

Theories of Liability Against Those Engaging in or Contributing to Online File Sharing

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Introduction

For approximately the last 7 years, online file sharing has become a hot button topic in the courts, among the public, and with the industries it may affect. Most recently we have seen a storm of litigation and media campaigns against online file sharing in an apparent effort to curb and eventually halt the practice of this sharing. This paper will ultimately examine the history of file sharing, the theories of liability against those sharing or contributing to sharing, the litigation that has ensued, what results litigation has produced, the future of file sharing, and the writer's own opinions on the topic. The analysis of the litigation, the results, and what the future appears to hold suggest that while the copyright holders such as the recording industry have been winning the battles, they are far from winning the war.

Case Analysis

Background

Contributory and Vicarious Liability

The Sony Case. The seminal case applied in online file sharing cases as to contributory and vicarious liability is *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). In the *Sony* case, Sony had developed the Betamax video recorder. While a similar technology called the VCR is probably a staple or outdated and replaced technology in many American homes today, the Betamax was a new technology at the time the case was being decided. The two plaintiffs (respondents) in the action, Universal City Studios, Inc., and Walt Disney Productions, produced and held the copyrights on

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a substantial number of motion pictures and other audiovisual works which were capable of being recorded over the television airwaves and replayed via the Betamax recorder.¹

The two plaintiffs in the case alleged their copyrights were infringed as a result of use of the Betamax by individual purchasers of the product. Despite the alleged copyright infringement by individual users of the Betamax, no individuals were sued in the case. Rather, the plaintiffs proceeded on theories of contributory and vicarious copyright infringement against Sony, presumably since it would be difficult to locate and/or collect a judgment from individual users as well as the fact that Sony had deep pockets and could be enjoined from further production of the Betamax. Particularly, plaintiffs “sought money damages and an equitable accounting of profits from petitioners, as well as an injunction against the manufacture and marketing of Betamax VTR’s.”² The plaintiffs stood to collect substantial monetary damages through the relief sought.

In addressing the plaintiffs’ claims of contributory and vicarious liability, the Court initially noted that these theories are not addressed under the Copyright Act as it does not expressly reference liability for the infringement of another. Instead, the Court looks to Patent law which does address this form of liability. “The Patent Act expressly brands anyone who ‘actively induces infringement of a patent’ as an infringer, 35 U.S.C. §271(b), and further imposes liability on certain individuals labeled ‘contributory’ infringers, §271(c).”

The Patent Act, 35 U.S.C. §271 provides in relevant part that:

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, **and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.**

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. (Emphasis Added)

The Court goes on to explain that vicarious liability may be found in all areas of the law and there would be no reason to make an exception in the area of Copyright law. In saying that contributory liability would also be applicable to the instant case, the Court explained that contributory liability was in fact simply a “species of the broader problem” essentially branding it a subcategory of vicarious liability.³ Because the theories of liability clearly enumerated in the Patent Act could in fact be found in what the Court considered “all areas of law”, the theories could therefore be applied in Copyright law despite no express enumeration in the plain language of the Copyright Act.

When looking at prior contributory infringement cases, the courts have recognized that a Patent holder should not be able to extend his monopoly beyond its specific grants.⁴ By analogy, this statement applies to Copyright holders as well. Since the theories of copyright have been pulled from Patent law, the limitations imposed in one area may by analogy apply to the other. This is especially the case where both Patent and Copyright holders are given certain monopoly powers expressly enumerated by statute and with express limitations.

After reviewing case law cited by the parties in support of their positions on liability, the Court opined that “[i]f vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it [sic] has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material.”⁵

Merely producing a product which is capable of infringing a Patent or in this case a Copyright is not enough to impose liability on the producer. “[A] sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer. Such a rule would block the wheels of commerce.”⁶ This statement appears to be reasoned from the language of 35 U.S.C. §371(b) where in referencing who shall or shall not be liable as a contributory infringer, states that contributory infringement will be found where a product is “not a staple article or commodity of commerce suitable for substantial noninfringing use.”

Without detailing the District Court’s evidentiary findings, the substantial noninfringing use put forth by Sony was that of time shifting. Time shifting allowed users of the Betamax to tape a copyrighted show and view it a later time. The Court ultimately found that “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. Indeed, it need merely be capable of substantial noninfringing uses.”⁷

The Copyright Act defines what a court is to look at in determining fair use.⁸ Since time shifting was ultimately found to be a fair use under the Copyright Act according to the District Court’s findings, the Betamax was found to be capable of a substantial noninfringing use according to the Patent Act and Sony could not ultimately be held liable for contributory or vicarious liability.⁹

The File-Sharing Decisions

The Napster Decision

How the Napster System Worked. One of the first major cases involving an online file sharing network specifically was *A & M Records v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001). The case was an appeal from the district court’s grant of a preliminary injunction. At or before the case was decided, Napster by all accounts appeared to be the premier file sharing service. The author of this paper recalls that it seemed like everyone at his college used the Napster software, direct infringement of copyrighted songs was rampant given the ease and speed with which a person could download a song. Napster allowed users of the software to download songs in the MP3 format. Specifically, “Napster allowed its users to: (1) make MP3 music files stored on individual computer hard drives available for copying by other Napster users; (2) search for MP3 music files stored on other users’ computers; and (3) transfer exact copies of the contents of other users’ MP3 files from one computer to another via the Internet.”¹⁰ Napster also provided technical support for the indexing and searching of MP3 files. In order to participate in the Napster system, a user merely needed to access Napster’s webpage, download the software and provide a user name and password with which to log into the network.¹¹

In order to facilitate the sharing of songs, Napster's music share software downloaded by a user would verify what, if any songs were on the user's computer and then upload the songs to Napster's servers. Once uploaded to the Napster servers, the user's MP3 file names were stored on a server-side library under the user's name. The server was then able to track users who were logged in and to list that user's songs as being available to other users then and there logged on to the server.¹²

When a user wished to copy a song, the Napster software would obtain the Internet address of the requesting user and the Internet address of the user who already had the song. The server would then communicate the two users' internet addresses to one another so that the song could be copied. Once an MP3 was downloaded to a user's computer, that user could then play the song directly from its hard drive using Napster's software, the users own MP3 software or could transfer the song onto an external medium such as a CD or MP3 player.¹³

The Court's Analysis of Napster's Uses. Of initial note is that in order to proceed with its prima facie case, the plaintiffs needed to show direct infringement by the users of the software. In this particular case, the court in passing pointed to the fact that the record supported the district court's determination that "as much as eighty-seven percent of the files available on Napster may be copyrighted and more than seventy percent may be owned or administered by plaintiffs."¹⁴ Rather than seriously contest these numbers Napster asserted various affirmative defenses on behalf of users and ultimately on behalf of itself. Subsequent file sharing cases would show similar if not more egregious percentages of copyrighted files being shared.

Napster contended that it was protected by the "fair use" provision of the Copyright Act.¹⁵ "Napster identified three specific alleged fair uses: sampling, where users make temporary copies of a work before purchasing, space-shifting, where users access a sound recording through the Napster system that they already own in audio CD format; and permissive distribution of recordings by both new and established artists."¹⁶

In affirming the district court's conclusion that the identified uses by Napster users are not in fact fair uses, the court looked at the Copyright Act's factors which are to be applied in determining fair use. The relevant discussion is as follows:

a. Purpose and Character of the Use

This factor focuses on whether a new work merely replaces the object of the original creation or instead adds a further purpose or different character. This element also requires the district court to determine whether the allegedly infringing use is commercial or noncommercial. If found to be a commercial use, there is a presumption against a finding of fair use but the presumption may be overcome and as such is not conclusive on the issue of fair use.¹⁷

The district court in this case had found that Napster users had in fact engaged in a commercial use of copyrighted materials largely because "(1) 'a host user sending a file cannot be said to engage in personal use when distributing that file to a anonymous requester' and (2) 'Napster users get for free something they would ordinarily have to buy.'¹⁸ The court in finding that the district court's findings were not clearly erroneous noted that a "direct economic benefit is not required to demonstrate a commercial use. Rather **repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute a commercial use.**"¹⁹ (emphasis added).

b. Effect of Use on the Market

"Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied."²⁰ In looking at whether the marketability of the works being downloaded have been impaired the court also looked at the nature of the use by Napster users and what harm occurred. The proof required to demonstrate present or future market harm varies with the purpose and character of the use:

A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become wide-spread, it would adversely affect the potential market for the copyrighted work....*If the intended use is for commercial gain, that likelihood [of market harm] may be presumed. But if it is for a non-commercial purpose, the likelihood must be demonstrated.*²¹ (emphasis added in original).

The court's analysis in this particular instance suggests that the requisite level of proof was produced by plaintiffs regardless of whether the use in question was commercial or not. Sufficient evidence was produced at the district court level to demonstrate at least two ways that Napster harms the market. The first way which was demonstrated was that downloading harmed the market by reducing the number of CD sales to college students primarily, although presumably to other markets to a lesser extent. Additionally, free downloading prevented plaintiffs from entering the online download business as it is difficult to compete with a competitor who offers a product for free.²²

c. Identified Uses – Sampling

The *Napster* court found no error or abuse of discretion in the district court's findings that that the plaintiffs would likely prevail in establishing that sampling does not constitute a fair use. As an initial matter the court agreed with the district court's determination that sampling remains a commercial use even when some users eventually purchase the music.²³ Additionally, the court agreed that "even if the type of sampling supposedly done on Napster were a non-commercial use, plaintiffs have demonstrated a substantial likelihood that that it would adversely affect the potential market for their copyrighted works if it became widespread."²⁴

d. Identified Uses – Space Shifting

Napster also argued that in accordance with *Sony*, its users were merely "space shifting" and attempted to analogize space shifting to the time shifting principle that was found to be a fair use in *Sony*. Other courts had also held that for example, transferring an MP3 from a computer to a portable MP3 player was space shifting and additionally was a noncommercial use. This enabled MP3 player makers such as RIO to fall within the fair use protections upheld in *Sony*.²⁵ In disagreeing with Napster's arguments, the court said that the shifting arguments were unavailable to Napster because the methods of shifting in previous cases did not also simultaneously involve distribution of the copyrighted material to the general public.²⁶

Contributory Liability. Taking account of the court's findings that Napster users were directly infringing plaintiffs' copyrights and that no fair uses existed, the court next addressed whether or not Napster could be held liable for its users' infringement. In making its analysis however, the court noted that it must distinguish between the actual architecture of Napster's software and the conduct of Napster as a company.²⁷

The district court in the case had found that "Napster had both actual and constructive knowledge that its users exchanged copyrighted music. The district court also concluded that the law does not require knowledge of 'specific acts of infringement.'"²⁸ Whereas the *Sony* court did not impute knowledge to Sony where its Betamax recorder was capable of both infringing and noninfringing uses that level of knowledge was in fact imputed to Napster.²⁹

The court here found that peer-to-peer technology does not impute the requisite level of knowledge merely because users are infringing plaintiffs' copyrights.³⁰ Rather the evidence presented included statements by defendants showing actual knowledge and constructive knowledge was shown where plaintiffs notified defendants about infringing materials. However, even where the system is only being used for infringing uses, knowledge will not necessarily be imputed because if the system is capable of noninfringing uses, knowledge is not imputed.³¹

Upon finding that Napster did in fact have actual and constructive knowledge, the court next looked at "material contribution" in its analysis of a contributory liability claim. In a rather brief analysis, the court agreed with the district court that there had been material contribution where "Napster provides the site and facilities' for direct infringement."³²

Vicarious Liability. Before addressing whether the defendant in the case could be held vicariously liable, the court first addressed *Sony*. The court pointed out that contributory and vicarious liability were not before the Court in that case although the Court did recognize the theories. The Court however did not distinguish the two terms in its analysis and used the term "vicarious liability" rather broadly and not in a technical manner.³³ In that respect, *Sony* does not give the lower courts a clear indication on how to decide contributory and vicarious liability.

As to vicarious liability in a narrower sense, the *Napster* court opined that “[i]n the context of copyright law, vicarious liability extends beyond an employer/employee relationship to cases in which a defendant ‘has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.’”³⁴ The court’s analysis necessarily follows this opinion and therefore looks to whether Napster exercised any supervision over its users and whether it received any financial benefit.

With respect to financial benefit the court agreed that the plaintiffs would likely succeed in showing that Napster had a direct financial interest in the infringing activity. “Financial benefit exists when the availability of infringing material ‘acts as a draw’ for customers.”³⁵ Thus the availability of infringing material would draw more users and the increase in users would in turn draw more advertising revenue for Napster, increasing its financial benefit. A reduction in infringing material would necessarily have the opposite affect as users would turn instead to then-emerging systems and technologies.

The court also agreed that Napster had the ability to supervise its users but failed to do so. Napster’s own statement at the district court level indicated that it was improving its methods of blocking users about whom copyright holders complain. This admission of sorts evidences Napster’s ability to police and supervise its users.³⁶

Since Napster had the ability to locate infringing material listed on its servers and identify users who were infringing, it had a duty to police to the fullest extent in order to escape liability.³⁷ The duty to police did not fall solely on Napster however. According to the court, the plaintiffs had a duty to identify infringing materials before Napster would have a duty to disable the content.

Post Case Information. Following the case, the district court judge issued a modified preliminary injunction which the court of appeals affirmed. Users began altering file names to thwart Napster’s efforts to remove infringing activity from its servers. Users eventually began to leave Napster as new technologies unhampered by litigation entered the free download market, some even advertising to Napster users. Napster subsequently filed for bankruptcy and reemerged as a pay per download service. Napster now offers individual song downloads for \$.99 and two separate monthly membership services where over 1,000,000 songs can be downloaded but where the songs’ digital certificates expire if the subscription fee is not paid. Subscribers also receive a reduced \$.80 fee for songs which they may keep forever.³⁸

The *Aimster* Decision

One of the next major file sharing decisions was *In re: Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003). This case again involved an appeal from a preliminary injunction. Aimster was of many file sharing services that attempted to craft the way it functioned in order to comply with the Ninth Circuit’s decision in *Napster*.

How the Aimster Software Worked. Aimster, just like the former Napster service, allowed users to download its software for no charge. Aimster’s server hosted a Web site which collected and organized information obtained from the users but did not make copies of the swapped files themselves. It also provided a matching service, computerized tutorials instructing users of the software on how to use it for swapping computer files; and “Club Aimster,” a related Internet service owned by Aimster that users of Aimster’s software could join for a fee and use to download the “top 40” popular-music files more easily than by using the basic, free service. Aimster’s software worked in conjunction with the AOL Instant Messenger service and created a giant chat room where members could go and search for the music of other members. All communications back and forth were encrypted by the sender by means of encryption software furnished by Aimster as part of the software package downloadable at no charge from the Web site. Communications were then decrypted by the recipient using the same Aimster-furnished software package.³⁹ The encryption process was designed to prevent Aimster itself from knowing what was being transferred back and forth.

Contributory Liability under *Napster* and *Sony*. In an attempt to comply with *Sony*’s knowledge analysis, Aimster used encryption technology so that it did not know what was in fact being downloaded by users. Whereas Napster copied the names of its users’ songs onto a list on its own server, Aimster did not store anything on its own server and encrypted the files so it did not know what they were. The court in this case did not buy into the steps taken by

Aimster. Rather than apply *Sony's* statement that mere constructive knowledge is not enough to impose liability, the court instead took an alternative position. The court found that “[w]illful blindness is knowledge in copyright law where indeed it may be enough that the defendant *should* have known of the direct infringement.”⁴⁰ The encryption technology rendered Aimster willfully blind.

In fact, the court went on to find that Aimster was not willfully blind but instead had actual knowledge. In explaining how to use its software, Aimster’s tutorial gives as its *only* examples, the sharing of copyrighted music, including songs which the recording industry had notified Aimster was being infringed by Aimster’s users. The tutorial is the invitation to infringement that the Supreme Court found was missing in *Sony*.⁴¹ Additionally, Aimster did not derive any revenue from advertising but instead earned revenue from charging a membership fee to those interested. Membership in Club Aimster enabled the member for a fee of \$4.95 a month to download with a single click the music most often shared by Aimster users, which unsurprisingly turned out to be music copyrighted by the plaintiffs.⁴²

Additionally, Aimster was unable to produce any evidence of noninfringing uses, due in part because of its own encryption technology. As previously opined in *Napster*, evidence of non-infringing uses shifts the presumption applied where there is no evidence, that an allegedly contributory infringer had knowledge. Knowledge of infringement was thus imputed to Aimster under this portion of the analysis as well. “It is not enough, that a product or service be physically capable, as it were, of a noninfringing use. Aimster had failed to produce any evidence that its service had ever been used for a noninfringing use, let alone evidence concerning the frequency of such uses.”⁴³

The “material contribution” aspect of contributory liability does not appear to be addressed in the analysis whereas it was at least addressed in passing in *Napster*. Since the courts must merely look to see if a contributory infringer is supplying the sites and facilities to direct infringers, this prong of the analysis may have simply been conceded by Aimster. The district court’s findings of fact plainly state that Aimster provides a website and server where users can meet to interact with one another and search for songs, which would meet the requirements of material contribution.

Vicarious Liability under *Sony*. The court here is less clear as to whether a preliminary injunction should be issued under a vicarious liability theory. Of importance is this circuit’s agreement with the ninth circuit that the *Sony* opinion did not differentiate between vicarious and contributory infringement but instead used the terms interchangeably. In questioning a vicarious liability theory, the court opined that:

How far the doctrine of vicarious liability extends is uncertain. It could conceivably have been applied in the *Sony* case itself, on the theory that while it was infeasible for the producers of copyrighted television fare to sue the viewers who used the fast-forward button on *Sony's* video recorder to delete the commercials and thus reduce the copyright holders’ income, *Sony* could have reduced the likelihood of infringement, as we noted earlier, by a design change. But the Court, treating vicarious and contributory infringement interchangeably, see *id.* at 435 and n. 17, held that *Sony* was not a vicarious infringer either. By eliminating the encryption feature and monitoring the use being made of its system, Aimster could like *Sony* have limited the amount of infringement.⁴⁴

The Digital Millennium Copyright Act. An additional affirmative defense asserted by Aimster was its attempt to avail itself of the protections afforded by Title II of the Digital Millennium Copyright Act.⁴⁵ The intended safe harbors of the Act apply to companies like America Online (AOL) where users may in fact be transferring copyright materials. In fact, AOL’s Instant Messenger program which Aimster piggybacks on is capable of sending infringing files back and forth without the use of Aimster through its “direct connect” feature. Aimster of course goes a step further by creating a “chat-room” where a users’ songs are listed and may be downloaded by other users.

While the district court did in fact find that Aimster was a service provider within the meaning of the Act, both the district court and court of appeals found that Aimster failed to meet other requisite sections of the Act. Indeed, in analyzing Aimster’s defense under the Act’s “Conditions for Eligibility”,⁴⁶ the court noted that “the common element of its safe harbors is that the service provider must do what it can reasonably be asked to do to prevent the use of its service by “repeat infringers.”⁴⁷ Aimster’s entire network consisted of repeat infringers and its only source of

revenue certainly came from repeat infringers who used its expedited top-40 download service. The court thus foreclosed use of the Act by Aimster and future services attempting to avail themselves of the Act's protections.

Post case Information The injunction in the *Aimster* case was granted and the network was shutdown. In accessing Aimster's website which is still in existence, a statement by John Deep (Aimster's proprietor and appellant in the case) indicates that users of the service should contact him because their rights may have been violated by the service being shut down. He also states and provides various pleadings indicating that he has sued the recording industry under various anti-competition theories. Further, he claims to have brought a lawsuit against his attorneys in the *Aimster* case under various allegations of fraud and misrepresentation among other things.⁴⁸ Whether Deep has the resources to litigate these issues remains to be seen.

The Grokster Decision

As the fight against online file sharing continued, the issues finally presented themselves to the Supreme Court in *MGM, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005). When this case came to the Court, the stakes had become even higher than in prior file sharing cases. File sharing services were now capable of sharing additional copyrighted material such as movies and the ninth circuit granted a motion for summary disposition for the file sharing companies in the underlying case.⁴⁹

How the Software Worked. For the purpose of understanding the various methods of file sharing then available, the ninth circuit explained in laymen's terms the different network designs that companies were using:

At present, there are three different methods of indexing: (1) a centralized indexing system, maintaining a list of available files on one or more centralized servers; (2) a completely decentralized indexing system, in which each computer maintains a list of files available on that computer only; and (3) a "supernode" system, in which a select number of computers act as indexing servers.⁵⁰

Napster employed method number (1)⁵¹ and the defendants in this case use(d) either method (2)⁵² employed by Grokster or (3)⁵³ employed by Defendant StreamCast.

Contributory Infringement

a. View of the Ninth Circuit

In addressing contributory infringement, the Court first looked at how the ninth circuit interpreted *Sony* in making its findings. The Court indicated that the ninth circuit read *Sony* as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge.⁵⁴ The ninth circuit therefore discounted the constructive knowledge analysis from *Napster* and the willful blindness analysis from *Aimster*.

The fact that the software was capable of substantial noninfringing uses in the Ninth Circuit's view meant that defendants Grokster and StreamCast were not liable, because they had no such actual knowledge, owing to the decentralized architecture of their software.⁵⁵

As to the material contribution prong which was glazed over by the *Napster* and *Aimster* courts as basically a conceded issue, the ninth circuit found this issue in favor of the defendants. The court held that Grokster and StreamCast did not materially contribute to their users' infringement because it was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place.⁵⁶ At least for the ninth circuit, that the transaction was no longer being facilitated through the defendants' servers was sufficient to tip the balance as to material contribution.

b. Why the Court believes the Ninth Circuit was in Error

In making its analysis, the Court restated its belief that *Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement.⁵⁷

The Ninth Circuit read *Sony's* limitation to mean that whenever a product is capable of substantial lawful use,

the producer can never be held contributorily liable for third parties' infringing use of it.⁵⁸ This appeared to be the case even where the various plaintiffs had produced evidence that perhaps even 90% of files being shared were in violation of copyright. Presumably the 10% of files remaining and the potential of other noninfringing uses emerging as the technology progressed was sufficient to the ninth circuit's analysis that substantial lawful use did exist. The ninth circuit appeared to rule so, even where an actual purpose to cause infringing use was shown by evidence independent of design and distribution of the product. The ruling implied that unless the distributors had "specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information", no liability would exist.⁵⁹

While it chose not to revisit *Sony* in the *Grokster* case, the Court did however make clear that the ninth circuit's analysis of *Sony* was in error. The Court went on to clarify that *Sony* did not limit plaintiffs from other secondary liability theories existing in the law and thus a grant of summary judgment would be premature given plaintiffs entitlement to assert these theories such as MGM's inducement claim.⁶⁰

The court also believed that "where evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony's* staple-article rule will not preclude liability."⁶¹ This statement has tremendous bearing on the file sharing cases because thus far evidence had been produced to show statements and actions directed at promoting infringement in every case. While it is possible for a file sharing server to be designed without promoting infringement in mind, it has thus far been a common element of all the file sharing services being prosecuted. To the extent that various file sharing companies are still operating currently, it would appear that these companies will likely fall pray to the Court's view here.

c. The Inducement Rule

As indicated, plaintiffs sought to bring an inducement claim against defendants in this case. Based on the Court's determination that *Sony* did not limit the theories of liability relating to infringement, the Court explicitly stated that inducement was a theory which plaintiffs could pursue. The Court pointed out that just as *Sony's* rule that the patent law's staple article of commerce doctrine and accompanying safe harbor provision applied to copyright law, so does patent law's inducement theory.⁶²

The Court reiterated that mere knowledge of actual or potential infringing uses is not enough to impose liability for distributors of new technologies. "The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise."

Inducement in the Instant Case. In the instant case, the Court examined three areas in ultimately finding that the defendants had committed inducement as alleged by plaintiffs.

The Court first looked to advertisement. Various defendants in the case beamed advertisements onto former Napster users computers inviting them to use their service which was not in fact crippled or completely shut down by the *Napster* injunctions.⁶³ These advertisements sought directly to build market share by capturing known Napster users, the majority of which were direct infringers according to the evidence in that case.

The Court next indicated it would look to see what measures were taken to prevent infringement by users of the software. While the Court thought that the failure to monitor was evidence of inducement under the circumstances, it also indicated in a footnote that without other evidence, the failure to prevent infringement would not give rise to liability. The Court indicated that to do so would tread too close to the safe harbor provisions set forth in *Sony*.⁶⁴

Additionally, the Court looked to the commercial nature of the products and pointed out that advertising is based on the number of users downloading the software and users are drawn to the software based on the availability of infringing material. A high volume business model would not alone be sufficient to impose liability but was again examined in light of the other examples of infringement occurring and knowledge of that infringement.⁶⁵

Post Case Information. While *Grokster* did not discount contributory or vicarious liability, the test emphasized by the Court and likely to be followed for file sharing cases in the future is inducement. “The Supreme Court instead punted on the hard questions by crafting a new doctrine of copyright infringement liability called ‘inducement’. In the wake of the ruling, innovators now have three uncertain copyright doctrines to worry about: inducement, contributory and vicarious.”⁶⁶ The defendants in this case were ultimately found liable under the inducement theory. As a result of this case, the Grokster website has been completely shut down.⁶⁷ In fact, the website appears to be operated by the recording industry. Upon entering the website, a message appeared indicating that illegal downloading is not free and warning that the user’s IP address has been logged, an apparent scare tactic. Additionally, the site contained two links to recording industry sponsored information about illegal downloading.

The websites of other defendants in the case appear to be operational although the availability of copyright material is unknown without actually downloading the software. Morpheus⁶⁸ and Kazaa⁶⁹ among others are just some of the defendants’ websites that are still operational. Morpheus however does make reference to the purchase of songs and in reference to free songs indicates that only promotional songs are free. While some sites give warnings about downloading copyrighted material others give none. Despite the apparent victory by the copyright holders, there still appears to be no slow down or uniformity amongst what file sharing companies are doing to in terms of shutting down or even preventing infringement.

It is also important to note that software such as Morpheus does not actually need a company to operate. The software can link users without a third party’s help and thus allows the file sharing network to operate after a company or its website has been shutdown. File sharing can therefore continue unimpeded.

The Future of File Sharing

BitTorrent

One of the new file sharing programs that is likely to be tested under *Grokster* is called BitTorrent. One study claims that BitTorrent now accounts for the majority of file sharing traffic and 35% of all Internet traffic.⁷⁰ Unlike the other file sharing companies which produced little or no evidence of noninfringing uses, BitTorrent apparently has produced several already. Among the examples given of authorized file sharing, some of those include, distributing new releases of Linux operating software, authorized file sharing of concert recordings and video game companies using it to distribute products.⁷¹

How it Works

The BitTorrent client enables a user to search for files in the “.Torrent” format and download them. The current client enables a host of features including multiple parallel downloads. The client also intermediates peering between itself, source file servers (“trackers”) and other clients, thereby yielding great distribution efficiencies. The client also enables users to create and share torrent files.⁷²

The key to scaleable and robust distribution is cooperation. With BitTorrent, those who get your file tap into their upload capacity to give the file to others at the same time. Those that provide the most to others get the best treatment in return.⁷³

BitTorrent’s search engine crawls the entire known torrent file space on a frequent basis retrieving and building an index of all public torrent files. The search interface enables users to search this index with keywords to discover files being shared by BitTorrent users.⁷⁴

Does it Comply with *Grokster*.

The three part inducement test from *Grokster* looks to (1) advertising, (2) measures taken to prevent infringement by users of the software, and (3) the commercial nature or attempt to profit by the technology maker.

Advertising. Unlike the defendants in *Grokster*, there is little evidence of intent to capture a prior market of infringing users or similar statements of intent to do the same. There is a so-called “manifesto” where the creator of BitTorrent

made reference of intention to commit digital piracy but the manifesto is believed by many to be a parody rather than his actual intent.⁷⁵ How a court will view the manifesto in deciding a case of course remains to be seen.

Additionally, there is some suggestion that the network was originally created to serve a group known as etree.org, which apparently is an online community of jambands and their fans. Jambands often offer their concert performances free but bandwidth problems made it difficult for fans to download.⁷⁶ BitTorrent's ability to upload a file while simultaneously downloading it was meant to alleviate this problem. Further, that BitTorrent creators have not made any indications about building marketshare or capturing users from other file sharing services certainly bodes well for the technology.

Attempt to Profit. The business model of a company producing a new technology absent other evidence of bad faith is not sufficient to find inducement according to the *Grokster* court. While BitTorrent's exact business model is unknown, it does appear that it makes money on banner ads which appear based on search engine results. While advertising revenue naturally increases based on the number of users, BitTorrent's search appears more like a portal webpage such as Yahoo! or Google rather than the design of Morpheus or Kazaa which is strictly a search engine and where the user indicates what type of media to search for. In fact, advertisements appear to be keyed to the topic searched so the company would likely earn revenue regardless of whether a topic which could lead to infringing material is searched for or not.

Measures Taken to Prevent Infringement. This element of the *Grokster* test appears to be the most troublesome for BitTorrent, partly on account of its own actions and partly due to the ambiguity of the *Grokster* opinion. The *Grokster* court indicated that failure to monitor users could give rise to liability under an inducement test. "The Court appears to infer bad intent from the failure to create a filtering mechanism, thus imposing a de facto duty to filter."⁷⁷ Despite this de facto duty, the court indicated in a footnote that without other evidence, to find liability would tread too close to *Sony*.⁷⁸ How the lower courts interpret the Court's statement and its footnote could play a significant role in how cases brought under an inducement theory are in fact decided.

As to BitTorrent itself, the newest version has removed "tracker" sites, which directed users to torrents, allowing torrents to be placed anywhere. The absence of trackers make torrents more decentralized (which would appear to fit with BitTorrent's functional design). However, the absence of tracker sites makes torrents more difficult to detect and shutdown by copyright owners.⁷⁹ That BitTorrent has in fact made it harder to monitor content rather than developing technology or filters making it easier may also not bode well for it if and when litigation regarding the technology occurs.

Opinion

The Supreme Court believes based on references in its *Grokster* opinion that in accordance with *Sony*, it has left open the possibility of innovation without the fear of liability. Groups such as the Electronic Frontier Foundation which represented defendant Streamcast in the *Grokster* case think otherwise. Whether or not technology development will in fact be stymied by *Grokster* of course remains a question.

In all likelihood however, even if gnutella and BitTorrent based technologies were the last two file sharing technologies developed, copyright infringement would remain a major issue. The open source nature of these technologies allows for third parties to adapt and improve the respective technologies, even when those who created the technology are no longer doing so.

As the Recording Industry Association of America (RIAA) continues its advertising campaign and filing of between 700 and 750 lawsuits each month⁸⁰, it is likely that more and more people will move from illegal to legal downloading regardless of what the latest and greatest file sharing technology is. The various industries may even find ways to adapt and use file sharing to their benefit, offering download services is seen as a step in that direction. Without getting the consumer to change its addiction to free however, no matter how many of the software developers are brought down, the technology is such that consumers will continue to infringe. The industries seem to have recognized this and will certainly continue if not increase their media and legal campaigns.

While copyright holders are winning the major battles against the file sharing software developers, they have not yet won the war. BitTorrent may set the stage for the final battle due to its size and suitability to fit within the confines of the Court's opinion. With millions of dollars and consumers at stake, the battle should certainly be one to remember.

Endnotes

- 1 *Sony*, 464 U.S. at 422.
- 2 *Id.* at 421.
- 3 *Id.* 434-435.
- 4 *Id.* at 441.
- 5 *Id.* at 439.
- 6 *Sony* 464 U.S. at 442 citing *Henry v. A. B. Dick Co.*, 224 U.S. 1, 48 (1912), overruled on other grounds, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517 (1917).
- 7 *Sony* at 441.
- 8 27 U.S.C. §107.
- 9 Later lower court decisions question *Sony's* interchangeable use of “contributory” and “vicarious”.
- 10 *Napster*, 239 F.3d at 1011.
- 11 *Id.* at 1011.
- 12 *Id.* at 1012.
- 13 *Id.* at 1012.
- 14 *Id.* at 1012. (citing *Napster*, 114 F. Supp.2d at 911.)
- 15 17 U.S.C. §107.
- 16 *Napster*, 239 F.3d at 1014.
- 17 *Id.* at 1015.
- 18 *Id.* at 1015. (citing *A.M. Records v. Napster*, 114 F. Supp.2d at 912.)
- 19 *Napster*, 239 F.3d 1015. (citing *Worldwide Church of God v. Philadelphia Church of God*, 227 F. 3d 1110, 1118. (9th Cir. 2000)
- 20 *Napster*, 239 F.3d at 1016. (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566-567).
- 21 *Napster*, 239 F.3d at 1016. (citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 451.
- 22 *Napster*, 239 F.3d at 1017.
- 23 *Id.* at 1017.
- 24 *Napster*, 239 F.3d at 1017. (citing *Napster*, 114 F. Supp.2d at 914).
- 25 *Napster*, 239 F.3d at 1019.
- 26 *Id.* at 1019.
- 27 *Id.* at 1019-1020.
- 28 *Id.* at 1020.
- 29 *Id.* at 1020.
- 30 *Id.* at 1020-1021.
- 31 *Id.* at 1021-1022.

- 32 *Id.* at 1022.
- 33 *Id.* at 1023.
- 34 *See Fonovisa*, 76 F.3d 264. (quoting *Gershwin*, 443 F.2d at 1162).
- 35 *Napster*, 239 F.3d at 1023. (citing *Fonovisa*, 76 F.3d at 263-264).
- 36 *Napster*, 239 F.3d at 1023.
- 37 *Id.* at 1023.
- 38 <http://www.napster.com>.
- 39 *Aimster*, 334 F.3d at 646.
- 40 *Aimster*, 334 F.3d at 646 (citing *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987)).
- 41 *Aimster*, 334 F.3d at 651.
- 42 *Id.* at 651-652.
- 43 *Id.* at 653.
- 44 *Id.* at 654-655.
- 45 17 U.S.C. 512.
- 46 17 U.S.C. 512(i)(1)(a).
- 47 *Aimster*, 334 F.3d at 655.
- 48 <http://www.aimster.com>.
- 49 *See MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154 (9th Cir. 2004).
- 50 *Id.* at 1159.
- 51 The first 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. A user who was seeking to obtain a digital copy of a recording would transmit a search request to the Napster server, the software would conduct a text search of the centralized index for matching files, and the search results would be transmitted to the requesting user. If the results showed that another Napster user was logged on to the Napster server and offering to share the requested recording, the requesting user could then connect directly with the offering user and download the music file. *Id.* at 1159.
- 52 Under a decentralized index peer-to-peer file-sharing model, each user maintains an index of only those files that the user wishes to make available to other network users. Under this model, the software broadcasts a search request to all the computers on the network and a search of the individual index files is conducted, with the collective results routed back to the requesting computer. This model is employed by the Gnutella software system and is the type of architecture now used by defendant StreamCast. Gnutella is open-source software, meaning that the source code is either in the public domain or is copyrighted and distributed under an open-source license that allows modification of the software, subject to some restrictions. *Id.* at 1159.
- 53 The third type of peer-to-peer file-sharing network at present is the “supernode” model, in which a number of select computers on the network are designated as indexing servers. The user initiating a file search connects with the most easily accessible supernode, which conducts the search of its index and supplies the user with the results. Any computer on the network could function as a supernode if it met the technical requirements, such as processing speed. The “supernode” architecture was developed by KaZaa BV, a Dutch company, and licensed under the name of “FastTrack” technology. *Id.* at 1159.
- 54 *Grokster*, 125 S.Ct. at 2774-2775.
- 55 *Id.* at 2775.

- 56 *Id.* at 2775.
- 57 *Id.* at 2778.
- 58 *Id.* at 2778.
- 59 *Id.* at 2778.
- 60 *Id.* at 2778-2779.
- 61 *Id.* at 2779.
- 62 *Id.* at 2780.
- 63 *Id.* at 2781.
- 64 *Id.* at 2781 FN 12.
- 65 *Id.* at 2781.
- 66 http://www.eff.org/IP/P2P/MGM_v_Grokster/.
- 67 <http://www.grokster.com>.
- 68 <http://www.morpheus.com>.
- 69 <http://www.kazaa.com>.
- 70 Mark Schultz, *Will Bit Torrent go the way of Grokster?*, *The SciTech Lawyer*. (Winter 2006) (citing J.J. Levy, *Hidden Treasure*, *CURRENT MAG.* (Summer 2005), *available* at <http://msnbc.com/id/7502939/site/newsweek/>).
- 71 Schultz, *supra*.
- 72 <http://www.bittorrent.com/about.myt>.
- 73 <http://www.bittorent.org>.
- 74 <http://www.bittorrent.com/about.myt>.
- 75 Schultz, *supra*.
- 76 Schultz, *supra* (citing early BitTorrent FAQ).
- 77 Schultz, *supra*.
- 78 *Grokster*, 125 S.Ct. at 2781 FN 12.
- 79 Schultz, *supra*.
- 80 Jason Krause, *Breaking Up Downloading*. *ABA Bar Journal*. (April 2006).