drawn," the *Sony* defense only applies to contributory infringement claims, and not vicarious liability claims. *Id.* at 1022; *see also Sony Corp. of Am.*, 464 U.S. 417 (1984), 435 n. 17.

¹⁰⁶ *See generally* Aimster I, 252 F. Supp. 2d 634 (N.D. Ill. 2002); Aimster II, 334 F.3d 643 (7th Cir. 2003).

¹⁰⁷ Feder, *supra* note 21, at 884.

¹⁰⁸ Aimster II, 334 F.3d at 646. When the user is ready to copy and exchange a file:

Aimster's server searches the computers of those users of its software who are online and so are available to be searched for files they are willing to share, and if it finds the file that has been requested it instructs the computer in which it is housed to transmit the file to the recipient via the Internet for him to download into his computer.

Id.

¹⁰⁹ *Id.*

¹¹⁰ Feder, *supra* note 21, at 884.

¹¹¹ Aimster I, 252 F. Supp. 2d 639, 642, 649-55. Similar to *Napster I* and *II*, Aimster could not be held liable for direct infringement because the reproductions of the files were stored on individual users' computers. Aimster II, 334 F.3d at 646. And so, secondary theories of liability were alleged. *Id.* at 638.

¹¹² Aimster II, 334 F.3d at 650 ("We also reject Aimster's argument that because the Court said in *Sony* that mere 'constructive knowledge' of infringing uses is not enough for contributory infringement . . . Willful blindness is knowledge, in copyright law . . ."). The U.S. District Court for the Northern District of Illinois performed a different analysis with regards to the knowledge element. Aimster I, 252 Supp. at 650. Specifically, the lower court found that Aimster had knowledge when it received actual notice from the sound recording industry of the infringing activities: the Aimster website included a tutorial on how

ing encryption software to prevent himself from learning what surely he strongly suspect[ed] to be the case: that the users of his service – maybe *all* the users of his service – are copyright infringers.”¹¹³

The Seventh Circuit did not perform an analysis of the “material contribution” element of contributory infringement, rather it focused primarily on the *Sony* defense being asserted by the defendant.¹¹⁴ Defendant Aimster argued the *Sony* defense to contributory infringement that its P2P technology is capable of substantial non-infringing uses.¹¹⁵ Judge Posner, however, found that the appropriate question of the *Sony* defense is not whether the product is *capable* of substantial non-infringing uses, but rather how *probable* are those non-infringing uses.¹¹⁶ Here, Aimster was not able to adequately defend itself because its product was not used for non-infringing purposes, thus the court found it contributory liable.¹¹⁷

The Seventh Circuit was more hesitant than its lower court in finding Aimster vicariously liable.¹¹⁸ The District Court found vicarious liability because Aimster had the right and ability to supervise its users when, like Napster, it posted its own Terms of Service that notified users that they must remove copyrighted material from the site, and that repeat offenders of downloading copyrighted material would likely be blocked from Aimster services.¹¹⁹ The District Court found that Aimster met the second direct financial interest element of vicarious liability, because Aimster charged users a monthly fee to use the Grokster software and they used the copyrighted material as a marketing tool to attract users to use its service.¹²⁰

to use its software that used a copyrighted song as an example; the website’s chat rooms and bulletin boards made it clear that the site was a new substitution for Napster in downloading copyrighted material; and there was a designated section on the website to provide users with an easy way to locate copyrighted materials. *Id.* at 650.

¹¹³ Aimster II, 334 F.3d at 650.

¹¹⁴ *Id.* at 646-54; *see also* Aimster I, 252 F. Supp.3d at 651-52 (detailing the District Court’s material contribution analysis).

¹¹⁵ Aimster II, 334 F.3d at 647.

¹¹⁶ *Id.* at 653.

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 654.

[W]e are less confident than the district judge that the recording industry would also be likely to prevail on the issue of vicarious infringement . . . Vicarious liability has been extended in the copyright area to cases in which the only effective relief is obtainable from someone who bears a relation to the direct infringers that is analogous to the relation of a principal to an agent . . . How far the doctrine of vicarious liability extends is uncertain . . . [W]e shall not have to resolve our doubts in order to decide the appeal.

Id.

¹¹⁹ Aimster I, 252 F. Supp.2d at 654-55.

¹²⁰ *Id.* at 654-55.

The financial benefit element is also satisfied where, as here, the existence of infringing activities act as a draw for potential customers . . . Aimster’s bulletin boards and

C. MGM Studios, Inc. v. Grokster Ltd.: “O Romeo, Romeo, wherefore art thou Romeo?”¹²¹

The *Napster* and *Aimster* decisions had the same end result: the P2P software distributors were found secondary liable for the direct infringement of its users.¹²² Though the opinion used similar P2P technology, the analysis in the *Grokster* decisions led to different results than those previous cases. *Grokster* P2P software emerged using “supernode” technology, where a chosen group of nodes on a network are used as indexing servers.¹²³ *Grokster* users search files by “connect[ing] with the most easily accessible supernode, which conducts the search of its index and supplies the user with the results.”¹²⁴ The user is then able to transfer the resulting file onto her computer.¹²⁵

In *Grokster I* and *II*, the U.S. District Court for the Central District of California and Ninth Circuit concurred in their results, but differed in their reasoning, leading to a controversial intra-circuit split.¹²⁶ The District Court found that in order to be held liable for contributory infringement, the alleged contributory infringer “[m]ust have *actual knowledge* of specific infringement at a time when they can use that knowledge to stop the particular infringement.”¹²⁷ Although there was overwhelming evidence that *Grokster* had actual knowledge, the District Court relied heavily on *when* they acquired that knowledge.¹²⁸

chat rooms are replete with examples of users drawn there simply because they know it is a place where they can obtain infringing material.

Id.

¹²¹ WILLIAM SHAKESPEARE, *ROMEO AND JULIET* act 2, sc. 2. For purposes of this Note, *Grokster* software was temporarily downloaded. A search for Shakespeare produced one hit for a *Shakespeare in Love* movie poster, while searches for (copyrighted) songs by Madonna, Britney Spears, and Ashlee Simpson brought up several hits.

¹²² See discussion *infra* Parts III.A, III.B.

¹²³ *Grokster II*, 380 F.3d at 1159. Nodes have been defined as an, “[e]nd point of a network connection . . . [or] any device connected to a network such as file servers, printers, or workstations.” TECHFEST, *TECHFEST NETWORK CABLING GLOSSARY*, at <http://www.techfest.com/networking/cabling/cableglos.htm> (last visited March 15, 2005).

¹²⁴ *Id.*

¹²⁵ *Id.* at 1160.

¹²⁶ See generally *id.*; see also *Grokster II*, 380 F.3d 1154.

¹²⁷ *Grokster I*, 259 F. Supp.2d at 1037 (emphasis added). The District Court rejected the plaintiff’s argument that constructive knowledge of the infringing activity is sufficient; instead, holding actual knowledge is required. *Id.*

¹²⁸ *Id.* The District Court could have been found based on the following facts: (1) *Grokster* referred to itself as “the Next Napster,” (2) its executives searched and found copyrighted material when they used their product, (3) the music recording industry plaintiffs gave *Grokster* notice of the infringing activities, and (4) internal documents showed that *Grokster* was aware of its’ users’ infringement activities. *Id.* at 1036-38.

Here, it is undisputed that Defendants are generally aware that many of their users employ Defendants’ software to infringe copyrighted works . . . The question, however, is whether *actual knowledge of specific infringement* accrues at a time when either Defendant materially contributes to the alleged infringement, and can therefore do some-

Because the District Court found that Grokster gained knowledge *after* the point in which the computer system operator could do something to stop its users from infringing, Grokster was deemed not to have had actual knowledge.¹²⁹ Nonetheless, the District Court found that Grokster could use the *Sony* defense to having actual knowledge of its users' direct infringement.¹³⁰ Just as VTRs were capable of substantial noninfringing use in *Sony*, the District Court found in *Grokster* that "it is undisputed that there are substantial noninfringing uses for Defendants' software – e.g., distributing movie trailers, free songs or other non-copyrighted works; using the software in countries where it is legal; or *sharing the works of Shakespeare*."¹³¹ Similar to *Sony*, the court here did not substantiate how much noninfringing use was required to be "substantial," and essentially ignored the allegation that over 90% of the works being copied and distributed with Grokster software were copyrighted.¹³²

Addressing the second element of contributory infringement, material contribution, the District Court looked to whether the alleged infringer provided the "site and facilities" for the direct infringement.¹³³ Here, the District Court found that Grokster did not materially contribute.¹³⁴ Grokster did nothing more than distribute software, which performed searches and transferred files through computers controlled or owned by Grokster.¹³⁵ Thus, the District Court found no contributory infringement on the part of Grokster.

The Ninth Circuit agreed with the California Central District's finding of no liability for Grokster, but under different reasoning. The appellate level deci-

thing about it.

Id. at 1038.

¹²⁹ *Id.* at 1036-37 (citing *Napster II*).

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" . . . Defendants correctly point out that in order to be liable under a theory of contributory infringement, they must have actual knowledge of infringement at a time when they can use that knowledge to stop the particular infringement. In other words, Plaintiffs' notices of infringing conduct are irrelevant if they arrive when Defendants do nothing to facilitate, and cannot do anything to stop, the alleged infringement.

Id.

¹³⁰ *Grokster I*, 259 F. Supp.2d at 1035.

¹³¹ *Id.* (emphasis added).

¹³² *Grokster I*, 259 F. Supp.2d at 1035; *Grokster II*, 380 F.3d at 1158 ("The Copyright Owners allege that over 90% of the files exchanged through use of the "peer-to-peer" file-sharing software offered by . . . [Grokster] involves copyrighted material . . ."); *Sony Corp. of Am.*, 464 U.S. at 442 ("[I]n order to resolve this case we need not give precise content to the question of how much use is commercially significant."); *see also* *Grokster I*, 259 F. Supp.2d at 1041 (discussing StreamCast's technology and its potential contributory infringement liability).

¹³³ *Grokster I*, 259 F. Supp.2d at 1039-40.

¹³⁴ *Id.* at 1040-1043.

¹³⁵ *Id.* at 1040.

sion reiterated the two theories of secondary copyright liability: contributory infringement and vicarious liability.¹³⁶ The appeals court provided an analysis of the contributory copyright infringement elements of “knowledge” and “material contribution.”¹³⁷ However, it stated that the requisite *level* of knowledge must first be determined before the court can determine whether the defendant had knowledge.¹³⁸ The court stated:

If the product at issue is *not* capable of substantial or commercially significant uses, then 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 copyright owner must demonstrate that the defendant had *reasonable* knowledge of specific infringing files and failed to act on that knowledge to prevent infringement.¹³⁹

The Ninth Circuit echoed the District Court’s ruling that the product here is “capable of substantial noninfringing uses.”¹⁴⁰ First, some copyright authors consent to their works being swapped on Grokster, and second, public domain works are often shared through Grokster.¹⁴¹ After finding Grokster was capable of such substantial noninfringing uses, the Ninth Circuit held that “reasonable knowledge of specific infringement” is required.¹⁴²

With regard to reasonable knowledge, the plaintiffs here gave Grokster actual notices of the infringing activities, but the court deemed that such notice was given too late in the process.¹⁴³ There was nothing the defendants could do at that point to stop the infringement that had already taken place.¹⁴⁴ Additionally, Grokster did not maintain a central index of available files.¹⁴⁵ In fact, if

¹³⁶ Grokster II, 380 F.3d at 1157, 1160.

¹³⁷ *Id.* at 1160-64. Although the court notes that there are three elements to be analyzed in copyright infringement cases, the first being “direct infringement”, it did not perform a direct infringement analysis seemingly because it relied on the District Court’s finding regarding direct infringement. Grokster I, 259 F. Supp.2d at 1034-35.

¹³⁸ *Id.* at 1161 (“Thus, in order to analyze the required element of knowledge of infringement, we must first determine what level of knowledge to require.”).

¹³⁹ *Id.* (first, second, and fourth emphasis added).

¹⁴⁰ Grokster II, 380 F.3d at 1161 (citing Grokster I, 259 F. Supp.2d at 1035).

¹⁴¹ *Id.* at 1161, 1162 n. 10 (“Indeed, even at a 10% level of legitimate use . . . the volume of use would indicate a minimum of hundreds of thousands of legitimate file exchanges.”). The court offered the example of the band Wilco who bought back the rights to their albums, made it available for transfer through P2P and the interest that resulted led them to another contract deal. *Id.* at 1161.

¹⁴² Grokster II, 380 F.3d at 1161-63.

¹⁴³ *Id.* at 1162 (citing Grokster I, 259 F. Supp.2d at 1030) (“[T]he Copyright Owners were required to establish that the Software Distributors had ‘specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information.’); *see also* Grokster II, 380 F.3d at 1163 (“‘Plaintiffs’ notices of infringing conduct are irrelevant,’ because ‘they arrive when Defendants do nothing to facilitate, and cannot do anything to stop, the alleged infringement’ of specific copyrighted content.”).

¹⁴⁴ *See id.* at 1162.

¹⁴⁵ Grokster II, 380 F.3d at 1163.

the software distributors “closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.”¹⁴⁶ In addition to finding no knowledge, the Ninth Circuit agreed with the District Court and did not find material contribution.¹⁴⁷ The defendants did not provide the “site and facilities” for infringement, because file indices did not rest on Grokster computers and Grokster did not have the ability to terminate user accounts.¹⁴⁸

Finally, both courts agreed there was no vicarious liability.¹⁴⁹ Although it was clear that Grokster reaped a financial benefit from the infringement, vis-à-vis advertising revenue, Grokster did not have the “right and ability to supervise the direct infringers.”¹⁵⁰ Specifically, no licensing agreement or policy stated that defendants had such control over their users, nor any evidence that the defendants had the ability to control their users or block access to users.¹⁵¹ The entertainment industry then made the “blind eye” argument that was originally made in *Aimster II*, and mentioned in *Napster II*, by claiming that ignoring “detectable acts of infringement for the sake of profit gives rise to liability.”¹⁵² The Ninth Circuit in *Grokster II* disregarded the theory, stating that although that idiom has been used from time to time, “there is no separate ‘blind eye’ theory or element of vicarious liability that exists independently of the traditional elements of liability.”¹⁵³

In sum, the Ninth Circuit did not find Grokster liable for contributory infringement or vicariously liability.¹⁵⁴ Despite all of the common law doctrinal progress made between the *Napster II* and *Aimster II* decisions, the *Grokster* decisions manipulated the elements of contributory and vicarious infringement in such a way that allowed Grokster to continue to operate.¹⁵⁵ The courts have allowed Grokster to continue in its original form, despite the credible allegation that over 90% of the files shared through its software were copyrighted, despite Grokster’s knowledge and contribution to the infringement of its users, and despite the remarkably similar fact patterns in the *Napster* and *Aimster*

¹⁴⁶ *Id.* (quoting Grokster I, 259 F. Supp.2d at 1041).

¹⁴⁷ *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ *Id.* at 1165-66; *see also* Grokster I, 259 F. Supp.2d at 1043-46.

¹⁵⁰ Grokster II, 380 F.3d at 1164.

¹⁵¹ *Id.* at 1164-65 (“The sort of monitoring and supervisory relationship that has supported vicarious liability in the past is completely absent in this case.”).

¹⁵² *Id.* at 1166 (quoting *Napster II*, 239 F.3d at 1023); *see also* *Aimster II*, 334 F.3d at 650 (“Willful blindness is knowledge in copyright (where indeed it may be enough that the defendant *should* have known of the direct infringement), as it is in the law generally.”) (citations omitted).

¹⁵³ *Id.* at 1166.

¹⁵⁴ Grokster II, 380 F.3d at 1160-67.

¹⁵⁵ *See* discussion *infra* Part III.

decisions.¹⁵⁶

V. THE INCONSISTENCIES OF APPLYING *SONY* TO P2P TECHNOLOGY

A. *Sony* Must be Overturned Due to its Lack of Clarity and Consistency

The *Sony* decision is fundamentally flawed in its holding. First, the Supreme Court states that “the lines between direct infringement, contributory infringement, and vicarious liability are not clearly drawn.”¹⁵⁷ In fact, the Court uses the terms “contributory infringement” and “vicarious liability” interchangeably.¹⁵⁸ The Court should have incorporated *Gershwin* in its *Sony* decision. *Gershwin* clearly stated the two separate theories of secondary liability in copyright infringement cases: contributory infringement and vicarious liability.¹⁵⁹ The *Gershwin* case unmistakably sets out the elements of each theory.¹⁶⁰ Contributory infringement occurs when “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another . . .”¹⁶¹ Vicarious liability occurs when an individual “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.”¹⁶²

Second, because the Court does not properly present and analyze the elements of contributory infringement and vicarious liability, it is unclear how the *Sony* defense should apply in copyright infringement cases. The Court does not state whether the defense is in response to the contributory infringement theory as a whole, as suggested by *Aimster II*, or whether it applies to the single element of knowledge, as suggested by the *Napster II* and *Grokster II* courts.¹⁶³ Regardless, the *Napster*, *Aimster*, and *Grokster* courts are being forced to apply a defense to elements never outlined in *Sony*.¹⁶⁴ The *Sony* anomaly has led to varying analyses and results in the inconsistent P2P hold-

¹⁵⁶ *Grokster II*, 380 F.3d at 1158.

¹⁵⁷ *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. at 435 n.17 (1984).

¹⁵⁸ *Id.* at 437 (stating that *vicarious liability* can be imposed when the *contributory infringer* is in “a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner.”).

¹⁵⁹ *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, at 1162 (2d Cir. 1971); see also *Sony Revisited*, *supra* note 67 (discussing Justice O’Connor’s concern that *Gershwin* was one of the few cases which defined contributory infringement).

¹⁶⁰ *Gershwin Publ’g Corp.*, 443 F.2d at 1162.

¹⁶¹ *Id.* at 1162 (footnote omitted).

¹⁶² *Id.*

¹⁶³ See *Aimster II*, 334 F.3d at 646-65; see also discussion *infra* Part III.B; *Napster II*, 239 F.3d at 1020-221.

¹⁶⁴ See discussion *infra* Part II.C.

ings.¹⁶⁵

B. Secondary Liability Inconsistencies

Regardless of *Sony's* deficiency in parsing out the theories of secondary liability, or its deficiency in showing how to apply its newly created defense, the P2P courts have struggled to apply the *Gershwin* elements and the *Sony* defense.¹⁶⁶ At first glance, the *Gershwin* elements of contributory infringement, “knowledge” and “material contribution”, and vicarious liability, “right and ability to supervise” and “direct financial interest”, seem simple enough to apply to the varying technologies. However, despite the strikingly similar fact patterns before the *Napster*, *Aimster*, and *Grokster* courts, each court has applied the law differently.¹⁶⁷

1. Contributory Infringement Inconsistencies: The Knowledge Element.

The Ninth Circuit in *Napster* held that the defendants had knowledge when the music recording industry gave Napster actual notices of the infringing activities occurring through their website and software.¹⁶⁸ In *Grokster*, however, the same Ninth Circuit held that the actual notices the plaintiffs delivered to Grokster were *not* knowledge.¹⁶⁹ In fact, the *Grokster II* court arbitrarily added to the knowledge element 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.”¹⁷⁰ The facts in the *Grokster* and *Napster* decisions are remarkably similar to that of *Fonovisa, Inc. v. Cherry Auction*,

¹⁶⁵ See discussion *infra* Parts III.A, III.B, III.C.

¹⁶⁶ See Feder’s discussion of an element-lacking analysis by the *Sony* court. Feder, *supra* note 21, at 875; see also discussion *infra* Parts III.A, III.B, III.C.

¹⁶⁷ See discussion *infra* Parts III.A, III.B, III.C.

¹⁶⁸ *Napster I*, 239 F.3d at 1020 n.5; see also *Aimster I*, 252 F. Supp. 2d at 634 (noting that the District Court in *Aimster* found similar notices to be knowledge).

¹⁶⁹ *Grokster II*, 380 F.3d at 1162.

¹⁷⁰ *Id.* (citing *Napster II* 239 F.3d at 1021) (alteration in original). Although the *Grokster* court is attempting to interpret *Napster II*, *Napster* stated:

[F]or the operator to have sufficient knowledge, the copyright holder must “provide the necessary documentation to show there is likely infringement” . . . 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. Conversely, absent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material.

Id. Thus, if the notices of actual infringing activities that *Napster* received were similar to those given to *Grokster*, such notice should be sufficient to show that the defendants had knowledge, satisfying that element of contributory infringement. *Id.*

Inc., where the operators of a flea market were contributory liable because they had knowledge when the local sheriff gave the operators a letter detailing the ongoing infringing activities that were taking place at their market.¹⁷¹ Yet, the Ninth Circuit in *Grokster II* appears to have ignored precedent within its own circuit.¹⁷²

Second, the Ninth Circuit in *Napster* found that the defendants had knowledge because of the internal company documents that showed that its executives knew of the infringing activities of its users.¹⁷³ In *Grokster I*, however, a similar document was evidenced, but the court did not find that this amounted to knowledge.¹⁷⁴ The District Court in *Grokster* stated “that various internal documents reveal Defendants were aware that their users were infringing copyrights . . . Here, it is undisputed that Defendants are generally aware that many of their users employ Defendants’ software to infringe copyrighted works.” Regardless, the *Grokster I* court held in favor of the Defendants, and in *Grokster II*, the court does not address the internal documents specifically in its discussion of the knowledge element.

Third, there is disagreement among the P2P decisions as to the degree of knowledge required. *Sony* stated that “mere ‘constructive knowledge’ of infringing uses is not enough for contributory infringement.”¹⁷⁵ The *Napster II* court, however, was accepting of constructive knowledge – it found contributory infringement if the alleged infringer knows or should have known of the direct infringement by its users.¹⁷⁶ *Napster II* also stated that the Defendant had actual knowledge of the direct infringement.¹⁷⁷ In *Aimster II*, Judge Posner held that a willful blind eye is the equivalent of knowledge in copyright law

¹⁷¹ See generally *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 264 (9th Cir. 1996). *Fonovisa* is a recent Ninth Circuit case where contributory infringement and vicarious liability were alleged and found in facts similar to the P2P cases. *Id.*

¹⁷² *Id.*

¹⁷³ *Napster II*, 239 F.3d at 1020-22 (“[T]he evidentiary record here supported the district court’s finding that plaintiffs would likely prevail in establishing that Napster knew or had reason to know of its users’ infringement of plaintiffs’ copyrights.”); see also *Napster I*, 114 F. Supp.2d at 918,

Plaintiffs present convincing evidence that Napster executives actually knew about and sought to protect use of the service to transfer illegal MP3 files. For example, a document authored by co-founder Sean Parker mentions the need to remain ignorant of users’ real names and IP addresses ‘since they are exchanging *pirated* music.

Id.

¹⁷⁴ *Grokster I*, 259 F. Supp.2d at 1036-38; see also *Grokster II*, 380 F.3d at 1160-63.

¹⁷⁵ See discussion of *Sony Corp. of Am.* in *In re Aimster Copyright Litig.*, 334 F.3d 643, 650 (7th Cir. 2003). *Sony* states that in order to be held contributory liable, it would have to rely on the constructive knowledge that Sony knew its product was being used to infringe copyrights. *Sony Corp. of Am.*, 464 U.S. at 439.

¹⁷⁶ *Napster II*, 239 F.3d at 1020.

¹⁷⁷ *Id.*

and elsewhere.¹⁷⁸ He stated that, “[o]ne who, knowing or strongly suspecting that he is involved in shady dealings, takes steps to make sure that he does not acquire full or exact knowledge of the nature and extent of those dealings is held to have . . . [knowledge].”¹⁷⁹ Yet in *Grokster II*, the court created an entirely new standard for determining the requisite level of knowledge.¹⁸⁰ Resting on the *Sony* defense, the Ninth Circuit in *Grokster* stated that if the product was capable of substantial noninfringing uses, “reasonable knowledge” is sufficient, and if the product is not capable of such uses, “constructive knowledge” is required.¹⁸¹

2. *Contributory Infringement Inconsistencies: The Material Contribution Element.*

These P2P decisions have been extraordinarily inconsistent as to what constitutes knowledge, and what level of knowledge is required of an alleged infringer and clarification is needed.¹⁸² The same is true for the second element of contributory infringement, material contribution.¹⁸³ The Ninth Circuit has been unreliable in its application of the material contribution element of contributory infringement.¹⁸⁴ In *Napster II*, the Ninth Circuit found that the plaintiff materially contributed to the direct infringement of its users.¹⁸⁵ Similar to *Fonovisa*, Napster provided the “site and facilities” for the direct infringement when it provided the public with its software.¹⁸⁶ In *Grokster II* however, the court found that the defendant did *not* materially contribute when it provided the public with software similar to that in the *Napster* cases.¹⁸⁷ The *Grokster II* court reasoned that because the infringing files did not reside on Grokster’s computers and the company did not have the ability to control users’ accounts, Grokster did not provide the “site and facilities” to amount to material contribution.¹⁸⁸

These P2P decisions demonstrate that courts have routinely misapplied the

¹⁷⁸ *Aimster II*, 334 F.3d at 650.

¹⁷⁹ *Id.* (citing *United States v. Giovannatti*, 919 F.2d 1223, 1228 (7th Cir. 1990)).

¹⁸⁰ *Grokster II*, 380 F.3d at 1161.

¹⁸¹ *Id.* As previously mentioned, the *Grokster* court found the product capable of substantial noninfringing uses and so the Defendant must have “reasonable knowledge” to be liable for contributory infringement. *Id.* at 1161-62.

¹⁸² See discussion *infra* Part IV.B.i.

¹⁸³ See discussion *infra* Part IV.B.ii.

¹⁸⁴ See discussion *infra* Part IV.B.ii.

¹⁸⁵ *Napster II*, 239 F.3d at 1022.

¹⁸⁶ *Id.*

¹⁸⁷ *Grokster II*, 380 F.3d at 1163.

¹⁸⁸ *Id.*

elements of contributory infringement to varying P2P technologies.¹⁸⁹ Unfortunately, these inconsistencies have allowed some P2P technologies to continue to exist in their current forms, resulting in unrelenting copyright infringement by their users.¹⁹⁰

3. *The Inconsistencies of the Sony Defense to Contributory Infringement*

Most of the confusion within the P2P decisions lies with the *Sony* holding and its defense to contributory infringement.¹⁹¹ First, the Supreme Court is inconsistent in stating the exact standard it wished to apply. In one instance, it imported language from the Patent Act to create the *Sony* defense: “the sale of a ‘staple article or commodity of commerce *suited* for substantial noninfringing use’ is not contributory infringement.”¹⁹² In another instance the Court stated, “[an] article[] of commerce[] does not constitute contributory infringement if the product is widely *used* for legitimate, unobjectionable purposes.”¹⁹³ In yet another variation of the same defense, the Court stated “[i]ndeed it need merely be *capable* of substantial noninfringing uses.”¹⁹⁴ The Court went on to say “[t]he question is thus whether the Betamax is capable of *commercially significant noninfringing* uses.”¹⁹⁵ The Court stated that in order to resolve the former question, not *all* of the potential uses must be explored; rather only an examination as to whether a “significant number” of the uses would be noninfringing is necessary.¹⁹⁶ In concluding its discussion of the defense, the Supreme Court stated its last version of the standard: “[t]he Betamax is, therefore, capable of substantial noninfringing uses . . . [and] Sony’s sale of such equipment to the general public does not constitute contributory infringement of respondents’ copyrights.”¹⁹⁷ By failing to state a concrete definition of the contributory infringement defense, the Supreme Court paved the way for the inconsistent holdings of the *Napster*, *Aimster*, and *Grokster* decisions.

Second, *Sony* neglects to provide a way to measure “substantial noninfring-

¹⁸⁹ See discussion *infra* Part IV.B.

¹⁹⁰ See *Hearings*, *supra* note 8 (statement of Senator Hatch). Filesharing networks will infringe approximately 12 to 24 billion pieces of copyrighted materials in 2004. *Id.*

¹⁹¹ See discussion *infra* Part II.C.

¹⁹² *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 440 (1984) (quoting Patent Act, 35 U.S.C. §271(c) (2000) (emphasis added).

¹⁹³ *Id.* at 442 (emphasis added) (“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.”).

¹⁹⁴ *Id.*

¹⁹⁵ *Id.* (emphases added).

¹⁹⁶ *Id.*

¹⁹⁷ *Id.* at 456.

ing uses.”¹⁹⁸ Courts currently have no basis to determine how to weigh usage, or how much usage is sufficient to be deemed “substantial.” As a result, courts such as *Grokster I* and *II*, have arbitrarily found that a mere 10% of legitimate use is sufficient to qualify as “substantial noninfringing uses,”¹⁹⁹ thus permitting a rampantly infringing product to remain on the market.

Third, the P2P decisions have varied in deciphering if the standard is whether the product is “capable” of substantial noninfringing uses or alternatively the “probability” that the product will be used for substantial noninfringing uses. In interpreting *Sony’s* variation of the defense, the *Napster II* court asked whether the product is *capable* of substantial noninfringing uses.²⁰⁰ In *Aimster II*, however, Judge Posner found that the question is how *probable* are the substantial noninfringing uses.²⁰¹ Judge Posner stated that to hold otherwise, “the seller of a product or service used *solely* to facilitate copyright infringement . . . would be immune from liability for contributory infringement. That would be an extreme result, and one not envisaged by the *Sony* majority.”²⁰² In fact, Judge Posner’s depiction of this result became a reality in *Grokster II*, when the court rejected Judge Posner’s “probability” standard.²⁰³ The *Grokster II* court instead followed the “capable” doctrine, finding that the software was capable of substantial noninfringing uses even though it was alleged that over ninety percent of files swapped had copyright protection.²⁰⁴

¹⁹⁸ *Sony Corp. of Am.*, 464 U.S. at 442 (“[I]n 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 . . .”). It is arguable, then, to surmise that less than one legitimate use would not be deemed substantial. *Id.*

¹⁹⁹ *Grokster II*, 380 F.3d at 1158, 1162.

In this case, the Software Distributors have not only shown that their products are capable of substantial noninfringing uses, but that the uses have commercial viability . . . Indeed, even at a 10% level of legitimate, as contended by the Copyright Owners, the volume of use would indicate a minimum of hundreds of thousands of legitimate file exchanges.

Id. The District Court found “distributing movie trailers, free songs or other non-copyrighted works; using the software in countries where it is legal; or sharing the works of Shakespeare” as legitimate file sharing. *Grokster I*, 259 F. Supp.2d at 1035.

²⁰⁰ *Napster II*, 239 F.3d at 1020-21.

²⁰¹ *Aimster II*, 334 F.3d at 653.

²⁰² *Id.* at 651.

²⁰³ *Grokster II*, 380 F.3d at 1162.

²⁰⁴ *Id.* In rejecting the *Aimster II* court’s reasoning:

We are mindful that the Seventh Circuit has read *Sony’s* substantial noninfringing use standard differently. It determined that an important additional factor is how ‘probable’ the noninfringing uses of a product are. The Copyright Owners urge us to adopt the *Aimster* rationale. However, *Aimster* is premised specifically on a fundamental disagreement with *Napster I’s* reading of *Sony-Betamax*. We are not free to reject our own Circuit’s binding precedent (citations omitted).

Id. at 1162. The court relies on plaintiff’s claims that 10% of the files shared were not copyrighted.

In summary, *Sony* did not set forth precise and consistent language for courts to follow. It stated several varying versions of its defense, resulting in inconsistent contributory infringement decisions. In addition, assuming that the standard is whether the product is capable of substantially noninfringing uses, the Court has not provided any guidance as to how to measure “substantial.” More significantly, there is disagreement within the circuits as to whether the standard should include “capable” or “probable” language. As a result, software distributors such as *Grokster* continue to operate, even though more than ninety percent of the works being shared on their service are likely copyrighted.²⁰⁵

4. Vicarious Liability Inconsistencies: The Right and Ability to Supervise the Direct Infringement²⁰⁶

Just as contributory infringement has been inconsistently applied in P2P cases, vicarious liability has also created a great deal of confusion.²⁰⁷ The *Napster II* court found that the defendant had the right and ability to supervise its users' conduct when it began to police its network in preventing the exchange of copyrighted material.²⁰⁸ In *Grokster II*, the same Ninth Circuit found just the opposite based on similar facts.²⁰⁹ Also in *Napster II*, the court stated that,

In this case, the Software Distributors have not only shown that their products are capable of substantial noninfringing uses, but that the uses have commercial viability . . . Indeed, even at a 10% level of legitimate, as contended by the Copyright Owners, the volume of use would indicate a minimum of hundreds of thousands of legitimate file exchanges.

Id.

²⁰⁵ *Id.* at 1158.

²⁰⁶ In both *Napster II* and *Grokster II*, the courts found that the second element vicarious liability, direct financial benefit, is indisputable because both companies reap(ed) a financial gain resulting from advertising revenue. See *Napster II*, 239 F.3d at 1023 (stating that “[f]inancial benefit exists where the availability of infringing material ‘acts as a ‘draw’ for customers.’”); *Grokster II*, 380 F. 3d at 1164 (reasoning that “[t]he element . . . of a direct financial benefit, via advertising revenue, are undisputed in this case.”). As such, it will not be discussed further in this Note as an element that needs specific clarification – the P2P cases have not applied this element inconsistently. *Id.*

²⁰⁷ *Sony* states that vicarious liability was not before the Court. See, e.g., *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. at 435 n.17 (1984).

²⁰⁸ *Napster II*, 239 F.3d at 1023.

²⁰⁹ *Grokster II*, 380 F.3d at 1165-66. Despite evidence that showed *Grokster's* software could be altered to police the network, the court did not find this sufficient to rise to having the “right and ability” to supervise the direct infringement of its users:

The district court correctly characterized the Copyright Owners' evidence of the right and ability to supervise as little more than a contention that “the software itself could be altered to prevent users from sharing copyrighted files.” In arguing that this ability constitutes evidence of the right and ability to supervise, the Copyright Owners confuse the right and ability to supervise with the strong duty imposed on entities that have al-

“[t]urning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability.”²¹⁰ Nonetheless, in *Grokster II*, the court used the same argument as it applied to vicarious liability and flatly rejected the plaintiff’s argument that turning a blind eye to infringement is applicable to vicarious infringement as evidence of the right and ability to supervise.²¹¹

Unfortunately, *Sony* does not offer any guidance in this arena because the issue was not before the Court, thus leaving the Ninth Circuit free to disagree as to whether the “blind eye” theory is applicable to vicarious liability, contributory infringement, or both.²¹² Not only are there several splits between the circuits as to whether P2P software companies are contributory or vicariously liable, there are several intra-circuit splits concerning the secondary liability theories of copyright law. The circuit and intra-circuit splits beg for new secondary liability standards.

VI. A NEW STANDARD

With the inconsistencies and splits of the P2P courts, a new standard for secondary liability must be enacted by Congress. No time is better than the present. The music industry is suffering tremendously because of P2P technologies.²¹³ New technologies arise virtually every day, and Congress is already contemplating legislation in this arena where a new standard should apply.²¹⁴ This new standard should be technology neutral and ensure those who take advantage of copyrighted works would be held liable.²¹⁵ At the same time, the new standard should protect important, legitimate products, whose sole business model does not rely on the copyright infringement of its users.²¹⁶

ready been determined to be liable for vicarious copyright infringement; such entities have an obligation to exercise their policing powers to the fullest extent, which in *Napster*’s case included implementation of new filtering mechanisms.

Id. (internal citation omitted).

²¹⁰ *Napster II*, 239 F.3d at 1023. Although the *Napster II* decision found the willful blind eye approach applicable to vicarious liability, the *Aimster II* court held that a willful blind eye is the equivalent of knowledge, pertaining to *contributory* infringement. *See Aimster II*, 334 F.3d at 650.

²¹¹ *Grokster II*, 380 F.3d at 1166 (“[T]here is no separate ‘blind eye’ theory or element of vicarious liability that exists independently of the traditional elements of liability.”).

²¹² *Id.*; *see also* *Napster II*, 239 F.3d at 1021; *Grokster I*, 259 F. Supp.2d at 1036.

²¹³ *Hearings*, *supra* note 8; *Graham*, *supra* note 8.

²¹⁴ Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Cong. §g (2004).

²¹⁵ *Hearings*, *supra* note 8 (statement of Senator Hatch).

²¹⁶ *Id.*

A. Why a New Standard Must be Enacted – P2P's Disastrous Effects on the Entertainment Industry.

One may ask why a new standard is needed. After all, two out of the three major P2P cases held in favor of the content owners. Mitch Bainwol, Chairman and CEO of the Recording Industry Association of America, made the reason crystal clear:

[T]he music industry has been devastated by worldwide piracy. In 2000, the top ten hits sold 60 million units in the U.S. . . . in 2003, the top ten hits were cut almost in half, to 33 million units . . . [t]his slide has been caused predominantly by illicit P2P . . . services, where these top ten hits and other valuable content are offered to users – unauthorized and for free.²¹⁷

Bainwol went on to say how ubiquitous the infringement has become, “A recent academic study estimated that almost a billion illegal downloads take place each and every month. Four of the top ten downloaded applications on the Internet are P2P programs operated by companies who purposefully profit from illegal conduct.”²¹⁸

In addition, the Motion Picture Association of America (“MPAA”) recently announced its decision to “file hundreds of lawsuits . . . against individuals who swap pirated copies of movies over the Internet.”²¹⁹ Although the MPAA does not currently have a prediction of the industry's losses due to online piracy, it estimated that in the month of October 2004 alone, more than 44 million digital files of “full-length feature films were being shared on peer-to-peer networks . . .”²²⁰

Despite the doctrinal progress made in the *Napster* and *Aimster* decisions, the result in *Grokster II* begs reform and modernization of the copyright law. P2P software distributors, whose products' business models appear to rely solely on the infringement of its users, are being sustained in the marketplace when it has been alleged that over ninety percent of swapped files are copyrighted.²²¹ As a result, copyright infringement is widespread, devastating both the music recording and entertainment industries.²²² The courts in the P2P decisions have failed to adequately remedy the problem and Congressional action is required to stem the tide.

²¹⁷ *Hearings, supra* note 8 (statement of Mitch Bainwol).

²¹⁸ *Id.*

²¹⁹ *Movie Studios to Sue File Swappers*, MSNBC.com, at <http://www.msnbc.msn.com/id/6402656> (Nov. 4, 2004) [hereinafter *Movie Studios*]; see also Francavillo, *supra* note 3 (discussing the music recording industry's efforts to sue *individual* users for copyright infringement due to their lack of success in *Grokster*).

²²⁰ *Movie Studios, supra* note 219.

²²¹ *Grokster II*, 380 F.3d at 1158.

²²² *Hearings, supra* note 8; see also Graham, *supra* note 8.

B. Why Congress Must Enact Legislation Rather than Allowing the Courts to Resolve the Problem

The *Grokster II* decision virtually begs Congress to step in and remedy the flaws associated with copyright infringement's secondary liability theories. The District Court and the Ninth Circuit Court of Appeals in *Grokster I* and *II* explicitly plead for Congressional action.²²³ In the former, the District Court stated that it is not ignorant of the possibility that Grokster may have purposefully created a business model to avoid liability for contributory infringement.²²⁴ It goes on to state that “[w]hile the Court need not decide whether steps could be taken to reduce the susceptibility of such software to unlawful use . . . additional legislative guidance may be well-counseled.”²²⁵ The Court of Appeals was more emphatic when it observed that courts are ill-prepared to police the rapid technological advancements of Internet innovations.²²⁶ The court stated that the responsibility of monitoring new technology has been left primarily to Congress.²²⁷ Article I of the Constitution signals Congress to determine the scope of copyright liability.²²⁸

This deference to Congress to make changes to the copyright law in light of new technologies is supported in *Sony*:

As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product . . . From its beginning, the law of copyright has developed in response to significant changes in technology . . . Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials.²²⁹

The courts continue to be reluctant to expand copyright protections without “explicit legislative guidance.”²³⁰ Therefore, Congress must enact legislation that will prevent more decisions like that of *Grokster*.

C. Current Legislation – S. 2560, the Induce Act

Even before *Grokster* was decided on appeal, Senators Hatch, Leahy, Frist,

²²³ *Grokster I*, 259 F. Supp.2d at 1046; *Grokster II*, 380 F.3d at 1167.

²²⁴ *Grokster I*, 259 F. Supp.2d at 1046 (“The Court is not blind to the possibility that Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting [sic] financially from the illicit draw of their wares.”).

²²⁵ *Id.*

²²⁶ *Grokster II*, 380 F.3d at 1167.

²²⁷ *Id.* (relying on *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 429-30, 431 (1984)).

²²⁸ *Id.*

²²⁹ *Sony Corp. of Am.*, 464 U.S. at 429-30, 431.

²³⁰ *Id.* at 431.

Daschle, Graham and Boxer introduced the “Inducing Infringement of Copyrights Act of 2004” (“Induce Act”) in June 2004.²³¹ The legislation would add part (g) to Section 501 of Title 17 of the U.S. Code:

Whoever intentionally induces any violation identified in subsection (a) shall be held liable as an infringer . . . [and] the term ‘intentionally induces’ means intentionally aids, abets, induces, or procures, and intent may be shown by acts from which a reasonable person would find intent to induce to infringement based upon all relevant information about such acts then reasonably available to the actor, including whether the activity relies on infringement for its commercial viability.²³²

The bill states, “[n]othing in this subsection shall enlarge or diminish the doctrines of vicarious and contributory liability for copyright infringement or require any court to unjustly withhold or impose any secondary liability for copyright infringement.”²³³ The Induce Act seeks to give copyright owners the necessary tools to seek redress in the court system by codifying *Gershwin*’s inducing language and protecting the doctrines of vicarious liability and contributory infringement.²³⁴

The bill was in response to the District Court’s decision in *Grokster I*, where the court openly stated that Grokster may have “intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares.”²³⁵ In addition, the bill was in response to the devastating effects online piracy has had on the music and movie industry, with research showing that in 2004 filesharing networks are expected to infringe approximately 12 to 24 billion pieces of copyrighted materials.²³⁶ The Induce Act language is remarkably similar to that of the Patent Act language: “the Patent Act expressly brands anyone who ‘actively induces infringement of a patent’ as an infringer.”²³⁷ The Patent Act language was seen by Senator Hatch as a “proven model [that] can address cases of intent to induce infringement that were explicitly not covered or addressed by the Supreme Court in *Sony*.”²³⁸ He intended the legislation to effect only distribu-

²³¹ Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Cong. §g (2004).

²³² *Id.*

²³³ *Id.*

²³⁴ *Id.*

²³⁵ *Grokster I*, 259 F. Supp.2d at 1046.

²³⁶ *Hearings, supra* note 8 (statement of Senator Orrin Hatch).

²³⁷ *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 435 (1984) (quoting the Patent Act, 35 U.S.C. §§ 1 – 376 (2000)).

²³⁸ *Hearings, supra* note 8 (statement of Senator Orrin Hatch); *see also Sony Revisited, supra* note 67 (providing a discussion about courts not applying the induce standard).

There is no reason to believe that the [*Sony*] Court meant to exclude inducement of infringement from indirect infringement of copyright . . . [a]nd there is no reason to believe that Congress, when it adopted the Copyright Act of 1976, intended to overrule or lessen the scope of contributory infringement stated in *Gershwin*, which explicitly included inducement of infringement.

Id. at 11.

tors of products who intend to induce infringement:²³⁹ (1) the legislation is not biased to one technology over another, (2) the legislation borrows sturdy language from the Patent Act that would speak to products made with the intent to induce infringement, which was not covered or contemplated by *Sony*, and (3) existing contributory liability is sufficiently broad that the legislation here would affect a small percentage of bad actors.²⁴⁰ According to Senator Hatch, the courts in the *Napster* and *Grokster* decisions were “distracted . . . by raising issues of non-infringing uses that should have been as irrelevant as they were to the defendants’ business plans. S. 2560 will end the confusion caused by these flawed analyses.”²⁴¹

The sponsors of the legislation did not desire to alter or impede the other two main theories of secondary liability, contributory infringement and vicarious liability, when it included section three in the legislation.²⁴² Rather, the authors simply wanted to add, or essentially codify, the induce theory of secondary liability to copyright infringement law.²⁴³ The “intent to induce” language, seemingly novel to copyright law, is arguably a codification of existing, but ignored law.²⁴⁴ Described as “[t]he classic statement of what constitutes contributory infringement,” the *Gershwin* court stated that “one who, with knowledge of the infringing activity, induces, cause or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.”²⁴⁵ In fact, Justice O’Connor, the swing vote in *Sony*, reflected during the Justices deliberations of *Sony*, on the *Gershwin* case; where it was her understanding that there were two ways to contributory infringe based on *Gershwin* – either by inducing, or by materially contributing.²⁴⁶ In addition, the *Sony* Court reiterated that inducing liability was not before it because *Sony* had made no such efforts.²⁴⁷ The Court stated, “*Sony* certainly does not ‘intention-

²³⁹ *Id.*

²⁴⁰ *Id.*

²⁴¹ *Id.*

²⁴² Inducing Infringement of Copyrights Act of 2004, S. 2560, 108th Cong. §g (2004) (“Nothing in this subsection shall enlarge or diminish the doctrines of vicarious and contributory liability for copyright infringement or require any court to unjustly withhold or impose any secondary liability for copyright infringement.”).

²⁴³ See *Hearings*, *supra* note 8 (statement of Senator Hatch) (“Both then and now, the prevailing rule for contributory infringement imposes liability upon anyone who knows or has reason to know of infringing activity and induces, causes or materially contributes to the infringing conduct of another.”).

²⁴⁴ *Sony Revisited*, *supra* note 67 at 11-12.

²⁴⁵ Lee Hollar, *Liability for Inducement of Copyright Infringement: The Genie is Out of the Bottle*, J. OF INTERNET LAW, 18, 19 (2004) (referring to *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (emphasis added)).

²⁴⁶ *Sony Revisited*, *supra* note 67 at 11-12 (quoting Justice O’Connor’s letter to Justice Blackmun).

²⁴⁷ Hollar, *supra* note 245, at 19 (quoting *Sony Corp. of Am. v. Universal City Studios*,

ally induce' its customers to make infringing uses of respondents' copyrights, nor does it supply its products to identified individuals known by it to be engaging in continuing infringement of respondents' copyrights.²⁴⁸ However, merely because the "induce issue" was not present in *Sony*, is no excuse not to apply inducement liability; yet that is precisely what *has* occurred in copyright law.²⁴⁹ Congressional action is thus needed to clarify this confused area of the law so that inducing liability can be applied in the courts.

In addition to keeping intact the other two theories of secondary liability, the bill's authors wished to keep the legislation technology neutral and behavior targeted – a noteworthy goal because technology has changed over time and it will continue to do so.²⁵⁰ Legitimate technology companies such as Apple and Sony, are concerned that based on the Induce Act, courts will find their presumably legitimate products, such as the iPod or TiVo, as inducers.²⁵¹ However, the legislation does not seek to address technology that *may* be used to infringe, rather it focuses on products and services whose *intent* it is to *induce* the infringement of copyrights.²⁵² Stated another way, the legislation is targeting products or services where their entire business model rests on the infringement activity of their users.²⁵³

464 U.S. 417, 439 (1984)).

²⁴⁸ *Id.*

²⁴⁹ See *Sony Revisited*, *supra* note 67 at 11 (discussing inducement liability already existing in copyright law, but ignored in the courts) ("No legislation and no change to Supreme Court precedent appears necessary to add inducement of infringement to the collection of tools available to protect copyrighted works.").

²⁵⁰ *Hearings*, *supra* note 8 (statement of Mitch Bainwol) (noting that the bill focuses on behavior, not technology; on bad actors, i.e. those who have "hijacked technology" for their own illegitimate purposes, and not on the technology itself).

²⁵¹ See Declan McCullagh, *Copyright Office Pitches Anti-P2P Bill*, CNET NEWS.COM, at <http://news.com.com/2100-1027-5345528.html> (Sept. 2, 2004). In response to their concerns about the scope of the Induce Act, the technology industry added to the S. 2560: "mass, indiscriminate infringing conduct" and added the codification of *Sony*. Amol Sharma, *Technology Groups Propose Language to Narrow File-Sharing Bill*, CONGRESSIONAL QUARTERLY, Aug. 24, 2004. This version also carved out ISP's, credit card companies and investments firms that are worried about being caught inadvertently in the legal net. *Id.*

²⁵² See *Inducing Infringement of Copyrights Act of 2004*, S. 2560, 108th Cong. §g (2004).

²⁵³ *Hearings*, *supra* note 8 (statement of Mitch Bainwol) ("It is imperative that Congress insist on the rule of law and not accept a business model based on thievery."); see also *id.* (statement of Marybeth Peters, Register of Copyrights and Associate Librarian for Copyright Services, United States Copyright Office) (reiterating statements made in *Grokster I*, *Grokster's* business plan may have been structured to get around the loophole in *Napster I* and *II*) and that with S. 2560, courts would be permitted to look at "whether the defendant had intentionally constructed its business to profit from the infringement of others that it induced.").

D. The Induce Act's Inadequacies

The Induce Act is a good first step in reducing copyright infringement. However, it may not be enough to better remedy the rampant infringement. Specifically, software creators will once again find a way to dodge the spirit of the copyright law. The Act's greatest strength, its adjusted Patent Act language, may also be its greatest weakness. As stated by the Register of Copyrights, Mary Beth Peters,

While S. 2560 may provide courts with a useful and effective means of accessing the liability of the current generation of infringing services, I am concerned that the next generation of technology-based pirates will be able to devise a way around this new species of liability. They may be able to limit evidence of their "inducement," yet still be able to reap substantial financial benefit from enabling and encouraging massive copyright infringement, just as Grokster . . . [and others] appear to have devised a way around the Napster decision.²⁵⁴

For example, the 'inducing' language is the civil equivalent of criminal law's "aiding and abetting,"²⁵⁵ and a defendant such as Grokster, could argue that it had no intent to induce, aid, or abet the infringement of their users. Rather, defendants could simply claim that they wanted to provide the public with software that enables its users to transfer non-copyrighted files.

The legislation also is flawed in solely looking at the intent of the inducement. Facts can easily cut both ways. For example, Grokster held itself out to the public as "the Next Napster."²⁵⁶ This could be a signal to potential users that users can download copyrighted material, or a signal showing that the company has figured out a legitimate way to comply with the law, where the software is thus the new and improved *legal* version of Napster. Either way, the current end result is a software product whose primary purpose is to allow its users to infringe copyrights, where it has already been alleged that over ninety percent of the material shared was copyrighted – Grokster.²⁵⁷

If no other measures can be agreed upon, the Induce Act should be enacted because it is feasible that it would prevent future decisions like *Grokster II*. In a footnote, the *Sony* Court states that Sony did not "induce" because it did not "supply its products to identified individuals known by it to be engaging in continuing infringement of respondents' copyrights."²⁵⁸ Professor Lee Hollar suggests that what *Sony* did not do in 1984, is exactly what *Grokster II* did in 2004.²⁵⁹ He argues that Grokster is supplying its software to users the company knows to be participating in copyright infringement and that these acts of in-

²⁵⁴ *Hearings, supra* note 8 (statement of Marybeth Peters).

²⁵⁵ *Sony Revisited, supra* note 67 at 13 (citing *Aimster II*, 334 F.3d 651).

²⁵⁶ *Grokster I*, 259 F. Supp.2d at 1036 (internal citation omitted).

²⁵⁷ *Grokster II*, 380 F.3d at 1158.

²⁵⁸ *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 438-40 n.19 (1984).

²⁵⁹ Hollar, *supra* note 245, at 19.

ducement would give rise to liability under the Induce Act.²⁶⁰

E. A Novel Approach

1. Recommendation #1: A New Form of Secondary Liability in Copyright Infringement

Regardless of the possibility that the Induce Act may remedy the problems at hand, Congress should enact a standard that would effectively combat the current rampant copyright infringement activities stemming from P2P software.²⁶¹ This new standard should be behavior-driven, technology-neutral, concise, and effective in holding liable individuals who purposefully dodge the law and turn a blind eye to the infringement occurring through the use of their product.²⁶² Congress should enact a standard that would require courts to look at (1) whether actual infringing use significantly outweighs non-infringing use,²⁶³ (2) whether the product or service violates the spirit of the Copyright Act by turning a blind eye to infringement,²⁶⁴ and (3) whether there is demonstrable, significant, and deteriorating effect of the copyrighted material's use in the market.²⁶⁵

The element of balancing actual infringing use with actual non-infringing use is important because instead of focusing on mere possible uses, it focuses on present, actual, infringement and non-infringement activities. A product can be capable of millions of non-infringing uses, but if it is only being used in the present for infringing purposes, it has no beneficial use in the market and should not be maintained in its original form.²⁶⁶ The *Sony* dissent foreshadowed problems associated with looking at possible uses:

[I]f a *significant* portion of the product's use is *noninfringing*, the manufacturers and sellers cannot be held contributorily liable for the product's infringing uses . . . [but] [i]f virtually all of the product's use, however, is to infringe, contributory liability may be imposed; if no one would buy the product for noninfringing purposes alone, it is clear that the manufacturer is purposely profiting from the infringement, and that liability is appropriately imposed . . . [t]he key question is not the amount of . . . [content] that is copyrighted, but

²⁶⁰ *Id.*

²⁶¹ *Hearings, supra* note 8.

²⁶² *Id.*; *see also* *Aimster II*, 334 F.3d at 650.

²⁶³ *Feder, supra* note 21; *see also* *Aimster II*, 334 F.3d at 653.

²⁶⁴ *Aimster II*, 334 F.3d at 650.

²⁶⁵ *Francavillo, supra* note 3 at 884 ("Perhaps it would be better for copyright law to consider the effect that an alleged infringer's 'actions [have] had on the copyright holder's opportunities for commercial exploitation.' This standard would hold P2P services, rather than individuals, generally liable for infringement.")

²⁶⁶ *Id.*

rather the amount of . . . usage that is infringing.²⁶⁷

Although Judge Posner in the *Aimster II* decision provides a more palatable approach than *Sony* by looking at the probability of noninfringing use,²⁶⁸ this standard simply remains too speculative. Looking at *actual* infringing use of the product is a more practical and effective approach. Regardless of what a software distributor or technology intended to do or is likely to do, the new standard proposed in this Note looks to what is actually happening.²⁶⁹ The product is analyzed from the viewpoint of actual use, rather than probable or capable use. This approach leads to a more concrete application of secondary liability.

The second element, the willful blind eye, is important because it captures infringers who purposefully look the other way in order to avoid liability.²⁷⁰ If Grokster executives, or judges in the Ninth Circuit actually used Grokster's software, both would have realized the rampant infringement activities occurring because of the software.²⁷¹ However, the lesson learned by companies like Grokster was not that they should not be aiding and abetting copyright infringement, but that they should configure their system in a way that gives them the appearance of not having control of the infringement activities of its users.²⁷² As illustrated by *Aimster II*, just as a drug dealer who pretends to be working under the hood of his car during a drug deal he orchestrated cannot escape liability, the same goes for P2P software distributors who affirmatively take steps to avoid liability.²⁷³ It is also probably not by accident that Grokster Ltd. is incorporated off-shore; perhaps another indication of its efforts to evade liability.²⁷⁴

The willful blind eye element must be codified. Although it was a vital deciding factor in *Aimster II*,²⁷⁵ the *Grokster II* court said that it was inapplicable in the secondary liability theory of copyright infringement.²⁷⁶ Codification of this element will first lead to a clarification of the circuit and intra-circuit splits

²⁶⁷ *Sony Corp. of Am.*, 464 U.S. at 491-2.

²⁶⁸ *Aimster II*, 334 F.3d at 653.

²⁶⁹ Feder, *supra* note 21, at 910.

²⁷⁰ *Aimster II*, 334 F.3d at 650.

²⁷¹ *Hearings*, *supra* note 8 (referring to discussion about the widespread infringement).

²⁷² *Sony Revisited*, *supra* note 67 at 19.

²⁷³ *Aimster II*, 334 F.3d at 650 (“[B]y using encryption software to prevent himself from learning what surely he strongly suspects to be the case: that the users of his service – maybe *all* the users of his service – are copyright infringers.”).

²⁷⁴ See Grokster's website, at <http://www.grokster.com/aboutus.html> (last visited Feb. 14, 2005) (“Grokster, LTD. is an international software company . . . [that] is privately held and headquartered in Nevis, West Indies.”).

²⁷⁵ See *id.* (“Willful blindness is knowledge, in copyright law where indeed it may be enough that the defendant *should* have known of the direct infringement, as it is in the law generally.”) (internal citations omitted).

²⁷⁶ *Grokster II*, 380 F.3d at 1162.

as to whether the willful blind eye theory applies in secondary liability. It also will successfully capture infringers who have a "guilty state of mind."²⁷⁷

With regard to the third element, the effect on the market,²⁷⁸ this is again a very present-minded focus. The question is whether the infringing activity of this product has a demonstrable and significant deteriorating effect on the market in which it seeks to exploit.²⁷⁹ If it is a matter of an individual, copying one song for their private use on one occasion, though still illegal, the violation will probably not be sufficient to hold the software distributor liable. However, if it is shown that the infringement is so widespread that it has a deteriorating effect on copyrighted work's market, the product should be pulled from distribution.²⁸⁰

2. Recommendation #2: The Implementation of an Advisory Board

Whether the standard suggested in this Note, the Induce Act, or another mode of combating copyright infringement is enacted, one way to address uncertainty in this new era of technology and the law would be to ask a neutral, non-binding advisory board.²⁸¹ Perhaps as part of the Copyright Office or the Department of Commerce, an advisory board could be created to offer opinions as to the legitimacy of a product.²⁸² This is similar to what currently takes place in tax law: "[I]f it is not clear what the tax treatment for a particular transaction is, a taxpayer can get a private ruling from the IRS [(Internal Revenue Service)] indicating how the IRS will treat the activity based on the facts provided by the taxpayer."²⁸³ A similar advisory board in the copyright context would allow a distributor or creator of software to submit its business model to an advisory board to seek non-binding approval.²⁸⁴ Should the product be

²⁷⁷ *Id.*

²⁷⁸ Francavillo, *supra* note 3, at 885 (referring to comment about commercial exploitation of the product).

²⁷⁹ *Id.* at 880-85.

²⁸⁰ *Hearings, supra* note 8, (statement of Marybeth Peters). Had Sony's VTR technology had the multiplier effect that P2P software was, it is probable that the decision would have been held differently. Mary Beth Peters argues that if the VCR had been designed in such a way that when a consumer merely turned it on, copies of all of the programs he recorded with it were immediately made available to every other VCR in the world, there is no doubt the *Sony* decision would have gone the opposite way. *Id.*; see also *Aimster II*, 334 F.3d at 646 (discussing the possibility that "the purchase of a single CD could be levered into the distribution within days or even hours of millions of identical, near-perfect . . . copies of the music recorded on the CD – hence the recording industry's anxiety about file-sharing services oriented toward consumers of popular music").

²⁸¹ *Sony Revisited, supra* note 67 at 20, 20 n.92.

²⁸² *Id.*

²⁸³ *Id.*

²⁸⁴ *Id.*

deemed potentially liable under any standard, it would allow distributors to make the proper necessary adjustments to comply with the law itself and its spirit.²⁸⁵ This good-faith effort would be evidence of the distributor's good intentions to not promote copyright infringement with its product.²⁸⁶

3. *Testing the New Standard*

The new legislative standard should first be tested before it is applied in actual cases so as to provide consistency in the law, and second, to ensure that legitimate products and services are not pulled from the market. Printing companies, photocopiers, TiVos and others are examples of what should be protected in any test.

i. Applying the New Standard to Sony

In first applying the new standard to the facts of *Sony*, the initial element is whether actual noninfringement use significantly outweighs infringement.²⁸⁷ Assuming for arguments' sake that time-shifting is a fair use,²⁸⁸ studies performed by both parties showed that the VTR's primary use was time shifting.²⁸⁹ Although the Court clearly did not have the new standard to apply, the *Sony* plaintiffs' survey stated that "75.4% of VTR owners use their machines to record for time-shifting purposes half or most of the time . . . [and the] Defendant's survey showed that 96% . . . used the machines to . . . [time-shift]."²⁹⁰ Regardless of whether a fact-finder would choose the plaintiff's or defendant's survey, these percentages are high enough to show that the VTR's actual non-infringing time-shifting use significantly outweighs that of its infringing uses. Thus, Sony would "pass" the first element.

²⁸⁵ See *Grokster* I, 259 F. Supp.2d at 1046. The *Grokster* court was concerned that software companies will exploit the loophole in the law and dodge accountability:

The Court is not blind to the possibility that Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares. While the Court need not decide whether steps could be taken to reduce the susceptibility of such software to unlawful use, assuming such steps could be taken, additional legislative guidance may be well-counseled.

Id.

²⁸⁶ *Sony Revisited*, *supra* note 67 at 20.

²⁸⁷ See discussion *infra* Part V.E.i.

²⁸⁸ See *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 443-56, 458-86 (1984). The majority and dissenting opinions in *Sony* go into great detail as to whether time-shifting is fair use, i.e. a noninfringing activity. *Id.*

²⁸⁹ *Id.* at 423.

²⁹⁰ *Id.* at 424 n.4. For purposes of this Note, it will be assumed that time-shifting is still the predominate use of VTRs, or its modern-day version, the VCR.

The second element asks whether the defendants turn a willful blind eye to infringement.²⁹¹ Here, *Sony* did not affirmatively take actions to avoid knowledge.²⁹² Rather, the business model of the VTR technology was not to violate the spirit of the Copyright Act.²⁹³ Its sole purpose was not to provide for the copyright infringement of its users, rather it was created for a number of noninfringing uses, including watching home videos, video rentals, and time-shifting.²⁹⁴ In other words, its business model was not created to avoid liability.²⁹⁵ Thus, Sony's VTR does not violate the willful blind eye element.

Finally, the third element asks whether there has been a deteriorating detrimental effect on the industry in which the copyrighted work seeks to exploit.²⁹⁶ *Sony* did not include facts to illustrate this element. However, it can be surmised that the entertainment industry has remained unharmed by the selling of VTRs. They were created prior to 1984, and the entertainment industry appears to have survived the VTR's imposition in the market. In addition, the Nielsen Ratings system, which helps determine the advertising costs associated with programming, developed a way to include VTR time-shifting as part of the live audience.²⁹⁷ Thus, broadcasters ratings were not diminished because of consumers time-shifting with their VTRs.

Thus, a technology such as the VTR (or VCR and DVD in more contemporary times), whose *actual* noninfringing uses significantly outweigh its infringing use, would "pass" the new standard since it does not turn a blind eye to infringement and has not had a significant deteriorating effect on the market. Secondary liability would not be found on behalf of these products' distributors.

ii. Applying the New Standard to Grokster

In applying the new standard to the facts of the Ninth's Circuit's *Grokster* – the first element is met based on the credible allegations that Grokster software's actual infringing use significantly outweighs its noninfringing use, where ninety percent of the material shared was copyrighted.²⁹⁸ The second element is met because the defendants had knowledge (actual and construc-

²⁹¹ See discussion *infra* Part V.E.i.

²⁹² See generally *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417 (1984).

²⁹³ See *id.* at 421-25 (discussing time-shifting and other uses of the VTR).

²⁹⁴ *Id.*

²⁹⁵ *Id.*

²⁹⁶ See discussion *infra* Part V.E.i.

²⁹⁷ *Sony Corp. of Am.* 464 U.S. at 452 n. 36. Only twenty-five percent of VTR owners would fast-forward through commercials, and so advertisers were in no different a position than they were with live TV, as to whether individuals would watch advertisements during broadcasts. *Id.*

²⁹⁸ *Grokster II*, 380 F.3d at 1158.

tive), but turned a blind eye to it when Grokster first received actual notice from the plaintiffs of the copyrighted works being shared.²⁹⁹ Second, Grokster executives searched and found copyrighted material when using their product.³⁰⁰ Third, internal documents showed defendants were aware of their users' infringement activities.³⁰¹ In the alternative, defendants had constructive knowledge when they should have known about the infringement activities that were taking place via their software.³⁰² Defendants could have experimented with their product and discovered the significant amount of copyrighted works being swapped, and defendants allegedly "made changes to their services so that they could claim ignorance."³⁰³

Finally, the last element as to whether there is a demonstrable deteriorating effect on the content owners' market,³⁰⁴ the facts have clearly shown how P2P software, including Grokster's, has brought significant harm to the industry.³⁰⁵ The RIAA has been, "fighting to recover from a three-year, 18% drop in CD sales . . . [and] [t]he association says \$4.2 billion is lost each year from file swapping."³⁰⁶ In addition:

In 2000, the top ten hits sold 60 million units in the U.S. . . . in 2003, the top ten hits were cut almost in half, to 33 million units . . . This slide has been caused predominantly by illicit P2P . . . services, where these top ten hits and other valuable content are offered to users – unauthorized and for free.³⁰⁷

Thus, Grokster's demonstrable deteriorating effect on the content owners' market would make the company's software fail on the third element.

In sum, the Grokster service would not pass under the new standard. Its actual infringing use so heavily outweighs its actual non-infringing use; the company has repeatedly turned a blind eye to infringement; and the company's effects on copyright owners' market has clearly been devastating from its infringing activities. Grokster would be deemed secondary liable and the product would be properly removed from the marketplace.

As demonstrated by its application to the *Sony* and *Grokster* decisions, the new standard will prove effective in combating rampant copyright infringement through P2P software.³⁰⁸ The three elements are a practical, technology-neutral, approach which would provide the courts with a better test to apply

²⁹⁹ See *infra* note 128 and accompanying text.

³⁰⁰ See *infra* note 128 and accompanying text.

³⁰¹ See *infra* note 128 and accompanying text.

³⁰² *Grokster II*, 380 F.3d at 1154 (citing Plaintiff's brief, providing discussion about Grokster's efforts to avoid knowledge).

³⁰³ *Id.*

³⁰⁴ See discussion *infra* Part V.E.i.

³⁰⁵ *Hearings*, *supra* note 8; see also *Graham supra* note 8.

³⁰⁶ *Graham*, *supra* note 8.

³⁰⁷ *Hearings*, *supra* note 8.

³⁰⁸ *Hearings*, *supra* note 8 (referring to widespread infringement).

and would foster creativity without harming public access to that creativity.

VII. CONCLUSION

The courts have been inconsistent and contradictory in applying secondary copyright infringement liability to P2P technologies, leading to circuit and intra-circuit splits. These inconsistent and contradictory analyses of the courts are partially due to the confusion in *Sony*. The *Sony* Court did not properly lay the foundation for either contributory infringement or vicarious liability. Had it done so, it would have allowed a better application of the law in subsequent decisions. *Sony* also failed to clearly define the defense it created for contributory infringement and it failed to demonstrate how the defense should be weighed and applied.

Regardless of *Sony*'s inability to properly lay out the theories of secondary liability and to provide a well-proposed defense, the P2P courts have struggled to apply the *Gershwin* elements. Although the courts in *Napster*, *Aimster*, and *Grokster*, had strikingly similar fact patterns before them, the courts applied the law differently in each. The varying decisions resulted in a business model such as *Grokster*'s to be found not liable for secondary copyright infringement liability, regardless of the rampant infringement occurring through its software.

Because of the courts' inability to adequately and consistently apply the law, Congress, not the courts, should step in to remedy the flaws of secondary liability in copyright infringement.³⁰⁹ *Sony* demonstrated that Congress is the appropriate vehicle to modernize copyright law, and the two *Grokster* courts have virtually begged for Congressional intervention because they are ill-prepared to monitor fast-paced technological advances.

Congress must enact a new standard because P2P technologies will continue to have disastrous effects on the entertainment industry.³¹⁰ The copyright infringement occurring because of the software is rampant and as a result, harms the financial health of the music and motion picture industries.³¹¹ While the Induce Act is one standard that Congress can enact, it is likely that software creators will once again find ways to avoid liability by making slight adjustments to their business models. Therefore, Congress should enact the standard proposed in this Note, which would require courts to look at (1) whether actual infringing use significantly outweighs noninfringing use,³¹² (2) whether the

³⁰⁹ *Grokster* plaintiffs have filed writ of certiorari with the Supreme Court, which has been granted. This Note does not ignore the challenges that secondary liability challenges will face in Congress. The technology lobby is strong, and has thus far been effective in preventing passage of the Induce Act in the Senate.

³¹⁰ See *Hearings*, *supra* note 8 (statement of Mitch Bainwol).

³¹¹ *Id.*

³¹² See discussion *infra* Part V.E.i.

product or service violates the spirit of the Copyright Act by turning a blind eye to infringement,³¹³ and (3) whether there is a demonstrable, significant, and deteriorating effect of the copyrighted material's value in the market it seeks to exploit.³¹⁴ This standard is behavior-driven, technology-neutral, concise, and effective in holding companies such as Grokster liable for secondary copyright infringement. In turn, the widespread copyright infringement of P2P technologies would finally be stemmed.

Once this appropriate standard is in place, P2P technologies and copyright authors can have a mutually beneficial relationship as Napster has proven since the Ninth Circuit's correct decisions.³¹⁵ The once deemed "internet music outlaw,"³¹⁶ Napster has become a commendable example of how the music and film industries and P2P *can* have a symbiotic relationship.³¹⁷ In order for this type of relationship to become more commonplace, Congress needs to enact effective language to deter piracy. More importantly, the public at large needs

³¹³ *Id.*

³¹⁴ *Id.*

³¹⁵ See Teri Robinson, *Napster Files for Bankruptcy*, TECHNEWS WORLD, at <http://www.technewsworld.com/story/18048.html>, (June 3, 2002); Matt Gouras, *Regents Not Interested in Buying Napster Systemwide*, USA TODAY, at http://www.usatoday.com/tech/news/techpolicy/2004-04-30-tenn-notonapster_x.htm?POE=-TECISVA (Apr. 30, 2004). The Ninth Circuit decision in *Napster* required the company to screen out copyrighted works from its network; upon meeting that goal, the company was incapable of continuing in its current form and closed its doors in 2002. *Id.* Napster filed Chapter 11 bankruptcy and was subsequently purchased by another company, Roxio Inc., which embarked on a new pay-for-music website in 2003. *Id.*; see also Napster's website, at http://www.napster.com/why_napster.html ("[Napster is] back with the answer for both the music industry and music fans: safe, legal and reliable access to hundreds of thousands of songs. Tens of thousands of artists now offer their music on Napster with new artists and music added every day."); Graham, *supra* note 8; David McGuire, *Colleges Rally Against Music Piracy*, WASHINGTONPOST.COM, at <http://www.washington-post.com/wp-dyn/articles/A28879-2004Aug24.html> (Aug. 24, 2004) Napster is currently working with universities, which often have high infringement activity, across the country to combat infringement by providing legal, cheap, and easy music downloading options. *Id.* For example, students at Penn State University and Cornell University have access to Napster's services for less than Napster's normal subscription rate. *Id.* Penn State President Graham Spanier has stated that the service, which is part of the student's university technology fee, has been a great success, where students have downloaded as many as 100,000 songs a day, and illegal file-sharing activities decreased during that same time period. *Id.*; see also Benny Evangelista, *Cards for Paying Napster/New File Sharer Takes Page from Phone Companies*, SF GATE.COM, at <http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2003/10/27/BUG6E2J4AJ24.DTL>, (Oct. 27, 2003). Napster is mimicking efforts by the telephone industry, by providing prepaid cards that would allow cardholders to buy up to fifteen songs from Napster's site, a sort of gift card. *Id.* Sold at various retail locations, it is another commendable effort on behalf of Napster and the recording industry to first, reverse the piracy fad that Napster created, and secondly, to create a mutually-beneficial relationship. *Id.*

³¹⁶ Graham, *supra* note 8.

³¹⁷ See *id.*

to value the creative arts and not feel that just because they can steal, they should steal:

Without a song there would be no music; without music there would be neither sound recording companies nor Napster[, Grokster, or Aimster]; without books there would be no learning; without content, the Internet would be a lonely place; and without copyright, there would be less prosperity and less joy in the world.³¹⁸

If Congress does not act appropriately and swiftly, P2P technologies and the entertainment industries will share the same fate as Romeo and Juliet: "For never was a story of more woe Than this of Juliet and her Romeo."³¹⁹

³¹⁸ MICHAEL REMINGTON, NATIONAL LEGAL CENTER FOR THE PUBLIC INTEREST, *NAPSTER AND THE DIGITAL AGE: THE FUTURE OF COPYRIGHT LAW* 53 (2001).

³¹⁹ WILLIAM SHAKESPEARE, *ROMEO AND JULIET* act 5, sc. 3.