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Times May Have Changed, but the Song is Still the Same – Why  
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# Times May Have Changed, but the Song is Still the Same –

## Why the Supreme Court was Incorrect to Stray from *Sony's* Reasoning in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*

By Julie A. Wooten\*

### I. INTRODUCTION

¶1 Grokster, Ltd. (“Grokster”) is dead, for now. As of Monday, November 7, 2005,<sup>1</sup> Grokster’s website, which had been used to distribute file-sharing software, has been officially shut down and displays the following disclaimer:

The United States Supreme Court unanimously confirmed that using this service to trade copyrighted material is illegal. Copying copyrighted motion picture and music files using unauthorized peer-to-peer services is illegal and is prosecuted by copyright owners. There are legal services for downloading music and movies. This service is not one of them. Grokster hopes to have a safe and legal service available soon.<sup>2</sup>

¶2 This sentiment, proffered by Grokster, is the result of a settlement agreement<sup>3</sup> stemming from the July 2005 Supreme Court decision of *MGM v. Grokster*.<sup>4</sup> This decision marks an unfortunate turn of events for the myriad individuals who used this service for peer-to-peer file sharing, and the thousands who used this technology for the transfer of files, both copyrighted and non-copyrighted.

¶3 This Note will discuss how the Supreme Court misinterpreted and misapplied its previous decision of *Sony Corp. v. Universal City Studios, Inc.*<sup>5</sup> in its opinion in *Grokster III*. In Part I, this note will present background on copyright law and a brief history of key file sharing cases. Part II will discuss the application of *Sony's* reasoning in the

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<sup>1</sup> Ted Bridis, *Grokster Downloading Service Shuts Down*, TMCNET, Nov. 7, 2005, <http://news.tmcnet.com/news/2005/nov/1201939.htm>.

<sup>2</sup> Grokster Home Page, <http://www.grokster.com> (last visited Jan. 13, 2007).

<sup>3</sup> Bridis, *supra* note 1.

<sup>4</sup> *Metro-Goldwyn-Mayer Studios v. Grokster*, 545 U.S. 913 (2005).

<sup>5</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

lower court decisions, namely at the Federal Appellate level was indeed the appropriate application of this precedent. Part III will argue that the application of the *Sony* Doctrine to peer-to-peer file sharing was appropriate and that the divergence the Supreme Court created with the “active inducement” test was unnecessary. Part IV will conclude that the Supreme Court decision in *Grokster III* is fraught with potential negative effects on technological development and difficulties that may arise within intellectual property legal practice.

## II. SETTING THE STAGE: COPYRIGHT LAW & FILE-SHARING CASES

### A. Copyright Protection

¶4 Copyright protection is available to “original works of authorship fixed in any tangible medium of expression . . . .”<sup>6</sup> including sound recordings, musical works, and motion pictures.<sup>7</sup> When anyone violates an exclusive right of the copyright owner, a copyright is infringed.<sup>8</sup> In file sharing cases the issue of direct infringement is not one of great significance and is essentially conceded due to the fact that some, if not most file sharing networks involve unauthorized replication of copyrighted works.<sup>9</sup> Because the number of individual users is great, the copyright holders tend to go after the software distributors, or providers of the peer-to-peer file sharing networks, rather than the individual users themselves.<sup>10</sup>

¶5 Traditionally, copyright infringement liability has not been restricted to direct infringers.<sup>11</sup> Two theories of secondary liability have developed in the courts. The first is a theory developed out of the doctrine *respondet superior*, the principle of vicarious liability.<sup>12</sup> The principle of contributory liability, by contrast, developed out of the common law tort doctrine that if one contributes to the tort of another he should be responsible for the tortious action.<sup>13</sup> Although not expressly mentioned in the 1976

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<sup>6</sup> 17 U.S.C. § 102(a) (2000).

<sup>7</sup> *Id.* at § 102(a)(2), (6), (7). Virtually any type of file can be shared via peer-to-peer file sharing networks. Files containing copyrighted music and movies are the most problematic types that are traded. Anna E. Engelmann & Dale A. Scott, *Arrgh! Hollywood Targets Internet Piracy*, 11 RICH. J.L. & TECH. 3 (2004). Broadband technology, where a person’s computer is always connected to the Internet, has made the ability to download an entire movie commonplace. *Id.* at 34.

<sup>8</sup> 17 U.S.C. § 501(a) (2006).

<sup>9</sup> See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1160 (9th Cir. 2004) (stating that violation of copyright by illegal exchange of files is not seriously contested).

<sup>10</sup> See, e.g., *Motown Record Co., L.P. v. iMesh.Com, Inc.*, No. 03 Civ. 7339(PKC), 2004 WL 503720, at \*1 (S.D.N.Y. 2004) (alleging that 23 million users worldwide use iMesh file sharing software); *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 638 (N.D. Ill. 2002) (seeking an injunction to prevent contributory and vicarious infringement on defendant’s file-sharing system).

<sup>11</sup> 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, 868 (2004).

<sup>12</sup> See *Fonovisa, Inc. v. Cherry Auctions, Inc.*, 76 F.3d 259, 262-63 (9th Cir. 1996). Under the doctrine of respondeat superior, an employer is responsible for the torts of its employees. See, e.g., *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 305, 307 (2d Cir. 1963) (noting the “agency rule of respondeat superior applies to copyright infringement by a servant within the scope of his employment”).

<sup>13</sup> *Id.* at 264.

Copyright Act,<sup>14</sup> both vicarious and contributory liability are recognized by Congress in the legislative history.<sup>15</sup>

¶16 Vicarious liability is found in the absence of an employer-employee relationship if a party has “the right and ability to supervise the infringing activity [of the direct infringer] and also has a direct financial interest in such activities.”<sup>16</sup> Contributory infringement occurs when “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another . . . .”<sup>17</sup>

### B. *Post-Sony Cases Involving File-Sharing*

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

¶17 Two Federal Appellate courts have applied the *Sony* doctrine<sup>18</sup> specifically to peer-to-peer networks and file sharing in recent years, *Napster* and *In re Aimster*.<sup>19</sup> The Ninth Circuit addressed peer-to-peer file-sharing networks and their relationship to copyright infringement in *A&M Records, Inc. v. Napster, Inc.*<sup>20</sup> The suit was brought by a group of recording studios engaged in the distribution and recording of music.<sup>21</sup> The plaintiffs claimed that Napster was liable for copyright infringement that was taking place on its network when users of the Napster software swapped copyrighted music in the form of MP3 files.<sup>22</sup>

¶18 The Ninth Circuit examined whether Napster should be held liable under either contributory or vicarious copyright infringement after it was determined that a fair use defense was unavailable.<sup>23</sup> The court found that Napster had knowledge – both actual and constructive – of the copyright infringement occurring on the network.<sup>24</sup> In the district court case, it was reported that the Recording Industry Association of America (RIAA) had informed Napster of over 12,000 copyrighted files on its servers.<sup>25</sup> The court of appeals revisited and reconsidered this data.<sup>26</sup> Napster designed its network to facilitate both individual users storing copies of the copyrighted materials on their

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<sup>14</sup> 17 U.S.C. § 501(a) (2006).

<sup>15</sup> H.R. REP. NO. 94-1476, at 61, 159-60 (1976), reprinted in 1976 U.S.C.C.A.N. 5674, 5775. The committee noted, while discussing contributory infringement that “[t]he exclusive rights accorded to a copyright owner under section 106 are ‘to do and to authorize’ any of the activities specified in the five numbered clauses. Use of the phrase ‘to authorize’ is intended to avoid any questions to the liability of the contributory infringers.” *Id.* at 61. In denying an amendment to the copyright statute to exempt owners of an establishment for the infringement of an independent contractor, the committee stated that vicarious liability was a “well-established principle of copyright law” and concluded, “no justification exists for changing the existing law . . . .” *Id.* at 159-60.

<sup>16</sup> *Gershwin Publ’g Corp. v. Columbia Artists Man. Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

<sup>17</sup> See *Fonovisa*, 76 F.3d at 264 (quoting *Gershwin*, 443 F.2d at 1162).

<sup>18</sup> See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

<sup>19</sup> Todd C. Chapman, Note, *Sharing in the Groove: Ninth Circuit Allows Peer-to-Peer Networks to Continue File-Sharing* *MGM Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), 4 CHI.-KENT J. INTELL. PROP. 304, 307 (2005).

<sup>20</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

<sup>21</sup> *Id.* at 1010-11.

<sup>22</sup> *Id.* at 1014.

<sup>23</sup> *Id.* at 1019-22.

<sup>24</sup> *Id.* at 1020.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.* at 1020.

personal computers, and Napster simultaneously maintained a central server containing available song titles.<sup>27</sup> Because of this central index, Napster was able to monitor and control the content and if the index were to be removed, users would not have had any access to download or exchange copyrighted music files.<sup>28</sup>

¶9 The Napster software design differs greatly from the software created by Grokster, which did not include a central server and thus did not allow for much control over the content individual users were sharing.<sup>29</sup> The Ninth Circuit supported the district court's finding that since Napster could have blocked the exchange of copyrighted materials on its network, and chose not to, it was materially contributing to the infringement taking place on its network.<sup>30</sup> The district court's injunction was upheld and Napster was prevented from sharing the plaintiff's copyrighted music.<sup>31</sup> Since this decision, Napster has halted its previous peer-to-peer service, and is now a commercial MP3 downloading service that offers both subscription and "a la carte" services for digital music downloads.<sup>32</sup>

2. *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003), cert. denied, 540 U.S. 1107 (2004).

¶10 In 2003, the Seventh Circuit also addressed peer-to-peer file sharing when it decided *In re Aimster Copyright Litigation*.<sup>33</sup> The plaintiffs in Aimster, like those in Napster, were music producers and recording companies who sought to halt the digital sharing of their copyrighted materials over the Internet.<sup>34</sup> Aimster's system used a network, which allowed users to exchange files via America Online (AOL) instant-messaging system. The service provided a searchable database of compiled user information, but did not make copies of the shared files.<sup>35</sup>

¶11 The Seventh Circuit found that because copies of actual songs did not reside on its server, Aimster was "not a direct infringer of the copyrights on those songs."<sup>36</sup> Using the Sony doctrine, the Seventh Circuit next looked at whether the Aimster network had "substantial non-infringing uses."<sup>37</sup> Aimster could not provide solid evidence that the service had substantial non-infringing uses, but only that it had the potential to do so.<sup>38</sup> The court rejected Aimster's attempt to escape liability for contributory infringement when Aimster knew that the services' principal use was infringing, stating it would be an "extreme result" of the Sony decision.<sup>39</sup> Beyond the fact that Aimster could not show non-infringing usage, the court took issue with the fact that the site had a tutorial for

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<sup>27</sup> *Id.* at 1012.

<sup>28</sup> *Id.* at 1022.

<sup>29</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1163 (9th Cir. 2004).

<sup>30</sup> *See Napster*, 239 F.3d at 1022.

<sup>31</sup> *Id.* at 1029.

<sup>32</sup> *See Napster*, <http://www.napster.com> (last visited Jan. 15, 2007). *See also* June M. Besek, *Understanding Basic Copyright Law 2005: Music on the Internet*, 838 PLI/Pat 263, 272 (July 2005).

<sup>33</sup> *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003).

<sup>34</sup> *Id.* at 645.

<sup>35</sup> *Id.* at 646.

<sup>36</sup> *Id.* at 647.

<sup>37</sup> *Id.* at 648.

<sup>38</sup> *Id.* at 653.

<sup>39</sup> *Id.* at 651.

users teaching them how to download copyrighted music.<sup>40</sup> The court in *Aimster* described this tutorial as “the invitation to infringement that the Supreme Court found was missing in *Sony*.”<sup>41</sup> Resolving that the record industry would suffer “irreparable harm,” the court of appeals upheld the preliminary injunction ordered by the district court.<sup>42</sup>

### III. EXPOSITION OF *MGM STUDIOS, INC. v. GROKSTER, LTD.*

#### A. *Facts*

¶12 In 2001, Metro-Goldwyn-Mayer (“MGM”) along with several music and motion picture studios brought suit against Grokster<sup>43</sup> and StreamCast Networks, Inc. (“StreamCast”) (jointly, the “Software Distributors”) companies that allow individual users to connect to a peer-to-peer network and download digital media free of charge over the Internet.<sup>44</sup> The Software Distributors’ own servers allow for the downloading of programs, which are in turn installed on the user’s computer.<sup>45</sup> Users are then able to use the software by connecting to the network searching for songs or other digital content shared by other users. These are peer-to-peer networks because “users’ computers communicate directly with each other, not through central servers.”<sup>46</sup> Once the digital media has been located on a “peer’s” computer, the user can create a personal copy.<sup>47</sup>

¶13 *MGM*, et al., which is comprised of organizations in the music recording and motion picture production industries (“the Copyright Holders”), alleged that Grokster was guilty of vicarious and contributory copyright infringement for distributing this peer-to-peer file-sharing software. The Copyright Holders sought a prospective injunction against the Software Distributors for copyright infringement.<sup>48</sup> In its original complaint, *MGM*, et al. provided research, which revealed that approximately ninety percent of the material exchanged using Grokster’s file sharing software was copyrighted material.<sup>49</sup> Further, they claimed that copyright infringement occurred every time users exchange information.<sup>50</sup> The complaint further claimed that Grokster contributed to this continuing copyright infringement by creating and making available to the public the file-sharing software, and that Grokster was, therefore a contributory infringer.<sup>51</sup> The United States District Court for the Central District of California granted summary judgment for the

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<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> *Id.* at 655.

<sup>43</sup> Jason Krause, *Grokster Ruling Means Change: Supporters Must Rethink Use of File-Sharing Programs*, 2005 No. 26 A.B.A. Journal E-Report 5.

<sup>44</sup> Matthew J. Rust, Note, *Nobody Uses Betamax Anymore and Neither Should the Supreme Court: Why Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd. Should Be Overturned*, 28 *HAMLIN L. REV.* 549, 552 (2005).

<sup>45</sup> *Id.*

<sup>46</sup> *Metro-Goldwyn-Mayer Studios v. Grokster*, 545 U.S. 913, 919-20 (2005).

<sup>47</sup> *Id.*

<sup>48</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1031, 1033-34 (C.D. Cal. 2003).

<sup>49</sup> *Id.* at 1013.

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

defendant Software Distributors,<sup>52</sup> and the United States Court of Appeals for the Ninth Circuit affirmed this decision.<sup>53</sup> But in a landmark ruling, the lower court's decision was vacated and remanded by the Supreme Court on June 27, 2005.<sup>54</sup>

*B. The United States Court for the Central District of California*

¶14 In this initial suit, the plaintiff Copyright Holders brought a claim against the Software Distributors on the grounds of contributory infringement and vicarious liability.<sup>55</sup> The court held that the Software Distributors were not liable for contributory infringement. In reaching this decision, the court opined that Distributors escaped liability because there was no showing of material contribution to the infringement, even though the court found that the Distributors had knowledge that their technology was being used to infringe copyrights.<sup>56</sup> Although the court additionally found that the Software Distributors derived significant financial benefit from this service, the lack of supervisory control over the infringing conduct made them exempt from vicarious liability of the known copyright infringement.<sup>57</sup>

*C. The United States Court of Appeals for the Ninth Circuit*

¶15 The Ninth Circuit chose to uphold the summary judgment decision of the district court when hearing the case on appeal.<sup>58</sup> Here, the court again found that the Software Distributors were neither vicariously liable nor were they contributory infringers.<sup>59</sup> The reasoning on both of these key points is summarized below.

¶16 On appeal the issue of vicarious liability hinged on the Software Distributors' ability and right to supervise the users who were committing the infringement.<sup>60</sup> Because they are decentralized networks, both Grokster and StreamCast were able to avoid legal responsibility. In a decentralized network architecture (also called *peer-to-peer-network*), each user makes an index of all of his files available to other users in the network.<sup>61</sup> The peer-to-peer software then broadcasts requests from searches for particular files to all computers in the network and results are returned to the requesting computer.<sup>62</sup>

¶17 The court found that because neither file transfers, nor communication traveled through the computers at StreamCast and Grokster, that they were unable to block individual users or screen infringing material.<sup>63</sup> This decision was in juxtaposition to the Copyright Holders' argument that claimed that the Software Distributors could alter the

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<sup>52</sup> *Id.* at 1031.

<sup>53</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1163, 1167 (9th Cir. 2004).

<sup>54</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 919 (2005).

<sup>55</sup> *Grokster*, 259 F. Supp. 2d 1029, 1043 (C.D. Cal. 2003).

<sup>56</sup> *Id.* at 1037, 1043.

<sup>57</sup> *Id.* at 1043-45.

<sup>58</sup> *Grokster*, 380 F.3d at 1157.

<sup>59</sup> *Id.* at 1158.

<sup>60</sup> *Id.* at 1164-65.

<sup>61</sup> *Id.* at 1159.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 1165.

software they circulated to prevent sharing of copyrighted material.<sup>64</sup> Grokster's inability to regulate user's communication and thus supervise the exchange of copyrighted material was not enough to merit a finding of vicarious liability.<sup>65</sup> Only if these companies had been previously found guilty of vicarious liability, the court distinguished, could they be held responsible for policing unlawful activity. The court upheld the district court's summary judgment determination on the issue of vicarious liability.<sup>66</sup>

¶18

The question of contributory infringement was also at issue when the case was heard on appeal.<sup>67</sup> Contributory infringement has two factors that are individually determined: (1) the knowledge requirement and (2) the material contribution requirement.<sup>68</sup> The court applied the *Sony* doctrine to the knowledge requirement for contributory infringement<sup>69</sup> and followed the analysis it had developed in *Napster*.<sup>70</sup> The Software Distributors demonstrated that the software was capable of significant noninfringing uses that were commercially viable.<sup>71</sup> The copyright owners, in turn, were asked to show that the Software Distributors failed to act on reasonable knowledge of specific infringing usage. According to the court, the Software Distributors obtained knowledge of the infringement after it occurred and thus, they were not actively facilitating the infringement, as they could do nothing to stop the activities.<sup>72</sup> For that reason, the Software Distributors were entitled to summary judgment on the knowledge component of contributory infringement.<sup>73</sup> Utilizing comparable reasoning, the appellate court also upheld summary judgment in favor of the Software Distributors on the issue of material contribution to copyright infringement.<sup>74</sup> The court found that it was not the Software Distributors, but the users who created the network and provided access to the forum where the infringing activity occurred.<sup>75</sup> Thus, the court determined that there was no knowledge of infringing activity and there was no material contribution, and consequently the Software Distributors were not liable as contributory infringers.

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<sup>64</sup> *Id.* at 1158.

<sup>65</sup> *Id.* at 1165-66.

<sup>66</sup> *Id.* at 1166.

<sup>67</sup> *Id.* at 1160.

<sup>68</sup> *Id.* Note that the court here stated that there are three elements required to prove a defendant liable under the theory of contributory copyright infringement; there are the two discussed above and a third, "direct infringement by a primary infringer," which the court stated was not at issue in this case.

<sup>69</sup> *Grokster*, 380 F.3d at 1157.

<sup>70</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019-20 (9th Cir. 2001), *aff'd* 284 F.3d 1091 (9th Cir. 2002).

<sup>71</sup> *Grokster*, 380 F.3d at 1161-62. To establish the software had substantial noninfringing uses the Software Distributors presented evidence that thousands of artists, including the band Wilco, had authorized free distribution of their work, and that many public domain works were available on the network. *Id.* at 1161.

<sup>72</sup> *Id.* at 1162.

<sup>73</sup> *Id.* at 1162-63.

<sup>74</sup> *Id.* at 1163. Unlike *Napster*, the Software Distributors did not provide the "site and facilities" necessary for the infringement. *Id.* This was again due to the fact that the Software Distributors did not provide centralized servers or maintain indexes of files available on the network, as well as to the inability of the Software Distributors to suspend user accounts. *Id.*

<sup>75</sup> *Id.*

*D. The United States Supreme Court*

¶19 The question presented to the Supreme Court was “under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product.”<sup>76</sup> The Court held that “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”<sup>77</sup> The Ninth Circuit decision was vacated and remanded to comport with this holding.<sup>78</sup>

¶20 In his majority opinion, Justice Souter claims that both Grokster and StreamCast had voiced the objective that users employ their software to download copyrighted works, and that each took active steps to support infringement.<sup>79</sup> Further, the Supreme Court stated that StreamCast in particular capitalized on the demise of Napster, and went to great lengths to gain favor with its former users.<sup>80</sup>

¶21 The Court also pointed to the fact that both Grokster and StreamCast, while not making any direct revenue from the distribution of the software, did sell space to advertisers so that they could stream promotions to users while they made use of their software.<sup>81</sup> Moreover, the Court said neither company made a significant effort to filter or stop the sharing of copyrighted material.<sup>82</sup> Because the above findings were so compelling the Court chose to resolve this case on an inducement theory alone and forgo further analysis on vicarious liability – a theory proposed by MGM.<sup>83</sup> If the Court had considered the vicarious liability theory put forth by the plaintiff they would have had to make two distinct findings.<sup>84</sup> First, that the Software Distributors were liable for infringement because they had a right to supervise the direct infringer (even if there was no knowledge of the infringement initially), and second, that they profited directly from the infringement.<sup>85</sup>

¶22 The only recent Supreme Court case dealing with secondary copyright infringement, prior to *Grokster*, was *Sony*.<sup>86</sup> In *Sony*, the plaintiff’s claim stated that the distribution alone of a commercial product capable of copyright infringement should render the defendant secondarily liable for copyright infringement.<sup>87</sup> Copyright holders who claimed the company was liable for secondary copyright infringement sued Sony, the manufacturer.<sup>88</sup> The alleged infringement transpired when the VCR owners recorded copyrighted programs.<sup>89</sup> The district court found at trial that the primary use for the machine was “time shifting” or taping a program for viewing at a later time, a use

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<sup>76</sup> Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913, 918-19 (2005).

<sup>77</sup> *Id.* at 919.

<sup>78</sup> *Id.* at 941.

<sup>79</sup> *Id.* at 923-24.

<sup>80</sup> *Id.* at 924.

<sup>81</sup> *Id.* at 926.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.* at 933-34.

<sup>84</sup> *Id.* at 930.

<sup>85</sup> *Id.*

<sup>86</sup> *Id.* at 931.

<sup>87</sup> Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 421 (1984).

<sup>88</sup> *Id.*

<sup>89</sup> *Id.* at 420.

deemed acceptable, fair, and noninfringing.<sup>90</sup> Although Sony may not have had an overtly stated objective to promote copying of copyrighted work, it did advertise, urging consumers to purchase and use the VCR to “record favorite shows” or “build a library” of recorded programs<sup>91</sup> neither of which was seen as necessarily infringing.<sup>92</sup> Still, because the knowledge that copyrighted materials would be taped utilizing the Betamax, Sony was still potentially liable for contributory infringement by selling the machine.<sup>93</sup> But, because the VCR was found to be “capable of commercially significant noninfringing uses,” the Supreme Court held the manufacturer could not be faulted solely on the basis of its distribution.<sup>94</sup>

¶23

The *Sony* rule was created from an analysis based on patent law’s long-established (but now defunct) article of commerce doctrine<sup>95</sup> that “distribution of a component of a patented device will not violate the patent if it is suitable for use in other ways.”<sup>96</sup> Moreover, the staple article of the commerce doctrine holds that “[o]ne who makes and sells articles which are only adapted to be used in a patented combination will be presumed to intend the natural consequences of his acts; he will be presumed to intend that they shall be used in the combination of the patent.”<sup>97</sup> Therefore, “where an article is ‘good for nothing else’ but infringement there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing intent to infringe.”<sup>98</sup> In opposition, the doctrine absolves the equivocal conduct of selling an item with substantial lawful and unlawful uses, and limits liability to occurrences of more acute fault than the mere understanding that some of one’s products will be misused. This latitude leaves room for innovation and vital commerce.<sup>99</sup>

¶24

The key to resolving this rule in the *Grokster* case was in determining what it means for a product to be “capable of significant noninfringing uses.”<sup>100</sup> MGM argued that because the percentage of infringing use outweighed that of noninfringing use that this should not qualify as “substantial” noninfringing use, and the Supreme Court agreed with this declaring that the *Sony* doctrine was misapplied at the appellate level.<sup>101</sup> It rather focused on the evidence of “active steps” taken to encourage infringement.<sup>102</sup> The *Grokster* Court also looked to the “inducement rule” which premises liability on “purposeful, culpable expression and conduct, and thus does nothing to compromise

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<sup>90</sup> *Id.* at 423-24.

<sup>91</sup> *Id.* at 459 (Blackmun, J., dissenting).

<sup>92</sup> *See id.* at 456.

<sup>93</sup> *Id.* at 439 (majority opinion).

<sup>94</sup> *Id.* at 442.

<sup>95</sup> 35 U.S.C. § 271(c) (2000). Note that this U.S. Patent Code section has since been deemed unconstitutional. *See Fla. Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627 (1999).

<sup>96</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 932 (2005).

<sup>97</sup> *Id.* (quoting *New York Scaffolding Co. v. Whitney*, 224 F. 452 (1915)).

<sup>98</sup> *Id.* (quoting *Canda v. Michigan Malleable Iron Co.*, 124 F. 486, 489 (6th Cir. 1903)). *See also Henry v. A.B. Dick Co.*, 224 U.S. 1, 48 (1912), *overruled by Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

<sup>99</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

<sup>100</sup> *Id.*

<sup>101</sup> *Grokster*, 545 U.S. at 933.

<sup>102</sup> *Id.* at 936. (quoting *Oak Indus., Inc. v. Zenith Electronics Corp.*, 697 F. Supp. 988, 992 (N.D. Ill. 1988)).

legitimate commerce or discourage innovation having a lawful promise.”<sup>103</sup> It pointed to evidence discovered about StreamCast that was obtained via internal communications and advertising aimed at Napster users to show inducement.<sup>104</sup>

¶25 The Supreme Court in *Grokster* continued its analysis with a discussion of three key features of evidence of intent.<sup>105</sup> The first was that both companies preyed on the then defunct Napster’s users.<sup>106</sup> The second was that neither company made an attempt to filter or stop the infringing activity.<sup>107</sup> Lastly, they sold advertising space and promoted high volume use, both which the court found to be unlawful objectives.<sup>108</sup> Additionally, the inducement theory requires that actual infringement occurred, and via MGM’s showing, the evidence of infringement was on a “gigantic scale.”<sup>109</sup> The Supreme Court concluded by saying that *Grokster* is “significantly different from *Sony*” in that it showed a purpose to profit from causing third-party acts of copyright infringement.<sup>110</sup>

#### IV. ANALYSIS

¶26 The Supreme Court in *Grokster* chose to diverge from the settled precedent of *Sony*, a decision whose foundation rested on a theory of contributory liability.<sup>111</sup> This theory was simply that even if the manufacturer distributed a product knowing it was going to be used in part for copyright infringement, liability could be overcome if the product was “capable of commercially significant noninfringing uses”.<sup>112</sup> The Supreme Court in *Grokster III*, by contrast, resolved its case on an inducement theory.<sup>113</sup>

¶27 Included in its discussion, akin to *Sony*, was the issue of commercially significant noninfringing uses, but the opinion focused on intent as a key factor in determining liability, stating: “that one who distributes a device with the object of promoting its use to infringe copyright as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement of third parties.”<sup>114</sup> Justice Souter claimed, as previously noted, that intent was proved by so-called promotion of the infringement, via advertisements and no showing of an attempt to stop the infringement.<sup>115</sup> This evidence of intent was cumulatively deemed the active inducement theory.<sup>116</sup>

¶28 It was unnecessary for the Court to have made the effort of creating a new test for *Grokster*, as the facts presented fulfilled the requirements necessary to show noninfringement created in the *Sony* doctrine, a determination that was made in both the

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<sup>103</sup> *Id.* at 937.

<sup>104</sup> *Id.* at 937-38.

<sup>105</sup> *Id.* at 939.

<sup>106</sup> *Id.*

<sup>107</sup> *Id.* at 939.

<sup>108</sup> *Id.* at 939-40.

<sup>109</sup> *Id.* at 940.

<sup>110</sup> *Id.* at 941.

<sup>111</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984).

<sup>112</sup> *Id.* at 442.

<sup>113</sup> *Grokster*, 545 U.S. at 936-37.

<sup>114</sup> *Id.*

<sup>115</sup> *Id.* at 935.

<sup>116</sup> *See id.* at 940-41.

district court and the Ninth Circuit Court of Appeals hearing of this case. In *Sony*, like *Grokster*, the Court was considering potential copyright liability for a company that did not itself infringe on the copyright, but only provided a mechanism that could be used to do so. However, by contrast, Sony charged customers to buy the Betamax, whereas Grokster provided this service for free. A buyer of the Sony Betamax could use the machine for noninfringing purposes, such as taping a television program, one that was either copyrighted or uncopyrighted, for later viewing.<sup>117</sup> Sony, like Grokster and StreamCast, also knew that its customers would use its product for unauthorized copying or “library-building.”<sup>118</sup> This fact was insufficient to make Sony itself an infringer.

¶29 The *Sony* Court recognized the need for a law fixing secondary copyright liability to “strike a balance between a copyright holder’s legitimate demand for effective – not merely symbolic – protection of the statutory monopoly, and the rights of others to freely engage in substantially unrelated areas of commerce.”<sup>119</sup> The Court also used the patent law doctrine that establishes that a manufacturer is not liable if the product can be used for substantial commercial noninfringing use, and further, that evidence that it was merely capable of this type of use was sufficient.<sup>120</sup> The Court, using a survey showing how the Betamax was used by several hundred owners, showed that in all of the taping done by Sony’s customers, only a small percentage was deemed to be “authorized,” in that it was not objected to by producers and distributors.<sup>121</sup> The Court determined that this volume of authorized duplication was significant enough to merit a determination of substantial noninfringing use of the VCR.<sup>122</sup>

¶30 When considered against the analysis and evidence in *Sony*, Grokster’s product passes the test of being capable of substantial or commercially significant noninfringing use. The expert for the copyright holders in *Grokster III* declared that 15% of the files available on Grokster were “likely infringing” and that 75% were infringing.<sup>123</sup> By plaintiff’s calculations, this left approximately 10% of files that were seemingly noninfringing, a figure analogous to the amount of authorized “time-shifting” uses of the VCR, noted in *Sony*. As in *Sony*, witnesses described the noninfringing files on Grokster’s server without detailed explanation.<sup>124</sup> Those files included: “[a]uthorized copies of music by artists such as Wilco, Janis Ian, Pearl Jam, Dave Matthews, and others.”<sup>125</sup> Additionally included were free electronic books and other works from various online publishers, including Project Gutenberg,<sup>126</sup> public domain and authorized software such as WinZip 8.1,<sup>127</sup> and licensed music videos and movie and television

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<sup>117</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 421 (1984).

<sup>118</sup> *Id.* at 458-59 (Blackmun, J., dissenting).

<sup>119</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 943 (Breyer, J., concurring) (citing *Sony*, 464 U.S. at 442).

<sup>120</sup> *Sony*, 464 U.S. at 464.

<sup>121</sup> *Id.* at 424.

<sup>122</sup> *Id.* at 447.

<sup>123</sup> *Grokster*, 545 U.S. at 952. (Breyer, J., concurring).

<sup>124</sup> *Id.*

<sup>125</sup> *Id.*

<sup>126</sup> *Id.* at 946 (majority opinion).

<sup>127</sup> *Id.* at 952 (Breyer, J., concurring).

segments distributed via digital video packaging with the copyright holder's permission.<sup>128</sup>

¶31 The nature of these lawfully swapped files is such that it is reasonable to infer quantities of lawful use roughly approximate to those at issue in *Sony*.<sup>129</sup> Surely in quantitative terms these uses only account for a small percentage of the total usage of Grokster's software. However, the same was true in *Sony*, which characterized the relatively limited authorized copying market as "substantial."<sup>130</sup> Key to this comparative analysis is that *Sony* used the word "capable" when describing commercially significant non-infringing uses. This language suggests that a figure like the 10% seen in Grokster, while miniscule, may allow for a future projection of expanded legitimate uses over time. The record in Grokster revealed a "significant future market for noninfringing uses of Grokster-type peer-to-peer software."<sup>131</sup> Thus it follows that the more uncopyrighted material is stored in transferable form, the opportunity for lawful peer-to-peer sharing will increase. Such legitimate noninfringing uses are developing to include the swapping of:

*research information* (the initial purpose of many peer-to-peer networks); *public domain films* (e.g. those owned by the Prelinger Archive); *historical recordings and digital educational materials* (e.g. those stored on the Internet Archive); *digital photos* (OurPictures, for example is a peer-to-peer photo-swapping service); "*shareware*" and "*freeware*" (e.g. Linux and certain Windows software); *secured licensed music and movie files* (Internet MediaWorks, for example protects licensed content sent across peer-to-peer networks); *news broadcasts past and present* (the BBC Creative Archive lets users "rip, mix and share the BBC"); *user-created audio and video files* (including "podcasts" that may be distributed through peer-to-peer software); and *all manner of free "open content" works collected by Creative Commons . . .*<sup>132</sup>

¶32 This course of events should continue to flow naturally with the continued development of information technology and the Internet. All of this information, taken together is sufficient to meet the *Sony* standard.

¶33 The *Sony* standard should have been utilized in *Grokster III* for yet another reason: it is protective of the development of technology. The *Sony* court wanted to balance the rights of others to freely engage in new technology development and a copyright holder's reasonable demand for effective – not merely symbolic – protection.<sup>133</sup> *Sony's* rule as interpreted by the district court and by the Ninth Circuit Court of Appeals

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<sup>128</sup> *Id.*

<sup>129</sup> *Id.*

<sup>130</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 444 (1984). The Court also made it clear in *Sony* that there was a significant amount of material presently available for lawful copying, if not actual copying, and the same is true in this case.

<sup>131</sup> *Grokster*, 545 U.S. at 952.

<sup>132</sup> *Id.* at 954 (Breyer, J., concurring) (citing Brief for Distributed Computing Industry Association as *Amicus Curiae* 15-26; Robert P. Merges, *A New Dynamism in the Public Domain*, 71 U. CHI. L. REV. 183 (2004)).

<sup>133</sup> *Sony*, 464 U.S. at 442.

has provided entrepreneurs with needed reassurance that they will be shielded from copyright liability when producing new technologies.

¶134 The key to the balance the *Sony* rule provides is its simplicity. This “user-friendly” aspect allows those who develop new products that are capable of substantial noninfringing use, to know in advance that they are not walking into a minefield of copyright liability. While doing this, the doctrine also keeps out new technologies that are created solely for the purpose of copyright infringement. It establishes that the law will not impose this type of liability upon the distributors of technology capable of infringing and noninfringing uses. The rule “deliberately makes it difficult for courts to find secondary liability where new technology is at issue.”<sup>134</sup> All of this is predicated, of course, on the fact that the companies themselves do not participate in unauthorized copying. By setting the standard in this way, *Sony* recognized that the point of copyright law was to encourage the emergence of new technologies that efficiently disseminate information, not to discourage innovation.<sup>135</sup> “Thus *Sony*’s rule shelters VCRs, typewriters, tape recorders, photocopiers, computers, cassette players, compact disk burners, digital video recorders, MP3 players, Internet search engines, and peer-to-peer software.”<sup>136</sup>

¶135 Some may argue that unauthorized copying depletes industry revenue, yet it is unclear by how much. Researchers attempting to estimate just what level of difference the peer-to-peer revolution has made on the industry range from claiming that the effect is minimal, with little or no effect on album purchases,<sup>137</sup> to the opposite end of the spectrum, with record executives declaring losses in the billions.<sup>138</sup> The effect on production levels remains equally uncertain.<sup>139</sup>

## V. CONCLUSION

¶136 Now that *Sony* is no longer standing precedent, how will the resultant potential for stilted technological innovation affect the intellectual property legal community? Experts in the field suspect that the decision “will have a chilling effect on the technology industry” which may scare companies away from any new technology that involves the Internet and digital content.<sup>140</sup> The attorney who organized the defense effort in *Grokster* and is the legal director for the Electronic Frontier Foundation warns that “such a ruling could make copyright litigation much more complicated, since the Supreme Court spent a lot of time analyzing evidence like internal e-mails from *Grokster* and *StreamCast* in making its ruling.”<sup>141</sup> Cohn went on to say that copyright litigation might become more

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<sup>134</sup> *Grokster*, 545 U.S. at 957 (Breyer, J., concurring).

<sup>135</sup> *Id.* at 958-59.

<sup>136</sup> *Id.* at 957.

<sup>137</sup> FELIX OBERHOLZER & KOLEMAN STRUMPF, THE EFFECTS OF FILE SHARING ON RECORD SALES: AN EMPIRICAL ANALYSIS 24 (Mar. 2004), [http://www.unc.edu/cigar/papers/FileSharing\\_March2004.pdf](http://www.unc.edu/cigar/papers/FileSharing_March2004.pdf).

<sup>138</sup> See SEAN SILVERTHORNE, MUSIC DOWNLOADS: PIRATES-OR CUSTOMERS? (2004), <http://hbswk.hbs.edu/item/4206.html>.

<sup>139</sup> See, e.g., MARY MADDEN, PEW INTERNET & AMERICAN LIFE PROJECT, ARTISTS, MUSICIANS AND THE INTERNET 21 (2004), [http://www.pewinternet.org/pdfs/PIP\\_Artists.Musicians\\_Report.pdf](http://www.pewinternet.org/pdfs/PIP_Artists.Musicians_Report.pdf).

<sup>140</sup> Jason Krause, *Grokster Ruling Means Change: Supporters Must Rethink Use of File-Sharing Programs*, 4 No. A.B.A. J. E-REPORTS 5 (2005).

<sup>141</sup> *Id.*

like securities litigation in that discovery could include millions of emails as the litigants look for an intent defining “smoking-gun message.”<sup>142</sup>

¶137 There is potential for access to every email and each design decision made.<sup>143</sup> There is also concern that if peer-to-peer technology is going to continue to exist, many companies may have to change their business models.<sup>144</sup> This change may include the use of digital rights management to either control the flow or filter out copyrighted material on the Internet.<sup>145</sup> Intellectual property and technology lawyers feel the ruling will force them to rethink how they advise their clients who offer content on the Internet. One intellectual property attorney has been quoted as saying, “at the most basic level, anyone attempting to promote a [peer-to-peer] technology ought to make direct public statements that the technology should not be used for infringement and to take down or block materials known to be copyrighted.”<sup>146</sup>

¶138 Still there remains an insatiable need for digital content. Not unlike the “new” Grokster, many companies are looking to put this ruling behind them and find new and legal uses for peer-to-peer technology.<sup>147</sup> “Lawful” music downloading services are those that “charge the customer for downloading music and pay royalties to the copyright holder.”<sup>148</sup> New technology is now trending more toward discouraging unlawful copying by making lawful copying cheaper and easier.<sup>149</sup> Several music-downloading services now sell music for less than one dollar per song.<sup>150</sup> Another benefit of lawful swapping is that many of the “unlawful” sites have technological problems.<sup>151</sup> Thus this has caused a migration of sorts to lawful paid services where there is an even greater flexibility and convenience. In addition to legal music sites, many non-music peer-to-peer networks have also begun to develop.<sup>152</sup> Lastly, as *Sony* recognized, the legislative option remains available.<sup>153</sup> Courts are not as well suited as Congress to address the varied interests at stake with this new technology.

¶139 While new developments, and similar alternatives, are positive, it remains to be seen whether a reevaluation of *Sony* will be necessary in the near future. The risks to the future of technology have been discussed as well as possible effects on intellectual property and technology law. As it stands today, a strong demand for revision has not been shown. This, coupled with the risks that strict interpretation of the *Grokster III* decision would impose on technological innovation, leads to the conclusion that the *Sony* doctrine should continue to be interpreted in its original form.

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<sup>142</sup> *Id.*

<sup>143</sup> *Id.*

<sup>144</sup> *Id.*

<sup>145</sup> *Id.*

<sup>146</sup> *Id.* at 140.

<sup>147</sup> *Id.*

<sup>148</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 965 (Breyer, J., concurring).

<sup>149</sup> *Id.* at 964.

<sup>150</sup> *Id.* Walmart.com, for example, charges \$0.88 per song.

<sup>151</sup> See Tim Wu, *When Code Isn't Law*, 89 VA. L. REV. 679, 731-35 (2003).

<sup>152</sup> *Grokster*, 545 U.S. at 963 (Breyer, J., concurring).

<sup>153</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984); see, e.g., Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (1992) (codified as amended at 17 U.S.C. § 1001 (2006)) (adding U.S.C. ch. 10—Digital Audio Recording Devices and Media); *Protecting Innovation and Art While Preventing Piracy: Hearing Before the Senate Comm. On the Judiciary*, 108th Cong. 2d Sess. (July 22, 2004).