

**MGM v. GROKSTER BEFORE THE SUPREME COURT:**  
The Latest P2P Case or a Catalyst for a Clarified Standard of Secondary  
Liability for Copyright Infringement?

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## I. INTRODUCTION

On March 29, 2005, the Supreme Court heard oral arguments for the MGM v. Grokster case. While it is not clear from the 55-page transcript of last month's oral argument<sup>1</sup> what the Court's decision will be, there is no doubt that many people are eagerly waiting for the answer. It is not every case for which dozens of spectators camp out overnight in hopes of a courtroom seat, that prompts a demonstration on the Courthouse steps,<sup>2</sup> that forces more than fifty groups to choose sides between the entertainment industry or the P2P file-sharing services,<sup>3</sup> or that has the ACLU joining ranks with the American Conservative Union.

Narrowly, this is just the next P2P case. It is about whether P2P file-sharing technology is illegal to distribute because people can use it to infringe copyright. More importantly, it is about the vitality of the Sony standard. Many inventors see the Sony decision as the magna carta of innovation. This 1984 decision did not just make the world safe for VCRs;<sup>4</sup> it also created a safe haven for dozens of other popular technologies, including CD recorders, the iPod, and TiVo. Indeed many of these technologies were challenged by the recording and movie industries—unsuccessfully,

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<sup>1</sup> MGM v. Grokster, oral arguments. Found at:

[http://www.supremecourtus.gov/oral\\_arguments/argument\\_transcripts.html](http://www.supremecourtus.gov/oral_arguments/argument_transcripts.html)

<sup>2</sup> Signs from the demonstration read, "Save Betamax," "Feed a Musician – Download Legally," "Pay for What you Play," "Keep Your Hands Off My iPod," and "We Work Hard for the Money."

<sup>3</sup> Among those supporting MGM are 26 law professors and economists, the U.S. Justice Department, and the attorneys general of 40 states. Grokster's friends include librarians, computer-science professors, independent musicians, the ACLU and the American Conservative Union.

<sup>4</sup> In 1982, Jack Valenti, then-chairman of the Motion Picture Association of America, warned: "The VCR is to the American film producer and the American public as the Boston Strangler is to the woman home alone."

thanks in large part to the Sony rule. This case is symbolic of an epic showdown between creative artists and technological innovators and the world is waiting to find out who will be the victor.

In this paper, Part II will set forth the legal standards for copyright infringement; Part III summarizes the seminal Sony case; Part IV discusses the way these standards were applied in the other P2P cases (Napster and Aimster); Part V introduces the Grokster case; Part VI reviews some of the primary issues the Supreme Court Justices were interested in talking about at oral argument; and, based on those themes, Part VII includes my predictions for the outcome of this case.

## II. COPYRIGHT INFRINGEMENT

### a. Direct Infringement

Section 501 of the Copyright Act provides that anyone who violates any of the exclusive rights of the copyright owner, or of the author, or who imports copies or phonorecords into the United States in violation of § 602, is liable for direct infringement. To establish a claim of copyright infringement, a plaintiff must demonstrate (1) ownership of a valid copyright and (2) "copying" of protectable expression by the defendant.<sup>5</sup> In the words of the Ninth Circuit, "the word 'copying' is shorthand for the infringing of any of the copyright owner's five exclusive rights."<sup>6</sup> Hence, persons engaging in unauthorized reproduction, adaptation, public distribution, public performance, public display, or importation of copyrighted works are directly liable to the

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<sup>5</sup> Baxter v. MCA, Inc., 812 F.2d 421, 423 (9th Cir.), cert. denied, 484 U.S. 954, 108 S. Ct. 346, 98 L. Ed. 2d 372 (1987).

<sup>6</sup> S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1085 n.3 (9<sup>th</sup> Cir. 1989).

copyright owner.<sup>7</sup> Copyright infringement is a form of strict liability. Direct infringement does not require intent or any particular state of mind, although willfulness is relevant to the award of statutory damages.<sup>8</sup>

Liability is not limited solely to direct infringers. Though the Copyright Act does not expressly provide it, the Supreme Court has recognized that there are “circumstances in which it is just to hold one individual accountable for the [copyright infringement] of another.”<sup>9</sup> The courts have developed two distinct varieties of secondary liability—vicarious and contributory—as a means of holding persons liable for the infringing acts of others. However, secondary liability does not exist in the absence of direct infringement by a third party.<sup>10</sup>

b. Vicarious liability

Vicarious infringement liability is grounded in the tort concept of respondeat superior, although it is not limited to employee-employer settings or even to strict agent-principal settings. The Second Circuit has held that a finding of vicarious liability is justified “when the right and ability to supervise [the infringer] coalesce with an obvious and direct financial interest in the exploitation of copyright materials.”<sup>11</sup> A defendant who has control or supervision over the direct infringer and a direct financial interest in the infringement will be vicariously liable even if he has no actual knowledge that the infringement is taking place and did not directly participate in it.

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<sup>7</sup> § 106

<sup>8</sup> § 504(c). See also Religious Technology Center v. Netcom On-Line Communications Services, Inc., 907 F. Supp. 1361, 1367 (N.D. Cal. 1995).

<sup>9</sup> Sony Corp. of America v. Universal City Studios, Inc., 464 US 417, 434-35 (1984) (citing Kalem Co. v. Harper Bros., 222 US 55 (1911)).

<sup>10</sup> Id. at 1371. “There can be no contributory infringement by a defendant without direct infringement by another.”

<sup>11</sup> Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963).

Vicarious liability in copyright law developed as a response to the difficulty music publishers had in the early 1900s collecting royalties for the public performance of their musical compositions by traveling orchestras in dance halls.<sup>12</sup> As would prove to be the case with other groups of direct infringers down through the years, recovery from the orchestras was often difficult or impossible.<sup>13</sup> Taking from the agency doctrine of respondeat superior, courts imposed liability for the orchestras' unlicensed performances on the dance halls that hired them.<sup>14</sup> The origin of the doctrine in the dance hall cases offers a clue to at least part of the rationale: failure to impose the liability would often leave the copyright owner without a remedy.<sup>15</sup> The dance hall owner is in a better position to bear the costs and distribute them to others who derived a benefit from the infringement than the composer. Further, imposing the cost on the beneficiary of the infringement, rather than the victim, satisfies basic notions of fairness and reasonableness. This rationale suggests that the element of financial benefit is the principal foundation of vicarious liability, while the element of right and ability to control plays a lesser role. The essential element is the derivation of benefit from the activity.

c. Contributory infringement

The Second Circuit has described a contributory infringer as “one who, with knowledge of the infringing activity, induces, causes, or materially contributes to the

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<sup>12</sup> See e.g. Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co., 36 F.2d 354 (2d Cir. 1929). See also Shapiro, Bernstein & Co v. H.L. Green Co., 316 F.2d 304, 307-08 (2d Cir. 1963).

<sup>13</sup> Shapiro, 316 F.2d at 307.

<sup>14</sup> Id.

<sup>15</sup> See In re: Aimster, 334 F.3d 643, 654 (7<sup>th</sup> Cir. 2003).

infringing conduct of another.”<sup>16</sup> Thus, two elements must be demonstrated: (1) the defendant must know or have reason to know of someone else’s direct infringement activity; and (2) the defendant must actively participate by actively inducing, materially contributing to, or furthering the other person’s directly infringing acts.<sup>17</sup>

In Fonovisa, Inc. v. Cherry Auction,<sup>18</sup> Cherry Auction operated a flea market where customers came to buy various merchandise from individual vendors. The vendors paid a daily rental fee to Cherry in exchange for booth space. Cherry supplied parking, conducted advertising to promote the flea market, and retained the right to exclude any vendor for any reason, at any time. In addition to rental fees from vendors, Cherry received an entrance fee from each customer who attended the flea market, charged customers for parking, and operated a food and drink stand on the premises. The Sheriff’s Department had warned Cherry that some of its vendors were selling counterfeit sound recordings at the flea market. After the warning, a vendor sold infringing recordings again, and the Court of Appeals for the Ninth Circuit held Cherry contributorily liable for the infringement. The court reasoned that Cherry had knowledge of the infringement by virtue of the Sheriff’s warning. Moreover, Cherry had contributed to the infringing activity by providing space, utilities, parking, advertising, plumbing, and customers.<sup>19</sup>

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<sup>16</sup> Gershwin Publishing Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1163 (2d Cir. 1971) where the court upheld contributory liability against the defendant, based on its “pervasive participation” in “creating the ... audience as a market for these artists” to perform copyrighted music.

<sup>17</sup> Id. at 1162.

<sup>18</sup> 76 F.3d 259 (9<sup>th</sup> Cir. 1996).

<sup>19</sup> Id.

The court also held Cherry Auction liable for vicarious infringement. The court reasoned that Cherry had the right to terminate vendors for any reason and, therefore, had the ability control the activities of vendors on the premises. Additionally, Cherry controlled access of customers to the flea market. Cherry received a direct financial benefit from the infringing record sales by virtue of the increased admission fees, concession stand sales, and parking fees from customers who came to the flea market to purchase infringing sound recordings. The sale of pirated recordings was a “draw” for customers, from which Cherry profited.

In sum, while vicarious liability focuses on the secondary infringer’s relationship to the primary infringer—the ability to police or supervise the infringing conduct—the doctrine of contributory infringement is premised on the defendant’s own conduct that induces or contributes to the primary infringement.<sup>20</sup> There are, in turn, two distinct strands of contributory liability: (1) where the defendant’s role in facilitating the infringement is limited to providing the service or machinery that facilitates infringement<sup>21</sup> and (2) where the defendant, beyond the scale of the product, actively induces the infringement.<sup>22</sup>

### III. SONY CORP. OF AMERICA v. UNIVERSAL CITY STUDIOS

In Sony Corp. of America v. Universal City Studios,<sup>23</sup> the Supreme Court found that a manufacturer and seller of VCRs was not liable for contributory infringement, even

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<sup>20</sup> Gershwin, 443 F.2d at 1162-63.

<sup>21</sup> E.g., Sony Corp. of America, 464 US. at 439, 442.

<sup>22</sup> E.g., Cable/Home Communication Corp. v. Network Productions, Inc. 902 F.2d 829, 846 (11<sup>th</sup> Cir. 1990) (quoting Gershwin, 443 F.2d at 1162. See also Matthew Bender v. West Publishing, 158 F.3d 6993, 706 (2d Cir. 1998) recognizing distinct theories of contributory liability, cert. denied, 526 US 1154 (1999).

<sup>23</sup> 464 US 417 (1984).

though it had constructive knowledge that some of its purchasers were likely to use the recorders to make unauthorized tapes of copyrighted TV programs and movies. The Sony Court did not focus on the individual elements of contributory infringement.

Instead it framed the issue thus:

If vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory.<sup>24</sup>

The Court drew on the staple article of commerce doctrine from patent law. Under this doctrine, it would be sufficient to defeat a claim that a manufacturer of copying equipment is liable as a contributory infringer if the defendant manufacturer could show that the product is “capable of substantial[,] commercially significant noninfringing uses,” even assuming that the elements of knowledge and participation are met.<sup>25</sup> The Court deemed it unnecessary on the facts before it to define just how much use was “commercially significant,” because the standard was plainly satisfied by one potential use of the VCR: private, non-commercial time-shifting in the home.<sup>26</sup>

A number of producers of television programming – including Fred Rogers – came forward at trial to testify that they had no objection to home taping of their programs.<sup>27</sup> The Court noted that the plaintiff’s programs collectively represented less than ten percent of the total broadcast market, and that the outcome of the litigation would have a significant impact on the other ninety percent.<sup>28</sup> The Court also noted that

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<sup>24</sup> Id. at 439.

<sup>25</sup> Id. at 442.

<sup>26</sup> Id.

<sup>27</sup> Id. at 444-46.

<sup>28</sup> Id. at 443.

the district court had found that time-shifting “may enlarge the total viewing audience and that many producers are willing to allow private time-shifting to continue.”<sup>29</sup> To avoid frustrating the interest of third parties, the Court concluded that a manufacturer of copying equipment could not be held liable for contributory infringement unless the relief sought by the plaintiff affects only the plaintiff’s copyrighted works, or unless the plaintiff “speaks for virtually all copyright holders with an interest in the outcome.”<sup>30</sup>

#### IV. THE PEER-TO-PEER CASES

Technically speaking Peer-to-Peer, also known as P2P, is “a class of applications that takes advantage of resources -- storage, cycles, content, human presence -- available at the edges of the Internet. Because accessing these decentralized resources means operating in an environment of unstable connectivity and unpredictable IP addresses, P2P nodes must operate outside the DNS system and have significant or total autonomy from central servers.”<sup>31</sup> More simply, P2P computing technology enables users of a particular P2P network to access and copy files that are located on the computers of other users who are logged in to the network. Unlike traditional Internet transactions, in which a user’s computer obtains information from a specific website operated by a central computer server, P2P networking software gives users direct access to the computers of other users on the network. P2P file-sharing software thus performs two principal functions: First, it searches for and locates files that are available on the various “peer” computers linked to

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<sup>29</sup> Id.

<sup>30</sup> Id. at 446.

<sup>31</sup> Clay Shirky, “What is P2P...and What Isn’t”, available at <http://www.openp2p.com/pub/a/472P2P>

the network, and second, it enables a user to retrieve and copy the desired files directly from such computers.

P2P systems enable their users to reproduce and distribute digital files containing copyrighted works. Without authorization from the copyright owner, such reproduction infringes copyright. The creators of these P2P systems do not actually carry out the reproduction of these copyrighted works. Therefore, if they are to be held legally liable, such responsibility must be premised on doctrines of secondary liability.

a. A&M Records v. Napster

Napster was the preeminent pioneer among peer-to-peer file-sharing software providers. Napster's MusicShare software—available as a free download from Napster's website—allowed users to search for and trade MP3 music files between anyone using the software.<sup>32</sup> To use the system, a user would register on the Napster system with a user name and password.<sup>33</sup> The user would next log-on to the system, whereby the software would search his designated music library and upload the names of the MP3 files on the user's computer to the Napster servers.<sup>34</sup> The servers would then create a search index for all connected users. Once a user finds a song he wishes to download from another user, the Napster servers would then negotiate a direct connection among the two, facilitating the transmission.<sup>35</sup> Additionally, Napster provided other services, which aided the transfer of files, such as technical support for indexing and searching of MP3 files, as well as providing a chat room where users could discuss music.<sup>36</sup>

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<sup>32</sup> A&M Records v. Napster, 239 F.3d 1004, 1011 (9<sup>th</sup> Cir. 2001).

<sup>33</sup> Id.

<sup>34</sup> Id. at 1012.

<sup>35</sup> Id.

<sup>36</sup> Id. at 1011.

On December 6, 1999, several record companies filed an action against Napster for vicarious and contributory copyright infringement.<sup>37</sup> However, in order to prove vicarious and contributory infringement by Napster, it was necessary for the plaintiffs to first prove that individual users who engaged in MP3 file sharing were, in fact, primary infringers of copyright.<sup>38</sup> The Ninth Circuit agreed that Napster users violated the copyright holders' exclusive rights of reproduction and distribution by uploading and downloading files.<sup>39</sup>

Napster, however, contended that the users were engaged in fair use by virtue of sampling, space-shifting, and permissive distribution.<sup>40</sup> The court dismissed the general fair use argument.<sup>41</sup> It held that file-sharers were engaged in commercial use because they were getting something for free that they would ordinarily have to buy.<sup>42</sup> Furthermore, the fact that users were engaged in wholesale copying of entire songs, and not merely portions, militated against a finding of fair use.<sup>43</sup> Finally, the court determined that Napster harmed the marketability of the copied works by reducing CD sales among college students and by raising barriers to the plaintiffs' entry in the market for the digital downloading of music.<sup>44</sup> Having the downloads available for free, according to the court,

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<sup>37</sup> A&M Records v. Napster, 114 F. Supp. 2d 896 (N.D. Cal. 2000).

<sup>38</sup> Napster, 239 F.3d at 1013.

<sup>39</sup> Id.

<sup>40</sup> Id. at 1014.

<sup>41</sup> Id.

<sup>42</sup> Id. at 1015 quoting district court finding, “ Napster users get for free something that they would ordinarily have to buy.” Napster, 114 F. Supp. 2d at 912.

<sup>43</sup> Id. at 1016.

<sup>44</sup> Id.

harmed the copyright holders' attempts to charge for the same downloads.<sup>45</sup> These considerations prevented a general finding of fair use.<sup>46</sup>

Having settled that individual MP3 file-sharers were infringing copyright, the court then addressed whether Napster was secondarily liable under the doctrines of contributory infringement and vicarious liability.<sup>47</sup> The district court found contributory liability on the part of Napster because it knew, or had reason to know, of direct infringement.<sup>48</sup> However, the Ninth Circuit diverged from the district court's reasoning and did not impute the requisite level of knowledge needed for contributory infringement merely because peer-to-peer file-sharing technology may be used to infringe copyrights.<sup>49</sup> Relying on Sony,<sup>50</sup> the Ninth Circuit held that so long as the software was capable of substantial non-infringing uses, knowledge would not be imputed.<sup>51</sup> However, as was the case with Napster, if a computer operator learns of specific infringing material and fails to purge the system of it, then the operator will be found to *know of* and *contribute to* the infringement.<sup>52</sup> The court held that "to enjoin simply because a computer network allows for infringing use would . . . violate Sony and potentially

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<sup>45</sup> Id. at 1016-17.

<sup>46</sup> Id. at 1017.

<sup>47</sup> Id. at 1019.

<sup>48</sup> Id. at 1020.

<sup>49</sup> Id. at 1020-21.

<sup>50</sup> Sony, 464 US 417.

<sup>51</sup> Napster, 239 F.3d at 1021.

<sup>52</sup> Id. citing the Netcom On-line reasoning, which suggests that in an online context, evidence of actual knowledge of specific acts of infringement is required to hold a computer system operator liable for contributory copyright infringement. 907 F. Supp. at 1371. Further, if a computer system operator learns of infringing material available on the system and does not get rid of the material, the operator will then be found to know of and contribute to the direct infringement. Id. at 1374.

restrict activity unrelated to infringing use.”<sup>53</sup> Even so, the court found that the record showed that Napster had actual knowledge that specific infringing material was available by using its system and could have blocked access to or removed the infringing material from its system.<sup>54</sup> The court also found the contribution to be material because without its integrated support services, users would not be able to locate music as easily.<sup>55</sup>

Additionally, the court found Napster vicariously liable for copyright infringement because it had a right to supervise, and also had a direct financial interest in, the activities.<sup>56</sup> Napster had the right and ability to supervise the infringing activity by blocking user access and it had the right to refuse service for any reason.<sup>57</sup> It also had the ability to locate infringing material listed on its search indices.<sup>58</sup> Finally, Napster had a direct financial interest because the “availability of infringing material ‘acts as a draw for customers’”<sup>59</sup> and Napster’s future revenue was directly dependent on increases in its user-base.<sup>60</sup>

Ultimately, the Ninth Circuit narrowed the district court’s injunction on Napster. It held that Napster would only be contributorily liable to the extent that it: (1) receives reasonable knowledge of specific infringing files with copyrighted musical compositions and sound recordings; (2) knows or should know that such files are available on the system; and (3) fails to act to prevent viral distribution of the works.<sup>61</sup> Critically for

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<sup>53</sup> Id.

<sup>54</sup> Id. at 1022.

<sup>55</sup> Id.

<sup>56</sup> Id. at 1024.

<sup>57</sup> Id. at 1023.

<sup>58</sup> Id.

<sup>59</sup> Id. citing Fonovisa, 76 F.3d at 263-64.

<sup>60</sup> Id.

<sup>61</sup> Id. at 1027.

future P2P systems, the “mere existence” of the Napster system, absent actual notice and Napster’s “demonstrated failure to remove the offending material,” is not enough to impose contributory liability.<sup>62</sup> Alternatively, a system may be vicariously liable when it “fails to affirmatively use its ability to patrol its system and preclude access to potentially infringing files listed in its search index.”<sup>63</sup> Therefore, the Ninth Circuit placed the burden on plaintiffs to provide notice to P2P system operators of copyright infringement of copyrighted works before the operator has the duty to disable access to it.<sup>64</sup> On the other hand, the system operator has the burden of policing the system “within the limits of the system.”<sup>65</sup>

b. In re: Aimster Copyright Litigation

Similarly, although less infamous than Napster, Aimster was a free software service that allowed registered users to trade files amongst one another.<sup>66</sup> The "A," "I," "M," in Aimster stood for America Online's popular instant messaging service.<sup>67</sup> Aimster piggy-backed onto that service, allowing users of the service to designate and trade only with "buddies," or to configure their systems to trade with anyone online with the service.<sup>68</sup> When a user wished to search for a particular file, Aimster's server would search the computers of all online users and then instruct the host computer to transmit the file.<sup>69</sup>

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<sup>62</sup> Id.

<sup>63</sup> Id.

<sup>64</sup> Id.

<sup>65</sup> Id.

<sup>66</sup> In Re: Aimster Copyright Litigation, 334 F.3d 643 (7<sup>th</sup> Cir. 2003).

<sup>67</sup> Id. at 646.

<sup>68</sup> Id.

<sup>69</sup> Id.

In June 2003, the Seventh Circuit upheld an injunction forcing Aimster to shut down. The Seventh Circuit's reasoning, however, did not go as far as the Ninth Circuit's had in Napster, thus leaving open the possibility that future software makers could not be enjoined if people used their software for legal file-sharing.<sup>70</sup>

Judge Posner, writing for the Seventh Circuit, began by noting that file-swappers infringed copyright.<sup>71</sup> The court focused primarily on Aimster's potential liability as a contributory infringer, relying primarily on Sony. It held that the Napster court erred and actual knowledge of specific infringing uses was not a sufficient condition for deeming a facilitator to be a contributory infringer. It was also not necessarily enough for a product or service to be physically capable of noninfringing uses.<sup>72</sup> Thus, the Seventh Circuit created an opening for future legal file-trading software like Grokster. Nevertheless, the Seventh Circuit found Aimster to be a contributory infringer based on the facts of the case. For example, in explaining how to use its software, the Aimster tutorial provided the sharing of copyrighted music as the only example of file sharing.<sup>73</sup> Furthermore, membership in Club Aimster for \$ 4.95 per month allowed members to download with a single click the copyrighted music most often shared by users.<sup>74</sup> Moreover, just like Napster, Aimster's servers actively searched users' computers on behalf of other users for songs available for sharing.<sup>75</sup> Aimster provided no evidence that its service was used for any noninfringing purpose.<sup>76</sup> Judge Posner suggested that when a supplier is offering a

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<sup>70</sup> Id. at 652.

<sup>71</sup> Id. at 645.

<sup>72</sup> Id. at 653.

<sup>73</sup> Id. at 651.

<sup>74</sup> Id. at 652.

<sup>75</sup> Id.

<sup>76</sup> Id. at 653.

service that has noninfringing purposes as well as infringing uses, “some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement.”<sup>77</sup>

#### V. MGM Studios v. Grokster, Ltd.

Hot off the successes of Napster and Aimster, the recording industry next took aim at Grokster and StreamCast, (formerly or alternatively branded under the popular KaZaa, Gnutella, and Morpheus names, among others) suing for vicarious and contributory liability.<sup>78</sup> The defendants distributed free software, which allowed users to connect directly to one another (peer-to-peer) and share files, particularly copyrighted music.<sup>79</sup> Like Napster, the defendants' software was downloaded from servers operated by the defendants.<sup>80</sup> However, unlike Napster, the defendants did not operate a centralized file-sharing network that facilitated searches for music among users or established the connection between them.<sup>81</sup> Instead, search requests were sent directly over the Internet to other users of the software until a match was found. The two users then shared files without the assistance of Grokster (such as was necessary in Napster).<sup>82</sup> The district court granted Grokster partial summary judgment as to liability arising from present activities.<sup>83</sup>

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<sup>77</sup> Id. at 649.

<sup>78</sup> MGM v. Grokster, 259 F.Supp. 2d 1029 (C.D. Cal. 2003).

<sup>79</sup> MGM v. Grokster, 380 F.3d 1154, 1159 (9<sup>th</sup> Cir. 2004).

<sup>80</sup> Id. at 1160.

<sup>81</sup> Id.

<sup>82</sup> Id.

<sup>83</sup> Id. at 1158.

The recording industry argued on appeal that Grokster and StreamCast were still liable as contributory infringers because 1) they had knowledge that their software was being used primarily for illicit music sharing, and 2) creating and distributing the software materially contributed to the infringement.<sup>84</sup> Because there were substantial non-infringing uses for the software<sup>85</sup> (e.g., sharing movie trailers, public domain materials, independent artists), constructive knowledge of infringing activity was not enough to warrant liability based on the mere distribution of the software.<sup>86</sup> Therefore, the burden was placed upon the plaintiffs to establish that Grokster had “specific knowledge of infringement at a time at which they contribute[d] to the infringement and filed to act on upon that information.”<sup>87</sup> In this case, unlike Napster, Grokster does not maintain a centralized index of files.<sup>88</sup> This was a problematic difference between Grokster and Napster for both the district and circuit court because even if Grokster “closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.”<sup>89</sup> Therefore, the court

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<sup>84</sup> Id. at 1160.

<sup>85</sup> The estimate by the district court at the summary judgment level is that there are 2.6 billion (10%) legitimate uses and 90% infringing uses of Grokster’s software. The district court found that, “it is undisputed that there are substantial noninfringing uses for Defendants’ software - e.g., distributing movie trailers, free songs or other non-copyrighted works; using the software in countries where it is legal; or sharing the works of Shakespeare.” 259 F. Supp. 2d 1029 at 1035. The 9<sup>th</sup> Circuit also noted the example, provided by the Software Distributors, of the popular band Wilco who made their album free, both online and through the software user networks. The result sparked widespread interest in the band and, as a result, they received a recording contract. 380 F.3d 1154 at 1161.

<sup>86</sup> Id. 1161.

<sup>87</sup> Id. at 1162 citing Napster, 239 F.3d at 1021.

<sup>88</sup> Id.

<sup>89</sup> Grokster, 259 F. Supp. 2d at 1041.

held that, in this context, Grokster did not have the requisite amount of knowledge to be held liable for contributory infringement.<sup>90</sup>

Further, unlike Napster, Grokster successfully argued that they do not materially contribute to infringement because they do not provide the site, facilities, and/or support for infringement.<sup>91</sup> They claim that they are no different than companies that sell home video recorders and copy machines, like Sony or Xerox.<sup>92</sup> While Grokster and StreamCast know their products will be used illegally by many users and provide future refinements, absent evidence of active and substantial contribution to the infringement itself, contributory infringement could not be found.<sup>93</sup>

Similarly, because Grokster does not have the right or ability to supervise the infringing conduct, the doctrine of vicarious liability also did not apply. As a result, the recording industry suffered a major defeat (and the tech industry a major triumph) in its attempt to cut off the pipeline of illegal file sharing at its source. Creators of peer-to-peer software could continue distributing their products to millions of people despite having full knowledge<sup>94</sup> that they would be used primarily for illicit music sharing.

## VI. MGM v. GROKSTER: SUPREME COURT ORAL ARGUMENTS

There were two principal lines of questioning in the oral arguments: One was concern about chilling future technological innovation. The other was the current

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<sup>90</sup> Grokster, 380 F.3d at 1163.

<sup>91</sup> Id.

<sup>92</sup> Id.

<sup>93</sup> Id. at 1164

<sup>94</sup> The defendants clearly knew that most of the individuals who downloaded their software would subsequently use it to infringe copyrights. Indeed, both Grokster and StreamCast even marketed themselves as "the next Napster."

interpretation of the Sony rule and the merits of other proposed tests of secondary liability.

a. Chilling Innovation

The three Justices most audibly concerned with future technological innovation were Scalia, Souter and Breyer. Justice Souter is reputedly the least technically minded of all the Justices (he still drafts his opinions by hand). It says a lot about the significance of this case that he could dialogue about technology so comfortably. His primary concern was “the guy in the garage.”<sup>95</sup> He worried that the lone inventor will hesitate before inventing something like the iPod because of the absence of evidence, at the moment of invention, of what the substantial use of that technology will be.<sup>96</sup> Scalia was troubled that the fear of being sued might deter inventors from inventing<sup>97</sup> and asked also how long inventors of new technologies would have to prove the substantial non-infringing use of their inventions.<sup>98</sup> Scalia did not want to pronounce a standard that would make it too easy for copyright holders to intimidate creators of new technologies.<sup>99</sup>

The Justices prodded MGM’s attorney to delineate the line between technologies like the iPod and P2P software. Justice Breyer asked MGM’s counsel whether he would advise the inventor of the Xerox machine, the VCR, the iPod, or the Guttenberg press to invent those products when “in each of those instances, there will be vast numbers of

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<sup>95</sup> Transcript of Oral Arguments at 15.

<sup>96</sup> Id.

<sup>97</sup> Id. at 12-13.

<sup>98</sup> Id.

<sup>99</sup> Id. at 12.

infringing uses that are foreseeable.”<sup>100</sup> Justice Souter chimed in and adeptly recognized the many infringing uses of the iPod, suggesting that if music could be acquired for free, people would do just that to fill their iPods.<sup>101</sup>

While this line of questioning does not denote that the Court is leaning in favor of Grokster, it did demonstrate that Grokster and its amici have done an excellent job of explaining what is at stake from the technology side. Eben Moglen, a professor of law at Columbia Law School and general counsel to the Free Software Foundation, which is supporting Grokster, said of the Justices, “There’s no question at all that this isn’t beyond their technical understanding and that they’re culturally aware of what file sharing is about.”<sup>102</sup>

#### b. The Standard for Secondary Liability

Justices O’Connor, Kennedy, and Ginsburg were more attentive to what Sony has come to stand for. The three seemed most interested in finding the proper balance between copyright protection and technological innovation by clarifying the standard for secondary liability. Justice Kennedy actively probed each side to articulate what they thought the Sony test should be.<sup>103</sup> Justice Ginsburg did not like the suggestion by Grokster’s attorneys that Sony is a bright-line rule. She said:

There is a statement – one could take as clear – “capable of substantial noninfringing use.” That would be very clear, I agree. But Sony goes on for thirteen more pages. If the standard were all that clear, it would have stopped

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<sup>100</sup> Id. at 10-11.

<sup>101</sup> Id. at 14.

<sup>102</sup> Alexander Wolfe, “Supreme-Court Transcript Shows Legal Reasoning in Grokster Case.” Found at: <http://www.internetweek.com/story/showArticle.jhtml?articleID=160702555> (last visited on 4/26/05).

<sup>103</sup> Oral Arguments at 9, 33.

there ... So I don't think that you can take from what is a rather long opinion and isolate one sentence, and say, "Aha, we have a clear rule." Her primary concern with this articulation, or over-simplification, of the Sony rule is that it effectively gives technologies a free pass and an economic incentive to maximize infringement.<sup>104</sup>

A surprising sub-part within the questions about the secondary liability standard was the Judicial interest in active inducement. Active inducement was not at issue in the Sony case and was barely mentioned in either Grokster's or MGM's main briefs. The active inducement prong of contributory liability permits liability to be imposed on "one who, with knowledge of the infringing activity, induces . . . the infringing conduct of another."<sup>105</sup> Justice O'Connor asked MGM's counsel whether active inducement was a "satisfactory way to resolve the case."<sup>106</sup> Justice Scalia questioned whether an active inducement standard would go far enough in a case like this—could a successor build a product identical to Grokster's, but escape liability by being careful not to induce?<sup>107</sup>

## VII. PREDICTION

### a. What the Result Won't Be

Justice Scalia emphatically pronounced that, "This Court is certainly not going to decide this case on the basis of stare decisis."<sup>108</sup> Moreover, none of the Justices' questions suggested that this matter should or would be deferred to Congress.

### b. Compromise

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<sup>104</sup> Id. at 33.

<sup>105</sup> Gershwin, 443 F.2d at 1162.

<sup>106</sup> Oral Arguments at 17.

<sup>107</sup> Id. at 25.

<sup>108</sup> Id. at 34.

After reading the transcript of the oral arguments, I was left with the impression that the Justices are leaning towards a revision or clarification of secondary liability law for copyright infringement—one that would make enforcement of copyright law effective while simultaneously providing a legal environment that fosters innovation.

I think that the compromise could be in crafting a narrow active inducement test.<sup>109</sup> Inducement is, as the Court recognized in Sony, recognized as a basis for secondary liability in other areas of intellectual property law, including patent law<sup>110</sup> and trademark law.<sup>111</sup> In the copyright context, the traditional standard has been satisfied by the defendant’s “pervasive participation” in “creating the . . . audience” for an infringing performance<sup>112</sup> or where the defendant actively “encouraged” the infringement.<sup>113</sup> Such a test would be neutral with respect to technology, thus creating a precedent applicable to much more than P2P file sharing. It would be responsive to the worries of technologists by clearly defining how innovators would need to act to avoid liability, yet it would also allow the lower courts to hold Grokster accountable because of its past encouragement of infringement.<sup>114</sup>

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<sup>109</sup> The active inducement test was discussed in the U.S. Government’s amicus brief (submitted in support of MGM) and in the IEEE’s amicus brief (submitted in support of neither party).

<sup>110</sup> 35 U.S.C. 271(b).

<sup>111</sup> Inwood Labs. v. Ives Labs., 456 US 844, 854-55 (1982).

<sup>112</sup> Gershwin, 443 F.2d at 1163.

<sup>113</sup> Cable/Home Communication, 902 F.2d at 846.

<sup>114</sup> All of the Justices seemed to question Grokster’s past conduct. Even Justice Souter who was sympathetic to the guy in the garage suggested that this might be a case of willful ignorance on Grokster’s part and asked them whether they had maintained the “guise of one’s hands over one’s eyes.” The Justices seemed to frown on businesses like Grokster that relied on illegal activity (copyright infringement) as start-up capital for their businesses. Justice Kennedy said that that business model “just sounds wrong to me.” Further, as the Seventh Circuit recognized, a defendant’s “willful blindness” is not a defense against contributory liability.” Aimster, 334 F.3d at 650.

While I believe that this case will be remanded to the lower courts so as to create a complete record, MGM's evidence, as it is, could probably support a finding that Grokster does more than merely provide a software product. The evidence at this point suggests that Grokster "set out deliberately to induce or aid infringement on an unprecedented scale"<sup>115</sup> by establishing an electronic swap meet for pirated music and movies. Grokster marketed itself to the public as "the next Napster."<sup>116</sup> Those marketing efforts were central to the success of their business, which depends on attracting a mass of music-swappers who serve as the "draw" for additional customers and revenue.<sup>117</sup> Under these circumstances, even if the availability of noninfringing works on Grokster's networks were enough to establish "commercially significant noninfringing uses" (satisfying the simplified Sony-prong), it would not negate their potential liability for an active inducement of infringement.<sup>118</sup>

Active inducement would, thus, function parallel to the celebrated and undisturbed Sony test as a category of secondary liability. With both rules in place, defendants would need to demonstrate substantial non-infringing uses of their products *and* refrain from overtly encouraging infringement. While neither Grokster nor MGM would be wholly satisfied with this test, it could potentially cure the most imminent harms cited by copyright owners while also causing minimal collateral damage to innovation.

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<sup>115</sup> Pet. Brief 23 citing The Intentional Inducement of Copyright Infringement Act of 2004: Hearing on S. 2560 Before the Senate Comm. On the Judiciary, 108<sup>th</sup> Cong. (2004) (statement of Hon. Marybeth Peters, Register of Copyrights).

<sup>116</sup> Grokster I, 259 F. Supp 1029, 1035 (C.D. Cal. 2003).

<sup>117</sup> See Fonovisa, 76 F.3d at 263-64.

<sup>118</sup> Justice Breyer suggested at oral argument that MGM would be "bound to win" a trial on active inducement. Oral Arguments at 21.

