

**NOBODY USES BETAMAX ANYMORE AND NEITHER SHOULD
THE SUPREME COURT: WHY *METRO-GOLDWYN-MAYER
STUDIOS, INC. V. GROKSTER, LTD.* SHOULD BE OVERTURNED**

TABLE OF CONTENTS

I.	INTRODUCTION	550
II.	STATEMENT OF THE CASE	552
	<i>A. FACTS</i>	552
	<i>B. THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA</i>	553
	<i>C. THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT COURT</i>	555
III.	BACKGROUND	557
	<i>A. TRADITIONAL THEORIES OF SECONDARY COPYRIGHT INFRINGEMENT LIABILITY</i>	558
	<i>B. SECONDARY COPYRIGHT INFRINGEMENT LIABILITY IN THE TECHNOLOGY AGE</i>	564
IV.	ANALYSIS	571
	<i>A. MISAPPLICATION OF THE SONY DEFENSE HAS LED TO INCONSISTENCY IN PEER-TO-PEER FILE SHARING LITIGATION</i>	572
	<i>B. THE SONY DEFENSE SHOULD NOT BE APPLIED IN PEER-TO-PEER FILE SHARING LITIGATION BECAUSE AN ONGOING RELATIONSHIP IS MAINTAINED BETWEEN SOFTWARE DISTRIBUTORS AND USERS OF THE NETWORKS</i>	574
	<i>C. THE SOFTWARE DISTRIBUTORS SHOULD BE HELD LIABLE UNDER THE TRADITIONAL DOCTRINES OF SECONDARY COPYRIGHT INFRINGEMENT LIABILITY</i>	576
	<i>D. APPLICATION OF THE TRADITIONAL DOCTRINES OF SECONDARY COPYRIGHT INFRINGEMENT LIABILITY IS MANIFESTLY JUST AND WILL LEAD TO CONSISTENCY IN PEER-TO-PEER FILE SHARING LITIGATION</i>	581
V.	CONCLUSION	583

**NOBODY USES BETAMAX ANYMORE AND NEITHER
SHOULD THE SUPREME COURT: WHY METRO-GOLDWYN-
MAYER STUDIOS, INC. V. GROKSTER, LTD. SHOULD BE
OVERTURNED***

*Matthew J. Rust*¹

I. INTRODUCTION

“It’s not like we were doing anything illegal,” said Sylvia Torres after her 12-year-old daughter, Brianna LaHara, was sued by the Recording Industry Association of America for downloading music from the Internet.² Brianna used a peer-to-peer file-sharing program to download music from other Internet users.³ The opportunity to download copyrighted music free of charge has drawn millions of Internet users to peer-to-peer file sharing networks.⁴

Unfortunately for copyright holders, Ms. Torres' attitude was typical. One study found that seventy-eight percent of internet users who downloaded music did not believe they were committing a crime.⁵ Many users of these programs were breaking the law, however, as users committed copyright

* This Note was composed before *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* was decided by the Supreme Court. Oral Arguments were heard on March 29, 2005. A decision was pending at the time of publication.

¹ Candidate for Juris Doctor, May 2006. The author would like to thank his family, especially his parents, Daniel and Elizabeth, for their love, support, and encouragement; his friends for believing in him; and the staff of the *Hamline Law Review* for their guidance in preparation of this Note.

² Lorena Mongelli, *Music Pirate: N.Y. Girl, 12, Sued for Web Songs Theft*, N.Y. POST, Sept. 9, 2003, at 001.

³ *Id.* Peer-to-peer file sharing software allows Internet users to share files stored on their computers with other users of the software. See Jesse M. Feder, *Is Betamax Obsolete?: Sony Corp. of America v. Universal Studios, Inc. in the Age of Napster*, 37 CREIGHTON L. REV. 859, 862-69 (2004) (providing a detailed explanation of peer-to-peer systems). Users can search the network and download files directly from other users. *Id.* The first major peer-to-peer case focused on music files encoded in the MP3 format. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 901 (N.D. Cal. 2000). Files containing motion pictures are also being illegally traded. See Anna E. Engelman & Dale A. Scott, *Arrgh! Hollywood Targets Internet Piracy*, 11 RICH. J.L. & TECH. 3 (2004).

⁴ Napster had twenty-six million active users and sixty million registered users at its peak. Tim Wu, *When Code Isn't Law*, 89 VA. L. REV. 679, 710 (2003). See also *infra* notes 28, 125 and accompanying text (discussing the draw of users to file sharing networks due to the availability of free copyrighted music).

⁵ Amanda Lenhart & Susannah Fox, *Downloading Free Music: Internet Music Lovers Don't Think It's Stealing*, Sept. 28, 2000, PEW INTERNET & AMERICAN LIFE PROJECT, at http://www.pewinternet.org/pdfs/PIP_Online_Music_Report2.pdf. (last visited Apr. 22, 2005).

infringement every time they downloaded a copyrighted file without the authorization of the copyright holder.⁶

The use of this technology has led to a slew of litigation in recent years.⁷ Since suing individual program users would have been time consuming and expensive, copyright holders have chosen to sue the providers of the file sharing software for secondary copyright infringement liability.⁹ Until the Ninth Circuit's decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*¹⁰ the copyright holders' requests for injunctions were successful.¹¹

This Note will discuss how the federal circuit courts have misconstrued the decision of *Sony, Corp. v. Universal City Studios, Inc.*¹² and have wrongly applied its reasoning to suits involving secondary liability for creators of peer-to-peer file sharing networks. Part III will summarize court decisions that have applied the traditional secondary copyright infringement theories of contributory and vicarious liability.¹³ Part III will also summarize major cases that have applied the *Sony* Doctrine to the issue of secondary liability and peer-to-peer networks.¹⁴ Part IV will argue that the application of the *Sony* Doctrine to peer-to-peer file sharing was unwarranted, has led to inconsistency in peer-to-peer file sharing litigation, and should be abandoned to allow for the traditional application of contributory and vicarious liability principles to the creators of peer-to-peer file sharing software.¹⁵ Part IV will further argue that the United States Supreme Court should hold the creators of the Grokster and StreamCast software liable for copyright infringement under the traditional theories of contributory infringement and vicarious liability.¹⁶ Part IV concludes by arguing that the application of the traditional doctrines of secondary copyright infringement liability is justified and will lead to consistency in peer-to-peer file sharing litigation.¹⁷ Part V of this Note calls for the

⁶ 17 U.S.C.A. § 106 (West 2005). See *infra* notes 46-48 and accompanying text.

⁷ See, e.g., *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004) [hereinafter *Grokster II*]; *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *A&M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091 (9th Cir. 2002) [hereinafter *Napster III*]; *Motown Record Co. v. Imesh.com, Inc.*, 2004 WL 503720 (S.D.N.Y. 2004).

⁹ See *Grokster II*, 380 F.3d 1157; *Aimster*, 334 F.3d 645; *Napster III*, 284 F.3d 1095; *Imesh*, 2004 WL 503720.

¹⁰ *Grokster II*, 380 F.3d at 1157 (holding that provider of file sharing software was not liable for vicarious or contributory infringement).

¹¹ See, e.g., *Aimster*, 334 F.3d at 655 (granting injunctions against providers of file sharing systems as likely vicarious or contributory infringers); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001) [hereinafter *Napster II*].

¹² 464 U.S. 417 (1984).

¹³ See *infra* notes 45-96 and accompanying text.

¹⁴ See *infra* notes 97-143 and accompanying text.

¹⁵ See *infra* notes 144-187 and accompanying text.

¹⁶ See *infra* notes 188-220 and accompanying text.

¹⁷ See *infra* notes 220-229 and accompanying text.

Supreme Court to solidify the jurisprudence in this area by applying traditional secondary infringement liability tests. The Court should refuse to fall into the trap of applying the *Sony* defense to peer-to-peer file sharing.¹⁸

II. STATEMENT OF THE CASE

A. Facts

Grokster, Ltd. (“Grokster”) and StreamCast Networks, Inc. (“StreamCast”) (collectively, the “Software Distributors”) distribute software that allows users to connect to a peer-to-peer network and download copyrighted digital media over the Internet free of charge.¹⁹ The Software Distributors’ programs are downloaded from servers owned by the Software Distributors, and then installed on the user’s computer.²⁰ Users then connect to the network with the software and search for files being shared by other users.²¹ After locating the files they want, users can copy the files from other users of the software.²²

¹⁸ See *infra* Section V.

¹⁹ 259 F. Supp. 2d 1029, 1031.

²⁰ *Id.* at 1032. Grokster also originally briefly “root supernodes,” which directed users’ computers to supernodes on the system. *Id.* at 1040. Supernodes were users’ computers on the network that met certain technical requirements. *Grokster II*, 380 F.3d at 1159. These supernodes served essentially the same search relaying purpose as Napster’s central indexing server. *Grokster I*, 259 F. Supp. 2d at 1040, see *supra* notes 117-118. Grokster, under the original version, did operate a registration server, which could control access to features of the network. *Id.* at 1040 n. 7. Under the latest technology, Grokster did operate a registration server, although it was easily bypassed by new registration. *Id.*

The copyright holders argue that removal of the log-in feature after the Software Distributors was done in order to create “plausible deniability.” Brief for Motion Picture Studio and Recording Company Petitioners at 10, *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 686 (2005)(No. 04-480). After it was sued, StreamCast also removed the requirement that users enter into a licensing agreement that allowed StreamCast to terminate access if the user committed infringement. *Id.*

²¹ *Grokster I*, 259 F. Supp. 2d at 1032. Neither software provided a central server to store indexes of files available for download. *Grokster II*, 380 F.3d at 1159. A search request would be sent to the supernode, which would in turn search the index. *Id.*

StreamCast also created a decentralized network. *Grokster I*, 259 F. Supp. 2d at 1041. Users connect to the network through another user that was already connected. *Id.* at 1041. At the district court, it was undisputed that StreamCast did not operate directories that aided in locating active users, *id.*, but the court of appeals noted that StreamCast maintained a file which pointed users to websites which contained lists of active users. *Grokster II*, 380 F.3d at 1164. StreamCast used a decentralized index, in which every user maintained a separate index of available files. *Id.* at 1159. A search request would be sent to all computers on the network at the time. *Id.* StreamCast did not utilize supernodes. *Grokster I*, 259 F. Supp. 2d at 1040. Instead search requests were relayed through all users on the network. *Id.* at 1041.

The copyright holders argue that the outsourcing of the indexing function was another step taken to create “plausible deniability” and avoid liability. Petitioners’ Brief at 9, *Grokster*, (No. 04-480). Although the Software Distributors do not host the indexes on

Organizations in the music recording and motion picture production industries (the “copyright holders”) brought an action seeking a prospective injunction against the Software Distributors for copyright infringement, arguing that the Software Distributors were vicariously liable for copyright infringement and are, therefore, contributory infringers.²³ The United States District Court for the Central District of California granted summary judgment for the defendant Software Distributors,²⁴ and the United States Court of Appeals for the Ninth Circuit Court affirmed.²⁵

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

The plaintiff copyright holders based their claims against the Software Distributors on the grounds of vicarious liability and contributory infringement.²⁶ The court found that the Software Distributors had knowledge that many users of their software used it to infringe copyrights, but found that the Software Distributors did not make a material contribution to the infringement, and therefore held the Software Distributors were not liable for contributory infringement.²⁷ Similarly, the court found that the

servers of their own, they do “control how and where the indices are created and update the indexing process.” *Id.* at 10, *Grokster*, (No. 04-480).

²² *Grokster I*, 259 F. Supp. 2d at 1032.

²³ *Id.* at 1031, 1033-34. The record company and motion picture plaintiffs alleged that ninety percent of the files exchanged on the Grokster and StreamCast networks were copyrighted, and that the plaintiffs owned the copyrights to seventy percent of the material being shared. *Grokster II*, 380 F.3d at 1158. A third file sharing software provider, Kazaa VB, stopped defending the action and default judgment was entered against them. *Grokster I*, 259 F. Supp. 2d at 1032 n.2.

²⁴ *Id.* at 1031. *See also infra* notes 26-29 and accompanying text (discussing the district court’s ruling).

²⁵ *Grokster II*, 380 F.3d at 1167. *See also infra* notes 30-45 and accompanying text (discussing the court of appeals’ decision).

²⁶ *Grokster I*, 259 F. Supp. 2d at 1034. In order for the claims for vicarious liability and contributory infringement to be successful, the plaintiffs needed to show direct infringement by the users of the software need. *Id.* It was undisputed that many of the users of the defendants’ software downloaded copyrighted media files, and so were direct infringers of plaintiffs’ reproduction and distribution rights. *Id.*

²⁷ *Id.* at 1037, 1043. It was undisputed that the Software Distributors knew that users of the software used it to infringe copyrights. *Id.* at 1038. However, it was also undisputed that the Software Distributor’s software was capable of substantial noninfringing uses, such as downloading non-copyrighted works. *Id.* at 1035. In light of this, the court followed the Ninth Circuit’s interpretation of *Sony* in the *Napster* decision, *infra* notes 115-127, and found that in order to be liable for contributory infringement, knowledge of the infringement must have existed at the point in time when the Software Distributors materially contributed to the infringement and could do something to stop the infringement. *Id.* at 1038-39.

The plaintiff copyright owners “asserted that [the Software Distributors materially contributed to the infringement by] provid[ing] the means, environment, and support . . . that enable users to . . . locate, distribute and copy copyrighted works.” *Id.* at 1039 (internal quotation omitted, alteration in original). The court found that, unlike Napster, the Software

Software Distributors derived significant financial benefit from infringing conduct.²⁸ However, they did not have the ability to supervise and control the infringing conduct, and therefore were not vicariously liable for copyright infringement.²⁹

Distributors did not provide the “site and facilities” for infringement, and therefore did not materially contribute to the infringement. *Id.* at 1041-42; *cf. Napster infra* notes 115-127.

In distinguishing the Grokster and StreamCast networks from Napster, the court focused on the fact that Napster provided a central server that hosted indexes of files on the network, while the Software Distributors did not. *Grokster I*, 259 F. Supp. 2d at 1039-42. *See also supra* notes 20-21 and accompanying text (discussing the structure of the Grokster and StreamCast networks). According to the court, “Grokster’s primary ability to affect its users’ experience derives from its ability to configure a “start page” and provide advertising automatically retrieved by the Grokster client software.” *Id.* at 1039. Due to Grokster and StreamCast’s decentralized nature, the Ninth Circuit concluded, “[i]f either [Software Distributor] closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.” *Id.*

Furthermore, the court disregarded any technical assistance the Software Distributors provided as being insubstantial. *Id.* at 1042. According to the court, “whether [the Software Distributors] can communicate with the users of their software and provide updates says nothing about whether [the Software Distributors] facilitate or enable the exchange of copyrighted files” *Id.* The court also acknowledged that the Software Distributors may have deliberately planned their businesses in a way to escape liability, but suggested the court was not the best forum to decide this issue. *Id.* at 1046. *See also supra* notes 20-21; *infra* note 29 (discussing the Software Distributor’s “plausible deniability”).

²⁸ *Grokster I*, 259 F. Supp. 2d at 1043-44. The Software Distributors generated revenue through advertising, not from selling their software. *Id.* at 1044. The court found that the Software Distributors’ financial benefit was directly related to the availability of copyrighted material on the network. *Id.* The ability to download copyrighted material free of charge drew users to the software, and the Software Distributors collected more advertising revenue with the increased number of users. *Id.* at 1043-44. The court concluded, since “a substantial number of users downloaded the software to acquire copyrighted material, a significant proportion of [Software Distributors] advertising revenue depends on the infringement. [The Software Distributors] thus derive a financial benefit from the infringement.” *Id.* at 1044.

²⁹ *Id.* at 1044-45. The copyright holders argued that the Software Distributors had the right and ability to supervise the infringing conduct because the Software Distributors could alter the software to prevent the sharing of copyrighted files. *Grokster I*, 259 F. Supp. 2d at 1045. In support of this argument, the copyright holders noted that filters were already in place for certain types of files and could easily be added to screen out copyrighted files. *Id.* The court once again distinguished the Grokster and StreamCast networks from Napster. *Id.* The court found that Napster’s “centralized search indices and mandatory registration system gave Napster . . . [the] ability to police those exchanges [that occurred on its network],” *id.* at 1045, while the Software Providers “provide software that communicates across networks that are entirely outside [the Software Providers’] control.” *Id.* at 1044-45. *See also supra* notes 20-21. Since these communications were outside of the Software Distributors’ control, they had no obligation to police the communications. *Id.*

On appeal to the United States Supreme Court, the copyright owners again argued that because the Software Distributors are in constant contact with the software users and have upgraded their software, they have not implemented filtering technology in order to maintain “plausible deniability.” Petitioners’ Brief at 10-11, *Grokster*, (No. 04-480).

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

The Ninth Circuit upheld the summary judgment rulings of the district court, finding that the Software Distributors were not contributory infringers or vicariously liable.³⁰

1. *Contributory Infringement*

The court followed the analysis it developed in *Napster*³¹ and applied the *Sony* doctrine to the knowledge requirement of contributory infringement.³² As the Software Distributors were able to show that the software had substantial, commercially viable and noninfringing uses,³³ the copyright owners were forced to show that the Software Distributors “had reasonable knowledge of specific infringing files and failed to act on that knowledge to prevent infringement.”³⁴ According to the court, the Software Distributors obtained knowledge of infringing activity at a point in time when they did nothing to facilitate the infringing activity and, thus, could do nothing to stop the infringement.³⁵ Therefore, the Software Distributors were entitled to summary judgment on the knowledge element of contributory infringement.³⁶

³⁰ *Grokster II*, 380 F.3d at 1154, 1157, *cert. granted*, 125 S. Ct. 686 (Dec. 10, 2004).

³¹ *Napster II*, 239 F.3d 1004, 1019-20 (9th Cir. 2001) *aff’d* 284 F.3d 1091 (9th Cir. 2002), *see infra* notes 115-127 and accompanying text (discussing the *Napster* decision).

³² *Grokster II*, 380 F.3d at 1160-62. In describing this analysis, the court stated: *Napster I* held that if a defendant could show that its product was capable of substantial or commercially significant noninfringing uses, then constructive knowledge of the infringement could not be imputed. Rather, if substantial noninfringing use was shown, the copyright owner would be required to show that the defendant had reasonable knowledge of specific infringing files.

Id. at 1160-61 (citations omitted). Thus, under *Napster*, in the case of a product that is not capable of commercially significant or substantial noninfringing uses, the copyright owner would only need to show constructive knowledge of infringement. *Id.* at 1161. However, if the product is capable of such uses, reasonable knowledge of specific infringing files must be shown. *Id.*

³³ *Id.* 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 the free distribution of their work, and that many public domain works were available on the network. *Id.* at 1161.

³⁴ *Grokster II*, 380 F.3d at 1161.

³⁵ *Id.* at 1162. The court pointed to the differences between the networks created by *Napster* and the Software Distributors. *Id.* at 1163. *See supra* note 21 (discussing the structure of the networks created by the Software Distributors’ software). Since the Software Distributors did not maintain or control a central index of files available on the system, “[the copyright owners’] notices of infringing conduct are irrelevant[] because they arrive when [the Software Distributors] do nothing to facilitate, and can[] do [no]thing to stop, the alleged infringement of specific copyrighted content.” *Id.* at 1162.

³⁶ *Id.* at 1162-63.

Using similar reasoning, the appellate court also upheld the summary judgment in favor of the Software Distributors on the issue of material contribution to copyright infringement.³⁷ The court found that it was the users of the software that provided access and created the network on which the infringing activity occurred, not the Software Distributors.³⁸ Therefore, the court found the Software Distributors did not have knowledge of infringing activity while making a material contribution to the infringement and were not liable as contributory infringers.³⁹

2. *Vicarious Liability*

The Software Distributors' right and ability to supervise the infringers was the only element of the Software Distributors' possible vicarious liability that was disputed.⁴⁰ Once again, the fact that Grokster and StreamCast were decentralized networks proved the key to escaping liability.⁴¹ The court found that since no communications or file transfers traveled through Grokster or StreamCast's computers, neither of the Software Distributors had the power to block individual users, nor did they have the ability to screen for infringing material.⁴² The court further rejected

³⁷ *Id.* at 1163. Unlike Napster, the Software Distributors did not provide the "site and facilities" necessary for the infringement. *Id.* at 1163. 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.* See also *supra* notes 21.

³⁸ *Id.* The court basically reasoned that once the software was downloaded onto the users' computer, the Software Distributors were powerless over it and its use:

"Failure" to alter software located on another's computer is simply not akin to the failure to delete a filename from one's own computer, to the failure to cancel the registration name and password or a particular user from one's user list, or to the failure to make modifications to software on one's own computer.

Id. at 1163-64.

Other actions by the Software Distributors were downplayed by the court as being "too incidental to any direct copyright infringement to constitute material contribution." *Id.* at 1164. These actions included providing "addresses of websites where lists of active users are maintained" and "maintain[ing] root nodes containing lists of currently active supernodes to which users can connect." *Id.*

³⁹ *Grokster II*, 380 F.3d at 1163-64.

⁴⁰ *Id.* at 1164-65. The other elements of vicarious liability, direct infringement and financial benefit from the infringement, were not disputed. *Id.* at 1164.

⁴¹ *Id.* at 1165.

⁴² *Id.* The court again pointed out that shutting down the Software Distributors would not prevent anyone from using the network. *Id.* The court contrasted the supervisory and monitoring relationship between the Software Distributors and users of its software to the relationships in *Fonovisa* and *Napster*, see also *infra* notes 92, 122, and concluded "[t]he sort of monitoring and supervisory relationship that has supported vicarious liability in the past is completely absent in this case." *Id.* Before reaching this conclusion, the court explained, with analogical reference to *Fonovisa* and *Napster*, *infra* notes 92, 122,

[T]he alleged ability to shut down operations altogether is more akin to the ability to close down an entire swap meet or stop distributing

the copyright owners' argument that the Software Distributors' ability to alter the software to prevent swapping of copyrighted files amounted to the right and ability to supervise necessary to impose vicarious liability.⁴³ The court distinguished these two types of abilities by pointing out that the duty to police unauthorized activity is a penalty imposed on entities that have already been found vicariously liable for copyright infringement.⁴⁴ The court therefore upheld the district court's grant of summary judgment for the Software Distributors on the issue of vicarious liability.⁴⁵

III. BACKGROUND

Copyright protection is available to "original works of authorship fixed in any tangible medium of expression"⁴⁶ This includes musical works, sound recordings, and motion pictures.⁴⁷ A copyright is infringed when anyone violates an exclusive right of the copyright owner.⁴⁸ The issue

software altogether, rather than the ability to exclude individual participants, a practice of policing aisles, an ability to block individual users directly at the point of log-in, or an ability to delete individual filenames from one's own computer.

Grokster II, 380 F.3d at 1165.

⁴³ *Id.* at 1165-66.

⁴⁴ *Id.* at 1166. The court further clarified out that "a duty to alter software located and files located on one's own computer system is quite different in kind from a duty to alter software located on another person's computer. . . . [P]ossibilities for upgrading software located on another person's computer are irrelevant to determining whether vicarious liability exists." *Id.*

Additionally, the court rejected the contention that the Software Distributors should be held vicariously liable for turning a "blind eye" to the infringement of the users. *Id.* The court stated, "[T]here is no separate 'blind eye' theory or element of vicarious liability that exists independently of the traditional elements of liability." *Id.*

⁴⁵ *Id.* at 1166.

⁴⁶ 17 U.S.C. § 102(a) (2005).

⁴⁷ *Id.* at § 102(a)(2),(6),(7). Users of peer-to-peer file sharing networks are able to share virtually any type of file on their computer. Two of the most problematic types of files traded are those that contain copyrighted music and movies. *See generally* Engelman & Scott, *supra* note 3. Due to the recent increase in always on broadband connections, the capability to download an entire movie has become commonplace. *Id.* at 34.

⁴⁸ 17 U.S.C. § 501(a) (2004). An owner of a copyright:

has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted works; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; (5) in the case of literary, musical, dramatic, and choreographic works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and (6)

of direct infringement is not a significant question in file sharing cases, and for the most part is conceded due to the fact that some, if not the majority of, file sharing network users make unauthorized copies of copyrighted material.⁴⁹ As the number of direct infringers using file sharing programs is great, the majority of copyright holders seek a judgment against the providers of the peer-to-peer file sharing service or software instead of attempting to pursue claims against individual users.⁵⁰

A. Traditional Theories of Secondary Copyright Infringement Liability

Copyright infringement liability is not limited to direct infringers.⁵¹ Two theories of secondary liability have developed in the courts. The first theory, vicarious liability developed out of the doctrine of respondeat superior.⁵² In contrast, the principle of contributory liability originated in the common law tort doctrine that one who contributes to the torts of another should be responsible for the tortious actions.⁵³ Although vicarious and

in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C. § 106 (2004).

⁴⁹ See, e.g., *Napster II*, 239 F.3d at 1019 (holding that downloading of files found not to constitute fair use), *Aimster*, 334 F.3d at 647 (stating, “there is no doubt that some of the attachments ... subscribers transfer are copyrighted, and such distribution is an infringement unless authorized by the owner of the copyright.”), *Grokster*, 380 F.3d at 1160 (stating that violation of copyright by illegal exchange of files not seriously contested).

⁵⁰ See, e.g., *Imesh*, 2004 WL 503720, at *1 (S.D.N.Y. 2004) (alleging 23 million users worldwide of 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). See also *Feder*, *supra* note 3, at 872. But see, e.g., *Elektra Entertainment Group, Inc. v. Does 1-9* 2004 WL 2095581 (S.D.N.Y. 2004); *Sony Music Entertainment Inc. v. Does 1-40*, 326 F. Supp. 2d 556 (S.D.N.Y. 2004) (seeking judgment for copyright infringement against individual users of peer-to-peer file sharing programs).

⁵¹ *Feder*, *supra* note 3, 868.

⁵² 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”).

⁵³ See *Fonovisa*, 76 F.3d at 264. The district court in *Universal City Studios, Inc. v. Sony Corporation of America* stated, though, that “the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn[.]” 480 F.Supp. 429, 457-58 (C.D. Cal. 1979). In explaining this statement, the Supreme Court of the United States posited, “[t]he lack of clarity in this areas may, in part, be attributable to the fact than an infringer is not merely one who uses a work without authorization by the copyright owner, but also one who authorizes the use of a copyrighted work without actual authority from the copyright owner.” *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 435 n.17 (1984). The Court did nothing to clarify the distinction between contributory infringement and vicarious liability, as it used the terms interchangeably throughout its opinion. Compare *id.* at 439 (“If vicarious liability is to be imposed on [petitioners] in this

contributory liability for the infringing activity of another are not expressly mentioned in the 1976 Copyright Act,⁵⁴ they are acknowledged by Congress in the legislative history.⁵⁵ Contributory infringement is when “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.”⁵⁶ 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.”⁵⁷

1. *Kalem Company v. Harper Brothers*

The first United States Supreme Court case to impose copyright infringement liability on a party other than the direct infringer was *Kalem Co. v. Harper Brothers*.⁵⁸ The Harper Brothers made a motion picture dramatization of the book “Ben Hur.”⁵⁹ The film was sold to jobbers who publicly displayed the film.⁶⁰ The Court determined that the producers knew the film would be used in an infringing way and held that the producers of the film had contributed to and were liable for the infringement committed by jobbers.⁶¹

case”) with *id.* at 440 (“When a charge of contributory infringement is predicated entirely on the sale of an article of commerce”).

⁵⁴ 17 U.S.C. § 501 (2004).

⁵⁵ H.R. REP. 94-1476, at 61, 159-60 (1976), reprinted in 1976 U.S.C.C.A.N. 5674, 5775. In discussing contributory infringement, the committee noted, “[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 rejecting an amendment to the copyright statute to exempt owners of an establishment for the infringement of an independent contractor, the committee noted that vicarious liability was a “well-established principle of copyright law” and concluded that “no justification exists for changing the existing law” *Id.* at 159-60.

⁵⁶ *Fonovisa*, 76 F.3d at 264 (quoting *Gershwin Publ’g Corp. v. Columbia Artists Man. Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

⁵⁷ *Gershwin*, 443 F.2d at 1162.

⁵⁸ 222 U.S. 55 (1911).

⁵⁹ *Id.* at 60-61. Justice Holmes glossed over the possibility that the actual film created was unlawful. *Id.* at 62. Giving deference to the Second Circuit Court of Appeals, that issue was not decided by the Court. *Id.* As the film itself was a series of photographs, and those photographs only “represent[ed] the artist’s idea of what the author ha[d] expressed in words[.]” the court held it did not infringe the author’s performance rights. *Harper & Bros. v. Kalem Co.*, 169 F. 61, 63 (2d Cir. 1909). In fact, the court stated that the series of photographs was itself copyrightable. *Id.*

⁶⁰ *Kalem*, 222 U.S. at 61-62. The Court found that moving pictures, as displayed by the jobbers, constituted a dramatization of the author’s work, which violated an exclusive right of the author. *Id.* at 61.

⁶¹ *Id.* at 62-63. The Court stated, “[i]f the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law.” *Id.* at 63. The court noted that the films were

2. The “Dance Hall Cases”

a. *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*

In *Dreamland Ball Room*, an orchestra provided music at the defendant’s dance and amusement hall.⁶² The orchestra played copyrighted compositions without the permission of the plaintiff copyright holders.⁶³ Despite the defendants’ assertions that they did not choose the music, direct its playing, know the music was copyrighted, or was played without the owner’s consent, the court found the defendants liable.⁶⁴ The court held that “if the playing [was] for the profit of the proprietor of the dance hall” the owner of the hall was liable for the violation of the copyright holder’s rights.⁶⁵

b. *Famous Music Corp. v. Bay State Harness Horse Racing and Breeding Association*

An association’s horse raceway hired an independent contractor to entertain its patrons by providing music over the public address system in *Famous Music Corp. v. Bay State Harness*.⁶⁶ The association did not obtain a license from the American Society of Composers, Authors and Publishers (ASCAP) to play the copyrighted music, but instead instructed the independent contractor not to play ASCAP copyrighted music.⁶⁷ Nonetheless, copyrighted music was played at the raceway and observed by people placed in the raceway by ASCAP to monitor the music played.⁶⁸

The district court held the association liable for the copyright infringement that occurred when the contractor played copyrighted songs,

made by the defendant for the purpose of being a dramatization of the story and were expected to be used as such, as “[t]hat was the most conspicuous purpose for which they could be used, and the one for which especially they were made.” *Id.* at 62-63.

⁶² *Dreamland Ball Room v. Shapiro*, 36 F.2d 354 (7th Cir. 1929). The “dance hall cases” are often contrasted to the “landlord-tenant” cases. *See, e.g., Green*, 316 F.2d at 307-08. In the “landlord-tenant” cases, landlords escaped secondary liability for infringement of the tenant if the landlord did not benefit from the infringement and did not know of the infringement at the time the lease was made. *See, e.g., Deutsch v. Arnold*, 98 F.2d 686, 688 (2d Cir. 1938).

⁶³ *Dreamland Ball Room*, 36 F.2d 355. Infringement on the part of the orchestra was conceded by the dance hall owners. *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.* The dance hall was operated for profit as the public was charged for the entertainment. *Id.*

⁶⁶ *Famous Music Corp. v. Bay State Harness Horse Racing and Breeding Association*, 554 F.2d 1213, 1214 (1st Cir. 1977)

⁶⁷ *Id.* Plaintiffs were ASCAP members. *Id.*

⁶⁸ *Id.* The independent contractor’s infringement of the plaintiffs’ copyrights was not disputed by the association. *Id.*

and the court of appeals affirmed.⁶⁹ The court rejected the association's argument that it was not responsible because infringing activity was carried out by an independent contractor, reasoning that "[t]he proprietor of a public establishment operated for a profit could otherwise reap the benefits of countless violations by orchestras . . . by merely claiming ignorance that any violation would take place."⁷⁰

c. Keca Music, Inc. v. Dingus McGee's Co.

In *Keca Music, Inc.*, holders of the copyrights to six songs brought an action for infringement against the owners of a cocktail lounge where the songs were performed.⁷¹ The lounge owners argued that the songs were performed in violation of instructions to perform only original songs.⁷² The court rejected this argument, stating that liability "requires only that the infringing party have the right and ability to supervise the infringing activity and also a direct financial interest in such activity" and that "no actual knowledge that a copyright is being infringed by the performer" is required for vicarious liability.⁷³ The court held the lounge owners liable for the infringement of the performers, stating, "the owner of an establishment who hires a performer who gives an unlicensed performance of a musical composition is liable as an infringer even if the performer acted in specific derogation of directions by the owner not to play copyrighted compositions."⁷⁴

3. Vicarious Liability

The liability of a store owner for the sale of "bootleg" records by a licensed concessionaire was at issue in *Shapiro, Bernstein & Co. v. H.L.*

⁶⁹ *Id.* at 1215.

⁷⁰ *Famous Music Corp.*, 554 F.2d at 1215. The court followed a long line of precedent rejecting the "independent contractor" theory. *Id.* at 1214-15. The district court held that the "[d]efendants cannot evade responsibility for infringement on the ground that the musicians they hired were independent contractors over whom they had no control and then contradictorily claim that they could not have acquiesced in the playing of ASCAP music because they had prohibited the musicians from using ASCAP compositions." *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n, Inc.*, 423 F. Supp. 341, 343 (D. Mass. 1976).

The court went on to also dismiss the defendant's other defense that ASCAP was barred from recovering because it had failed to provide a list of copyrighted songs. *Famous Music Corp.*, 554 F.2d at 1215. The court found that because the defendant had not taken advantage of the available methods of securing the names of copyrighted songs it could not claim estoppel. *Id.*

⁷¹ *Keca Music v. Dingus McGee's Co.*, 432 F. Supp. 72, 73-74 (W.D. Mo. 1977).

⁷² *Id.* at 74.

⁷³ *Id.* at 74-75 (citing *Gershwin*, 443 F.2d 1159; *Green*, 316 F.2d 304).

⁷⁴ *Id.* at 75 (citing *Shapiro, Bernstein & Co. v. Veltin*, 47 F.Supp. 648, 649 (W.D.La. 1942)).

Green Company.⁷⁵ The court found no employee-employer relationship between the store owner and the concessionaire, and no knowledge of the infringement or the intent to infringe on the part of the store owner.⁷⁶ However, the court held the store owner vicariously liable for the infringement of the concessionaire, finding the store owner's ability to supervise the concessionaire and financial interest in the sale of the records as reason to impose liability.⁷⁷ The court reasoned that the store owner was in a position to safeguard itself from liability by monitoring the conduct of the concessionaire.⁷⁸

4. *Contributory Infringement*

In *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, the plaintiff copyright holder, Screen Gems, brought an infringement action against, Mark-Fi recording company for using four of Screen Gem's songs.⁷⁹ Advertisers and distributors of the infringing record were also included as defendants in the action.⁸⁰ The plaintiff contended that the advertisers and distributors were liable as contributory infringers because they "contributed essential services in effecting and furthering the sale of the infringing albums."⁸¹ The court drew on common law doctrines of tort liability and determined that "one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tort-feasor."⁸² The court rejected the defendants' motions for summary judgment, holding that the advertisers and distributors would be liable if it were shown at trial that they had actual or constructive knowledge of the infringement by Mark-Fi.⁸³

⁷⁵ 316 F.2d at 305. The concessionaire, Jalen Amusement Company, operated the phonograph record department in defendant H.L. Green's stores. *Id.* at 306. Jalen would order and purchase records, which were sold by its employees. *Id.* However, the money collected for the sales was placed in Green's registers and removed by the store's cashier. *Id.* A commission was then paid to Jalen according to the licensing arrangement. *Id.* Jalen did not appeal the district court's ruling that it was liable for manufacturing the "bootleg" records. *Id.* Therefore, the issue of direct infringement was not in front of the court of appeals. *Id.*

⁷⁶ *Shapiro, Bernstein & Co.*, 316 F.2d at 308

⁷⁷ *Id.* In justifying the imposition of strict liability the court stated, "[t]he protection accorded literary property would be of little value if [] insulation of payment of damages could be secured [] by merely refraining from making inquiry." *Id.* (alteration in original) (quoting *De Costa v. Brown*, 146 F.2d 408, 412 (2d Cir. 1945)).

⁷⁸ *Id.* at 308-09.

⁷⁹ 256 F. Supp. 399, 401 (S.D.N.Y. 1966).

⁸⁰ *Id.* at 401-02.

⁸¹ *Id.* at 403.

⁸² *Id.* at 403.

⁸³ *Id.* at 404-05. The plaintiffs alleged that the defendants should have known that Mark-Fi had not secured the rights to the recordings due to the low price of the record. *Id.* at 404-05. The plaintiffs also argued that the advertising agency had actual knowledge of the infringement, as it had inquired into releases by the record companies, but failed to ask if there were copyright licenses. *Screen Gems*, 256 F. Supp. at 404.

5. *Or Both*

The defendant concert manager, CAMI, was found to be a contributory infringer and vicariously liable for the infringement of concert performers in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*⁸⁴ CAMI representatives would help plan concerts and sell memberships which allowed the purchasers attend the concerts.⁸⁵ CAMI would also print and distribute programs containing the songs the artists would be performing.⁸⁶

The court of appeals declared CAMI could be held liable as a contributory infringer because it knew that the artists were performing copyrighted material and due to the material nature of its “audience creation” function.⁸⁷ CAMI was also vicariously liable, as it “was in a position to police the infringing conduct of its artists, and that it derived substantial financial benefit from the actions of the primary infringers.”⁸⁸

6. *Further Developments*

In *Fonovisa, Inc. v. Cherry Auction, Inc.*, music recording copyright holders charged a swap meet operator, Cherry Auction, Inc., for vicarious liability and contributory infringement.⁸⁹ The copyright holders alleged the swap meet operator should be held liable for the sale of counterfeit record by vendors at the swap meet.⁹⁰

⁸⁴ 443 F.2d 1159, 1162-63 (2d Cir. 1971). CAMI set up “Community Concert Associations” which sponsored concert series in small communities. *Id.* at 1160-61. It was conceded that “Bess, You Is My Woman Now” was performed at one such concert without the permission of Gershwin, the copyright holder, and the performing artists and local association were liable for infringement. *Id.* at 1160.

⁸⁵ *Id.* at 1161. CAMI was paid for its “audience creation” by the artists who performed at the concerts. *Id.*

⁸⁶ *Id.* at 1161. Since CAMI claimed no responsibility for any infringement, no effort was made to obtain copyright clearance. *Id.*

⁸⁷ 443 F.2d at 1162-63. The court stated, “CAMI’s pervasive participation in the formation and direction of this association and its programming of compositions presented amply support the district court’s finding that it caused this copyright infringement.” *Id.* at 1163. (internal quotation omitted).

⁸⁸ *Id.* at 1163. According to the court, “CAMI knew that copyrighted works were being performed at the . . . concert and that neither the local association nor the performing artists would secure a copyright license. It was therefore, responsible for, and vicariously liable as the result of, the infringement by those primary infringers.” *Id.*

⁸⁹ 76 F.3d 259, 261 (9th Cir. 1996). Fonovisa also brought a claim for contributory trademark infringement. *Id.* The district court dismissed Fonovisa’s claims for vicarious liability and contributory infringement as well as a claim for direct infringement, which was not appealed. *Id.*

⁹⁰ *Id.* It was not disputed that the swap meet operator was aware the vendors were selling counterfeit recordings. *Id.* The vendors paid Cherry Auction a daily fee for booth space. *Id.* at 261. The operator provided parking, utilities, plumbing, and advertised the swap meet. *Fonovisa*, 76 F.3d at 261, 264. It also charged an admission fee from customers of the

Though the district court sided with the swap meet operators, the court of appeals disagreed, and found that Fonovisa had stated a claim for vicarious liability.⁹¹ The court of appeals reasoned that Cherry Auction could control the infringing activity because it patrolled the booths used by the vendors, could terminate the vendors for any reason, and “promoted the swap meet and controlled access of customers to the swap meet area.”⁹² The court of appeals also found that the swap meet operator “reap[ed] substantially financial benefits from 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.”⁹³

The defendant was also held liable for contributory infringement.⁹⁴ The court of appeals only considered whether the swap meet operator had made a material contribution to the direct infringement, since it was not disputed that the operator had knowledge of the infringement.⁹⁵ The court of appeals disagreed with the operator’s assertion that it was merely a “passive” participant in the infringement and found that the operator “actively strive[d] to provide the environment and the market for counterfeit recording sales to thrive.”⁹⁶ Further, the court found “that providing the site and facilities for known infringing activity is sufficient to establish contributory liability.”⁹⁷

B. Secondary Copyright Infringement Liability in the Technology Age

“From the advent of the player piano, every new means of reproducing sound has struck a dissonant chord with musical copyright owners”⁹⁸ Judge Thomas wrote those words as the introduction to his opinion in the recent decision of *Metro-Goldwyn-Mayer Studios v. Grokster Ltd.*⁹⁹ Judge Thomas artfully describes the difficulty copyright owners have protecting their work as technology becomes more sophisticated.¹⁰⁰

swap meet. *Id.* at 261. Cherry Auction also reserved the right to exclude any vendor at any time for any reason. *Id.*

⁹¹ *Id.* at 264.

⁹² *Id.* at 262-63.

⁹³ *Id.* at 263. The court reasoned the sale of counterfeit recordings drew customers to the swap meet. *Fonovisa*, 76 F.3d at 263.

⁹⁴ *Id.* at 264.

⁹⁵ *Id.* A sheriff’s raid of the swap meet found nearly forty thousand counterfeit recordings and a representative of Fonovisa had observed sales of counterfeit recordings. *Id.* at 261.

⁹⁶ *Id.* at 264.

⁹⁷ *Id.* The court of appeals also found that “it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet.” *Fonovisa*, 76 F.3d at 264.

⁹⁸ *Grokster*, 380 F.3d at 1158.

⁹⁹ *Id.*

¹⁰⁰ *See e.g.* *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (holding that makers of video tape recording machines are not liable for infringement by users); *White-Smith Music Publ’g Co. v. Apollo Co.*, 209 U.S. 1 (1908) (holding that

1. *The Sony Decision*

The United States Supreme Court faced a difficult challenge when it decided *Sony Corporation of America v. Universal City Studios, Inc.*¹⁰¹ In *Sony*, copyright holders of television programs that broadcasted on public airwaves brought a copyright infringement action against Sony, the producers of Betamax video tape recorders.¹⁰² The plaintiffs alleged that Betamax users recorded their copyrighted works, thereby infringing on their rights.¹⁰³

Since contact between the users of the Betamax and Sony was limited to the moment of sale, the Court departed from the traditional doctrines of secondary copyright infringement liability.¹⁰⁴ The Court instead

reproduction of sound through a phonograph and player piano scrolls do not infringe copyright).

¹⁰¹ 464 U.S. 417 (1984).

¹⁰² *Id.* at 420. The copyright holders sought an injunction against the production and sale of the Betamax, as well as monetary damages and an equitable accounting. *Id.*

¹⁰³ *Id.* Betamax users were not subject to the action. *Id.* In district court, the plaintiffs contended that Sony was “either [a] direct or contributory[] infringer, or [was] vicariously liable for the infringement [of Betamax users].” *Universal City Studios, Inc. v. Sony Corp. of America*, 480 F. Supp. 429, 432 (C.D. Cal. 1979). The district court entered judgment for Sony, stating, “[n]oncommercial home-use recording of material broadcast over the public airwaves does not constitute copyright infringement. Such recording is permissible under the Copyright Acts of 1909 and 1976 and as a fair use of the copyrighted works.” *Id.* at 469. The Ninth Circuit Court of Appeals disagreed, finding that “off-the-air copying of copyrighted audiovisual materials by owners of videotape recorders in their own homes for private noncommercial use, constitutes an infringement of appellants’ copyrighted audiovisual materials.” *Universal City Studios, Inc. v. Sony Corporation of America*, 659 F.2d 963, 969 (9th Cir. 1982). The court then applied the definition of contributory infringement announced in *Gershwin*, and reversed the contributory infringement claim, finding for the appellants. *Id.* at 975-76. The court reasoned,

First, the knowledge element is clearly satisfied. The corporate appellees “know” that the Betamax will be used to reproduce copyrighted materials. In fact, that is the most conspicuous use of the product. That use is intended, expected, encouraged, and the source of the product’s consumer appeal. The record establishes that appellees knew and expected that Betamax’s major use would be to record copyrighted programs off-the-air. Second, there is no doubt that appellees have met the other requirements for contributory infringement-inducing, causing, or materially contributing to the infringing conduct of another. The corporate appellees are sufficiently engaged in the enterprise to be held accountable.

Id.

¹⁰⁴ *Sony*, 464 U.S. at 437-38. The Court first rejected the copyright owners’ argument that providing “the ‘means’ to accomplish an infringing activity and encouraging that activity through advertisement are sufficient to establish liability for copyright infringement.” *Id.* at 436. In rejecting the application of traditional secondary copyright infringement liability, the court stated:

[t]he label “contributory infringement” has been applied in a number of lower court copyright cases involving an ongoing relationship

opted to import the concept of contributory infringement as it is defined in the Patent Code.¹⁰⁵ Under the Patent Code, “the sale of a staple article or commodity of commerce suitable for substantial noninfringing use is not contributory infringement.”¹⁰⁶ Therefore, according to the staple article of commerce doctrine, the court reasoned “the sale of copying equipment . . . 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.”¹⁰⁷

Next, the Court had to decide whether any of the potential uses of the Betamax were “commercially significant noninfringing uses.”¹⁰⁸ The Court focused its analysis on the practice of time-shifting, which it determined to be commercially significant, regardless of authorization.¹⁰⁹ Relying on the findings of the district court, the Court found the copyright holders involved in the suit represented only a small portion of the total television market, and that many producers would consent to time-shifting.¹¹⁰

between the direct infringer and the contributory infringer at the time the infringing conduct occurred. In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, 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. This case, however, plainly does not fall in that category.

Id. at 437-38 (footnote omitted).

¹⁰⁵ *Id.* at 439-40. The court rationalized this application of patent law to a copyright situation through the “historic kinship between patent and copyright law.” *Id.* at 439. Under this unprecedented approach, Sony would only be held liable if it sold the Betamax machines with the knowledge that users would make unauthorized copies of copyright protected works. *Id.* at 439.

¹⁰⁶ *Sony*, 464 U.S. at 440 (internal quotation omitted). See 35 U.S.C. § 271(c) (2005).

¹⁰⁷ *Sony*, 464 U.S. at 442. An important aspect of the “staple article of commerce” doctrine is striking a balance between the public interest in an article of commerce and the copyright holder’s interest in effective protection of their monopoly. *Id.* at 440-42. In patent cases, the Court recognized “the critical importance of not allowing the patentee to extend his monopoly beyond the limits of his specific grant.” *Id.* at 441. One commentator, though, argued that because copyrighted works are complete in and of themselves and do not need input of uncopyrighted works, drawing from Section 271(c) of the patent code in this situation may not have been the best fit. 2 Paul Goldstein, *Copyright* § 6.1.2, p. 6:13 (2d ed. 1998). He further argued “[s]ection 271(b) of the Patent Act, which contains no exception for staple articles of commerce, offers a closer analogy for copyright cases: ‘Whoever actively induces infringement of a patent should be liable as an infringer.’” *Id.* (footnote omitted, citing 35 U.S.C § 271(b) (1984)). Further discussion of this distinction is outside the scope of this note.

¹⁰⁸ *Sony*, 464 U.S. at 442. The Court did not consider all potential uses of the Betamax, nor did it “give precise content to the question of how much use is commercially significant.” *Id.*

¹⁰⁹ *Id.* at 442-56. Time-shifting involves recording a television program as it is being aired and then viewing the program at a later time. *Id.* at 420.

¹¹⁰ *Id.* at 443-44. The Court found a significant amount of programming was either not copyrighted, or the copying was authorized by the proprietor, including “sports, religious, [and] educational . . . programming[.]” *Id.* at 444-45.

Due to the fact that some copyright holders authorized the copying of their work, the Court declined to grant an injunction, stating “a finding of contributory infringement would inevitably frustrate the interests of broadcasters in reaching the portion of their audience that is available only through time-shifting.”¹¹¹ The Court also agreed with the district court and found that unauthorized home time-shifting constituted fair use of the copyrighted programs.¹¹²

2. Major Peer-to-Peer File Sharing Litigation

With the increasing popularity of the Internet and peer-to-peer file sharing, courts face new challenges in resolving vicarious liability and contributory infringement claims. At this point several circuit courts have decided separate controversies with varying results.¹¹³ The United States Supreme Court will soon address this conflict.¹¹⁴

a. *A&M Records, Inc. v. Napster, Inc.*¹¹⁵

Record companies fired the first shot at peer-to-peer file sharing when they sued the creators of the Napster file sharing network for vicarious liability and contributory infringement.¹¹⁶ Napster’s MusicShare software, network servers, and server-side software allowed users to share digital audio files (“MP3s”).¹¹⁷ After registering with the system, a list of the user’s MP3 files would be stored on Napster’s servers, which could then be accessed and searched by other users. Users could then download the file directly from other users’ computers.¹¹⁸

¹¹¹ *Sony*, 464 U.S. at 446. The Court was aware that the business of selling the equipment to make authorized copies would be curbed if the injunction was granted simply because some of the users would make unauthorized copies. *Id.* The Court further noted that the relief sought in a contributory infringement action must affect only the copyright holder. *Id.*

¹¹² *Id.* at 454-55. In coming to this conclusion, the court determined that private, in home time-shifting was noncommercial and nonprofit, and the likelihood of harm to the copyright holders was out-weighted by the societal benefits of time-shifting. *Id.* at 449-54.

¹¹³ See *Napster II*, 239 F.3d 1005; *Aimster*, 334 F.3d 643; *Grokster*, 380 F.3d 1154.

¹¹⁴ *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 686 (U.S. 2004) *cert. granted*.

¹¹⁵ 239 F.3d 1004 (9th Cir. 2001) *aff’d* 284 F.3d 1091 (9th Cir. 2002).

¹¹⁶ *Napster I*, 114 F.Supp.2d at 900.

¹¹⁷ *Napster II*, 239 F.3d at 1011. An MP3 is created by copying and compressing an audio CD onto a computer hard drive. *Id.*

¹¹⁸ *Id.* at 1011-12. The downloaded music file can then be stored and played on the users’ computers or copied onto an audio CD. *Id.* at 1012. The district court determined, and the Ninth Circuit affirmed, that users of the Napster system violated the plaintiff copyright holder’s distribution and reproduction rights. *Id.* at 1013. Napster did not appeal this ruling. *Id.* Napster instead asserted that its users were engaging in fair use of the copyrighted material. *Napster II*, 239 F.3d at 1014. The Ninth Circuit affirmed the district court’s ruling

After confirming that Napster users were direct copyright infringers, the Ninth Circuit considered Napster's contributory liability.¹¹⁹ Napster argued that it was insulated from contributory liability through the *Sony* defense.¹²⁰ Although the court acknowledged Napster may have noninfringing uses, the court found Napster was informed of specific incidents of infringement and failed to remove the infringing material, therefore, Napster had the requisite knowledge to be held liable as a contributory infringer.¹²¹ The appellate court agreed with the district court and held that Napster materially contributed to the infringement by "provid[ing] the site and facilities for direct infringement."¹²² Since all the elements necessary for contributory infringement were satisfied, the appellate court affirmed that the plaintiff's were likely to succeed on that charge.¹²³

The court next addressed vicarious liability.¹²⁴ Since Napster's future revenue was dependent on expanding its user base, attracting more

rejecting overall fair use, as the copying was commercial in nature and not transformative, used the entire work, and harmed the market. *Id.* at 1014-17.

The uses of sampling and space-shifting were also rejected. *Id.* at 1018-19. Sampling, or downloading an MP3 to aid in the decision of whether to buy the song, was determined to be a commercial use, as Napster users could permanently download an entire song for free, instead of a shortened or temporary version that record companies sometimes provided. *Id.* at 1018. Sampling was also determined to have a harmful impact on the market for copyrighted works, as users would be less likely to purchase CDs and the market for digital downloads was negatively affected. *Id.* Napster's argument that CD sales were increased due to sampling was also rejected, since the "positive impact on one market, here the audio CD market, deprive[s] the copyright holder of the right to develop identified alternative markets, here the digital download market." *Id.* The space-shifting argument that downloading a file the user already owned on CD was fair use was also denied because the listing of the user's music on the Napster system made it available to all other users, not just the original owner. *Napster II*, 239 F.3d at 1019.

¹¹⁹ *Id.*

¹²⁰ *Id.* at 1020.

¹²¹ *Id.* at 1022. Under its application of *Sony*, the court would "not impute the requisite level of knowledge to Napster merely because peer-to-peer file sharing technology may be used to infringe plaintiffs' copyrights." *Id.* at 1020-21. However, the district court found that Napster's noninfringing uses were not substantial enough to preclude liability. *Napster I*, 114 F. Supp. 2d at 917. The circuit court also applied *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361, 1371, 1374-75 (N.D. Cal. 1995) and determined that a computer system operator knows of and contributes to infringement if it "learns of specific infringing material and fails to purge such material from the system[.]" *Napster II*, 239 F.3d at 1021. Napster had been informed of infringing material on its network by the Recording Industry Association of America and had failed to remove it. *Id.* at 1020 n.5.

¹²² *Id.* at 1022 (internal quotations omitted). The district court compared the "proprietary software, search engine, servers, and means of establishing a connection between users' computers[]" provided by Napster to the parking, booth space, clientele, and advertising services provided by swap meet operators in *Fonovisa*. *Napster I*, 114 F. Supp. 2d at 920, *see supra* notes 89-97 and accompanying text (discussing the *Fonovisa* decision).

¹²³ *Napster II*, 239 F.3d at 1021-22.

¹²⁴ *Id.*

users with the availability of infringing material was determined to provide a financial benefit to Napster.¹²⁵ Furthermore, because Napster retained the right to control access to the system and could police the file names listed on its servers, the appellate court agreed with district court in determining that Napster had “the right and ability to supervise its users’ conduct.”¹²⁶ Due to its failure to regulate the file names on the system and the financial benefit that resulted from the availability of copyrighted materials on the system, the court held Napster vicariously liable for the copyright infringement.¹²⁷

*b. In re: Aimster Copyright Litigation*¹²⁸

After the Northern District of Illinois granted a preliminary injunction to shut down the Aimster file sharing network, the Seventh Circuit dealt with the secondary liability of a peer-to-peer network creator in *In re: Aimster Copyright Litigation*.¹²⁹ In determining Aimster’s contributory infringement and vicarious liability, the court applied its interpretation of *Sony*.¹³⁰

¹²⁵ *Id.* at 1023. The district court found that “[t]he value of the system grows as the quantity and quality of the available music increases.” *Napster I*, 114 F. Supp. 2d at 902.

¹²⁶ *Napster II*, 239 F.3d at 1023-24. The court of appeals noted that Napster’s ability to police its system was limited to the filename that was attached to the MP3, as the system merely determined that file was in the correct format and did not check the content of the file. *Id.* Even though the file names may not match the copyrighted work due to a misspelling or other error, they must be reasonably identifiable in order for users to find the material. *Id.* at 1024. The court concluded that although Napster could not necessarily police the content of the files, they could police the file names listed on its servers and control access to the copyrighted material. *Id.*

¹²⁷ *Id.* The court went on to reject Napster’s argument that it was protected from liability under the Audio Home Recording Act of 1992, 17 U.S.C. § 1008. *Id.* at 1024-25. The court found the statute inapplicable as computers are not digital recording devices and do not make digital music recordings as defined in the statute. *Napster II*, 239 F.3d at 1024-25. The rejection of the affirmative defenses of waiver, implied license, and copyright misuse was also upheld, while the applicability of the Digital Millennium Copyright Act, 17 U.S.C. § 512, safe harbor provision was left for trial. *Id.* at 1025-27.

¹²⁸ *Aimster*, 334 F.3d 643.

¹²⁹ *Id.* Aimster was a file sharing network, similar to Napster, that piggy-backed on AOL’s instant messenger service. *Id.* at 646. Users would download the file sharing software at no charge from the Aimster website and register with the system. *Id.* The Aimster website was hosted on a server provided by Aimster. *Id.* Users could then share files and direct Aimster’s server to search other users’ libraries for files they wished to copy. *Id.* Aimster also provided “Club Aimster,” a premium service which users could pay a monthly fee to easily download the most commonly shared files of other users, which happened to be copyrighted songs. *Aimster*, 334 F.3d at 651-52. Aimster itself was cleared of direct infringement liability, as the copies of the songs were on the users’ computers and not on Aimster’s server, and therefore the users were the direct infringers. *Id.* at 646-47.

¹³⁰ *Id.* at 647-655. In starting its analysis, the court stated:

The Supreme Court made clear in the *Sony* decision that the producer of a product that has substantial noninfringing uses is not a contributory infringer merely because some of the uses actually made of the product . . . are infringing. How much more the Court held is

The court agreed with the recording industry that the ability of the service provider to prevent infringing activity is a factor in considering whether the service provider is a contributory infringer, but the court did not give this factor much weight.¹³¹ The recording industry argued the *Sony* defense did not apply to contributory infringement when “there is anything more than a mere showing that a product may be used for infringing purposes.”¹³² The court disagreed with the recording industry and found the *Sony* defense did apply, unfortunately for Aimster, however, the availability of the *Sony* defense proved to be fruitless. The fact that the file sharing software could be used for noninfringing uses was not enough to relieve Aimster of contributory liability.¹³³

The court disagreed with both parties as to the scope of the *Sony* defense, as Aimster argued that a single noninfringing use would absolve it from liability, and the recording industry argued that a single known infringing use would make Aimster a contributory infringer.¹³⁴ The court distinguished Aimster from both situations when it discussed the tutorial explaining how to use the Aimster software.¹³⁵ According to the court, “[t]he tutorial is the invitation to infringement that the Supreme Court found was missing in *Sony*.”¹³⁶ Additionally, the court factored in that Aimster’s only source of revenue was the membership fee paid for Club Aimster, which provided easy access to popular copyrighted songs.¹³⁷ Due to this evidence, the burden of production was shifted to Aimster, which did not produce any evidence that its system had been used for a noninfringing use.¹³⁸

the principal issue that divides the parties; and let us try to resolve it, recognizing of course that the Court must have the last word.

Id. at 647 (internal citations omitted).

¹³¹ *Id.* at 648. In making this argument, the recording industry attempted to distinguish a service provider from the seller of a product, arguing that the service provider has a continuing relationship with users of the service. *Id.* In order to refute this assertion, the court reasoned that the service was capable of both infringing uses such as copying protected files and noninfringing uses such as instant messaging. *Aimster*, 334 F.3d at 648-49.

¹³² *Id.* at 649. The Seventh Circuit disagreed with the Ninth Circuit’s proposition in *Napster* that “actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer[.]” and instead followed the United States Supreme Court in not “allow[ing] copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying noninfringing consumers the benefit of the technology.” *Id.* at 649.

¹³³ *Id.* at 651. The court was not presented with evidence of noninfringing use. *Id.* at 653.

¹³⁴ *Id.* at 651.

¹³⁵ *Id.*

¹³⁶ *Aimster*, 334 F.3d at 651. In explaining how to use the software, the only example of file sharing used was that of copyrighted music. *Id.* at 651. In contrast, Sony did not advertise the infringing use of the Betamax. *Id.* See also *Sony*, 464 U.S. at 426-27.

¹³⁷ *Aimster*, 334 F.3d at 651-52. Since the club was the only way of financing the service, the court found it impossible to separate the free service from the paid-for service. *Id.*

¹³⁸ *Id.* at 652-53. The court gave several examples of substantial noninfringing uses that Aimster could have presented to absolve itself. *Id.* One of these examples was the possibility of increasing the value of a recording by placing it in high demand. *Id.* at 652. But

In disputing the knowledge requirement for contributory infringement, Aimster contended that due to the encryption feature built into its software, it was not able to know what was being shared by its users, and therefore it could not be a contributory infringer.¹³⁹ This argument was easily refuted, as the court reasoned where a defendant should have been aware of direct infringement, “[w]illful blindness is knowledge.”¹⁴⁰ Further, Aimster failed to produce evidence that having an encryption feature that blocked the provider from knowing what files were being traded added any significant value to the service.¹⁴¹ The court concluded that the reason for the encryption feature was to secure the protection of *Sony* and shield Aimster from liability.¹⁴² Lastly, in its limited discussion of Aimster’s possible vicarious liability, the court emphasized Aimster’s deliberate ignorance of infringing activity as another piece of the puzzle pointing towards contributory infringement.¹⁴³

IV. ANALYSIS

In finding the Software Distributors not secondarily liable for copyright infringement, the Ninth Circuit added to the inconsistency of jurisprudence in the peer-to-peer file sharing context.¹⁴⁴ The United States Supreme Court must resolve this conflict when it decides the copyright owners’ appeal in *Grokster*.¹⁴⁵

The final section of this Note argues that the *Sony* defense has been misapplied by the federal circuit courts, leading to inconsistent peer-to-peer

because the only effect of Aimster was to allow copyrights to be infringed, the impact on the recording industry became irrelevant. *Id.* at 653.

¹³⁹ *Aimster*, 334 F.3d at 650. The encrypting of messages conceals their content and facilitates the users’ privacy. *Id.* In order for the encrypted message to be read, it must first be decrypted by the Aimster software. *Id.* at 646.

¹⁴⁰ *Id.* at 650. The reasoning behind the court’s willful blindness distinction was based on Aimster’s deliberate effort to avoid guilty knowledge establishing the requisite state of mind. *Id.*

¹⁴¹ *Id.* at 654. Aimster argued that an evidentiary hearing should have been held to look into the possible noninfringing uses of the system. *Aimster*, 334 F.3d at 653-54. The court found that Aimster would have to live with the “self-inflicted wound” the encryption feature created by hindering evidence collection. *Id.* at 654.

¹⁴² *Id.* at 654.

¹⁴³ *Id.* at 654-55. The court pointed out that a design change removing the fast forward feature in the Betamax and removing the encryption feature and monitoring use of Aimster could have reduced the amount of infringement. *Id.* at 654-55. As the Court in *Sony* had lumped contributory and vicarious liability together, the Seventh Circuit did not state with any certainty whether Aimster was vicariously liable and instead focused on the contributory infringement charge. *Id.* at 655.

¹⁴⁴ See *supra* notes 30-45, 113-143 and accompanying text (outlining the conflicting Ninth Circuit decisions in *A&M Records, Inc. v. Napster, Inc.* and *Metro-Goldwyn-Mayer Studios v. Grokster Ltd.* and the Seventh Circuit’s ruling in *In re: Aimster Copyright Litigation*).

¹⁴⁵ See *supra* Section II.

file sharing litigation.¹⁴⁶ This section also argues that the United States Supreme Court should apply the traditional doctrines of contributory and vicarious copyright infringement liability to peer-to-peer file sharing cases without regard to the *Sony* defense.¹⁴⁷ By applying the traditional theories of secondary copyright infringement liability, the creators of peer-to-peer file sharing networks should be held liable for the infringement that occurs on their networks.¹⁴⁸ This section concludes by arguing that rejection of the *Sony* defense and application of the traditional doctrines will create more predictable litigation in this area.¹⁴⁹

A. Misapplication of the Sony Defense Has Led to Inconsistency in Peer-to-Peer File Sharing Litigation

The application of the *Sony* defense has not been uniform throughout the U.S. Circuit Courts.¹⁵⁰ The Ninth Circuit Court of Appeals construed the *Sony* defense to apply only to the knowledge element of contributory infringement.¹⁵¹ Under this application, the Ninth Circuit refused to assign the necessary knowledge for contributory infringement to the creators of a peer-to-peer network merely because the network may be used to commit copyright infringement.¹⁵²

However, this application of *Sony* is flawed. The court in *Sony* was applying doctrine borrowed from the Patent Code.¹⁵³ Under the Patent Code, one who produced a staple article of commerce suitable for substantial noninfringing use is not considered to be a contributory infringer.¹⁵⁴ This is an exception from the definition of a contributory infringer, not a definition of the knowledge required for contributory infringement.¹⁵⁵ While the Court in *Sony* mentions constructive knowledge of infringing use in passing, the more prominent justification comes from the fact that unlike the operators of

¹⁴⁶ See *infra* notes 150-167 and accompanying text.

¹⁴⁷ See *infra* notes 168-187 and accompanying text.

¹⁴⁸ See *infra* notes 188-220 and accompanying text.

¹⁴⁹ See *infra* notes 221-229 and accompanying text.

¹⁵⁰ See *supra* notes 30-45, 113-143 and accompanying text (discussing the divergent applications of *Sony* in the Ninth and Seventh Circuits in *Napster*, *Aimster*, and *Grokster*).

¹⁵¹ See *supra* notes 31-34, 120-123 and accompanying text (discussing the application of *Sony* to the knowledge element of contributory infringement in *Napster* and *Grokster*).

¹⁵² See *supra* notes 27, 32-36, 121 and accompanying text (discussing the knowledge requirement for contributory infringement in *Napster* and *Grokster*).

¹⁵³ See *supra* notes 104-105 and accompanying text (discussing the importation of the Patent Code in *Sony*).

¹⁵⁴ See *supra* notes 106-107 and accompanying text (describing the staple article of commerce exception to contributory infringement).

¹⁵⁵ See *supra* note 106 and accompanying text (noting that contributory infringement is not to be had when a staple article of commerce is capable of substantial noninfringing use).

a dance hall,¹⁵⁶ there was no ongoing relationship between Sony and the direct infringers.¹⁵⁷

The Seventh Circuit also applied *Sony*, but in a very different manner. In diverging from the approach taken by the Ninth Circuit, Judge Posner applied what amounts to a balancing test, weighing the possible infringing uses of peer-to-peer software against possible noninfringing uses.¹⁵⁸ The court also took into account the cost involved in eliminating infringing activity and weighed that against the benefit of having the encryption feature.¹⁵⁹ Additionally, the ability to control infringing activity was merely one factor to be considered in determining secondary infringement liability.¹⁶⁰

The balancing tests are inherently flawed as they create very subjective criteria for determining liability, but do not give very clear definitions of what conditions would satisfy those criteria. For example, under the first balancing test, infringing versus noninfringing uses, noninfringing uses could have led to *Aimster* escaping liability, had *Aimster* showed evidence of noninfringing uses, but *Aimster* produced no such evidence.¹⁶¹ The court, therefore, did not clarify the amount of noninfringing activity that would be necessary to escape liability.¹⁶²

The *Aimster* decision is flawed for several other reasons as well. In its disposition of vicarious liability, the Seventh Circuit did not expand beyond the original model of respondeat superior, holding the employer liable for the infractions of the employee.¹⁶³ Although employer liability was the original basis for imposing vicarious liability, in the copyright context the doctrine has expanded to include those in a supervisory role that gain a financial benefit from the infringing conduct.¹⁶⁴ The Seventh Circuit also failed to consider *Aimster*'s financial gain in determining vicarious liability.¹⁶⁵ The only mention of a financial gain by the software provider

¹⁵⁶ See *supra* notes 62-74 and accompanying text (discussing the "Dance Hall" cases).

¹⁵⁷ See *supra* note 104 and accompanying text (noting that the relationship between Sony and users of the Betamax ended at the point of sale).

¹⁵⁸ See *supra* notes 128-143 and accompanying text (discussing the *Aimster* decision).

¹⁵⁹ See *supra* notes 139-142 and accompanying text (discussing the encryption feature built-in to the *Aimster* software).

¹⁶⁰ See *supra* note 131 and accompanying text (noting that the ability to prevent infringement was not given substantial weight by the court in *Aimster*).

¹⁶¹ See *supra* note 138 and accompanying text.

¹⁶² See *supra* notes 134-138 (noting the discussion of possible noninfringing uses in *Aimster*).

¹⁶³ See *supra* note 142 and accompanying text (noting the limited discussion of vicarious liability in *Aimster*).

¹⁶⁴ See *supra* notes 57, 71-78, 88 and accompanying text (discussing vicarious liability despite the lack of an employer-employee relationship).

¹⁶⁵ See *supra* note 143 and accompanying text (noting the limited discussion of vicarious liability in *Aimster*).

occurred in the discussion of Aimster's premium pay service in the contributory infringement analysis, not in the vicarious liability context.¹⁶⁶ This error is significant in the disposition of vicarious liability, as financial gain is normally not an element considered in determining contributory liability, but should be considered when determining vicarious liability.¹⁶⁷ By confusing the elements of contributory infringement and vicarious liability, the Seventh Circuit has further added to the inconsistency in peer-to-peer litigation.

B. The Sony Defense Should Not Be Applied In Peer-to-Peer File Sharing Litigation Because an Ongoing Relationship is Maintained Between Software Distributors and Users of the Networks

The United States Supreme Court faced a unique situation when it decided *Sony Corporation of America v. Universal City Studios, Inc.*¹⁶⁸ Unlike its previous decisions dealing with secondary copyright infringement liability, the producers of the Betamax video tape recorder had no ongoing relationship with the direct copyright infringers.¹⁶⁹ Once the customer bought the Betamax, Sony was powerless to control how the machine was used by the new owner.¹⁷⁰ It was on this distinction that the court crafted what has become known as the *Sony* defense.¹⁷¹ Borrowing from the Patent Code, the Court fashioned a defense that freed Sony from contributory infringement and vicarious liability, because the Betamax was capable of commercially significant noninfringing uses.¹⁷²

Both the Seventh and Ninth Circuits interpretations overlook the threshold issue that led the *Sony* Court to divert from the traditional methods of determining secondary copyright infringement liability: the fact that Sony had no ongoing connection with the users of the Betamax once the machine

¹⁶⁶ See *supra* note 137 and accompanying text (noting that Aimster's only source of revenue was the premium Club Aimster service).

¹⁶⁷ See *supra* notes 56, 79-83, 87 and accompanying text (discussing contributory infringement without indicating a need for financial benefit from the direct infringement). See also *supra* notes 57, 75-78, 88, 91-93 (discussing vicarious liability requirement of a financial benefit from the direct infringement).

¹⁶⁸ See *supra* notes 101-112 and accompanying text (discussing the unique rationale behind the decision in *Sony*).

¹⁶⁹ See *supra* notes 104-107 and accompanying text (discussing the reasons for applying the Patent Code to *Sony* instead of the traditional theories of secondary copyright infringement liability).

¹⁷⁰ See *supra* notes 104 and accompanying text (noting that Sony did not have an ongoing relationship with the users of its Betamax machine).

¹⁷¹ See *supra* notes 104-107 and accompanying text (discussing the reasoning and rationale behind rejecting the traditional theories of secondary copyright infringement and instead applying the Patent Code where an ongoing relationship is lacking between the direct infringer and possible secondary infringer).

¹⁷² See *supra* notes 105-112 and accompanying text (discussing the importation of the Patent Code in the copyright situation and the findings which cleared Sony of any liability).

was purchased.¹⁷³ Had they considered this threshold issue, the courts would have seen that this is simply not the case in the peer-to-peer file sharing context. In all the major decisions concerning developers of file sharing software, some sort of ongoing relationship has been maintained between the creator of the network and the users of the network.¹⁷⁴

For example, the creators of Napster not only developed the software necessary to create the network, they also provided servers that were essential the functionality of the system.¹⁷⁵ Every time a user accessed the system they were connecting with the network creators.¹⁷⁶ The relationship between Aimster users and the creator of that software was somewhat different. Aimster did provide a server for its network, but its function was to search for files on users' computers instead of hosting file indexes like Napster's servers.¹⁷⁷ Additionally, members of the premium Club Aimster service paid a monthly subscription fee.¹⁷⁸ This subscription fee was the only source of revenue for Aimster, and was therefore essential to the continuity of the service.¹⁷⁹ The relationship between Grokster and StreamCast users and the Software Distributors also centers on revenue.¹⁸⁰ Every time a user would start the Grokster or StreamCast software, a page containing advertisements would be displayed.¹⁸¹ Since the Software Distributors had no other source of revenue, they depended on users viewing these advertisements.¹⁸² The Software Distributors also provided other services that helped users locate other active users.¹⁸³ The courts, however,

¹⁷³ See *supra* notes 27, 30-33 120-121, 130-131 and accompanying text (discussing the use of the *Sony* defense in peer-to-peer file sharing litigation). See also *supra* note 104 (noting that Sony's relationship with purchasers of its Betamax machine ended at the point of sale).

¹⁷⁴ See *supra* notes 21, 27, 122, 129 and accompanying text (noting instances where users maintained contact with the creators of peer-to-peer networks after downloading the file-sharing program).

¹⁷⁵ See *supra* notes 117-118, 123, 126 and accompanying text (discussing the significance of the servers provided by Napster).

¹⁷⁶ See *supra* note 118 and accompanying text (discussing how Napster users accessed indexes of files that were stored on Napster's servers).

¹⁷⁷ See *supra* note 129 and accompanying text (describing the Aimster file-sharing network).

¹⁷⁸ See *supra* note 137 and accompanying text.

¹⁷⁹ See *supra* note 137 and accompanying text (noting that the premium Club Aimster service was inseparable from the free Aimster service).

¹⁸⁰ See *supra* notes 27-28 and accompanying text (noting that the Software Distributors did not provide centralized servers, but received revenue from advertisements displayed upon starting of the software).

¹⁸¹ See *supra* note 28 and accompanying text (discussing the Software Distributors method generating revenue from the use of its software).

¹⁸² See *supra* note 28 and accompanying text (describing the relationship between the availability of copyrighted material and increased revenue for the Software Distributors).

¹⁸³ See *supra* note 20-21 and accompanying text (discussing the services provided by the Software Distributors other than the file sharing software).

have chosen to ignore the threshold issue of an ongoing relationship and these connections.¹⁸⁴

All three file sharing opinions, *Napster*, *Aimster*, and *Grokster*, refer generally to the proposition that the courts are compelled to follow *Sony*.¹⁸⁵ While referring to *Sony* as precedent in the area of copyright infringement is necessary, deference must also be paid to the specific situation at issue in *Sony*, along with the fact that the Supreme Court, in the very language of its opinion, limited application of the *Sony* defense to situations where there is no ongoing relationship between the direct infringer and the provider of the staple article of commerce.¹⁸⁶ By applying *Sony* without regard to this distinction, courts invariably focus their analysis on whether or not the file sharing software and peer-to-peer network is capable of noninfringing use, rather than determining whether the prongs of the traditional tests for secondary copyright infringement liability have been met.¹⁸⁷

C. The Software Distributors Should Be Held Liable Under the Traditional Doctrines of Secondary Copyright Infringement Liability

In deciding the appeal in *Grokster*, the United States Supreme Court should hold the creators of the Grokster and StreamCast networks secondarily liable for copyright infringement. By applying the traditional tests of contributory and vicarious liability, this may be done without reference to the *Sony* substantial noninfringing use defense.

1. Vicarious Liability

In order to determine vicarious liability, the Court must apply the test as described in *Green* and *Gershwin*: in order to be liable, the secondary infringer must have the right to control the infringing conduct and must derive a financial benefit from that conduct.¹⁸⁸ Under the traditional test for vicarious liability, knowledge of the infringing activity is not required.¹⁸⁹

¹⁸⁴ See *supra* notes 27, 30-33 120-121, 130-131 and accompanying text (discussing the application of *Sony* in file sharing cases despite the presence of an ongoing relationship between users and creators of the network).

¹⁸⁵ See *supra* notes 32, 121, 130 and accompanying text (noting the import of *Sony* in file sharing decisions).

¹⁸⁶ See *supra* note 104 and accompanying text (discussing the reasoning used by the *Sony* Court to distinguish the specific issue at hand from traditional cases of secondary copyright infringement).

¹⁸⁷ See *supra* notes 27, 32-33, 121, 119 130-138 and accompanying text (discussing the impact of noninfringing uses of file sharing software on secondary infringement liability).

¹⁸⁸ See *supra* notes 75-78, 88 and accompanying text (discussing the application of the traditional theory of vicarious liability for copyright infringement). See also *supra* notes 71-73, 91-93 and accompanying text.

¹⁸⁹ See *supra* note 78-78 and accompanying text (discussing the imposition of vicarious liability despite the lack of knowledge of the direct infringement).

The Software Distributors had the right and ability to supervise the infringing activity that occurred on the Grokster and StreamCast networks. When it determined the Software Distributors did not have the right and ability to supervise the infringing activity, the Ninth Circuit distinguished between actions the Software Distributors could have taken to prevent infringement and actions they may be forced to take after being found vicariously liable.¹⁹⁰ The court found that since the Software Distributors did not provide servers to host file indexes, they could not police infringing files, and any measure the Software Distributors could take to update the software, such as adding filters, was analogous to punishments that could be imposed only after a finding of vicarious liability.¹⁹¹

This line of reasoning ignores the fact that the Software Distributors had an ongoing relationship with the users of the software.¹⁹² Users continuously made contact with the Software Distributors, and provided an opportunity for the Software Distributors to implement some sort of screening mechanism every time they started the program.¹⁹³ Furthermore, although the Software Distributors could not control access to the network by blocking specific users, they could have controlled access to the network by updating the software to restrict not only the trading of copyrighted material, but also to limit the connection to the network to those who had implemented the updated software.¹⁹⁴

Further, there is no doubt that the Software Distributors of Grokster and StreamCast derive a financial benefit from the direct infringement.¹⁹⁵ Revenue for the Software Distributors is generated by advertisements that are displayed every time the software is started on a user's computer.¹⁹⁶ This creates a situation where it is advantageous for the Software Distributors to set up a system that does not restrict copyright infringement. Media downloaders are likely to be attracted to the prospect of downloading popular copyrighted music for free.¹⁹⁷ The more downloaders the Software

¹⁹⁰ See *supra* note 44 and accompanying text (discussing the implications of holding the Software Distributors vicariously liable for not implementing measures that amounted to punishment for vicarious liability in other cases).

¹⁹¹ See *supra* notes 44 and accompanying text.

¹⁹² See *supra* note 27-28 and accompanying text (noting that every time the Grokster or StreamCast software was activated by a user the Software Distributors would receive revenue from advertising that was displayed and users would access services provided by the Software Distributors in order to locate other users).

¹⁹³ See *supra* notes 21, 27-29, 38 and accompanying text (discussing the ongoing relationship between the Software Distributors and users of their software).

¹⁹⁴ See *supra* note 29 and accompanying text (discussing the possibility of altering the file sharing software provided by the Software Distributors).

¹⁹⁵ See *supra* note 28 and accompanying text (discussing the advertising revenue generated by use of the Grokster and StreamCast software).

¹⁹⁶ See *supra* note 28 and accompanying text (discussing the advertising revenue generated by use of the Grokster and StreamCast software).

¹⁹⁷ See *supra* note 28 and accompanying text (noting the impact of free copyrighted material on the number of users of the Grokster and StreamCast file sharing

Distributors can attract to use their systems, the more advertising revenue they can generate.¹⁹⁸ The logical corollary is that the Software Distributors have no financial incentive to control copyright infringement on their systems and in fact financially benefit from letting infringement occur.

The United States Supreme Court should find the Software Distributors did have the right and ability to supervise the infringing activity and derived a financial benefit from the infringement. Therefore, because the Software Distributors meet the elements of the traditional test, the Court should hold that the Software Distributors are vicariously liable for copyright infringement.

2. *Contributory Infringement*

As applied in *Screen Gems*, *Gershwin*, and *Fonovisa*, the test for contributory infringement contains three elements: direct infringement, material contribution to the direct infringement, and knowledge of the direct infringement.¹⁹⁹

The direct infringement element of this test is easily met. Users of the Grokster and StreamCast networks downloaded copyrighted works without the copyright holders consent.²⁰⁰ This point is not highly contested, but it is also argued that because some works that were downloaded were not copyrighted, or some copyright holders consented to the downloading of their work, the possible infringement should be overlooked.²⁰¹ By eliminating the *Sony* substantial noninfringing use defense, this argument becomes moot. Although the record is not clear, it is not likely that the store in *Green* sold only bootleg records.²⁰² The fact that some Grokster and StreamCast users choose to download material that is authorized or is not copyrighted should not allow the Court to overlook the fact that a great majority of the material that is traded on the systems is copyrighted.²⁰³

software). *See also supra* note 125 (discussing the increase in value of Napster by attracting more users with a larger amount of available media).

¹⁹⁸ *See supra* note 27-28 and accompanying text (noting that every time the Grokster or StreamCast software was activated by a user the Software Distributors would receive revenue from advertising that was displayed).

¹⁹⁹ *See supra* notes 53, 56, 79-88 and accompanying text (discussing the imposition of contributory liability for copyright infringement).

²⁰⁰ *See supra* note 26 and accompanying text (noting that the direct infringement element was not challenged in *Grokster*).

²⁰¹ *See supra* note 27, 33 and accompanying text (discussing the noninfringing uses of the Grokster and StreamCast networks).

²⁰² *See supra* note 75 and accompanying text (discussing the sale of bootleg records).

²⁰³ *See supra* notes 23, 32 and accompanying text (noting that while the Software Distributors were able to point to thousands of artists that authorized free distribution of their work, the copyright owners alleged that ninety percent of the files exchanged were copyrighted). *See also supra* notes 121, 138 (noting that neither Aimster nor Napster could produce evidence of substantial noninfringing uses of their similar file sharing networks).

The Ninth Circuit found that the Software Distributors did not make a material contribution to the direct infringement because, unlike Napster, they created decentralized networks and did not provide centralized servers.²⁰⁴ However, the mere creation and distribution of the software should be found to be a material contribution to the infringement. The software provides a means for users to connect to each other and download copyrighted material.²⁰⁵ Without the software, users would be unable to find the files they are looking for and would not be able to connect to the providers of the copyrighted material. Although the software did not provide the physical resources necessary for the copyright infringement, it still may be analogized to the swap meet in *Fonovisa*.²⁰⁶ The software creates a virtual meeting spot for users to meet and exchange files.²⁰⁷ Without the software, people would have to search endlessly for the files they desire, whether copyrighted or not. Therefore, facilitation of uninhibited copyright infringement is itself a material contribution to the direct infringement.

Furthermore, although the Ninth Circuit believed so, the fact that the Software Distributors did not provide centralized servers is not an outcome determinative factor. Although the Software Distributors did not actually own their own separate servers, they never the less provided servers in a different way.²⁰⁸ The Grokster and StreamCast software was designed in such a way that the Software Distributors essentially hi-jacked users' computers to act as servers.²⁰⁹ Coming in the wake of the *Napster* decision where the centralized servers were essential to holding the creators of that software liable for secondary copyright infringement, it is likely the designers of the Grokster and StreamCast software were aware of this distinction, and therefore chose to design their software around what they thought to be a determining factor in order to escape liability.²¹⁰ The Supreme Court should not allow the Software Distributors to escape liability by outsourcing the providing of servers to the users, and should instead recognize that the Software Distributors made a material contribution to the

²⁰⁴ See *supra* notes 27, 35 and accompanying text (discussing the Software Providers' non-material contribution to the infringement that occurred on their networks).

²⁰⁵ See *supra* notes 3, 20-22 and accompanying text (discussing the operation of peer-to-peer file sharing networks).

²⁰⁶ See *supra* note 27 and accompanying text (noting the Ninth Circuit's opinion that the Software Distributors did not provide the site and facilities for infringement). See also *supra* note 122 (comparing the resources provided by a swap meet operator to the servers provided by Napster).

²⁰⁷ See *supra* notes 3, 20-22 and accompanying text (discussing the operation of peer-to-peer file sharing networks).

²⁰⁸ See *supra* notes 20-22 and accompanying text (discussing the method of operations of the Grokster and StreamCast networks).

²⁰⁹ See *supra* notes 20-22 and accompanying text (discussing the method of operations of the Grokster and StreamCast networks).

²¹⁰ See *supra* notes 27, 29, 35 and accompanying text (discussing the differences between the networks at issue in *Grokster* and *Napster*). See also *supra* notes 20-21, 30 and accompanying text (discussing the Software Distributors' "plausible deniability").

infringement by designing their software to take over users' computers to act as servers.²¹¹

The Ninth Circuit also found that the Software Distributors did not have the requisite knowledge of infringing conduct because the Software Distributors were able to show substantial noninfringing uses.²¹² This holding, however, was based on a faulty application of *Sony*. The mere fact that non-copyrighted material is available on the network and some recording artists approve of users downloading their songs should not deprive the overwhelming majority of artists who do not consent to the downloading of their material from enforcing their rights.²¹³ The rights of the copyright holders who do not authorize the sharing of their work would become meaningless if they have no power to enforce them. A greater number of copyright owners are left without a remedy when the minority chooses not to enforce their rights.²¹⁴ The Supreme Court should not allow the choice of one copyright holder to not enforce their rights have an effect on the ability of another copyright holder to enforce their own rights.

The Ninth Circuit further held that although the Software Distributors received notification of specific infringement, the knowledge was obtained at a point in time when the Software Distributors did nothing to facilitate the infringement and was therefore irrelevant.²¹⁵ Although the Software Distributors may not have obtained specific knowledge of infringing acts until after the network was running, the mere design of the system indicates knowledge that the network would be used to share copyrighted works.²¹⁶

First, the concept behind the system and end result of the Grokster and StreamCast networks are entirely the same as the Napster and Aimster networks.²¹⁷ The Software Distributors would have no reason to believe that their network would not be used for the same purposes as the Napster and

²¹¹ See *supra* notes 19-20 and accompanying text.

²¹² See *supra* notes 27, 31-36 and accompanying text (discussing the Software Distributors' knowledge of infringing activity).

²¹³ See *supra* notes 19-45 and accompanying text (discussing the *Grokster* decision, where the Software Distributors proved substantial noninfringing uses of their networks and were not found secondarily liable for copyright infringement).

²¹⁴ See *supra* notes 19-45 and accompanying text (discussing the *Grokster* decision, where the Software Distributors proved substantial noninfringing uses of their networks and were not found secondarily liable for copyright infringement).

²¹⁵ See *supra* notes 35-36 and accompanying text.

²¹⁶ See *supra* note 35 and accompanying text (noting the significance of the timing in Software Distributor's acquisition of knowledge of specific infringing acts). See also *supra* notes 20-21, 30 and accompanying text (discussing the Software Distributor's "plausible deniability").

²¹⁷ See *supra* notes 19, 117-118, 129 and accompanying text (discussing how users of Napster, Aimster, Grokster, and StreamCast would use peer-to-peer file sharing to exchange files with other users).

Aimster networks, which included direct copyright infringement.²¹⁸ Furthermore, the use of the decentralized system also indicates some degree of knowledge that infringing activity would take place using the software.²¹⁹ By failing to provide central servers, the Software Distributors were clearly taking a hint from the *Napster* decision and attempting to fall under the protection provided by *Sony*.²²⁰ The Supreme Court should overrule the decision of the Ninth Circuit and find that because the Software Distributors had knowledge of direct infringement and materially contributed to the direct infringement they are liable as contributory copyright infringers.

D. Application of the Traditional Doctrines of Secondary Copyright Infringement Liability is Manifestly Just and Will Lead to Consistency in Peer-to-Peer File Sharing Litigation

The *Sony* Court observed that secondary copyright infringement liability has been imposed in situations where it was “manifestly just” to hold the secondary infringer liable for the direct infringement of the primary infringer.²²¹ By refocusing the analysis on the traditional doctrines of secondary copyright infringement liability in a situation where it is manifestly just to hold the secondary infringer liable, the Supreme Court should solidify the litigation in the peer-to-peer context.

1. It is Manifestly Just to Hold Creators of Peer-to-Peer File Sharing Networks Liable for the Direct Infringement of Users of the Networks

Since the infringement that takes place on peer-to-peer networks occurs on such a massive scale, and attempts to pursue settlements from individual users are likely to be more trouble than they are worth, holding creators of peer-to-peer file sharing networks liable is indeed “manifestly just.”²²² By allowing the creators of peer-to-peer networks to escape liability through use of the *Sony* defense, courts have created injustice by eliminating the only practical method copyright holders have to enforce their rights.

²¹⁸ See *supra* notes 119, 129 and accompanying text (noting that Aimster and Napster were used to download copyrighted material, which is direct copyright infringement).

²¹⁹ See *supra* notes 20-21, 29 and accompanying text (discussing the Software Distributor’s “plausible deniability”).

²²⁰ See *supra* notes 20-21, 29 and accompanying text (discussing the Software Distributor’s “plausible deniability”). See also *supra* notes 27, 29, 35, 37 and accompanying text (distinguishing the Grokster and StreamCast networks from Napster in determining secondary copyright infringement liability).

²²¹ See *supra* note 104 and accompanying text (noting the *Sony* Court’s description of the traditional doctrines of secondary copyright infringement liability).

²²² See *supra* notes 8-9 and accompanying text (noting that copyright holder’s, for the most part, have chosen to seek injunctions against creators of file sharing software, rather than individual infringers). See also *supra* notes 121, 133 (noting that the creators of Aimster and Napster were unable to prove substantial noninfringing uses).

In misapplying *Sony* defense, the focus of the court's analysis turns away from whether it is manifestly just to hold the creators of the peer-to-peer networks liable for the infringement committed by its users, and instead focuses on the possibility that the system may be used for noninfringing uses.²²³ Under this analysis, because peer-to-peer file sharing networks have the ability to traffic non-copyrighted works as well as copyrighted works, the door would remain open for a software programmer to facilitate enormous amounts of infringement, so long as some amount of noninfringing activity occurs as well.²²⁴ This ignores the reality that noninfringing activity is dwarfed by infringing activity.²²⁵ By eliminating the *Sony* defense from peer-to-peer litigation the possible noninfringing uses become irrelevant, and the focus returns to holding a secondary infringer liable in a situation where it is manifestly just to do so.

2. Application of the Traditional Doctrines of Secondary Copyright Infringement Liability without Applying the Sony Defense Will Lead to Consistency in Peer-to-Peer File Sharing Litigation

Application of the traditional doctrines of vicarious liability and contributory infringement will lead to more consistent peer-to-peer file sharing litigation by placing the focus on the relationship between the primary infringers and the possible secondary infringer, and taking the focus off of potential noninfringing uses. When courts apply the *Sony* defense to peer-to-peer cases, they are essentially determining whether the possible noninfringing uses of the file sharing software meet an undefined threshold amount.²²⁶ It is on this ill-defined criteria that courts decide to impose liability or not.

On the other hand, the application of the traditional doctrines vicarious liability and contributory infringement entails the application of distinct elements, which define the relationship between the primary infringer and the possible secondary infringer, and therefore determine whether the possible secondary infringer should be liable.²²⁷ By applying the traditional tests of secondary liability, courts will not have to make any vague assumptions about possible noninfringing uses, nor weigh the possible benefits of noninfringing uses against the detriment caused by infringing

²²³ See *supra* notes 27, 33 118, 121, 133-134 and accompanying text (discussing the possible noninfringing uses of the Napster, Aimster, and Grokster networks).

²²⁴ See *supra* notes and accompanying text Grokster decision.

²²⁵ See *supra* notes 23, 33 and accompanying text (noting that while the Software Distributors were able to point to thousands of artists that authorized free distribution of their work, the copyright owners alleged that ninety percent of the files exchanged were copyrighted).

²²⁶ See *supra* notes 32-33, 121, 133-135 and accompanying text (discussing the effect of noninfringing uses on secondary liability in peer-to-peer file sharing litigation).

²²⁷ See *supra* notes 51-97 and accompanying text (discussing the traditional theories of secondary copyright infringement liability).

uses.²²⁸ Instead, the courts simply need to determine whether the prongs of the traditional tests for vicarious liability and contributory infringement are met.²²⁹ Applying the concrete elements of the traditional test will lead to more predictability in peer-to-peer cases.

V. CONCLUSION

By blindly applying the teachings of *Sony* the United States Courts of Appeals have come to varied results based on divergent reasoning when determining the secondary liability of creators of peer-to-peer file sharing networks for copyright infringement. The Supreme Court should correct this problem by refusing to apply the *Sony* defense and instead applying the traditional doctrines of contributory infringement and vicarious liability without considering whether the network is a staple article of commerce capable of substantial non-infringing use.

The unambiguous language of the *Sony* opinion makes it clear that the defense is available only when there is no ongoing relationship between the infringer and the provider of the staple article of commerce that make the infringement possible. This is not the case in the file sharing network context, as creators of the file sharing software continue to have a relationship with the infringing users of the software.

To allow all copyright holders to enforce their intellectual property rights as they choose, the Supreme Court must reject the applications of the *Sony* defense used by the Ninth and Seventh Circuits and instead adhere to the traditional doctrines of secondary copyright infringement liability and focus their analysis on whether it is manifestly just to hold the Software Distributors liable. This analysis will lead to the imposition of liability on the Software Distributors, as well as solidify the jurisprudence in the peer-to-peer file-sharing context.

²²⁸ See *supra* notes 27, 32-34, 107-112, 121, 130-134 and accompanying text (discussing the effect of noninfringing uses on secondary liability in litigation). See also *supra* notes 51-97 and accompanying text (discussing the traditional theories of secondary copyright infringement liability).

²²⁹ See *supra* notes 75-83 and accompanying text (discussing the application of the traditional doctrines of vicarious liability and contributory infringement).

