Grokster Not the "Spirit in the Sky" Innovators Long for: Uncertain Protection "Forever Young" Since the Birth of Peer-to-Peer

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Services and technologies capable of copying or distributing information—also known as “dual-use products”—may be used to commit copyright infringement. Recently, copyright holders have been extremely concerned that digital dual-use technology, especially on the Internet, has and will continue to facilitate copyright infringement to the point that their businesses will crumble. For example, there currently is free software—including peer-to-peer (“P2P”) networks—that enables users to make copyrighted music and movies available for free transfer to millions. Indeed, a large amount of litigation against developers of such software has emerged. On one hand, copyright holders typically assert that these developers should be secondarily liable for infringement committed by users of their software, since the
developer supported the infringement and the copyright holder has a legitimate interest in receiving fair compensation for his works. On the other hand, the developers assert that they should not be liable for an end-user’s behavior because if they were, future innovators would be significantly deterred from creating new and improved technologies due to fear of third-party liability. As a result, courts have been compelled to arrive at a balance between these fundamentally competing interests.3

Currently, the Supreme Court’s decision in Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.4 is the way to determine common law secondary copyright liability as applied to dual-use products. In Grokster, the Court addressed the issue of whether Metro-Goldwyn-Mayer Studios Inc. (“MGM”) stated a claim against P2P network creator Grokster.5 Although the parties argued over the viability of the two traditional theories of secondary liability—contributory and vicarious—as applied to P2P, the Court merely held that MGM stated a cause of action of inducement—a theory of liability previously not applied in the secondary copyright liability context.6 As a result of the decision, all three theories are now available in one’s arsenal when secondary copyright liability is sought.

Grokster’s roots trace back to the landmark Supreme Court copyright decision of Sony Corp. of America v. Universal City Studios, Inc.7 In Sony, copyright holders sued Sony, then a manufacturer of the Betamax (“VTR”),8 claiming that the company was contributorily and vicariously liable for infringement committed by end-users of the VTR when the end-

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2 See, e.g., In re Aimster Copyright Litig., 334 F.3d 643, 645 (7th Cir. 2003) (contending that defendant’s development of P2P software established third-party liability).

3 See Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984) (“[T]his task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society’s competing interest in the free flow of ideas, information, and commerce on the other hand . . . .”); see also Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 928 (2005) (“The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the tradeoff.”).


5 See id. at 928.

6 See id. at 927–28, 936–37.

7 464 U.S. 417.

8 Betamax is a now-obsolete video cassette format very similar to the VCR. Id. at 422–23.
users taped copyrighted television programs. The Court held that Sony was not liable because (1) Sony only had constructive knowledge of its customers' infringements, which was not enough to establish vicarious liability; and (2) the VTR was "capable of substantial noninfringing uses." This newly created safe harbor defense and similar claims were raised in the P2P cases some twenty years later. P2P creators claimed that the Sony decision shielded them from liability.

When the recording industry commenced suits against various P2P creators, however, it distinguished Sony from the P2P networks by focusing on a key characteristic in the nature of the relationship between the creator and consumer of the technologies. Unlike Sony, which had no contact with its VTR customers after the sale of the VTR, the operators of P2P networks maintained a continuous relationship with their users. Because Sony's contact with its customers terminated immediately following the sale, Sony did not actually know which of its customers committed infringement, which led the Court to conclude that Sony's knowledge of the infringement was merely constructive, not actual. This continuous relationship, the recording industry argued, demonstrated that operators of P2P networks had actual knowledge of the infringing activity, rendering Sony's safe harbor defense unavailable. In the pre-Grokster P2P cases that surfaced in the early 2000s, courts' attempts to ascertain whether Sony exculpated P2P creators from liability and to apply the two traditional theories of secondary copyright liability to the complex intricacies of P2P software often resulted in decisions that tended to blur the distinctions between the two doctrines. Consequently, the courts failed to provide future innovators sufficient guidance with

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9 See id. at 419–20.
10 Constructive knowledge is "[k]nowledge that one using reasonable care or diligence should have, ... that is attributed by law to a given person." BLACK'S LAW DICTIONARY 888 (8th ed. 2004).
12 Id. at 442.
13 See, e.g., In re Aimster Copyright Litig., 334 F.3d 643, 648 (7th Cir. 2003) ("The industry points out that the provider of a service ... has a continuing relation with its customers ... .").
14 Sony, 464 U.S. at 438.
15 Id. at 439 ("[S]ony has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material.").
respect to their potential copyright liability for dual-use technologies. When the first P2P case, Grokster, finally reached the Supreme Court on contributory and vicarious liability claims, innovators expected clarification of and sufficient protection from secondary copyright liability. They were largely disappointed.

The Grokster decision was a major step backwards in secondary copyright law for two reasons: (1) it failed to address the continued viability and scope of contributory and vicarious liability—the two theories of liability used virtually exclusively in the secondary copyright infringement context before Grokster; and (2) it introduced another theory of liability for copyright holders to use against creators of potentially dual-use technology. The decision provided future innovators with no further guidance with respect to potential secondary copyright liability when creating a dual-use product and expanded the scope of liability too greatly. Looking forward, future innovators who sense the slightest possibility of secondary liability now have less incentive to release new technologies. This result is antithetical to the goal of copyright—the maximization of public benefit through the advancement of technology.

This Note argues that, since the Court in Grokster failed to address the unclear state of the law regarding the applicability of contributory and vicarious liability in the context of a continuous relationship between the creator and user of dual-use products and, instead, merely introduced a third form of secondary copyright liability in inducement, the Court exacerbated the uncertainty that technological innovators face regarding the extent of their protection from secondary copyright liability. Ultimately, the Grokster decision catastrophically deterred innovators from advancing their newly created technologies. In fact, contributory and vicarious liability overlap when there is a continuous relationship between creator and user of dual-use products. Therefore, in these situations, the two overlapping theories should be merged into a single theory, which would provide a more predictable and fair way to determine secondary liability than under Grokster. Part I of this Note analyzes the Grokster decision, highlighting how the Court not only expanded the scope of secondary liability by introducing

17 U.S. CONST. art. I, § 8, cl. 8.
a previously inapplicable theory of liability, but also failed to clarify the current state of murkiness that technological developers face with respect to their subjectivity to secondary liability. Part II discusses the components of contributory and vicarious infringement and reveals how the courts in the P2P cases tended to blur the distinctions between the two doctrines. Part III proposes a new, meaningful test that determines when a developer of a dual-use product should be liable for the infringing acts of its users.

I. THE COURT IN GROKSTER LEFT MANY QUESTIONS UNANSWERED

When the Court granted certiorari to the Third Circuit case examining whether the developer of a P2P network was secondarily liable for the infringing acts of its users, the recording industry and software developers eagerly awaited a decision that would bring clarification to the circuit courts' vague interpretations of the doctrines in this context. This Part examines the Court's decision in *Grokster*, explaining how the Court merely set forth a new rule of secondary copyright liability rather than providing the clarification that the recording industry and software developers needed. This Part will also discuss how the Court's unsatisfactory resolution has deterred innovators from advancing their creations.

A. The Peer-to-Peer Network: The Recording Industry Takes Action

P2P networks enabled users to reproduce and distribute digital files—some of which have copyright protection; the reproduction of these copyright protected files without the authorization of the copyright holder constitutes copyright infringement. Because developers of P2P networks did not directly redistribute copyright-protected files without authorization, the music industry's only available mechanism to obtain injunctions against such developers was to assert claims of the traditional theories of secondary copyright liability—contributory and vicarious infringement. Although the music

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18 See *Grokster*, 545 U.S. at 941.
industry most certainly could have and has brought suit against
the users of such networks, the recording industry felt that such
action was insufficient to substantially thwart the exponential
increase in the unauthorized copying and transferring of digital
files over the Internet that resulted from the birth of the P2P
network. The recording industry's persistence in bringing suits
against the developers of the networks eventually paid off when
the Court enlarged the scope of secondary copyright liability in
Grokster.

B. The Court Introduces the "Inducement" Rule to Copyright

The Court in Grokster considered for the first time whether
creators of P2P networks were secondarily liable for the
actions of users of the networks who committed copyright
infringement and introduced a new secondary copyright liability
cause of action—inducement: "[O]ne who distributes a device
with the object of promoting its use to infringe copyright, as
shown by clear expression or other affirmative steps taken to
foster infringement, is liable for the resulting acts of
infringement by third parties." Hence, the test for inducement
has three components: (1) distribution of a device; (2) intention of
encouraging third parties to use the device to infringe copyrights;
and (3) acts of infringement by third parties. In Grokster, the
recording industry brought suit against the software creators of
the P2P network Grokster. The first and third elements were
easily met since Grokster distributed software that allowed
computer users to exchange digital files on a P2P network. The
rigorous analysis dealt with intent. In finding that Grokster had
the requisite intent, the Court emphasized three particular
pieces of evidence: The defendants (1) aimed to capture the

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20 See Honeywell To Buy Maker of Bar-Code Scanners, ST. PAUL PIONEER PRESS,
Oct. 15, 2007, at C2 (stating that the recording industry filed approximately 26,000
file-sharing lawsuits against individuals using P2P networks). In fact, none of these
suits went to trial until the very recent case of Jammie Thomas in Minnesota. Id.
The jury found her guilty of direct infringement for offering twenty-four songs on the
Kazaa file-sharing network and awarded the music industry $222,000 in damages.
Id. On appeal, the court vacated the jury verdict because of erroneous jury
instructions and ordered a new trial. See Capitol Records Inc. v. Thomas, 579 F.
21 Grokster, 545 U.S. at 919.
22 Id. at 920–21.
23 Id. at 919.
market comprised of former Napster users who had infringed copyright on the previously existing Napster P2P network;\(^24\) (2) failed to develop “mechanisms to diminish the infringing activity using their software;”\(^25\) and (3) earned profits via advertising that depended on high-volume infringing use.\(^26\)

Because the Court failed to specify what evidence is needed to prove unlawful intent, lower courts must struggle to follow the Grokster Court’s guidance in evaluating whether such intent is present—a circumstance that will likely stifle innovation.\(^27\) It does seem clear, however, that mere knowledge of direct infringement falls short of the requisite intent. Thus, one key is to distinguish between these two mental states: (1) intent to sell the device despite knowledge of infringing activities, and (2) intent to encourage third parties to use the device to infringe copyrights. This could be extremely difficult when a defendant knows that users of his dual-use product will commit infringement. The Grokster Court did point out particular actions taken by Grokster that collectively gave rise to intent, but

\(^{24}\)Id. at 939 ("[E]fforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.").

\(^{25}\)Id. ("[W]e think this evidence underscores [the defendants'] intentional facilitation of their users' infringement.").

\(^{26}\)Id. at 939-40. Note that "[t]his evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear." Id. at 940.

\(^{27}\)See Tom Zeller Jr., Trying To Tame an Unruly Technology, N.Y. TIMES, June 28, 2005, at C1 ("‘America’s entire innovation sector is now facing a new era of copyright uncertainty’ . . . [Grokster] ‘created a new theory of liability that will tie up the courts for a long time.’"). This article reflected upon the uncertainty posed by the Court’s inducement rule:

[T]he court provided little guidance on just how one might determine whether a company was purposely inducing its users to violate the law, and in this, many technology advocates saw reason for concern. The entertainment industry, they argue, can now use the ruling to sue without restraint, seeking to show bad “intent” or “purpose” behind every technology it does not like.

. . .

[T]he decision’s emphasis on finding the “intent” of a company could mire new technologies in a litigious limbo. Every e-mail message, every conversation, every cocktail napkin on which an entrepreneur scribbles a vision for a new technology, Grokster supporters said, could become evidence in a future lawsuit, making unfettered blue-sky innovation a risky business without lawyers vetting every move.

\(\text{Id.}\)
just one of these standing alone, the Court said, would be insufficient for a finding of inducement liability. 28 Perhaps the Court meant for the test of intent to be one in which some of the discussed factors are required but one that is ultimately decided in light of the facts on a case-by-case basis. In the end, introducing the theory of inducement to the arena of secondary copyright liability greatly expanded the scope of liability.

C. The Court's Failure To Address the Traditional Secondary Liability Claims Undesirably Stifles Innovation

Because the Court failed to harmonize the confusing opinions of the circuit courts that analyzed the scope of the traditional theories of secondary copyright liability—contributory and vicarious infringement—in the context of P2P networks, 29 the Court further stifled innovation by maintaining the uncertainty of liability innovators faced under these doctrines. Ultimately, the furtherance of public benefit—the fundamental interest of copyright law 30—was unmistakably nonexistent as an effect of the Grokster decision. Article I, Section 8 of the United States Constitution empowered Congress “[t]o promote the [p]rogress of [s]cience and useful [a]rts, by securing for limited [t]imes to [a]uthors . . . the exclusive [r]ight to their respective [w]ritings.” 31 By granting authors limited monopoly rights in the form of copyrights for artistic expressions, 32 the government fosters an incentive for authors to benefit the public by contributing their works to the arts and sciences. Some of these exclusive rights include the right to distribute the copyrighted

28 See supra notes 24–26 and accompanying text.
29 See infra Part II.B.
30 See Mazer v. Stein, 347 U.S. 201, 219 (1954) (“[Copyright law] is intended definitely to grant valuable, enforceable rights to authors, publishers, etc., . . . to afford greater encouragement to the production of literary (or artistic) works of lasting benefit to the world.”) (internal quotation marks omitted); Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932) (“The sole interest of the United States and the primary object in conferring the [copyright] monopoly lie in the general benefits derived by the public from the labors of authors.”); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 n.10 (1984) (citing H.R. REP. No. 60-2222, at 7 (1909) (stating that the primary intention of copyright laws is for public benefit)).
32 17 U.S.C. § 102 (2000) (“Copyright protection subsists, in accordance with [the Copyright Act], in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”).
work and to perform or display the work publicly.\textsuperscript{33} A violation of one of these rights constitutes copyright infringement.\textsuperscript{34} To maximize the benefits conveyed to the public via copyright, courts attempted to strike a balance between providing incentives for authors to create artistic expression and ensuring public access to works of “[s]cience and [t]he useful [a]rts”\textsuperscript{35} by appropriately imposing liability upon not only direct copyright infringers,\textsuperscript{36} but also upon third parties under the theories of contributory and vicarious liability.\textsuperscript{37} Although the doctrines have not been codified in statute,\textsuperscript{38} both Congress\textsuperscript{39} and the courts\textsuperscript{40} recognized them. In essence, by refraining from clearly articulating the standards of contributory and vicarious liability for operators of P2P networks, the Court in \textit{Grokster} did not provide innovators any piece of mind or incentive to create artistic expression. Thus, the current state of secondary copyright law falls tremendously short of maximizing public benefit.

\textsuperscript{33} \textit{Id.} at § 106.
\textsuperscript{34} \textit{Id.} at § 501(a).
\textsuperscript{35} U.S. CONST. art. I, § 8, cl. 8.
\textsuperscript{36} A direct infringer is defined by the Copyright Act as one “who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122.” 17 U.S.C. § 501(a).
\textsuperscript{37} \textit{See} Gershwin Publ’g Corp. v. Columbia Artists Mgmt. Inc., 443 F.2d 1159, 1161–62 (2d Cir. 1971). Although courts generally rely on Congress to render amendments in copyright law, changes are occasionally made judicially in response to rapid advancements in technology. \textit{See} Sony Corp. of Am. v. Universal City Studios, Inc. 464 U.S. 417, 431–32 (1984) (stating that when the Copyright Act does not “plainly mark[ ] our course, [the Court] must be circumspect in construing the scope of rights created by a legislative enactment which never contemplated such a calculus of interests’’); Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (“When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of [copyright’s] basic purpose.’’).
\textsuperscript{38} \textit{See} Sony, 464 U.S. at 434–35 (“The absence of . . . express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity.’’).
\textsuperscript{39} \textit{See} H.R. REP. NO. 94-1476, at 159–60 (1976), as reprinted in 1976 U.S.C.C.A.N. 5659, 5775–76 (“A well-established principle of copyright law is that a person who violates any of the exclusive rights of the copyright owner is an infringer, including persons who can be considered related or vicarious infringers.”).
\textsuperscript{40} \textit{See}, e.g., Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 929–31 (2005) (“When . . . it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative [is] to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.’’).
II. P2P CASES BLURRED THE DISTINCTION BETWEEN VICARIOUS AND CONTRIBUTORY INFRINGEMENT IN THE CONTEXT OF AN ONGOING RELATIONSHIP BETWEEN DEVELOPER AND USER

Because P2P networks created a continuous relationship between the software creator and its users, the courts in the P2P cases, by applying contributory and vicarious liability, revealed the tendency to blur the distinction between the doctrines. This Part first introduces the basic components of contributory and vicarious liability. Next, it demonstrates that what at first glance appeared to be confusion in the P2P cases resulting from the courts' tendencies to blur the distinctions between the doctrines, in fact, revealed that the doctrines virtually overlap entirely in the context of a continuous relationship.

A. The Doctrines

1. Contributory Liability

   a. Basic Test

   Courts often cite Gershwin Publishing Corp. v. Columbia Artists Management, Inc.\(^\text{41}\) for the test of contributory infringement, which required that a defendant (1) had knowledge of the infringement, and (2) "induce[d], cause[d], or materially contribute[d] to the infringing conduct of another."\(^\text{42}\) For a finding of contributory infringement, a substantial majority of courts required relatively specific knowledge and direct

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\(^{41}\) 443 F.2d 1159 (2d Cir. 1971).

\(^{42}\) Id. at 1161–62; see also Parker v. Google, Inc., No. 06-3074, 2007 WL 1989660, at *3 (3d Cir. July 10, 2007) (per curiam) ("To allege a claim of contributory copyright infringement, a plaintiff must allege: (1) direct copyright infringement of a third-party; (2) knowledge by the defendant that the third-party was directly infringing; and (3) material contribution to the infringement."); Warner Bros. Records, Inc. v. Souther, No. 1:05CV279, 2006 WL 1549689, at *2 (W.D.N.C. June 1, 2006) ("The essential elements of contributory copyright infringement are... (1) knowledge, and (2) material contribution."); Faulkner v. Nat'l Geographic Soc'y, 211 F. Supp. 2d 450, 473 (S.D.N.Y. 2002) ("The standard for contributory infringement has two prongs—the 'knowledge' prong and the 'material contribution' prong."); modified, 220 F. Supp. 2d 237 (S.D.N.Y. 2002), aff'd, 409 F.3d 26 (2d Cir. 2005); Demetriades v. Kaufmann, 690 F. Supp. 289, 293 (S.D.N.Y. 1988) ("Knowledge and participation [are] the touchstones of contributory infringement."). For purposes of simplicity, this Note labels the second prong "material contribution."
assistance. Considered an outgrowth of enterprise liability, the "common law doctrine that one who knowingly participates or furthers a tortious act is jointly and severally liable with the prime tortfeasor," contributory infringement fostered the common view that the need to protect copyright monopolies was justified in such situations:

Consider first a defendant who sells custom-length blank cassette tapes to a person he knows will use the tapes to make unauthorized copies of copyrighted music for sale to the public. This seller is quite culpable because he knows exactly who commits the infringement, understands the nature of the infringement, and provides assistance that directly supports the infringement. By contrast, consider a defendant who processes credit card transactions despite learning that certain unidentified customers take credit cards in payment for the sale of infringing goods. This defendant is less culpable than the seller of blank tapes because his knowledge of identity is less specific and his support is less directly related to infringement.

b. Sony: A Defense for Creators of Dual-Use Products from Contributory Liability

In its landmark 1984 decision Sony Corp. of America v. Universal City Studios, Inc., the Court restricted the scope of contributory liability by refusing to impose liability on a creator of a dual-use product with mere constructive knowledge of infringement committed by users of its dual-use product as long

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43 See, e.g., Matthew Bender & Co., Inc. v. W. Publ'g Co., 158 F.3d 693, 706–07 (2d Cir. 1998) (holding that although defendant's "star pagination" in legal case reports may allow others to infringe copyrights, this mere constructive knowledge was insufficient for contributory infringement); Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 263–67 (5th Cir. 1988) (holding that defendant's knowledge that its customers, who purchased software that enabled duplication of computer programs, might commit copyright infringement insufficient for contributory liability); Religious Tech. Ctr. v. Netcom On-Line Commcn. Servs., Inc., 907 F. Supp. 1361, 1373–74 (N.D. Cal. 1995) (holding that although defendant company retained some constant control over its system, it could not be charged with knowledge for contributory infringement until notice of specific infringing acts was first received).

44 Gershwin, 443 F.2d at 1162 (internal quotation marks omitted).


as it “merely [is] capable of substantial noninfringing uses.”\textsuperscript{47} In \textit{Sony}, the movie industry sued Sony for distributing a dual-use product, the VTR, which allowed its users to duplicate live telecasts without authorization.\textsuperscript{48} The Court placed a limit on contributory liability’s potentially broad restriction of dual-use technology by demonstrating that imposing liability on the noninfringing uses would not necessarily advance fundamental copyright interests—or, ultimately, society’s best interests. Attaching liability unquestionably would mitigate the negative effects of infringement, but in particular instances, society would be harmed overall because of the lost benefits associated with the noninfringing uses of the dual-use product. The Court implemented this cost-benefit paradigm via its safe harbor defense, considering in its analysis not only current noninfringing uses, but also potential ones.\textsuperscript{49} Although there would be no guarantee that potential noninfringing uses would arise in a dual-use product, the \textit{Sony} Court’s reasoning was extremely sound since society rarely appreciates all of the significant benefits of a technology immediately upon its release, and implementation of today’s technology paves the way to the development of tomorrow’s technology.\textsuperscript{50}

\textsuperscript{47} Id. at 442. The Court did not apply this defense to vicarious liability—another form of secondary copyright liability. See id. at 435 n.17 (“[T]he question[ ] of petitioners’ liability under . . . ‘vicarious liability’ [is] not nominally before this Court.”). In formulating the defense, the Court adopted from the staple article of commerce doctrine of patent law:

We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible. The staple article of commerce doctrine must strike a balance between a copyright holder’s legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes.

\textit{Id.} at 442.

\textsuperscript{48} Id. at 419–20.

\textsuperscript{49} See \textit{id.} at 442 (“Indeed, it need merely be \textit{capable} of substantial noninfringing uses.” (emphasis added)).

\textsuperscript{50} One wonders if Sony was compelled to stop distributing the VTR, whether the DVD would ever have developed. Consider the statement by Cory Doctorow of the Electronic Frontier Foundation: “Every time, looking back in hindsight, we can see that ultimately, each new medium made it easier for people and artists to
Although the VTR, manufactured and sold by Sony, was used by consumers to record copyrighted television broadcasts, Sony was charged with mere constructive knowledge of the infringing activity since Sony's contact with its consumers terminated immediately following the moment of sale; thus, the safe harbor defense applied. Since "time-shifting," which consisted of recording a television broadcast, viewing it at a later time, and then deleting the recording, said the Court, was the primary use of the VTR and constituted a "fair use"—meaning it did not infringe copyright—the VTR, as a result, was "capable of substantial noninfringing uses." Although the movie communicate with each other. It resulted in a larger, more vibrant entertainment industry.” Julie Keller, Aargh! Britney, Nelly, Battle Pirates, E! ONLINE, Sept. 27, 2002, http://www.eonline.com/uberblog/b43944_aargh_britney_nelly_battle_pirates.html.


52 See id. at 438. Clearly, Sony knew some of its users would use the VTR to infringe copyright. See id. at 439 ("[Defendants] have sold equipment with constructive knowledge of the fact that their customers may use that equipment to make unauthorized copies of copyrighted material."). Had Sony maintained some relationship with its VTR customers after the sale, this would have potentially given rise to knowledge of specific infringers, and the defense would probably not have been available.

53 See id. at 421.

54 Id. at 423.

55 Id. at 433 (“Any individual may reproduce a copyrighted work for a ‘fair use;’ the copyright owner does not possess the exclusive right to such a use.”). The “fair use” doctrine is codified in 17 U.S.C. § 107, which provides in pertinent:

[T]he fair use of a copyrighted work… for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
(2) the nature of the copyrighted work;
(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors. 17 U.S.C. § 107 (2000).

56 Sony, 464 U.S. at 442. The Court discussed another reason for concluding that the defense was met. Indeed, plaintiffs could not prevent other copyright holders from authorizing time-shifting of their programs. Id. Defendants introduced evidence that demonstrated at least approximately ten percent of the duplicated programming was authorized by copyright holders. Id. at 424, 444. This constituted
industry voiced its strong concern that the VTR would annihilate the size of live audiences at the time of television telecasts and dramatically reduce the size of rerun audiences for both movie and television audiences, the Court felt that time-shifting was a "fair use" since it "may enlarge the total viewing audience," and "many producers are willing to allow private time-shifting to continue, at least for an experimental time period." If Sony was held contributorily liable for providing users the means to time-shift, it "would inevitably frustrate the interests of broadcasters in reaching the portion of their audience that is available only through time-shifting."

2. Vicarious Liability

The Second Circuit in Shapiro, Bernstein & Co. v. H. L. Green Co., articulated the widely accepted vicarious liability standard, which required the defendant to have (1) a "direct financial interest" in the infringing activity, and (2) a "right and ability to" control the infringing activity. Knowledge of the infringing activity is not an element. Vicarious liability in

"a significant quantity"—significant enough for the court to be satisfied of substantial noninfringing use. Id.


Sony, 464 U.S. at 442, 443.

Id. at 446. The outcome may have been different, however, in the event that plaintiff's relief affected only plaintiff's works or if the plaintiff spoke "for virtually all copyright holders with an interest in the outcome." Id.

316 F.2d 304 (2d Cir. 1963).

316 F.2d 307; see also Artists Music, Inc. v. Reed Pub'l'g (USA), Inc., Nos. 93 CIV. 3428(JFK), 73163, 1994 WL 191643, at *4 (S.D.N.Y. May 17, 1994) ("Financial benefit and ability to control are the signposts of vicarious liability.").

Shapiro, 316 F.2d at 307 (holding that "purposes of copyright law may be best effectuated" in instances "[w]hen the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials—even in the absence of actual knowledge that the copyright monopoly is being impaired"); see M. Witmark & Sons v. Calloway, 22 F.2d 412, 414 (E.D. Tenn. 1927) (imposing vicarious liability on the owner of a theater whether or not the infringing
copyright grew out of the doctrine of respondeat superior, which holds employers liable for the tortious acts committed by their employees within the scope of employment. Courts frequently ascertained the reach of such liability by distinguishing between the “landlord-tenant” model and the “dance hall” model and then characterizing the defendant accordingly. On the one hand, a

activity occurred “without the direction, knowledge, or consent of the owner”). The Shapiro Court elaborated further:

The reasons [for not requiring knowledge] have been variously stated. The protection accorded literary property would be of little value if... insulation from payment of damages could be secured... by merely refraining from making inquiry. It is the innocent infringer who must suffer, since he, unlike the copyright owner, either has an opportunity to guard against the infringement (by diligent inquiry), or at least the ability to guard against the infringement (by an indemnity agreement... and/or by insurance).

Shapiro, 316 F.2d at 308 (citations omitted) (internal quotation marks omitted).


64 BLACK'S LAW DICTIONARY 1338 (8th ed. 2004). "In the typical employer-employee relationship, it is reasonable to presume that the employer is intimately linked with and responsible for an employee's act of infringement. Indeed, when acting within the scope of employment, an employee is presumed to be the employer's agent." Banff, 869 F. Supp. at 1109. It then follows that “one of the principal rationales of vicarious liability [is] the difficulty of obtaining effective relief against an agent, who is likely to be impecunious." In re Aimster Copyright Litig., 334 F.3d 643, 654 (7th Cir. 2003) (citing Alan O. Sykes, The Economics of Vicarious Liability, 93 YALE L.J. 1231, 1241–42, 1272 (1984)). Another rationale for vicarious liability is that it will encourage employers—and perhaps those similarly situated—to exercise care in hiring, controlling, and supervising their employees to reduce the likelihood of copyright infringement. Douglas Lichtman & William Landes, Indirect Liability for Copyright Infringement: An Economic Perspective, 16 HARV. J.L. & TECH. 395, 398 (2003).

65 See, e.g., Perfect 10, Inc. v. Visa Int'l Serv., Ass'n, 494 F.3d 788, 815–16 (9th Cir. 2007) (“[T]wo lines of cases developed in the first part of the last century: the absentee landlord cases and the dance hall cases.”); Fonovisa, 76 F.3d at 262 (“The Shapiro Court looked at the two lines of cases it perceived as most clearly relevant.”); Yash Raj Films (USA), Inc. v. Bobby Music Co. & Sporting Goods, Inc., No. 01 CV 8378 JFB CLP, 2006 WL 2792756, at *1 (E.D.N.Y. Sept. 27, 2006) (considering whether defendant was “more akin to a landlord” or “analogous to a dance hall owner”); Adobe Sys. Inc. v. Canus Prods., Inc., 173 F. Supp. 2d 1044, 1049 n.1 (C.D. Cal. 2001) (“[C]ourts have continued to apply [the landlord-tenant and dance hall] paradigm to third-party infringement cases.”); Polygram, 855 F. Supp. at
case in which a manager of a dance hall leased the premises to a band that performed copyrighted music without authorization is "legion" with respect to a finding of vicarious liability as long as the band generated increased profits for the manager from the performance and the manager could have controlled the premises. Although this factual setting was technically not one of an employer-employee relationship, it was presumed that the manager had the same control over the performer as an employer over an employee. Moreover, the manager was in a better position to bear the costs by distributing them to those deriving a benefit from the infringement, such as to patrons through price admission; this justification as a basis for liability seemed reasonable considering that the manager unfairly reaped the benefits of the performer's behavior. On the other hand, a landlord who leased his property at a fixed rate to a tenant who subsequently committed copyright infringement on the premises did not have nearly the same culpability as a dance hall owner as long as the landlord exercised no supervision over the tenant and received no other benefit from the infringing activity other than the lease payment. Unlike an employer-employee relationship, a landlord-tenant relationship does not give rise to the presumption that one party's acts are attributable

1324 ("[W]here along the spectrum of fact patterns from nightclub to landlord does the defendant stand?").

66 Shapiro, 316 F.2d at 307.
67 Id. at 307–08.
68 Banff, 869 F. Supp. at 1109.
69 Feder, supra note 19, at 870; see also Polygram, 855 F. Supp. at 1325. The Polygram Court focused its justification to impose liability in such a situation on risk allocation:

When an individual seeks to profit from an enterprise in which identifiable types of losses are expected to occur, it is ordinarily fair and reasonable to place responsibility for those losses on the person who profits, even if that person makes arrangements for others to perform the acts that foreseeably cause the losses... The enterprise and the person profiting from it are better able than either the innocent injured plaintiff or the person whose act caused the loss to distribute the costs and to shift them to others who have profited from the enterprise.

Polygram, 855 F. Supp. at 1325.

70 See Artists Music, Inc. v. Reed Publ'g (USA), Inc., Nos. 93 CIV. 3428(JFK), 73163, 1994 WL 191643, at *4 (S.D.N.Y. May 17, 1994).
71 Shapiro, 316 F.2d at 307.
72 Id. (citing Deutsch v. Arnold, 98 F.2d 686 (2d Cir. 1938)).
to the other.\textsuperscript{73} The key difference between the two models is that unlike a landlord, a dance hall owner could have received financial gain proportional to the infringing activity and could have controlled the infringing activity.

\textbf{B. The Dual-Use Cases Elicit the Blurring}

The continuous relationship between the operator and the user of the P2P network, distinguishable from other litigated dual-use products, gave rise to the circuit courts blurring the distinction between contributory and vicarious liability in this context. This notion appeared in \textit{Sony}, as the Court not only acknowledged that commonalities arose between the two doctrines,\textsuperscript{74} but also used the terms interchangeably throughout its opinion.\textsuperscript{75} This Section analyzes how the courts in dual-use cases involving the ongoing relationship suggested that the "right and ability" to control the infringing conduct, an element of vicarious liability, was, in fact, merely a subset of the "material contribution" prong of contributory liability and how knowledge of the infringing activity, an element of contributory liability, is an implied element of vicarious liability.

\textsuperscript{73} \textit{Banff}, 869 F. Supp. at 1109. "Such a presumption can arise, however, upon a factual showing . . . where the landlord is more intimately involved with the affairs of the tenant than might typically be the case." \textit{Id.} In \textit{Shapiro}, the court held that the defendant, who owned a department store in which unauthorized copies of records were being sold, analogized to the "dance hall" cases because the defendant was able to supervise the sales and received a fixed percentage of the revenue generated from the sales. \textit{Shapiro}, 316 F.2d at 308.

\textsuperscript{74} See \textit{Sony Corp. of Am. v. Universal City Studios, Inc.}, 464 U.S. 417, 435 n.17 (1984) ("[T]he lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn . . . .\) (reasoned analysis of a contributory infringement claim necessarily entails consideration of arguments and case law which may be forwarded under the other labels . . . .") (quoting Universal City Studios, Inc. v. Sony Corp. of Am., 480 F. Supp. 429, 457-58 (D.C. Cal. 1979), rev'd on other grounds, 659 F.2d 963 (9th Cir. 1981), rev'd, 464 U.S. 417 (1984)).

\textsuperscript{75} Kelly M. Maxwell, \textit{Note, Software Doesn't Infringe, Users Do? A Critical Look at MGM v. Grokster and the Recommendation of Appropriate P2P Copyright Infringement Standards}, 13 \textit{COMMLAW CONSPECTUS} 335, 342 n.65 (2005) ("Sony states that vicarious liability can be found if the contributory infringer was, 'in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner,' but vicarious liability is not imposed in this case." (citing \textit{Sony}, 464 U.S. at 437)). The Seventh Circuit reiterated this perception since the court was "uncertain" as to the scope of vicarious liability for a P2P network because it interpreted \textit{Sony} to have treated vicarious and contributory infringement "interchangeably." \textit{In re Aimster Copyright Litig.}, 334 F.3d 643, 654 (7th Cir. 2003).
1. “Right and Ability” To Control in Contributory Liability

When examining secondary copyright claims against a distributor of a dual-use product who maintained a relationship with its users, courts typically found that possessing the “right and ability” to supervise the infringement satisfied the “material contribution” prong of contributory liability. The Sony Court eloquently demonstrated how “right and ability” to control was merely a subset of material contribution:

“[C]ontributory infringement” has been applied in a number of . . . copyright cases involving an ongoing relationship between the direct infringer and the contributory infringer at the time the infringing conduct occurred. In such cases, as in other situations in which the imposition of vicarious liability is manifestly just, the “contributory” infringer was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner.

Suppose that Sony still had significant contact with its VTR customers when some unauthorized copying took place. The Sony Court implied that, in this situation, the “right and ability” to control, which justified imposing vicarious liability, in itself, gave rise to contributory infringement. More specifically, this analysis implied that by failing to control infringing activity despite having the opportunity to do so, the vicarious infringer also contributed materially to the infringing conduct. Thus, the Sony Court acknowledged that the overlap of contributory and vicarious liability arose when an ongoing relationship was present.

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76 See, e.g., Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1163 (2d Cir. 1971) (discussing that the contributory infringer “was in a position to police the infringing conduct of its artists” since it programmed the compositions of the artists); A&M Records, Inc. v. Abdallah, 948 F. Supp. 1449, 1456 (C.D. Cal. 1996) (holding that defendant materially contributed to infringement by selling blank tapes knowing his customers would use them to conduct infringing activities).

77 Sony, 464 U.S. at 437. Note, however, that this general situation is distinguishable from the facts of Sony because “[t]he only contact between Sony and the users of the [VTR] . . . occurred at the moment of sale.” Id. at 437–38 (emphasis added).

78 See id. at 437–38.

79 See id. at 437.
Since P2P networks typically gave rise to an ongoing relationship, the courts meshed the two doctrines by suggesting that failing to exercise or eliminate the “right and ability” to control the infringing conduct constituted a “material contribution” to the infringing conduct.\(^8^0\) Consider the first P2P case to reach the circuit courts, *A&M Records, Inc. v. Napster, Inc.*\(^8^1\) In *Napster*, the defendants distributed software—through its website for no charge—that allowed its users to transfer copies of MP3 files\(^8^2\) from one computer to another via the Internet.\(^8^3\) In analyzing the vicarious liability claim, the court emphasized that “[t]o escape the imposition of vicarious liability,

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\(^8^1\) 239 F.3d 1004 (9th Cir. 2001), aff'd, 284 F.3d 1091 (9th Cir. 2002).

\(^8^2\) An MP3 is a condensed digital format for storing audio recordings, making them very easy to transfer over P2P networks. *Id.* at 1011.

\(^8^3\) *Id.* Once the software was installed, a user typically connected to the Napster network. *See id.* at 1012. The software then searched for files on the user's hard drive suitable for exchange, uploaded the names of the files onto Napster's servers, and rendered the files part of a “collective directory” available for transfer while the user remained connected to Napster. *Id.* This demonstrated how files became available for download on the system. To locate available files for download, a user connected to the network and entered the name of a song or artist in a search window provided by the software. *Id.* A Napster server compiled a list of all the file names that contained the search terms and transmitted the list to the user. *Id.* To enable a searching user to obtain a file from the list, the Napster server obtained the Internet address of that user and the user who possessed the file, communicated the Internet address of the possessor to the searcher, and as a result, allowed a connection to be established between the two users for a transfer to take place. *Id.* The actual transfer never passed through Napster's servers. *A&M Records, Inc., v. Napster, Inc.*, 114 F. Supp. 2d 896, 907 (N.D. Cal. 2000), rev'd on other grounds, 239 F.3d 1004. Indeed, the recording industry, at the time, greatly feared that large-scale music exchanging on such a network would significantly diminish music sales. See Courtney Macavinta, *Recording Industry Sues Music Start-Up, Cites Black Market*, CNET News.com, Dec. 7, 1999, http://news.cnet.com/2100-1023-234092.html. Cary Sherman, senior executive vice president of the RIAA said: “Napster is about facilitating piracy and trying to build a business on the backs of artists and copyright owners.” *Id.* This claim seemed at least somewhat legitimate at the time, considering that 10,000 files per second were shared over the Napster system. *Napster*, 114 F. Supp. 2d at 902. Many commentators, however, argued that this technology could be used to create new business models to offer consumers recordings more quickly and conveniently, while simultaneously fairly compensating copyright holders. See Felix Oberholzer & Koleman Strumpf, *The Effect of File Sharing on Record Sales: An Empirical Analysis*, 115 J. Pol. Econ. 1, 38 (2007) (“[W]e find that find that file sharing has had no statistically significant effect on purchases of the average album . . . .”); Katie Dean, *P2P Tilts Toward Legitimacy*, Wired.com, Nov. 24, 2004, http://www.wired.com/entertainment/music/news/2004/11/65836.
the reserved right to police must be exercised to its fullest extent.\textsuperscript{84} By implementing this practice, the P2P operator would, in effect, have altered the assistance for infringing activity provided to its users in such a way to likely render the assistance immaterial; consequently, the operator was no longer contributorily liable, since the "material contribution" vanished. Fully exercising the right and ability to control the infringing conduct, implied the \textit{Napster} Court, directly paralleled an elimination of "material contribution" to the infringing activity. Clearly, the "right and ability" to control prong and the "material contribution" prong rose and fell together. Similarly, the Seventh Circuit, in the next P2P case to reach the circuit courts, \textit{In re Aimster Copyright Litigation},\textsuperscript{85} also meshed the two doctrines. Unique to this software was that the creator encrypted all communication between users, rendering it impossible for the operator to ascertain which specific files were in transfer.\textsuperscript{86} The court made the suggestion that vicarious liability could have been applied in \textit{Sony} on the theory that "Sony could have reduced the likelihood of infringement... by a design change" and that Aimster similarly could have done so by "eliminating the encryption feature and monitoring the use being made of its system."\textsuperscript{87} The court's message was clear: If Aimster changed the design of the system in such a way that enabled the operator to supervise and control the infringing conduct, resulting in significantly reduced infringing activity, vicarious liability could not be imposed. Another outcome of such action would be the disappearance of any "material contribution," as one could not have contributed materially if the infringing activity was minimal. Once again, a court in a P2P case analyzing an ongoing relationship between the direct infringer and secondary infringer demonstrated the tendency to interlock the "right and ability" to control and "material contribution" prongs.

\textsuperscript{84} \textit{Napster}, 239 F.3d at 1023.
\textsuperscript{85} 334 F.3d 643 (7th Cir. 2003).
\textsuperscript{86} \textit{Id.} at 646. The court also explained the apparent effect of the software: "In principle,... the purchase of a single CD could be levered into the distribution within days or even hours of millions of identical, near-perfect... copies of the music recorded on the CD..." \textit{Id.}
\textsuperscript{87} \textit{Id.} at 654. The \textit{Aimster} Court actually interpreted the \textit{Sony} holding to have relieved Sony of vicarious liability. \textit{Id.}
2. Knowledge Implied in Vicarious Liability

Although knowledge of the infringing activity is not an element of vicarious liability, in the context of a dual-use product where there was an ongoing relationship between the operator of the software and the user, courts implied that in order to satisfy the "right and ability to control" prong, the operator must have known of this ability to control the infringing conduct, which, in turn, implied that there was knowledge of the infringing activity. In fact, the landlord-tenant cases, frequently cited by courts to demonstrate a situation in which no vicarious liability was present, suggest that a lack of knowledge of the infringing activity on the landlord's part was considered in the analysis in order to render no imposition of secondary copyright liability. In the dual-use context of Sony, the Supreme Court asserted:

If vicarious liability is to be imposed on petitioners in this case, it must rest on the fact that they have sold equipment with constructive knowledge of the fact that their 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.

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88 See supra note 62 and accompanying text.
89 See, e.g., Sygma Photo News, Inc. v. High Soc'y Magazine, Inc., 778 F.2d 89, 92 (2d Cir. 1985) (holding defendant vicariously liable for the unauthorized publishing of a photograph on a magazine cover since defendant "at the very least . . . exercised control over the infringement"); Artists Music, Inc. v. Reed Publ'g (USA), Inc., No. 93 Civ. 3428(JFK), 73163, 1994 WL 191643, at *6 (S.D.N.Y. May 17, 1994) ("The mere fact that [defendants] could have policed the exhibitors at great expense is insufficient to impose vicarious liability . . . .").
90 See supra notes 71–73 and accompanying text.
91 See Deutsch v. Arnold, 98 F.2d 686, 688 (2d Cir. 1938) ("[The landlords] received nothing, and were not entitled to receive anything through [the tenant's] acts of infringement, and there is no proof that either of them knew that acts of infringement were proposed at the time when the lease was made." (emphasis added)); see also Vernon Music Corp. v. First Dev. Corp., No. 83-0645-MA, 1984 WL 8146, at *1 (D. Mass. June 19, 1984) (holding a landlord corporation that "merely owns and leases the property on which" its tenants committed copyright infringement not vicariously liable because it did not "control" the infringing activity); Fromont v. Aeolian Co., 254 F. 592, 594 (S.D.N.Y. 1918) (holding that because the landlord was "without any knowledge whatever of a threatened infringement" when he entered into the lease, secondary liability could not be imposed).
The *Sony* Court, by holding that vicarious liability could not be imposed if a defendant had mere constructive knowledge of the infringing activity, implicitly suggested that a higher degree of knowledge could give rise to vicarious liability. Why would the court otherwise explicitly state that vicarious liability could not be imposed due to mere constructive knowledge? Evidently, knowledge was part of the vicarious liability analysis. Suppose that Sony in fact had an ongoing relationship with its customers, that is, Sony still had the ability to stop the infringing conduct after it was sold. In this situation, if Sony specifically knew which of its users were using the equipment to infringe copyright, it would then have had the ability to control the conduct. To clarify, the Court dismissed the vicarious liability claim because Sony did not have actual knowledge that infringing activity was occurring at the moment of sale, and thus had no ability to control the infringing conduct.

Since *Sony* was controlling law in the P2P cases, the courts also sought to determine if actual knowledge was present when evaluating whether the creator of the P2P network had the ability to monitor the infringing conduct. For example, the Ninth Circuit in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd.*\(^\text{93}\) concluded that because the software here, unlike that in *Napster*,\(^\text{94}\) contained no central index system that enabled the defendants to locate and throw specific infringers off the network,\(^\text{95}\) the defendants did not know which specific users committed infringing activity, and thus could not block any individual user's access to exchanging files.\(^\text{96}\) Additionally, the court in *Napster* concluded that the defendant's act of policing the network to prevent the exchange of copyrighted material

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\(^{93}\) 380 F.3d 1154 (9th Cir. 2004), rev'd, 545 U.S. 913 (2005). Although this decision was reversed by the Supreme Court, the court's analysis is still valuable to the study of copyright infringement in this context. The Supreme Court explicitly rejected little, if any, of the circuit court's analysis of the contributory and vicarious liability claims. See Tiffany A. Parcher, Comment, *The Fact and Fiction of Grokster and Sony: Using Factual Comparisons To Uncover the Legal Rule*, 54 UCLA L. REV. 509, 516 (2006) (“[The Court] did not reverse or affirm the Ninth Circuit's holding that Grokster's software was capable of substantial noninfringing uses.”).

\(^{94}\) The “Napster system employed a proprietary centralized indexing software architecture in which a collective index of available files was maintained on servers it owned and operated.” *Grokster*, 380 F.3d at 1159.

\(^{95}\) See id. at 1163 (“In the context of this case, the software design is of great import.”).

\(^{96}\) Id. at 1165.
gave rise to the “right and ability” to control the infringing conduct.\(^9\) The defendants must have known of the ongoing infringing activity in order to attempt to prevent it. Indeed, the evidence certainly indicated that this was the case.\(^9\)

### III. THE HYBRID RULE

Because the Sony, Napster, Aimster, and Grokster Courts quite naturally blurred the distinctions between contributory and vicarious infringement in the context of an ongoing relationship between a developer and a user of a dual-use product, it would be most useful for innovators to simply combine the doctrines in this context into a “hybrid” rule. This standard should determine whether secondary liability should be imposed, consisting of the three elements considered by both contributory and vicarious liability: (1) direct financial benefit from the infringing activity; (2) actual knowledge of the infringing activity; and (3) the ability to directly terminate the infringing activity.\(^9\) Sony’s safe harbor rule should continue to serve as a defense to a claim of such liability because it is still good law and strikes a fair balance between protecting copyrighted works and stimulating innovation of technology. Ultimately, in this age of rapidly developing technology in which creators themselves may not anticipate particular uses of a technology, implementation of this rule to digital technology should provide sufficient guidance to both start-up companies and large organizations as to what features of potential technologies may generate liability, while simultaneously furthering public benefit. This Part demonstrates the proper scope of each prong, keeping in mind how courts interpreted them in order to best effectuate the fundamental principles of copyright law.

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\(^9\) See A&M Records, Inc. v. Napster, Inc. 239 F.3d 1004, 1023 (9th Cir. 2001) (“The ability to block infringers’ access to a particular environment for any reason whatsoever is evidence of the right and ability to supervise.”), aff’d, 284 F.3d 1091 (9th Cir. 2002); see also Kelly M. Maxwell, Note, Software Doesn’t Infringe, Users Do! A Critical Look at MGM v. Grokster & the Recommendation of Appropriate P2P Copyright Infringement Standards, 13 COMMLAW CONSPECTUS 335, 359 (2005) (“The Napster... court found that the defendant had the right and ability to supervise its users’ conduct when it began to police its network in preventing the exchange of copyrighted material.”).

\(^9\) See infra note 114 and accompanying text.

\(^9\) Of course, this proposal has no bearing upon the distinct inducement rule announced in Grokster.
A. Direct Financial Interest

A plaintiff must demonstrate the defendant’s direct and obvious financial interest in the infringing activity, which can be shown if the infringing activity was the primary “draw” for users to the product. The Ninth Circuit’s analyses in the Napster and Grokster cases delineated specific forms of direct financial gain: (1) increase in userbase directly generating more revenue, and (2) advertising revenue. A direct financial interest was found in Napster: “Napster’s future revenue is directly dependent upon ‘increases in userbase.’ More users register with the Napster system as the ‘quality and quantity of available music increases.’” Similarly, a direct financial interest based on advertising revenue was also undisputed in Grokster. The Court’s analysis of the facts pertinent to the revenue as direct financial gain provides guidance:

As the number of users of each program increases, advertising opportunities become worth more. [Here], the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking [copyrighted works] are certain to be far more numerous than those seeking a free Decameron, and [the defendants have] translated that demand into dollars.

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101 Adobe Sys. Inc. v. Canus Prods., Inc., 173 F. Supp. 2d 1044, 1050 (C.D. Cal. 2001). The Adobe Court held that the infringement is the “draw” in the event that “the very success of the landlord’s venture depends on the counterfeiting activity (and thus the landlord has every incentive to allow the activity to continue).” Id. at 1051.

102 Unfortunately, the Seventh Circuit in Aimster did not analyze whether the facts satisfied the vicarious liability elements, and this Note is hesitant to incorporate the relevant district court’s analysis because the court was “less confident than the district judge . . . that the recording industry would . . . be likely to prevail on the issue of vicarious infringement.” In re Aimster Copyright Litig., 334 F.3d 643, 654 (7th Cir. 2003).

103 A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1023 (9th Cir. 2001), aff’d, 284 F.3d 1091 (9th Cir. 2002).


106 Grokster, 380 F.3d at 1164.

On the other hand, as was consistently held in the "landlord-tenant" cases, there was no direct financial benefit if a mere fixed rate generated the third-party's revenue; in other words, there was no revenue causally related to the infringing activity.\textsuperscript{108}

Indeed, by limiting the financial interest to a direct one, as many courts have done, the potential for limitless expansion of liability—which in turn would significantly stifle innovation—would be restricted. Without question, some courts extended the reach of vicarious liability beyond that of a situation analogous to an employer-employee relationship by merely requiring an indirect financial benefit, which could be demonstrated by the infringing acts merely enhancing "the attractiveness of the venue to potential customers";\textsuperscript{109} "attractiveness," however, is too vague of a standard, so the requirement should be restricted to direct financial gain.\textsuperscript{110}

\textsuperscript{108} See supra notes 71–73 and accompanying text.

\textsuperscript{109} Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 263–64 (9th Cir. 1996) ("In this case, the sale of pirated recordings at the Cherry Auction swap meet is a 'draw' for customers, as was the performance of pirated music in the dance hall cases and their progeny."); see also Broad. Music, Inc. v. Hartmarx Corp., No. 88 C 2856, 1988 WL 128691, at *2 (N.D. Ill. Nov. 17, 1988) (holding that since the infringement "create[d] a more attractive environment for customers," there was a financial interest); William Sloan Coats, et al., Pre- and Post- Grokster Copyright Infringement Liability for Secondary and Tertiary Parties, 842 PRACTISING L. INST. 221, 230 (2005) ("There is some disagreement among the circuit courts as to how direct the connection between the financial benefit and the infringing activity must be."). Some courts held that the "draw" need not be substantial, with the focus remaining on whether the infringing activity merely caused more people to potentially facilitate it, as opposed to requiring a direct financial increase resulting from augmented infringement. See Ellison v. Robertson, 357 F.3d 1072, 1079 (9th Cir. 2004) (holding that Fonovisa's "draw" test was satisfied as long as the infringing activity was "a draw" for customers and that the "draw" need not be "substantial" (emphasis added)). Another seemingly expansive interpretation for finding a financial benefit was if there was merely "some continuing connection between the [defendant and the direct infringer] in regard to the infringing activity." Banff Ltd. v. Limited, Inc., 869 F. Supp. 1103, 1110 (S.D.N.Y. 1994) (applying this theory in a parent-subsidiary context).

\textsuperscript{110} See Adobe Sys. Inc. v. Canus Prods., Inc., 173 F. Supp. 2d 1044, 1050–51 (C.D. Cal. 2001) ("The direct financial benefit must stem from the fact that substantial numbers of customers are drawn to a venue with the explicit purpose of purchasing counterfeit goods. . . . Without [this] requirement . . . [there would be] limitless expansion of vicarious liability into spheres wholly unintended . . . ."). In fact, the Adobe court required the infringing activity to be "the 'draw' for customers to the venue." Id. at 1050 (emphasis added).
B. Knowledge with Sony’s Safe Harbor

Sony articulated the standard for knowledge: Specific knowledge of the infringing activity, perhaps by knowing the precise identity of the infringer and the works being infringed. If mere constructive knowledge is demonstrated, then the claim is subject to the Sony safe harbor. Many believe that this construction is the best way to further public benefit—when the benefits of the noninfringing uses outweigh the harms of the infringing uses and the third party cannot learn of the specific infringers when the infringement occurs, it is best to leave the product on the market.

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111 See, e.g., Gershwin Publ’g Corp. v. Columbia Artists Mgm’t, Inc., 443 F.2d 1159, 1162–63 (2d Cir. 1971).

112 See supra notes 46–48, 51–52 and accompanying text; see also Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 262 (5th Cir. 1988) (holding that there was no contributory infringement because defendant knew only that its customers might use its product to commit copyright infringement and because the product was capable of substantial noninfringing uses); Adobe, 173 F. Supp. 2d at 1056 (holding that a letter sent by a copyright holder to proprietors of computer fairs describing alleged infringing activities taking place at proprietors’ shows was insufficient to establish summary judgment on defendants’ knowledge).

113 See supra notes 48–50 and accompanying text. Unfortunately, the Court, in the two concurring opinions of Grokster, revealed disagreement as to what constituted “substantial.” Justice Ginsburg, in her concurring Grokster opinion, stated that the Sony safe harbor provided a defense if the product had “substantial” or “commercially significant” noninfringing uses. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 942 (2005) (Ginsburg, J., concurring). Because “the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time,” the lower courts “should not have ruled dispositively on the contributory infringement charge.” Id. at 948. Critical to Ginsburg’s analysis was that the evidence presented by defendants demonstrating that noninfringing uses “reveal[] mostly anecdotal evidence . . . 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.” Id. at 946. Moreover, “[e]ven if the absolute number of noninfringing files copied . . . is large, it does not follow that the products are therefore put to substantial noninfringing uses . . . . The number of noninfringing copies may be reflective of, and dwarfed by, the huge total volume of files shared.” Id. at 948. In contrast, Justice Breyer advocated that contributory liability does not attach “unless the product in question will be used almost exclusively to infringe copyrights.” Id. at 957 (Breyer, J., concurring). Justice Breyer specifically pointed out that in Sony, since the Public Broadcasting Service, professional sports leagues, and religious broadcasting all authorized home taping, to demonstrate “‘significant enough numbers to create a substantial market for a noninfringing use of the’ VCR . . . ., these circumstances alone constituted a sufficient basis for rejecting the imposition of [contributory] liability.” Id. at 951 (quoting Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 447 (1984)). Because approximately ten percent of the files exchanged on
In the P2P cases, the courts found specific knowledge if the defendant was notified of the specific infringing acts committed by its users, and the courts found constructive knowledge only if the developer had no available mechanism to locate specific infringers on the network and throw them off. To demonstrate such a specific knowledge analysis in a P2P situation, consider the Napster defendant. The court found specific knowledge because the recording industry notified the defendant multiple times of specific infringing acts committed by users of its software, and the defendants could have located and thrown those users off the network. In contrast, the defendant defendants' P2P software were noninfringing, which was similar to the percentage observed in Sony, combined with the "adequate foundation where there is a reasonable prospect of expanded legitimate uses over time," Sony's standard was met and summary judgment should have been granted to dismiss the contributory liability claim. Id. at 953-54 ("[T]he software permits the exchange of any sort of digital file—whether that file does, or does not, contain copyrighted material. As more and more uncopyrighted information is stored in swappable form, it seems a likely inference that lawful peer-to-peer sharing will become increasingly prevalent."). Some of these lawful uses included the swapping of research information, public domain films, historical recordings and digital educational materials, and digital photos. Id. at 954. Ultimately, this intra-Court split, of which either interpretation might attract a majority of justices in a future case, led many copyright commentators to criticize the majority Grokster decision for failing to clarify the definition of "substantial noninfringing use" in a situation that was ripe for it. See Darrin Keith Henning, Intellectual Property—Copyright & Internet Law—"The Big Chill": The Supreme Court Adopts an Inducement Standard for Third-Party Copyright Infringement Liability, Leaving Innovation in the Cold, 29 U. ARK. LITTLE ROCK L. REV. 165, 202 (2006) ("[T]he Grokster . . . decision will have a direct chilling effect in the high-tech world . . . because of the Court's failure to affirm the balance struck in Sony, thereby creating uncertainty regarding the future of its safe-harbor doctrine . . . ."); Julie E. Cohen, The Place of the User in Copyright Law, 74 FORDHAM L. REV. 347, 354 (2005) (discussing that since the Court "declined to specify the precise content of the substantiality standard" and "[i]nstead . . . offered the copyright industries another tool for pursuing wrongdoers that purported to focus on intent rather than design," the "compromise likely will prove unstable"); Timothy K. Andrews, Comment, Control Content, Not Innovation: Why Hollywood Should Embrace Peer-to-Peer Technology Despite the MGM v. Grokster Battle, 25 LOY. L.A. ENT. L. REV. 383, 423 (2005) ("By distinguishing Sony, the Court avoids answering the most disputed issue before it: What level of infringing use qualifies as 'substantial'?"); David Post, The Impact of 'Grokster,' NAT'L L.J., Aug. 3, 2005, at 10 ("Uncertainty remains . . . about how this will play out in the future—and in particular, about the precise meaning of 'capable of substantial noninfringing use.' ").

114 A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1021 (9th Cir. 2001), aff'd, 284 F.3d 1091 (9th Cir. 2002). "[A] document authored by Napster co-founder Sean Parker mentioned the need to remain ignorant of users' real names and IP addresses since they are exchanging pirated music. . . . [T]he Recording Industry Association of America ('RIAA') informed Napster of more than 12,000 infringing files, some of
in *Grokster* had mere constructive knowledge of infringing activity because, under the system's decentralized design, the defendants were unable to locate and throw off any specific infringers.\(^{115}\)

C. Right and Ability To Control

Because of the apparent overlap between *Gershwin*’s "material contribution" prong and *Grokster*’s "inducement" rule,\(^{116}\) it seems reasonable to use the "right and ability" to control prong for the "hybrid" rule as this standard is merely a subset of "material contribution." Whether a party had the "right and ability" to control the infringing conduct is extremely fact-specific and should depend on several factors, including whether the defendant controlled the infringing activity via its rules which are still available." *Id.* at 1020 n.5 (internal quotation marks omitted). Because some of the files were still available, this seems to give rise to the fact that the Napster operators knew of some specific users who committed infringement, since they could easily search for them. *But see* Yen, *supra* note 80, at 837 (disagreeing with the Ninth Circuit's analysis of the evidence in *Napster*, arguing that Napster had constructive knowledge of infringement but to a greater degree than Sony in the *Sony* case). Because the *Napster* Court found actual knowledge, no determination was made as to whether the Napster P2P network was "capable of substantial noninfringing uses." *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

\(^{115}\) Metro-Goldwyn-Mayer Studios Inc. v. *Grokster*, Ltd., 380 F.3d 1154, 1162 (9th Cir. 2004), rev'd, 545 U.S. 913 (2005). Under a decentralized software design, the software broadcasted a search request to all the computers on the network and then a search of the individual index files was conducted, with the collective results routed back to the requesting computer. *Id.* at 1159. The software did not collect the results in any central location during the search. This construction meant that if the defendants " 'closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.' " *Id.* at 1163 (quoting Metro-Goldwyn-Mayer Studios, Inc. v. *Grokster*, 259 F. Supp. 2d. 1029, 1041 (C. D. Cal. 2003)).

\(^{116}\) Compare *Grokster*, 545 U.S. at 919 ("[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties." (emphasis added)), with *Gershwin*, 443 F.2d at 1162 ("[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.” (emphasis added) (footnote omitted)). The *Grokster* Court’s inducement theory will seem to capture a substantial number of those who materially contribute to infringement but have more than a mere right and ability to supervise. Yet, if one does not induce and merely has a right and ability to supervise, the "material contribution" prong is still satisfied. *See supra* notes 76–87 and accompanying text. The "inducement" theory will certainly include the former scenario and likely not the latter.
and regulations, took reasonable policing measures to ensure regulations were being followed, or promoted the mechanism in which the direct infringement occurred.\textsuperscript{117} This should encourage innovators to create products that enable them to throw users who infringe off their networks.

Analyzing the facts of \textit{Napster} and \textit{Grokster} under the proposed factors reveals that there was a "right and ability" to supervise the conduct only if the structure of the software enabled the developer to terminate specific infringing activity; of course, it seems unjust to impose liability if no control could be exerted because there would be no incentive to take such action. On one hand, in \textit{Napster}, Napster "expressly reserve[d] the "right to refuse service and terminate accounts . . . for any reason in Napster's sole discretion, with or without cause."\textsuperscript{118} Additionally, Napster "ha[d] the ability to locate infringing material listed on its search indices, and the right to terminate users' access to the system."\textsuperscript{119} These factors, combined with the fact that "as much as eighty-seven percent of the files available on Napster may be copyrighted,"\textsuperscript{120} gave rise to Napster's right and ability to supervise. On the other hand, although the defendant in \textit{Grokster} "reserved the right to terminate" access, there was no "registration and log-in process" for software users, giving Grokster "no ability to actually terminate access to filesharing functions."\textsuperscript{121} Nor did Grokster have a "point of access for filtering or searching for infringing files, since

\textsuperscript{117} \textit{Adobe}, 173 F. Supp. 2d at 1053 (citing Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 258, 263 (9th Cir. 1996)).
\textsuperscript{118} \textit{Napster}, 239 F.3d at 1023.
\textsuperscript{119} \textit{Id.} at 1024.
\textsuperscript{120} \textit{Id.} at 1013 (quoting A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 911 (N.D. Cal. 2000)).
\textsuperscript{121} Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd., 380 F.3d 1154, 1165 (9th Cir. 2004), rev'd, 545 U.S. 913 (2005). Certainly, Grokster could have shut down the operations altogether, but the court held this to be an insufficient argument to give rise to a right and ability to control the infringing conduct:

\textit{[T]he alleged ability to shut down operations altogether is more akin to the ability to close down an entire swap meet or stop distributing software altogether, rather than the ability to exclude individual participants, a practice of policing aisles, an ability to block individual users directly at the point of log-in, or an ability to delete individual filenames from one's own computer.}

\textit{Id.}
infringing material and index information did not pass through defendants' computers."122 As a result, there was no right and ability to supervise the infringing activity.

CONCLUSION

Innovators experienced a serious letdown after the Supreme Court decided Grokster. Not only did the Grokster Court fail to harmonize the circuit courts' tendency to blur the distinction between contributory and vicarious liability, it also brought to life a third theory of secondary copyright liability—inducement. The effect thereof was to add to an already existing uncertainty of liability that innovators must deal with when contemplating whether to develop a new potentially dual-use product. This raises the question: What, if anything, can technology companies do to steer clear of secondary liability for distributing dual-use products?123 Many commentators respond with a blank expression or a mere shrug.

Since it is quite apparent that the blurring of the traditional doctrines of secondary liability was a natural consequence of the continuous relationship between the creator and user of a dual-use product, the most reasonable way to bring clarification to this nebulus area of law is to combine the doctrines into a simple, straightforward test. The effect could be profound as future innovators would finally have a sense of certainty surrounding the scope of potential copyright infringement issues. This would indeed maximize the enhancement of technology, and ultimately, copyright's fundamental goal—public benefit.

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122 Id. Although Grokster stripped itself of the ability to control P2P users' conduct, and accordingly, exculpated itself from vicarious liability, such "affirmative steps" to avoid control of the infringing activity ended up rendering Grokster liable under the new inducement rule. The "right and ability" to supervise prong is intended to absolve parties who do not take such affirmative steps to remove control over the conduct and never had any control in the first place.

123 Parcher, supra note 93, at 512.