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Life After GROKSTER:  
Did the Supreme Court Fundamentally Redefine Copyright Law? ... 119

*Leah Tudan*

Leah provides our final piece in a 3-year series on copyright law and “peer-to-peer” online file sharing. Leah examines both the reasoning and the impact of the Supreme Court’s recent *Grokster* decision, which surprised many in the field by arguably redefining the legal standard for contributory copyright infringement.

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Life After GROKSTER:  
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Copyright Law?

*Leah Tudan\**

INTRODUCTION

Has technology provided a benefit to music lovers? In an article titled “The Record Effect,” Alex Ross recalls that John Philip Sousa, a famous conductor and composer from the turn of the 20<sup>th</sup> Century, had predicted that sound recordings would lead to the demise of live music. The phonograph, Sousa warned, would erode the finer instincts of the ear, put an end to amateur playing and singing, and leave professional musicians out of work.<sup>1</sup> Sousa’s prediction may have been extreme, but technology certainly has changed the music industry and American culture. A decade ago it was inconceivable that an entire personal collection of music could be carried in the palm of a hand. Now, one can use a small and portable device to download popular television programs, watch music videos, and listen to music.<sup>2</sup>

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<sup>1</sup> Alex Ross, *The Record Effect*, *The New Yorker*, May 30, 2005 (last visited March 2006) [http://www.newyorker.com/critics/atlarge/articles/050606crat\\_atlarge](http://www.newyorker.com/critics/atlarge/articles/050606crat_atlarge).

<sup>2</sup> In discussing Sousa’s prediction, Ross explains: “[F]or most of us, music is no longer something we do ourselves, or even watch other people doing in front of us. It has become a radically virtual medium, an art without a face. In the future, Sousa’s ghost might say, reproduction will replace production entirely. Zombified listeners will shuffle through the archives of the past, and new music will consist of rearrangements of the old.” *Id.* This prediction, however, exemplifies the relevance of copyright law to the future of recorded music. As this article will discuss in detail, everything from the reproduction to distribution of recorded music raises a risk of legal liability for direct or contributory copyright infringement.

Although the technology has created a more convenient method of enjoying music, the entertainment industry copyright holders have viewed this technology as both a benefit and a burden. As more people download digital music online than ever before, illegal downloading has become a social norm and record album sales have suffered.

To combat their declining control over music distribution, record labels and studios have filed suit against many of the companies that provide products and services used to download digital music without their permission. The recent *MGM Studios, et al. v. Grokster* case is the first lawsuit dealing with secondary copyright liability to reach the Supreme Court in twenty years. Rather than uphold, or even help to redefine and reaffirm the legal standard previously established in *Sony v. Universal City Studios, et al.* and its progeny, the *Grokster* Court created a new, but vague legal standard. The new legal standard created in *Grokster* may create serious challenges for individuals and software companies who aspire to introduce the next groundbreaking technology.

In order to demonstrate the unexpected elements of the *Grokster* Court's decision, this article will begin with an explanation of file-sharing technology and a summary of the relevant case precedents in this area of the law. With this background in place, the Supreme Court's reasoning in the *Grokster* case will be analyzed, with an emphasis on the impact the decision could have on the delicate balance between copyright protection and the development of new technologies.

### PEER-TO-PEER FILE-SHARING TECHNOLOGY

Knowledge of MP3 technology and peer-to-peer file-sharing is crucial to understanding the legal challenges raised against distributors of peer-to-peer software. When a digitally recorded song is converted into "MP3 format," it is compressed eleven times smaller than the original digital file size but still offers virtually the same audio quality.<sup>3</sup> With small files and high speed Internet

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<sup>3</sup> MP3 stands for Motion Picture Expert Group 1 MPEG-1, Audio Layer 3 files and is a format for compressing a sound sequence into a very small file while preserving the original level of sound quality when it is played. An MP3 player is a portable digital media player that stores, organizes, and plays digital music files. Encyclopedia Britannica Online, *MP3*, <http://search.eb.com/ebc/article-9372748> (visited May 2006).

connections, individual songs can be downloaded to a user's computer in less than a minute. Modern computers and digital playback devices can store an extremely large number of these relatively small music files. As a result, these files can be used and shared over the Internet without difficulty.

In recent years, software has been created that enables Internet users to "upload" (send) or "download" (receive) digital music files from other Internet users who may be complete strangers. This is called peer-to-peer file-sharing ("P2P") technology. Once this type of software is obtained from an online provider, a user can connect to a network comprised of other users around the world, through which files of all types can be shared and downloaded. These files can be composed of text, picture or audio.<sup>4</sup>

The P2P file-sharing of 2005 is quite different from the music sharing that took place prior to 1995. Before the development of MP3 and P2P technologies, one could either record songs from the radio on cassette tapes (which could only be shared in person and lost quality if successive copies were made), or one could use a computer to copy or remix digital song tracks from CDs (which consisted of very large files that could not be easily traded with strangers). In either case, if one individual was in New York, and another was in California, it would not be easy to quickly trade songs or music compilations.

The Internet and P2P file-sharing have dramatically changed digital media sharing. As music and movie files have become smaller, more compact, and easier to share, copyright infringement has increased. Although downloading music or a movie without authorization is equivalent to stealing, most people believe it is not as morally objectionable as walking out of a store with a stolen CD or DVD.<sup>5</sup> The rampant and increasing amount of illegal file-sharing on the Internet is comparable to a million people running into their local record store and stealing music CDs – all at the same time.<sup>6</sup> It would be

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<sup>4</sup> MP3 format refers only to audio files. *Id.*

<sup>5</sup> See, e.g., Rod Smolla, *You Say Napster, I Say Grokster: What do you do when technology outpaces the law?* Slate (December 13, 2004), <http://www.slate.com/id/2110982> (last visited March 2006).

<sup>6</sup> The record industry asserts that box-office and album sales have been decreasing as a result of these dynamic technological innovations, and jobs have been cut due to decreasing profits. The film industry has lost approximately \$3 billion per year, while the music industry lost approximately \$2.4 billion in 2003, as a direct result of Internet

impossible – let alone incredibly expensive – to catch them all, and knowing this, the would-be “thieves” decide to take the chance.

This technological revolution poses a distinct challenge for the entertainment studios and artists who own the copyrights to the files being shared. The copyright owners find it difficult to ignore a problem that costs them billions in revenue; however, suing every illegal downloader for copyright infringement is not a reasonable solution. Instead, the music and movie industries sued the companies that provided the means for, and in their view, promoted this form of illegal downloading in the hope of cutting off the tools for infringement at the source.

#### *The Napster Technology*

Napster, one of the earliest and most popular sources for P2P file-sharing, was created by college student Shawn Fanning while he was studying computer science at Northeastern University. Fanning designed and programmed a system that would allow users to locate MP3 files from other users on the Internet in real-time. His idea was to let users list the files they wanted to share on a computer network that they all could access, with a combined file index that would be updated as various users logged on and off the system. Any user who wished to search for files would be able to see all of the files indexed by the network at any given moment. Fanning eventually made his technology publicly available, free of charge, on his *Napster* website. By the year 2000, the Napster community numbered over thirty-two million and was growing at the rate of one million new users each week.<sup>7</sup>

The Napster software allowed users to connect with each other so that they could share the MP3 files stored on their individual computers. Napster’s software provided the means for the user of one computer to connect to another user’s computer, view and select available files, and retrieve copies of those files. The number of song files available at any given time was dependent on the amount of files that active users chose to share; however, most users simply

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piracy. See, e.g., Amanda Ripley, *Hollywood Robbery: How Does a Hit Movie Go From the Free Market to the Black Market? Time Retraces the Trail*, Time Magazine, Jan. 26, 2004, at 56.

<sup>7</sup> United States Senate Committee on the Judiciary, *Testimony of Mr. Shawn Fanning* (2000), [http://judiciary.senate.gov/testimony.cfm?id=199&wit\\_id=273](http://judiciary.senate.gov/testimony.cfm?id=199&wit_id=273) (last visited March 6, 2006).

made their entire collection of music files available for sharing.<sup>8</sup> Each user who opened up a list of files for sharing was, in essence, offering to “distribute” those potentially copyrighted songs without permission, and each user who requested a copy of an available song was “reproducing” the original file without seeking permission from the copyright owner. Napster never took physical possession of the song files during the sharing process; however, Napster did maintain the real-time index of available files on its computer server at all times. As a result, the copyright owners (primarily recording studios as well as some individual recording artists and composers) sued Napster for contributory copyright infringement.

#### *The Grokster Technology*

Following Napster, P2P software continued to evolve and numerous websites offered online file-sharing to the public. By nature, P2P software facilitates the creation of the *index* that lists the existing files available for sharing. As explained by the courts:

At present, there are three different methods of indexing: (1) a centralized indexing system, maintaining a list of available files on one or more centralized servers [such as the Napster system]; (2) a completely decentralized indexing system, in which each computer maintains a list of files available on that computer only [such as one person’s own computer rather than a P2P file-sharing system]; and (3) a “supernode” system, in which a select number of computers act as indexing servers.<sup>9</sup>

Napster had hosted a centralized index of all the music files available on the various users’ computers, and that index was stored on Napster’s own computer server.

Grokster, a later generation P2P software provider, used the supernode model of indexing. This meant that no single computer housed the index of available user files on a permanent basis. Instead, each computer on the network connected randomly to one of the “supernodes,” which in turn housed an index of files available on all other computers connected to that particular

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<sup>8</sup> *Id.* In theory, P2P technology would allow users to share any file format. Napster, however, limited its service to MP3 music files.

<sup>9</sup> *MGM Studios, Inc., v. Grokster, Ltd.*, 380 F.3d 1154, 1158-59 (9th Cir. 2004).

supernode at the time.<sup>10</sup> The process of supernode creation was fluid. Any computer on the network could become a temporary supernode if it met certain technical requirements such as processing speed. The Grokster software allowed individual users' computers to be used randomly as rotating supernodes, in most cases without the users' knowledge.<sup>11</sup>

From a technical perspective, Grokster differed from Napster since Grokster did not have a centralized server. Grokster provided no main index that users could access, and no files passed through Grokster's computers. Grokster simply provided a software program, and the remainder of the process was facilitated by users of that software. Grokster was unable to control user's actions and had no specific knowledge of what files were being shared.

Once Grokster's free software was downloaded, a user could participate in the dynamic P2P file-sharing network comprised of other users with Grokster's software. These users could share digital audio, video, picture and text files, some of which were copyrighted and shared without authorization. Other files shared by Grokster users were not protected by copyright (such as public domain works), and still others were copyrighted but the copyright owners had authorized P2P file-sharing networks to distribute their work (such as independent music artists seeking exposure).<sup>12</sup>

At a broader level, Grokster's technology differed significantly from the Napster P2P system because: (1) Grokster only provided software, not a website "location" where users gathered while they were exchanging files; (2) Grokster had no need for contact with users once they had already downloaded the software program; and (3) Grokster had no particular method to monitor the behavior of users or to stop them from trading specific files.<sup>13</sup> One interesting aspect of the Grokster system that caught the attention of the courts was that Grokster may have been positioning itself to becoming the next Napster. Internal emails were found stressing that the network needed to be ready to seize the existing Napster user base if Napster either began charging for its service or was shut down by court order. When Napster was, in fact, shut down

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<sup>10</sup> *Id.* at 1158.

<sup>11</sup> *Id.* at 1159. By accepting the Grokster software, users were also accepting to the possibility that their computers might be used randomly as supernodes. Many users did not actually understand what this meant from a technical perspective.

<sup>12</sup> *Id.* at 1159.

<sup>13</sup> *MGM Studios, Inc., v. Grokster, Ltd.*, 125 S.Ct. 2764, 2770-71 (2005).

by court order, the popularity of alternate P2P programs such as Grokster's increased significantly.

Like Napster, Grokster was sued as a potential "contributory copyright infringer" based on the behavior of its users. In this case, the copyright-owner plaintiffs, who were collectively referred to under the "MGM Studios" name, were music publishers, songwriters, motion picture studios, and those who owned the vast majority of copyrighted motion pictures and sound recordings. The joint defendants, Grokster, Ltd. and StreamCast Networks, Inc., were both P2P file-sharing software distributors, and would be referred together as "Grokster" by the courts.<sup>14</sup>

## LEGAL STANDARD

### *Source of Federal Copyright Protection*

Federal copyright law stems from Article I, section 8 of the U.S. Constitution: "Congress shall have the power to ... promote the Progress of ... useful Arts, by securing for limited Times to Authors ... the exclusive Right to their respective Writings..."<sup>15</sup> This language refers to the government-sanctioned monopoly rights of authors over works of authorship and protects the expression in a work of authorship against unauthorized copying. Although monopolies have some drawbacks at a policy level, the Framers of the Constitution were the first to recognize that carefully crafted monopoly rights could also benefit the public by encouraging the creative process.<sup>16</sup> The term

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<sup>14</sup> StreamCast shared most of the same technical capabilities with Grokster; however, StreamCast was run by a separate group of individuals who behaved more aggressively in promoting their product to former Napster users. *Id.* at 2773-74.

<sup>15</sup> U.S. Const. art. I. § 8.

<sup>16</sup> As the Supreme Court has explained: "The monopoly privileges that Congress may authorize [under copyright law] are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).



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“authorship” is broadly construed to include a wide variety of original works such as books, plays, movies, *music* and many other creative endeavors.<sup>17</sup>

Federal copyright law was substantially revised with the Copyright Act of 1976. Under modern law, an author does not need to apply for protection. This protection begins automatically as soon as the work is fixed in any tangible medium of expression.<sup>18</sup> Generally, the distributors of the creative work such as movie studios, recording studios, and publishing companies are the original owners or the recipients of the copyrights to the work.

A copyright holder is granted various exclusive rights. This “bundle of rights” includes reproduction, modification, distribution, public performance, and public display of the copyrighted work. If any of these rights are violated without permission, the copyright holder can sue for infringement.<sup>19</sup> When Internet users download (copy) or share (distribute) songs without authorization from the copyright holder, the users are direct copyright infringers.

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<sup>17</sup> Work of authorship can include literary works, dramatic works, musical works, choreographic works, pictorial and graphic works, motion picture and audio visual works, and sound recordings. *Id.* at 461.

<sup>18</sup> See generally 17 U.S.C §§ 101-810 (2000). There are three necessary requirements for copyright protection. The work must be of authorship, have originality, and be in a fixed format. The fixed requirement is satisfied by a work being tangible, such as writing, recording, or taking a picture.

<sup>19</sup> Section 106 of the Copyright Act provides: “The owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or 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; and
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculpture works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.”

17 U.S.C. § 106 (2000).

Users are not in violation of copyrights if the use is “non-infringing” or if the work can be freely used by anyone. For example, copies made of religious programming can be considered permissive use if the distributors of a religious program prefer that the work is distributed widely by viewers. Music by Bach and Mozart or literary works by Shakespeare are considered “public domain” works that can be freely copied because the copyrights have expired.<sup>20</sup> There are also some “fair use” exceptions to copyright protection, which include criticism, news reporting, teaching or research.<sup>21</sup> In the early stages of P2P litigation, the courts determined that Internet downloading and sharing of recorded music is neither permissive nor fair use, and the copyrights on modern music recordings have not yet expired.

“Secondary” liability refers to a non-infringer who is helping, enabling, or allowing the infringement to occur. Modern doctrines of secondary infringement do not appear in the Copyright Act; they evolved through case precedent.<sup>22</sup>

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<sup>20</sup> Works are considered public domain when the term of copyright for the work has expired, roughly about one hundred years, or the work is of the U.S. Government. *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

<sup>21</sup> Section 107 of the Copyright Act specifies several specific forms of fair use, such as news reporting, and also lays out the following factors for consideration in other cases:

1. Purpose and character of use (i.e. commercial or nonprofit educational purposes)
2. Nature of the copyrighted work.
3. Amount and substantiality of the portion used.
4. Effect on the potential market for or value of the protected work.

These are factors to consider when establishing fair use with a larger emphasis weighing on effect on the potential market. 17 U.S.C. § 107 (2000). These factors must be balanced on a case by case basis. For instance, courts have held in some cases that unauthorized use of a copyrighted work is not considered fair if the work is creative and taken in its entirety, using the full content of the work while not transforming the work into something new. The work cannot be used commercially because the public is now getting something for free that they would have normally paid for, which negatively impacts the current (or future) market for the copyrighted work.

<sup>22</sup> As the Supreme Court has explained: “Although ‘the Copyright Act does not expressly render anyone liable for infringement committed by another,’ *Sony Corp. v. Universal City Studios*, 464 U.S. at 434, these doctrines of secondary liability emerged from common law principles and are well established in the law....” *Grokster*, 125 S.Ct. at 2776 (additional citations omitted).

There are two basic forms of secondary copyright liability: contributory and vicarious.<sup>23</sup> In the *Grokster* case, the Supreme Court did not rule on the basis of vicarious infringement, even though the lower courts considered it as an independent claim. Therefore, discussion of vicarious infringement is beyond the scope of this article.

“Contributory” liability holds accountable a non-infringer who contributes to another party’s direct infringement of copyrights. There are three elements needed to prove contributory infringement:

1. Third parties must be infringing.
2. Defendant knows or has reason to know that third parties are infringing.
3. Defendant induces, causes, or materially contributes to the infringement.

To successfully establish a case for contributory infringement, a plaintiff (copyright owner) must prove all three of these elements. This article will focus on the efforts by copyright owners in the entertainment industry to block the P2P users’ direct infringement by suing P2P software providers like *Grokster* for contributory infringement.

#### *Element #1: Third Party Infringement*

To demonstrate the application of contributory copyright law, several case examples will be presented. The first case, *Sony Corporation of America v. Universal City Studios, Inc.* (“*Sony Betamax*”), provides an example of the tension created by new forms of reproduction technology and the potential for

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<sup>23</sup> Vicarious liability is a principle for enforcing copyrights against a defendant whose economic interests are intertwined with the direct infringer’s, but who did not actually employ the direct infringer. There are three elements to vicarious infringement:

1. Third parties must be infringing.
2. Defendant has right and ability to supervise their behavior.
3. Defendant has direct financial interest.

All three elements must be proven. *Fonovisa v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).

direct infringement by users of the technology.<sup>24</sup> In the 1970's, a device was offered by the Sony Corporation that enabled people to record broadcast television programming onto a tape format. This device, the Betamax videotape recorder, was similar to what is known today as a videocassette recorder or VCR. In the wake of this new technology, television studios were apprehensive about how the Betamax would affect their market. Users could use the new technology to record broadcast programs and watch them at other times (referred to as "time-shifting") or build private collections. For instance, time-shifting allowed users to record a broadcast of one channel while viewing another channel, permitting the viewer to watch two different shows that were simultaneously aired, one "live" while recording the other for later viewing.<sup>25</sup> Consequently, these uses would diminish the market for sponsorship of repeat programming.

The "time-shifting" ability of a Betamax was not only an innovative step for technology, but for copyright holders, it was viewed as an abuse of their exclusive "bundle of rights" under copyright law. Inherent in the process was the need for the Betamax user to "copy" the copyrighted television program without permission. However, due to the nature of the Betamax recorder, the behavior of specific users could not be identified in any realistic manner in order to file lawsuits. Instead, the copyright owners of some television programs sued Sony for *contributory* copyright infringement.<sup>26</sup>

When it came to the first element of contributory infringement, Sony argued that Betamax users were "fair users" of the television programs rather than direct infringers. This argument was partially successful as to the time-shifting behavior.<sup>27</sup>

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<sup>24</sup> *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

<sup>25</sup> *Id.* at 422.

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

<sup>27</sup> In *Sony*, the Supreme Court found that taping a copyrighted television program could be considered infringement unless it was permitted by the fair use exception. According to the Court, "time-shifting" for personal home use was fair use because it enlarged the television viewing audience by enabling users to watch two programs instead of only one. The evidence submitted by Sony was convincing: "over 80% of those interviewed watched at least as much regular television as they had before owning a Betamax." *Id.* at 424. Accordingly, the plaintiffs were not able to prove a negative effect on the television market.

Sony also provided evidence that many television programs such as, sports, religious, and educational programming could be copied without objection from the copyright holders.<sup>28</sup> However, Betamax users were still directly infringing by preferring to tape programs in order to build a library or collection instead of watching broadcast reruns. As a result, library building was not deemed a fair use. This meant that the first element of contributory infringement by Sony (i.e., “direct infringement” by Betamax users) had been satisfied in the *Sony Betamax* case.

In a later case, Fonovisa, which produced and owned copyrights to Latin/Hispanic music, filed a successful action for contributory infringement against the Cherry Auction swap meet for allowing counterfeit recordings to be sold at its venue.<sup>29</sup> For a daily rental fee, Cherry Auction allowed vendors to sell their wares to the public out of its booths while providing advertising and parking for the swap meet. In this case, “third party infringement” referred to the activity of the vendors at the swap meet. The counterfeit recordings were unauthorized copies of copyrighted music. The copying and distribution of the music recordings violated the copyright holders’ exclusive rights, and thereby constituted direct infringement, which further satisfied the first element of contributory infringement against the operator of the Cherry Auction swap meet.

We can now compare these cases to the P2P file-sharing at issue in the *Napster* and *Grokster* cases. As far as *third party infringement*, the shared music’s copyright owners had their exclusive rights to copy and distribute violated by Napster and Grokster users. When a user downloads a song illegally, it is considered copying without authorization, and when that user then shares the file with another user, it is considered unauthorized distribution of the protected work. Virtually all Napster and Grokster users engaged in the unauthorized downloading and uploading of copyrighted music, which constituted direct infringement of the plaintiffs’ copyrights in the musical compositions and recordings.<sup>30</sup>

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<sup>28</sup> For instance, the company's survey indicated that 7.3% of all Betamax use was to record sporting events. Even representatives of professional sports testified that they had no objection to the recording of their televised events for home use. *Id.*

<sup>29</sup> *Fonovisa v. Cherry Auction, Inc.*, 76 F.3d 260 (9<sup>th</sup> Cir. 1996).

<sup>30</sup> See, e.g., *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9<sup>th</sup> Cir. 2001).

The Ninth Circuit rejected Napster's argument that much of this use was actually fair use, and instead found that Napster users were copyright infringers.<sup>31</sup> Without significant discussion, the courts came to a similar conclusion in the *Grokster* case. Thus, the first element of contributory infringement was satisfied in each case, and the courts would continue with the remaining two elements of the contributory infringement analysis in order to determine whether Napster and Grokster should be held liable for their users' infringing behavior.

*Element #2: Knowledge of the Infringement*

The second element of a contributory infringement claim examines whether the defendant had *knowledge* that the third parties were infringing copyrights. As far as knowledge of the Betamax users' infringement, the plaintiffs did not prove that Sony had specific, *actual* knowledge of *particular instances* of infringement. In other words, Sony simply supplied a product and had no further, continuing relationship with users of that product. As such, Sony had no way to observe specific cases of copyright infringement. The broadcast studio plaintiffs also had no way to observe the specific behavior of Betamax users or to put Sony on notice of specific cases of infringement.

Despite the lack of *actual* knowledge of specific infringement, the broadcast studio plaintiffs argued that Sony had "*constructive knowledge*" of the potential for infringement by Betamax users. The Supreme Court agreed. Sony's constructive knowledge was proven through its instruction booklet, which included a disclaimer about recording copyrighted programs. Thus, if

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<sup>31</sup> Napster claimed that its users were not infringing, but rather were engaged in fair use of the material by sampling the songs (to decide whether or not to purchase the CD) and "space-shifting" (i.e., accessing music they already owned on CD in the MP3 format instead). Ultimately, the Court of Appeal was more concerned that Napster's effect on the recording industry's present and future market was harmful. The court agreed with the recording studio plaintiffs that Napster was contributing to the decline of CD sales and also creating a barrier for the plaintiffs' entry into any future market for online MP3 distribution. The plaintiffs would choose to charge for MP3s, whereas Napster was offering the same service free of charge. The court did not view the behavior of Napster users as fair use. *Id.* at 1014-19.

For a thorough discussion of the fair use arguments and reasoning in the *Napster* case, see Hu, Leus, Tchobanian & Tran, *Copyright vs. Napster: The File Sharing Revolution*, 2 UCI L. Forum J. 53 (Fall 2004).

Sony knew enough to include this disclaimer, then it knew that its product could be used for such infringement.<sup>32</sup> Sony was found to have constructive knowledge, meaning the company “should have known” the Betamax machine could be used to infringe copyrights.

However, although, the Supreme Court found that Sony had constructive knowledge of potential infringement, the Court held that the knowledge element of contributory infringement had *not* been satisfied. The Court held that when a device is “capable of substantial noninfringing uses,” then *actual* (rather than merely *constructive*) knowledge of infringement must be proven. This was a significant precedent in which the Court emphasized the importance of protecting technological innovation. A device that is *capable of substantial noninfringing uses* cannot be banned simply because it is theoretically possible to use it for copyright infringement.<sup>33</sup> The Court had established this defense to contributory infringement by borrowing from patent law, in order to ensure that valuable technological advancements would not be sacrificed in order to protect a copyright monopoly.<sup>34</sup> This defense to the knowledge element provides a significant amount of protection for reproduction technologies that have both legitimate uses and potentially illegal uses.

Sony had identified several non-infringing uses of the Betamax recorder such as permissive use and fair use time-shifting; therefore, this “substantial non-infringing use of the Betamax” triggered the need to prove *actual* knowledge of specific cases of infringement to support contributory liability. Since the broadcast plaintiffs could not prove *actual* knowledge of infringement, this second element of the contributory infringement standard was not satisfied and Sony was not liable for its users’ behavior.

In *Fonovisa*, the Cherry Auction swap meet had *actual* knowledge of specific vendors selling counterfeit music. The swap meet had been notified of specific infringers on previous occasions, yet did not exclude those vendors from the swap meet or otherwise prevent the sale of counterfeit recordings. Thus, the Court of Appeal found that the second element of contributory

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<sup>32</sup> *Sony*, 464 U.S. at 426-27.

<sup>33</sup> *Sony*, 464 U.S. at 442-443.

<sup>34</sup> *Id.* at 442. This “substantial non-infringing uses” defense is referred to in patent law as the *staple item of commerce* doctrine.

infringement had been satisfied.<sup>35</sup> This case demonstrates that when the provider of goods or services has *actual* knowledge of specific instances of infringement, the court need not venture into the discussion of *constructive* knowledge that infringement is theoretically possible or consider whether the product or service also has substantial non-infringing uses.

With regard to Napster's knowledge that its users were infringing copyrights, the Ninth Circuit agreed with the findings of the District Court that both *constructive* knowledge (as in *Sony Betamax*) and *actual* knowledge (as in *Fonovisa*) had been proven. For instance, Napster was found to have *actual* knowledge of users' infringement because a document authored by Napster co-founder Sean Parker mentioned the need to remain ignorant of users' names and Internet addresses because they were exchanging pirated music. The plaintiff, the Recording Industry Association of America (RIAA), also informed Napster of more than 12,000 specific infringing files.<sup>36</sup> Napster was also found to have *constructive* knowledge of user infringement since its executives had recording industry experience and had enforced intellectual property rights in other instances.<sup>37</sup> Because *actual* knowledge had been proven, evaluation of the potential for substantial non-infringing uses was unnecessary.

The *Napster* case demonstrates how the concept of the "site and facilities" for infringement can translate into the "peer-to-peer" (P2P) file-sharing environment when a central computer server performs the file indexing procedure. The case also reiterates the difference between *actual* and *constructive* knowledge of infringement by third parties. If the provider of the goods or services has *actual* knowledge of its users' infringement, then the plaintiff moves one step closer to proving liability for contributory copyright infringement. The Ninth Circuit made clear, however, that in order to take advantage of the "actual knowledge" theory of liability on an ongoing basis, the Recording Industry plaintiffs would need to continue providing lists of exact, specific infringing files to Napster in the future as well.<sup>38</sup>

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<sup>35</sup> *Fonovisa*, 76 F.3d 261.

<sup>36</sup> *Napster*, 239 F.3d at 1014.

<sup>37</sup> *Id.* When *actual* knowledge of infringement is proven there is no "substantial non-infringing uses" defense. The court didn't undertake a full discussion of substantial non-infringing uses since actual knowledge of the infringement was established.

<sup>38</sup> *Id.* at 1096.



The *Napster* decision may have set the stage for future P2P cases, but its holding was very fact-specific. The *Grokster* case would pose new challenges, since Grokster merely provided a product to its users but did not provide the site or facilities for the file sharing. Many of the specific aspects of Napster's behavior also put into evidence (memos, screen shots highlighted copyrighted music, et cetera) were also absent in the *Grokster* case.

*Element #3: Contribution to the Infringement*

The third element of a contributory infringement claim examines whether the defendant "induced, caused, or materially contributed" to the infringing behavior of its users. Sony *contributed* to the infringement of Betamax users by providing the technology that facilitated the infringing behavior. Without the Betamax recorder, users would not have the means to record the plaintiffs' television programs and copyrights would not have been infringed.<sup>39</sup>

The Ninth Circuit also found that Cherry Auction materially *contributed* to the vendors' infringement by providing the swap meet participants with space, utilities, parking, restrooms and advertising. Cherry Auction actively provided the environment and market for counterfeit recording sales to thrive and the amount of infringing activity would not have taken place on such a massive scale if it weren't for the swap meet and their enticing accommodations.<sup>40</sup> The *Fonovisa* precedent is significant because it demonstrates that providing the "site and facilities" for infringement can be a form of material contribution.

In the P2P context, the Ninth Circuit found that Napster did materially *contribute* to the behavior of its users by relying on the *Fonovisa* precedent. According to the Ninth Circuit, without the site for trading and the support services Napster provided, its users could not find and download the music files on such a massive scale.<sup>41</sup> Thus, the court held that Napster provided the site and facilities for its users to infringe, thereby satisfying the third element of contributory infringement.

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<sup>39</sup> See, generally, *Sony v. Universal*, 659 F.2d 963 (9<sup>th</sup> Cir. 1981).

<sup>40</sup> *Fonovisa*, 76 F.3d 264.

<sup>41</sup> *A & M Records, Inc., v. Napster, Inc.*, 114 F. Supp. 2d 896, 919-20 (N.D. Cal. 2000).

Once again, it was unclear whether the *Grokster* case would be distinguishable from the *Napster* case; however, *contribution* to user infringement might be found regardless of any such difference. *Grokster* did not provide an actual “site” for the file sharing in the same manner as *Napster*. However, *Grokster* provided a stand-alone product that enabled reproduction and distribution of copyrighted music files, similar to *Sony Betamax*. Technically speaking, since *Sony Betamax* had avoided liability under the *knowledge* element, it was unclear whether the *contribution* element had been satisfied in *Sony Betamax*. Thus, the differences between the *Grokster* and *Napster* technologies might, or might not, create room for argument in the *Grokster* case.

#### THE SUPREME COURT AND THE *GROKSTER* DECISION

*Grokster* would be the first contributory copyright infringement case to receive Supreme Court attention since the *Sony Betamax* decision thirty years before. Dozens of amicus (“friend of the court”) briefs were filed by parties sympathetic to each side in the litigation. As described by Court-watchers:

Outside the courthouse today, a few feet away from the open-source guys are folks with guitars. Their signs read "Don't Steal My Future" and "Feed a Musician." That's one way of putting the choice the court faces today — the techies vs. the musicians. (The choice is also between the big fat technology industry and the big fat recording industry....) The justices seem vexed by their choice. They don't want to be the Luddites who killed off the next iPod, but they also don't want to abandon all pretense of enforcing federal copyright law.<sup>42</sup>

During oral argument, the main focus of contention was definition of the wording “*capable*” of “*substantial*” *non-infringing uses* as those terms had been vaguely coined by the *Sony Betamax* Court. Unlike the *Sony Betamax* Court, the *Grokster* Court would ultimately rule in favor of the plaintiffs. The reasoning behind the Court’s decision merits careful examination.

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<sup>42</sup> Emily Bazelon, *Grok Around the Clock: Share those MP3s now—the Supreme Court may try to stop you soon*, *Slate* (March 29, 2005), <http://www.slate.com/id/2115919/?GT1=6305> (last visited March 2006).

*Third Parties Infringing*

By the time the *Grokster* case reached the U.S. Supreme Court, it was undisputed that at least users of the technology were directly infringing copyrights with the files they traded. Grokster's software allowed users to upload (distribute) and download (reproduce) copyrighted works at will through its decentralized "supernode" system. Although the software was not specifically designed to alert Grokster to any such infringement, Grokster received numerous user emails asking questions about using copyrighted files that users had downloaded using its software. The plaintiffs asserted that the vast majority of files shared with the Grokster software – nearly ninety percent – were copyrighted works.<sup>43</sup>

*Material Contribution*

According to the Ninth Circuit Court of Appeal, an integrated service provider like Napster provided the site and facilities for direct infringement, but a software distributor like Grokster did not provide this. Rather, the users of the Grokster software, by connecting to one another over the Internet, were the ones to create the network and provide the access to infringing files.<sup>44</sup> The Ninth Circuit was also persuaded that Grokster had a viable reason for creating such a system because the technology had beneficial uses, such as reducing the distribution costs of public domain work and empowering permissive sharing of many types of art and speech. As such, the Ninth Circuit did not view Grokster's decentralization as a mere ploy to dodge the legal liability established under the *Napster* precedent<sup>45</sup>

However, the Supreme Court disagreed, focusing instead on the word *inducement* in this prong of the legal standard, citing the original phrase "*induces, causes or materially contributes to*" the infringement from the *Sony Betamax* opinion.<sup>46</sup> The Court found that Grokster had taken active steps to encourage direct infringement, such as advertising infringing use of its software or instructing users on how to engage in infringing use. In doing so, the Court

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<sup>43</sup> *Grokster*, 125 S.Ct. at 2772.

<sup>44</sup> *Grokster*, 380 F.3d at 1163.

<sup>45</sup> *Id.* at 1164.

<sup>46</sup> *Sony*, 464 U.S. at 487 (emphasis added).

found that Grokster demonstrated the intent for its product to be used in an infringing manner.

More specifically, the Supreme Court hones in on the following three features of the Grokster case as support for the finding of *intent to induce* copyright infringement:

- First, the Court found that Grokster had tried to fill the demand for P2P file-sharing of copyrighted material that had been created in Napster’s wake. According to the Court, “Internal company documents revealed that StreamCast hoped to attract large numbers of former Napster users if the company was shut down by a court order.”<sup>47</sup> In addition, StreamCast also created a kit for prospective advertisers introducing themselves as a company similar to Napster; this advertising kit also contained press articles about StreamCast’s potential to capture former Napster users.<sup>48</sup> StreamCast was the second defendant in the consolidated case against Grokster. Although the two companies provided a similar product, they were owned and operated independently. Despite potential differences in the evidence regarding behavior by the two companies, the Court often discussed them jointly as if they were the same entity.
- Second, the Court pointed out that Grokster did not attempt to develop a filtering tool. Such a tool might have theoretically allowed Grokster to police future use of its software to decrease the amount of infringing activity by its users. Grokster did send its users an email warning them about infringing content when it received a threatening notice from the copyright holders; however, it never blocked anyone from continuing to use its software.<sup>49</sup> Evidence also revealed that StreamCast was offered help to monitor its users’ infringement by another company. StreamCast not only rejected this offer, but blocked Internet Protocol Addresses of entities it believed were trying to engage in the monitoring of its network.<sup>50</sup>

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<sup>47</sup> *Grokster*, 125 S.Ct. at 2773.

<sup>48</sup> *Id.* —

<sup>49</sup> *Id.* at 2774.

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

- Third, the Court noted that Grokster profited by selling advertising space in connection with its software. Although the Court's opinion was somewhat vague on the technical details, it suggested that paid advertisements were visible while users employed the software. Copyright infringement was deemed a popular use of P2P software, so the Court reasoned that as the number of users participating in the Grokster file-sharing network increased, so did Grokster's potential for advertising revenue. Thus, the Court found reason to believe that Grokster had a financial motive to encourage user infringement.<sup>51</sup>

Although more of this evidence applied to StreamCast than Grokster, the Supreme Court treated the two defendants interchangeably when stating that Grokster *intended to induce* copyright infringement by its users.<sup>52</sup> This meant that Grokster's potential liability for contributory infringement would turn on the final, and most hotly contested, element of the contributory infringement standard: Grokster's *knowledge* of its users' infringing behavior.

#### *Knowledge*

Recall that the *knowledge* element of the 3-part contributory infringement test can actually be satisfied in one of two different ways. The plaintiff must show that the defendant either:

- (a) has *actual* knowledge of specific instances of infringement, or
- (b) has reason to know (i.e., *constructive* knowledge) that the product could be used for infringing purposes (*unless* the product is "capable" of "substantial" non-infringing uses).

The plaintiff can satisfy the *knowledge* element by proving either one of these tests.

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<sup>51</sup> Technically speaking, "financial interest in the infringement" is an element of a claim for *vicarious* copyright infringement rather than *contributory* copyright infringement. It would appear that the Court found this point relevant to its contributory infringement analysis as a device for inferring the intent to *induce* infringement as well.

<sup>52</sup> *Id.* at 2786.

In *Napster*, the Ninth Circuit held that the plaintiffs had proven *specific* knowledge of the infringement at a “time in which they contributed to the infringement and failed to act upon the information.”<sup>53</sup> In the context of the *Grokster* case, the software design was of great importance.<sup>54</sup> The plaintiffs were unable to prove that Grokster had knowledge of the specific files shared by users of its software. In fact, the Ninth Circuit noted that because there was no centralized server, Grokster could deactivate all computers within its control and “users of [Grokster software] could continue sharing files with no interruption.”<sup>55</sup> This was enough to convince the court that *actual knowledge* of specific infringing files had not been proven. The plaintiffs did not appear to argue the point, nor did the evidence suggest that Grokster had been provided with the same lists of infringing files at issue in the *Napster* case.

Both the Ninth Circuit and the Supreme Court found that Grokster had *constructive knowledge* that its system could theoretically be used for infringing purposes. Using the *Sony Betamax* case precedent, the Ninth Circuit looked to see if the Grokster software was capable of substantial or commercially significant non-infringing uses, and found that it was.<sup>56</sup> Public domain works that could be shared with the Grokster software as well as users’ own original text and picture files. Grokster even pointed out popular bands such as Wilco, whose record company had reportedly declined to release one of their albums due to concern over its commercial potential.<sup>57</sup> Wilco then purchased the distribution rights from the record company and made the album available for free downloading, both from its own website and through various P2P networks such as Grokster. The band’s decision to distribute the album free of charge sparked widespread interest, and as a result, Wilco received a new recording contract.<sup>58</sup> Grokster argued that this was not an uncommon situation and many

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<sup>53</sup> *Grokster*, 380 F.3d at 1162 (citing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1021 (9th Cir. 2001)).

<sup>54</sup> *Grokster*, 380 F.3d at 1163.

<sup>55</sup> *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1041 (C.D. Cal. 2003).

<sup>56</sup> *Grokster*, 380 F.3d at 1161.

<sup>57</sup> *Id.*

<sup>58</sup> *Id.* For arguments in support of P2P file-sharing by Jeff Tweedy of Wilco, see also David Carr, *Exploring the Right to Share, Mix and Burn*, New York Times (April 9, 2005), <http://www.nytimes.com/2005/04/09/arts/music/09nypl.html> (last visited March 2006).

artists today use P2P networks to their advantage by releasing a single or promoting an unreleased album on the Internet.

Satisfied that *substantial non-infringing uses* had been found for Grokster's software, the Ninth Circuit reasoned that *constructive knowledge* could not be used to satisfy the knowledge requirement.<sup>59</sup> Since the plaintiffs had also failed to prove *actual knowledge*, the Ninth Circuit held that Grokster could not be held liable for contributory infringement. The plaintiffs appealed this ruling, and the Supreme Court faced the elements of contributory copyright infringement for the first time since *Sony Betamax*.

During oral argument before the Supreme Court, it became clear that the Justices had differing attitudes and concerns about the interpretation of *Sony's* "capable of substantial non-infringing uses" language. Two sentences into the plaintiff's opening statement, counsel was interrupted with the question of whether there was a significant use for the Grokster software beyond copyright infringement.<sup>60</sup> Disagreement over application of the *Sony Betamax* defense continued to dominate the oral arguments:

The Sony decision provided the right answer, and that should be the end of the case, Richard G. Taranto, arguing for Grokster and StreamCast, told the court. He said it was "critical" for the Supreme Court to adhere to the "clear *Sony* rule" for the sake of "innovation protection."

Justice Ruth Bader Ginsburg objected, noting that the 1984 [*Sony Betamax* decision] "goes on for 13 more pages" after articulating the test that provided Sony's defense. "If the standard was that clear, the court would have stopped there," Justice Ginsburg continued. "I don't think you can take one sentence from a rather long opinion and say, 'Ah-hah, we have a clear rule.'" . . .

Paul D. Clement, the acting solicitor general, told the justices that while the Ninth Circuit had used as its test "the mere theoretical capability of noninfringing uses," the Supreme Court should look at the actual "business model" used by the defendants. [Grokster's] was an "extreme case," Mr. Clement said, a model built on "copyright

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

<sup>60</sup> Transcript of Oral Argument at 3, *MGM Studios, Inc. v. Grokster*, 125 S. Ct. 2764 (2005).

infringement without liability, with the full knowledge that the draw is unlawful copying."

"*Sony* could have set up a 'theoretical capability' test, but it didn't," Mr. Clement continued. Instead, he pointed out, the *Sony* decision required evidence of a "substantial" noninfringing use. The court in that decision found that consumers used their VCR's primarily for recording television programs that they could watch later, a noninfringing use referred to as time-shifting. . . .

Justice David H. Souter asked Donald B. Verrilli Jr., the lawyer arguing for the Hollywood studios and the recording industry, to envision "a guy sitting in his garage inventing the iPod." ... [The Justice] continued: "How do we give the developer the confidence to go ahead? On your theory, why isn't it a foregone conclusion from the outset that the iPod inventor is going to lose his shirt?" . . .

Justice Antonin Scalia said he was concerned that legitimate uses of a new technology might need some time to become established; in the meantime, the developer would be defenseless against a copyright infringement suit. "What I worry about is a suit right out of the box," he said. "Do you give a company a couple of years to show 'substantial' noninfringement?"

Mr. Clement replied that in the government's view, there should [usually] be "a lot of leeway at the beginning." But that was "not this case [here]," he said, asserting that Grokster and StreamCast had "a business plan from Day 1 to capitalize on Napster."<sup>61</sup>

Ultimately, Justice Breyer drafted a lengthy concurring opinion on the case. He favored a liberal interpretation of *Sony's* "capable of substantial non-infringing uses" language. In *Sony Betamax*, the plaintiffs had controlled a small percentage of the available unauthorized programming.<sup>62</sup> The *Sony*

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<sup>61</sup> Linda Greenhouse, *Lively Debate as Justices Address File Sharing*, New York Times (March 30, 2005), <http://www.nytimes.com/2005/03/30/technology/30bizcourt.html> (last visited March 2006).

<sup>62</sup> *Grokster*, 125 S.Ct. at 2788 (Breyer, J., concurring). In *Sony*, the plaintiffs owned less than 10% of the copyrighted television programming at issue, which meant that over 90% of the copyrighted television programming could, possibly, be recorded with no objection from its copyright owners.



Court found its “substantial” non-infringing uses even though the evidence only supported a definite conclusion that roughly nine or ten percent of the Betamax usage was for a non-infringing purpose.<sup>63</sup> The lower courts had also found that roughly ten percent of the files shared with the Grokster software were non-infringing, a very similar percentage. As such, Justice Breyer felt that the *Sony Betamax* defense should protect Grokster as well.<sup>64</sup>

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<sup>63</sup> *Id.* As Justice Breyer explained: “For one thing, petitioners' (hereinafter MGM) own expert declared that 75% of current files available on Grokster are infringing and 15% are ‘likely infringing.’ ... That leaves some number of files near 10% that apparently are noninfringing, a figure very similar to the 9% or so of authorized time-shifting uses of the VCR that the Court faced in *Sony*. As in *Sony*, witnesses here explained the nature of the noninfringing files on Grokster's network without detailed quantification. Those files include:

- Authorized copies of music by artists such as Wilco, Janis Ian, Pearl Jam, Dave Matthews, John Mayer, and others. See App. at 152-153, PP9-13 (Decl. of Aram Sinnreich) (Wilco's "lesson has already been adopted by artists still signed to their major labels"); *id.*, at 170, PP5-7 (Decl. of Patricia D. Hoekman) (locating "numerous audio recordings" that were authorized for swapping); *id.*, at 74, P10 (Decl. of Daniel B. Rung) (describing Grokster's partnership with a company that hosts music from thousands of independent artists);
- Free electronic books and other works from various online publishers, including Project Gutenberg. See *id.*, at 136, P12 (Decl. of Gregory B. Newby) ("Numerous authorized and public domain Project Gutenberg eBooks are made available" on Grokster. Project Gutenberg "welcomes this widespread sharing ... using these software products[,] since they assist us in meeting our objectives"); *id.*, at 159-160, P32 (Decl. of Sinnreich);
- Public domain and authorized software, such as WinZip 8.1. *Id.*, at 170, P8 (Decl. of Hoekman); *id.*, at 165, PP4-7 (Decl. of John Busher); [and]
- Licensed music videos and television and movie segments distributed via digital video packaging with the permission of the copyright holder. *Id.*, at 70, P24 (Decl. of Sean L. Mayers).

The nature of these and other lawfully swapped files is such that it is reasonable to infer quantities of current lawful use roughly approximate to those at issue in *Sony*. At least, MGM has offered no evidence sufficient to survive summary judgment that could plausibly demonstrate a significant quantitative difference.” *Id.* at 2788-89.

<sup>64</sup> *Id.* at 2788.

Justice Breyer also felt that Court should take into account the potential *future* uses of Grokster's software when considering its "capability."<sup>65</sup> For instance, as more non-copyrighted information is stored in swappable files, it would be likely that lawful P2P sharing would increase (right along with illegal sharing). Such a scenario occurred after the *Sony Betamax* decision; the longer the product stayed on the market, the higher the raw number of legitimate recordings climbed. In essence, Justice Breyer found that even a small *proportion* of a product's uses could create a raw number that would meet the term "substantial" under his interpretation of the *Sony Betamax* defense.

Justice Ginsburg also drafted a lengthy concurring opinion on the case, taking the opposite view on the application of the *Sony Betamax* defense. She stressed that the plaintiffs in the *Sony Betamax* case owned copyrights in a very small percentage of the programs recorded, meaning that a very large percentage of works might have been recorded without objection, in addition to the finding a common use of the Betamax recorder ("time-shifting") would qualify as legitimate "fair" use. However, in *Grokster*, the plaintiffs controlled 70% to 75% of the copyrighted material exchanged by the P2P users, and they did *not* consent to the unauthorized sharing of these works. This meant that Grokster users could be legitimately sharing no more than 30% of the massive number of files traded every day.

Thus, Justice Ginsburg was not convinced that such a low potential *percentage* of non-infringing uses, especially with such a large number of daily incidents at issue, should be viewed as "substantial" under the *Sony Betamax* defense. In other words, she seemed more concerned with substantial *infringing* use (when a product is widely used) than substantial non-infringing use. She

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<sup>65</sup> Justice Breyer addressed the point as follows: "Importantly, *Sony* also used the word 'capable,' asking whether the product is 'capable of' substantial noninfringing uses. Its language and analysis suggest that a figure like 10%, if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time. See [*Sony*, 464 U.S. at 444] (noting a 'significant potential for future authorized copying'). And its language also indicates the appropriateness of looking to potential future uses of the product to determine its 'capability.' Here the record reveals a significant future market for noninfringing uses of Grokster-type peer-to-peer software [as well]. ... There may be other now-unforeseen noninfringing uses that develop for peer-to-peer software, just as the home-video rental industry (unmentioned in *Sony*) developed for the VCR." *Id.* at 2789.

felt that no matter how significant the amount of non-infringing use might be, that usage could be dwarfed by the infringing use of a widely used product.<sup>66</sup> In such a case, she did not feel the *Sony Betamax* defense should apply.

Justice Ginsburg was also unpersuaded that Grokster had provided enough direct evidence of “actual” non-infringing use.<sup>67</sup> She was less willing to consider hypothetical arguments or the theoretical notion that Grokster’s software “could be capable” of other non-infringing uses in the future.<sup>68</sup> She felt that a purely theoretical possibility of legal use was too simple, and if that was what the *Sony Betamax* Court had in mind, there was no explanation as to why it took the *Sony Betamax* Court thirteen pages (in a seventy-plus page opinion) to address the issue.<sup>69</sup> In her view, a product needed to be more than just theoretically capable of non-infringing uses, and actual evidence of specific legitimate uses should be required.

Thus, the same concerns that divided the Justices during the oral arguments continued to divide them; no clear majority position emerged when it came to interpreting *Sony’s* “substantial non-infringing uses” defense to a “constructive knowledge of infringement” argument. Justice Ginsburg was joined in her concurrence by Chief Justice Rehnquist and Justice Kennedy.

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<sup>66</sup> Justice Ginsburg explained: “Even if the absolute number of noninfringing files copied using the Grokster and StreamCast software is large, it does not follow that the products are therefore put to substantial noninfringing uses and are thus immune from liability. The number of noninfringing copies may be reflective of, and dwarfed by, the huge total volume of files shared.” *Id.* at 2786 (Ginsburg, J., concurring).

<sup>67</sup> Justice Ginsburg took exception to the evidence presented and the District Court’s findings: “The District Court declared it ‘undisputed that there are substantial noninfringing uses for Defendants’ software,’ thus obviating the need for further proceedings. 259 F. Supp. 2d, at 1035. This conclusion appears to rest almost entirely on the collection of declarations submitted by Grokster and StreamCast. *Ibid.* Review of these declarations reveals mostly anecdotal evidence, sometimes obtained second-hand, of authorized copyrighted works or public domain works available online and shared through peer-to-peer networks, and general statements about the benefits of peer-to-peer technology. ... These declarations do not support summary judgment in the face of evidence, proffered by MGM, of overwhelming use of Grokster’s and StreamCast’s software for infringement.” *Id.* at 2785-86 (footnotes and additional citations omitted).

<sup>68</sup> *Id.* at 2789-90.

<sup>69</sup> Transcript of Oral Argument at 33, *Grokster*, 125 S.Ct. 2764 (2005).

This group would give a more conservative reading to the *Sony Betamax* defense and, it seemed, hold that Grokster's technology was *not* capable of substantial non-infringing uses. If that was the case, then the fact that Grokster's technology was theoretically capable of use as a tool for copyright infringement (i.e., "*constructive* knowledge" of user infringement) would be enough to implicate Grokster in the illegal behavior of its users.

On the other hand, Justice Breyer was joined in his concurrence by Justice Stevens and Justice O'Connor. This group would give a liberal reading to the *Sony Betamax* test and, it seemed, uphold the Ninth Circuit's ruling that Grokster's technology was capable of substantial non-infringing uses. Such an approach could protect Grokster from contributory copyright liability under the *Sony Betamax* test as it had been commonly understood. With the position of the remaining three Justices unclear, however, neither group seemed to have the five solid votes necessary to carry the day.

In a surprising turn of events, through a unanimous majority opinion authored by Justice Souter, the *Grokster* Court actually avoided resolution of the *knowledge* element of the contributory infringement analysis altogether. The Court found that the Ninth Circuit had misapplied *Sony Betamax*. In particular, the Ninth Circuit had reasoned that a product capable of substantial non-infringing uses could avoid liability unless *actual* knowledge of the infringement was proven.<sup>70</sup> The Supreme Court, however, ruled that when the

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<sup>70</sup> According to the Court: "We agree with MGM that the Court of Appeals misapplied *Sony*, which it read as limiting secondary liability quite beyond the circumstances to which the case applied. *Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product [if that product was] capable of substantial lawful use.... The Ninth Circuit has read *Sony's* limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it ... unless the distributors had 'specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information.' 380 F.3d at 1162 (internal quotation marks and alterations omitted). Because the Circuit found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of *Sony* that neither company could be held liable, since there was no [*actual*] knowledge of specific unlawful uses. This view of *Sony*, however, was error.... *Sony* did not displace other theories of secondary liability, and because we find ... that it was error to grant summary judgment to the companies on MGM's inducement claim, we do not revisit *Sony* further, as MGM requests, to add a more

provider of a product or service actively and intentionally *induces* infringement, no other form of knowledge need be proven at all.<sup>71</sup> The Court held that one who uses a product for the purpose of infringement, as shown by active steps to further that infringement, is liable for the consequential acts of that infringement by third parties. In other words, because Grokster actively induced infringement by its users, Grokster was liable for secondary (i.e., contributory) copyright infringement.

## ANALYSIS

### *Ambiguities in the Sony Betamax Precedent*

Although it appeared at first blush that *Grokster* might survive the *Sony Betamax* test for contributory infringement, the Supreme Court ruled, under its new *inducement* theory, that *Grokster* was liable for its users' infringement. The Court's use of a new test will create chaos with regard to the legal standard for contributory infringement. The *Sony Betamax* case established a precedent that had been applied by the lower courts for decades. Although the courts occasionally struggled with application of the *knowledge* element of the standard, that element had never been completely ignored in such a fashion. However, rather than add clarity to the *knowledge* element, the *Grokster* Court either turned its back on the *Sony Betamax* standard, or, at the very least, muddled the standard even further.

The *Grokster* Court's approach was particularly surprising because the points raised during oral argument suggested that the Justices planned to address the *Sony Betamax* standard and its vague language head-on. The controversial language that came out of the *Sony* opinion refers to reproduction technology that should be protected from legal attack; "indeed, it need merely be capable of substantial non-infringing uses."<sup>72</sup> The *Sony* Court emphasized that this aspect of public policy should not be overlooked, but at the same time

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quantified description of the [Sony defense to *constructive* knowledge]. It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and to leave further consideration of the *Sony* rule for a day when that may be required." *Grokster*, 125 S.Ct. at 2778-79.

<sup>71</sup> *Id.* at 2779.

<sup>72</sup> *Sony*, 464 U.S. at 442.

the *Sony* Court did not clearly define what constituted a technology “capable” of “substantial” non-infringing uses:

- For instance, did “capable” of non-infringing uses mean that a product was protected if it had theoretical legitimate uses, or was more specific evidence of actual non-infringing use required? Common usage of the word “capable” and Justice Kennedy suggest the former construction, but Justice Ginsburg favored the latter. As she pointed out, the *Sony Betamax* Court was dealing with concrete evidence of at least some non-infringing usage, and she found that to be an important point.
- If specific evidence of non-infringing use is needed, then how soon must a would-be inventor be ready to prove such usage? Justices Scalia and Souter raised this concern during oral argument. No brand new product has any users – legitimate or otherwise – at the moment it is first offered to the public. Justice Breyer asked counsel for the plaintiff, “If you were the counsel to the creator of the VCR, could you recommend, given the use, copying movies, that we should ever have a VCR? Are you sure that you could recommend to the iPod inventor that he could go ahead and have an iPod, or, for that matter, Gutenberg, the press?”<sup>73</sup> In other words, the Justices were concerned that a timid, but talented, inventor might not invest the time and resources necessary to bring a product to market if it was possible that the infringing users might adopt it more quickly than the potential legitimate users, thereby leaving the inventor open to contributory liability.
- Finally, regardless of which type of legitimate use must be demonstrated, how much non-infringing use is “substantial”? The differing approaches taken by Justices Kennedy and Ginsburg in their concurring opinions also highlighted the potential for disagreement on this point. They seemed to have differing views as to whether the *proportion* of total uses, or the *raw number* of total uses, should be the measure. Justice Kennedy seemed comfortable looking beyond a large raw number of infringing uses as long as a significant proportion of the total uses (roughly 10 percent) could be viewed as non-infringing justification for the product’s survival. Justice Ginsburg, however, took a slightly different view of the *Sony Betamax* figures. She also expressed distinct concern over exonerating a product if only ten percent of a very large pool of uses is legitimate.

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<sup>73</sup> Transcript of Oral Argument at 10-11, *Grokster*, 125 S.Ct. 2764 (2005).

Given that copyright law is becoming increasingly important in the “information age,” much speculation arose as to why the Court didn’t address any of these important aspects of the *Sony Betamax* standard. As discussed further herein, the Court simply suggested that the *Sony* precedent didn’t apply to a case where the intent to design a business by inducing copyright infringement was so clear.<sup>74</sup> Court-watchers have speculated that other factors may have been at play. This lack of clarity with application of the *Sony Betamax* standard may have been too much for the *Grokster* Court to cure with a majority consensus in an end-of-the-term opinion. It is entirely possible that this pragmatic concern had some significance.

Alternatively, the *Grokster* Court may have simply felt that the *Sony* standard could no longer address the increasingly rapid pace of technological evolution. As the Court recognized, contributory infringement law strains the delicate balance between a copyright holder’s legitimate demand for effective, not merely symbolic, protection of the statutory monopoly, and the rights of others to freely engage in socially beneficial forms of innovation and commerce.<sup>75</sup> Some aspects of the *Grokster* situation may have resembled the *Sony Betamax* case, but the larger social and economic landscape certainly differed.<sup>76</sup> By leaving aside refinement of the *Sony* standard for another day,

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<sup>74</sup> The Court explained: “Sony’s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product [(i.e., “constructive” knowledge that the product is capable of infringing uses)]. But nothing in *Sony* requires courts to ignore evidence of [actual] intent [to encourage infringement] if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law. *Sony Corp. v. Universal City Studios*, 464 U.S. at 439 (“If [secondary] liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge” of the potential for infringement). Thus, where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses [(i.e., “constructive” knowledge)], and shows statements or actions directed to [intentionally] promoting infringement, Sony’s [substantial non-infringing uses defense] will not preclude liability.” *Grokster*, 125 S.Ct. at 2779 (footnote omitted).

<sup>75</sup> *Id.* at 2787 (Breyer, J., concurring) (citing *Sony*, 464 U.S. at 442).

<sup>76</sup> As the Court described, “The tension between the [respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement] is the subject of this case, with its claim that digital distribution of copyrighted material threatens copyright holders as never before, because every copy is

the Court may have been hoping to preserve the possibility for Congressional intervention in this highly charged field of public policy.

*Congress Remains Silent*

Similar to the *Sony Betamax* Court twenty years prior, the *Grokster* Court found itself responsible for determining the legitimacy of a new technology without Congressional guidance. The issue before the Court was under what circumstances the distributor of a product capable of both lawful and unlawful use would be liable for acts of copyright infringement by the product's users.<sup>77</sup> The *Sony Betamax* Court believed it was up to Congress to create standards and rules for new technology, and it was not the place of the judiciary to create new areas of copyright law.

Throughout the *Sony Betamax* opinion, the Supreme Court referenced Congress' role in the public policy issues at hand; the Court closed the opinion with a call to Congress to address the copyright balance:

Like so many other problems created by the interaction of copyright law with a new technology, "[there] can be no really satisfactory solution to the problem presented here, until Congress acts." ... But in the absence of a congressional solution, courts cannot avoid difficult problems by refusing to apply the law. We must "take the Copyright Act ... as we find it," ... and "do as little damage as possible to traditional copyright principles ... until the Congress legislates."<sup>78</sup>

The text of the Constitution clearly states that it is the responsibility of Congress to define the scope of the limited monopoly that should be granted to authors or inventors in order to give the public appropriate access to their

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identical to the original, copying is easy, and many people (especially the young) use file-sharing software to download copyrighted works. This very breadth of the software's use may well draw the public directly into the debate over copyright policy..., and the indications are that the ease of copying songs or movies using software like Grokster's and Napster's is fostering disdain for copyright protection.... As the case has been presented to us, these fears are said to be offset by the different concern that imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies. *Grokster*, 125 S.Ct. at 2775-56 (citations and footnotes omitted).

<sup>77</sup> *Id.* at 2764.

<sup>78</sup> *Sony*, 464 U.S. at 500.



creative endeavors.<sup>79</sup> As the *Sony Betamax* Court pointed out, Congress often fashions new rules regulating new reproduction technologies such as the player piano, television retransmission devices, and audio tape recorders. Congress ultimately addressed each of these technologies through revision to copyright law.<sup>80</sup> Congress has regulated several forms of digital technology in recent years; however, the copyright issues associated with P2P file-sharing have not been specifically addressed. Regulations against “inducing” copyright infringement have been proposed by the copyright owners, considered by Congressional committees, vocally opposed by other groups, but not, as of yet, passed into law.<sup>81</sup>

Judge Thomas of the Ninth Circuit articulated the dangers in leaving judges to ‘legislate from the bench’ with regard to new technologies:

The Copyright Owners urge a re-examination of the law in the light of what they believe to be proper public policy, expanding exponentially the reach of the doctrines of contributory and vicarious copyright infringement. ... Doubtless, taking that step would satisfy the Copyright Owners' immediate economic aims. However, it would also alter general copyright law in profound ways with unknown ultimate consequences outside the present context. ... [W]e live in a quicksilver technological environment with courts ill-suited to fix the flow of internet innovation. ... The introduction of new technology is always disruptive to old markets, and particularly to those copyright owners

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<sup>79</sup> *Id.* at 429.

<sup>80</sup> *Id.* at 430-31.

<sup>81</sup> See, e.g., *The Inducing Infringement of Copyrights Act (SB2560)*, introduced by Senators Orrin Hatch (R-Utah) and Patrick Leahy (D-Vermont) in June 2004. Opponents claim that the Act, which would create liability for one who “intentionally induces” copyright infringement, would threaten CD burners, jukebox programs and Wi-Fi routers, just to name a few common technologies. Several dozen groups raised concerns over the bill. Although opponents complained of an unfair playing field because content owners had allegedly donated hundreds of thousands of dollars to the bill’s sponsors, over 5,000 people reportedly signed up to call legislators as part of a grass roots campaign in opposition. See, e.g., Katie Dean, *New INDUCE Act Alarms Foes*, Wired News, <http://www.wired.com/news/politics/0,1283,65084,00.html> (September 27, 2004) (last visited June 2006); Katie Dean, *Big Anti-INDUCE Campaign Planned*, Wired News, <http://www.wired.com/news/politics/0,64935-0.html> (September 14, 2004) (last visited June 2006).

whose works are sold through well-established distribution mechanisms. Yet, history has shown that time and market forces often provide equilibrium in balancing interests, whether the new technology be a player piano, a copier, a tape recorder, a video recorder, a personal computer, a karaoke machine, or an MP3 player. Thus, it is prudent for courts to exercise caution before restructuring liability theories for the purpose of addressing specific market abuses, despite their apparent present magnitude.<sup>82</sup>

Since Congress did not address P2P file-sharing technologies through legislation, the *Grokster* Court, like the *Sony* Court before it, was left to create its own solution without the benefit of extensive public hearings and policy analysis. The Court's resolution arguably created a new form of copyright liability that may, indeed, bring Judge Thomas's concerns about unintended consequences to fruition.

#### *New Legal Standard*

Rather than refine *Sony's* original legal standard for contributory infringement, the *Grokster* Court created a new form of contributory copyright liability which it referred to as the *inducement* theory. According to the Court, inducement liability applies when the distributor of a product intends and encourages the product to be used for infringing purposes.<sup>83</sup> In essence, inducement liability requires both the encouragement of the infringement and the distribution of the means to infringe. The inducement theory also requires evidence of actual infringement by users of the device.<sup>84</sup>

Although there was disagreement on the amount of substantial non-infringing use necessary to meet the *Sony Betamax* standard, the Court found that even if substantial non-infringing use was found, that defense could not be used to defeat a claim of *inducement* liability. The Court was careful to point out that the capability for substantial non-infringing uses could negate an "imputed" finding of *constructive knowledge* that the product was too dangerous, but that evidence of the intent to induce infringement was an alternative way of proving that the distributor should have known better.

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<sup>82</sup> *Grokster*, 380 F.3d at 1166-67 (citations omitted).

<sup>83</sup> *Grokster*, 125 S.Ct. at 2782.

<sup>84</sup> *Id.* at 2784.

There are two possible ways to visualize the Court's reconstruction of the pre-existing three-part legal standard for contributory copyright infringement. The Court's changes had the greatest impact on the *knowledge* element from the original test. Consider the following depiction below illustrating the original 3-part test:

1. Third parties must be infringing.
2. Defendant either
  - (a) has *actual* knowledge of specific instances of infringement, or
  - (b) has reason to know (i.e., *constructive* knowledge) that the product could be used for infringing purposes (unless the product is "capable" of "substantial" non-infringing uses).
3. Defendant induces, causes, or materially contributes to the infringement.

This traditional legal standard, originating in *Sony Betamax* and applied in numerous subsequent cases, protects a new technology that could be used – in theory – for both infringing and substantial non-infringing purposes.

Now, consider the following depiction of the *Grokster* Court's new framework for the "inducement" standard. This is one way to visualize the Court's willingness to hold *Grokster* liable without the traditional evidence of either actual or constructive knowledge of infringement:<sup>85</sup>

1. Third parties must be infringing.
- ~~2. Defendant either~~
  - ~~(a) has *actual* knowledge of specific instances of infringement, or~~
  - ~~(b) has reason to know (i.e., *constructive* knowledge) that the product could be used for infringing purposes (unless the product is "capable" of "substantial" non-infringing uses).~~
3. Defendant induces, ~~causes, or materially contributes to the~~ infringement.

This new standard retains only two components of the original: *third parties infringing* and *defendant induces*. In this scenario, the delicate balance between copyright and new technologies carved out of the *Sony Betamax* opinion is

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<sup>85</sup> Depiction developed in conjunction with S.K. Sellgren, "Law & Markets" class lecture, University of California, Irvine (March 2006).

obliterated. Even a socially beneficial technology could be prohibited if the court is convinced that evidence of the intent to induce infringement exists.

Although the Court was able to avoid its point of dissension in defining the limits of *Sony's* protection for non-infringing uses by striking out the knowledge element in the *Grokster* case, the Court did away with *Sony's* protection for new technologies in the process.<sup>86</sup> By doing so, the Court could be depriving the public of socially beneficial products due to the misdeeds of the product's creator. It was this very balance of copyright interests and public interests that the *Sony Betamax* Court had worked so hard to respect.

A somewhat different depiction of the Court's new *inducement* standard could preserve the *Sony Betamax* defense in some situations. This alternate scenario would treat the word "induce" as part of the "knowledge" (i.e., "state of mind") element of the pre-existing standard, rather than its prior treatment as a form of "material contribution" to the infringement. This conception of the Court's change to the original 3-part test can be visualized as follows:<sup>87</sup>

1. Third parties must be infringing.
2. Defendant either
  - (a) has *actual* knowledge of specific instances of infringement, or
  - (b) has reason to know (i.e., *constructive* knowledge) that the product could be used for infringing purposes (unless the product is "capable" of "substantial" non-infringing uses), or
  - (c) intentionally induces or causes the infringement.
3. Defendant ~~induces, causes, or~~ materially contributes to the infringement.

If the change to the existing legal standard is viewed in this manner, the *Sony Betamax* balance between copyright and new technologies protection can be preserved in some, but not all cases. An *inducement* case becomes an exception to the *Sony Betamax* balance, in the same manner as an *actual knowledge* case,

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<sup>86</sup> Recall that the Court did *not* suggest that the plaintiffs had proven *Grokster* had "actual knowledge" of specific infringement, nor did the Court undertake the traditional "constructive knowledge" analysis with its "substantial non-infringing uses" defense. Thus, the Court's decision suggests that "*inducement*" liability will apply even if neither *actual* nor the traditional type of *constructive knowledge* has been established. *Id.*

<sup>87</sup> *Id.*

which has been traditionally accepted as an exception to the *Sony Betamax* balance as well.<sup>88</sup> For instance, if the defendant is found to have actively induced infringement (or ignored specific knowledge of infringement), then the defendant cannot claim the “substantial non-infringing uses” defense. Under this construction of the Court’s ruling, *inducement* liability merely supplements, but does not replace, the traditional arguments for liability based on *actual* or *constructive knowledge* of infringement.

The language of the majority opinion suggests that this might have been the adjustment to the legal standard the Court had in mind:

In sum, this case is significantly different from *Sony*.... *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with [“*constructive*”] knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product's capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.

MGM's evidence in this case most obviously addresses a *different basis of liability* for distributing a product open to alternative uses. Here, evidence of the distributors' words and deeds going beyond distribution as such shows a *purpose* to cause and profit from third-party acts of copyright infringement.

If liability for *inducing* infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.<sup>89</sup>

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

<sup>89</sup> *Grokster*, 125 S.Ct. at 2782 (emphasis added). Although beyond the scope of this article, the Court’s reference to a “profit” motive in this statement is troubling. Traditionally, “financial interest” in the infringing behavior of third parties has been one of the three required elements for a claim of *vicarious* (as opposed to *contributory*) copyright infringement. The two claims were already similar in several regards; this new overlap could result in confusion and imprecise reasoning in future cases. S.K. Sellgren, "Law & Markets" class lecture, University of California, Irvine (March 2006).

The construction of the new legal standard in this manner makes sense because the original 3-part contributory infringement standard is nothing more than an after-the-fact construction of one long sentence that appeared in the *Sony Betamax* opinion. The *Sony* Court had simply used the language "induces, causes or materially contributes" within its opinion.<sup>90</sup> Subsequent courts took the liberty to judicially create a three-pronged breakdown of that sentence. The decision to link inducement with material contribution was a part of the after-the-fact process. Thus, in the newly depicted legal standard visualized above, the movement of a word from one "prong" of the 3-part test to another seems less controversial than obliterating the "knowledge" element in its entirety.

The real difficulty with the new "inducement" test is found in its application. The *Grokster* Court failed to carefully define the important term "inducement" for the benefit of future courts. Subsequent courts will need to reason by analogy in order to determine how the *Grokster* Court was defining the term. This is an important point. Both *Grokster* and *StreamCast* were treated as inducers, even though the evidence of inducement against each company varied. The evidence against *StreamCast* was much more damaging than the evidence against *Grokster*. However, since both companies were found liable, future courts must assume that even the sparse evidence presented against *Grokster* would be enough to build a case for inducement liability.

A closer look at the evidence presented against *Grokster* and *StreamCast* illustrates this point. Most of the evidence for inducement dealt directly with *StreamCast*. The plaintiffs produced internal memos from *StreamCast* discussing plans to market the product in a manner that would attract former *Napster* users. The bulk of the evidence against *Grokster* simply showed that the company did not develop a filtering device or change its product to block infringing users from continuing to use the software. If the latter is all that is needed to satisfy the *inducement* element, the future market for new technology could be compromised. Copyright owners have been given a powerful new weapon to threaten any producer of new technology who refuses to modify (and monitor) usage of that technology on demand.

As a result of the *Grokster* Court's decision, the next college student who might create a major, ground-breaking innovation will be left with several things to consider first. Could that new invention be used to commit copyright infringement? Would any lawful uses be considered "substantial" by the

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<sup>90</sup> *Sony*, 464 U.S. at 487 (emphasis added).

Court? How long would the courts allow for legitimate use to take hold before considering the imposition of legal liability if illegal uses occur first? Finally, could the developer's actions in creating or promoting the technology be deemed *inducement* of copyright infringement? It seems clear that Justice Souter's fears will be realized in at least some instances – the looming threat of legal uncertainty created by the *Grokster* opinion will deter the development of future technological innovations – perhaps even “the next iPod.”<sup>91</sup>

### CONCLUSION

In 1984, the Supreme Court introduced the legal standard for contributory copyright infringement in the landmark *Sony Betamax* case. The Court held that third parties must be infringing copyrights, the defendant must have a state of mind that demonstrates acquiescence to the infringement, and the defendant must make a contribution to the execution of the infringement. However, the Court also specified that constructive knowledge of the mere possibility of infringement could not satisfy the state of mind requirement if the product was also capable of substantial non-infringing uses. Since then, lower court opinions such as *Fonovisa* and *Napster* have applied this standard in the form of a judicially created 3-part test. Application of that test led the Ninth Circuit Court of Appeal to conclude that *Grokster*, a distributor of P2P file-sharing software, could not be held liable for the infringing activity of its users.

When reviewing the *Grokster* case in 2005, the Supreme Court ruled that *Grokster* was liable for the infringing behavior of its users. The *Grokster* Court had a unique opportunity to clarify the ambiguity of the original *Sony Betamax* standard. Instead, the Court created another vague standard that threatens to impede innovation and the creation of future technology.

By not clearly defining the term “induce” or speaking more directly about the difference in the evidence presented against the two co-defendants, the Court suggested that the minimal level of inducement evidence against *Grokster* could be used as a litmus test for future cases. Some courts may even interpret this standard to mean that the mere failure to modify a product and aggressively monitor user behavior is a form of “inducing” infringement. This low bar is likely to defer too many potential innovators. Even the successful defense of a lawsuit is an expensive proposition; a loss could mean that huge

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<sup>91</sup> See, e.g., Greenhouse, *supra* note 83.

research and development resources were wasted. The power has now shifted unequivocally to copyright holders, who will likely attempt to suppress any pending technological innovation that encroaches upon their ability protect even the most outdated business models.<sup>92</sup>

This article began by posing the question: Has technology provided a benefit to music lovers? Alex Ross brought us the view of the famous composer John Phillips Sousa, and in his *New York Times* piece Ross goes on to contrast that argument with the opposing view:

Ever since Edison introduced the wax cylinder, in 1877, people have been trying to figure out what recording has done for and to the art of music. Inevitably, the conversation has veered toward rhetorical extremes.

Sousa was a pioneering spokesman for the party of doom, which was later filled out by various post-Marxist theorists. In the opposite corner are the technological utopians, who will tell you that recording has not imprisoned music but liberated it, bringing the art of the elite to the masses and the art of the margins to the center. Before Edison came along, the utopians say, Beethoven's symphonies could be heard only in select concert halls. Now CDs carry the man from Bonn to the corners of the earth, summoning forth the million souls he hoped to embrace in his "Ode to Joy."

Conversely, recordings gave the likes of Louis Armstrong, Chuck Berry, and James Brown the chance to occupy a global platform that Sousa's idyllic old America, racist to the core, would have denied them. The fact that their records played a crucial role in the advancement of African-American civil rights puts in proper perspective the aesthetic debate about whether or not technology has been "good" for music.<sup>93</sup>

Anyone who agrees that technological evolution can be viewed as a benefit to music should keep an eye on the evolution of copyright law as well. If

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<sup>92</sup> For an examination of the intersection between law, norms, market forces, and architectural changes to the channels of content distribution in the P2P context, see Khuu, Leus, Sul & Tran, *Steal This Intellectual Property: Appellate Courts Grapple with the Online File Sharing Revolution*, 3 UCI L. Forum J. 73 (Fall 2005).

<sup>93</sup> Ross, *supra* note 1.



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Congress remains silent and the courts are not careful, the delicate balance between infringement liability and breathing room for technological innovation could be lost, and the debate over the value of technology for music lovers will be moot. In this author's view, the Supreme Court's recent *Grokster* decision brings us one step closer to that undesirable outcome.