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Comment

File-sharing Tools and Copyright Law: A Study of *In re Aimster Copyright Litigation* and *MGM Studios, Inc. v. Grokster, Ltd.*

Robyn Axberg*

I. INTRODUCTION

In the summer of 2003, the Recording Industry Association of America (“RIAA”) declared war against file-swappers across the country.¹ Phase one included discovering the identities of individuals responsible for large amounts of Internet piracy² through the use of subpoenas issued pursuant to a controversial provision of the Digital Millennium Copyright Act (“DMCA”).³ The subpoenas compelled

* J.D. expected May 2005. To my family, especially my husband Michael, thank you for your unwavering love, encouragement, and support throughout the writing process and beyond. I would also like to extend my thanks to Loyola’s Professor Brett Frischmann for sharing his reasoned insights on this subject and his passion for the field of cyberlaw generally. Finally, I am grateful for the dedication, patience, and hard work of the *Loyola University Chicago Law Journal* editors and members, especially Leah Wardak and Gia Fonté.

1. Janet Rausa Fuller & Dave Newbart, *Music Industry Goes After Ordinary Young Listeners*, CHI. SUN-TIMES, <http://www.suntimes.com/output/music/cst-nws-music20.html> (July 20, 2003).

2. See Doris Estelle Long, *E-Business Solutions to Internet Piracy: A Practical Guide*, 740 PLI/PAT 769, 776 (2003) (defining piracy as the “unauthorized reproduction of virtually identical copies of copyrighted works”).

3. Andrea L. Foster, *Recording Industry Forces University To Identify Students Suspected of Music Piracy*, UNIV. OF WYOMING RESNET NEWS, at <http://uwadmnweb.uwyo.edu/resnet/News/news-030714-RIAA.htm> (July 14, 2003); see also 17 U.S.C. § 512(h) (2000) (allowing copyright owners to have subpoenas issued by a clerk without review by a judge). For more information on the DMCA provision, see DANIEL L. BRENNER ET AL., 2 CABLE TELEVISION § 18:24 (2003), and see also BUREAU OF NAT’L AFFAIRS, INC., 65 PATENT, TRADEMARK & COPYRIGHT 606 (2003) (recounting the decision upholding the DMCA subpoena process). Verizon has argued that this provision of the DMCA is overly broad and is unconstitutional because it violates its users’ freedom of speech and is contrary to Article III’s case and controversy provision. *In re Verizon Internet Servs. Inc.*, 257 F. Supp. 2d 244, 249, 262 (D.D.C. 2003); see also U.S. CONST. art. III, § 2 (providing that judicial power extends to cases and controversies). The company requested a stay until a scheduled appeal in September when it planned to challenge the law in court; however, that request was denied, and Verizon has handed over four names to the RIAA. *In re Verizon Internet Servs. Inc.*, 258 F. Supp. 2d 6, 6 (D.D.C.

service providers and universities, including Loyola University Chicago, to disclose the identities of some users on their systems.⁴ Amidst controversy, Loyola complied with the subpoena, releasing the identities of two alleged file-swapping roommates enrolled in a summer session.⁵ The RIAA then initiated phase two of the new war by filing suit against 261 individuals who allegedly traded copyrighted music over the Internet.⁶ The RIAA's new strategy—suing individual file-swappers—followed an unsuccessful suit against a prominent supplier of file-swapping software.⁷

United States District Judge Stephen V. Wilson of the Central District of California stunned the music industry and the public in April 2003 by dismissing copyright infringement claims brought by members of the entertainment industry against manufacturers and distributors of software designed to enable file-swapping.⁸ This decision directly contrasts with another federal court decision, decided in June 2003 by the Seventh Circuit, that affirmed the grant of a preliminary injunction against the file-trading software manufacturer Aimster for similar

2003); Christopher Stern, *Verizon Identifies Download Suspects*, WASH. POST, June 6, 2003, at E5, available at LEXIS, News Library, Washington Post File. See *infra* Part V.C.1 for a discussion of the DMCA fast-track subpoena provision.

4. Robert Becker & Angela Rozas, *Music Pirate Hunt Turns to Loyola; 2 Students' Names Are Handed Over; Lawsuit Possible*, CHI. TRIB., July 16, 2003, at C1, available at 2003 WL 59284135.

5. *Id.*; *Music Industry Goes After Loyola U. Students: University Hands Over Names of Suspected Students*, NBC5.COM, at <http://www.nbc5.com/entertainment/2335598/detail.html> (July 16, 2003) [hereinafter *Music Industry Goes After Students*]. An NBC poll conducted at the same site revealed that only 34% of the 1505 polled believed it was "appropriate for Loyola U. to turn over student names to music industry lawyers suing over illegal downloading." *Id.* For a scathing critique of Loyola's compliance from an internal source, see John C. Thomas, *Editorial*, RAMBLERMANIA.COM, at <http://www.ramblermania.com/edit803.htm> (Aug. 8, 2003). However, given the clear mandate of the DMCA provision, that "[t]he subpoena shall authorize and order the service provider receiving the notification and the subpoena to expeditiously disclose . . . information sufficient to identify the alleged infringer" and the unsuccessful challenges to the provision by Verizon, Loyola had little choice but to comply with the provision. 17 U.S.C. § 512(h)(3) (2000); *In re Verizon Internet Servs. Inc.*, 257 F. Supp. 2d at 262; see also *infra* Part V.C.1 (discussing the DMCA fast-track subpoena provision in greater detail).

6. John Borland, *RIAA Sues 261 File Swappers*, CNET NEWS.COM, at http://news.com.com/2100-1023_3-5072564.html (Sept. 8, 2003). According to Borland, "The lawsuits mark the first time that copyright laws have been used on a mass scale against individual Internet users." *Id.*

7. John Borland, *Judge: File-swapping Tools Are Legal*, CNET NEWS.COM, at <http://news.com.com/2100-1027-998363.html> (Apr. 25, 2003).

8. *Id.* (referring to *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003)); see also Lawrence Iser & James Toma, *Battling Digital Piracy*, NAT'L L.J., Jan. 20, 2003, at C1 (predicting victory for record companies).

activities.⁹ The two decisions differ in their determinations of whether file-sharing software is capable of substantial noninfringing use, as well as whether a company must know of specific instances of copyright infringement to be held liable under a contributory theory of copyright infringement.¹⁰

Internet piracy has exploded in recent years, due to rather modern technological advancements.¹¹ Downloading an MP3 file,¹² for example, is easy, cheap, and provides an undiminished copy of the original work.¹³ Compression software makes digital copies of music files less cumbersome to store, and thus an attractive alternative to even the casual personal computer user.¹⁴ The recording industry has suffered large losses at the hands of music pirates; it estimates an industry loss of \$4.2 billion in 2001.¹⁵ In 2002, file-trading software users downloaded more than three billion files through peer-to-peer networks.¹⁶

9. *In re Aimster Copyright Litig.*, 334 F.3d 643, 656 (7th Cir. 2003) [hereinafter Aimster II], *aff'g* 252 F. Supp. 2d 634 (N.D. Ill. 2002) [hereinafter Aimster I] (consolidating eleven cases originating from across the country).

10. Borland, *supra* note 7, at 3.

11. Long, *supra* note 2, at 775. The prevalence of Internet use has spurred a corresponding increase in intellectual property crimes generally. JOHN J. FALVEY, JR. & AMY M. MCCALLEN, 2 INTERNET LAW AND PRACTICE § 26:6 (2003). Intellectual property crimes include not only copyright infringement but also theft of trade secrets and trademark infringement. *Id.*

12. See Matthew C. Mousley, Note, *Peer-to-Peer Combat: The Entertainment Industry's Arsenal in Its War on Digital Piracy*, 48 VILL. L. REV. 667, 670 (2003) (defining MP3 as "a technology that allows digital audio recording to be compressed" into smaller files).

13. Long, *supra* note 2, at 780–81.

14. Matthew James Fantaci, Note, *Digital Dilemma: Could the Digital Millennium Copyright Act Have Inadvertently Exempted Napster and Its Progeny from Liability?*, 62 LA. L. REV. 643, 643 (2002).

15. Mousley, *supra* note 12, at 671. Internet piracy does not just impact the music industry but affects virtually all types of intellectual property, including software, movies, and books. *Id.* at 669–74 (outlining problems and challenges posed by online piracy). For example, the latest Harry Potter book is easily accessible on file-swapping services. Paul Festa, *Latest Potter Book Scanned, Swapped*, CNET NEWS.COM, at http://news.com.com/2100-1025_3-1020984.html (June 25, 2003) (stating that some predict that the availability of Harry Potter online represents the "harbinger of nascent Napsterization of the book publishing industry"); see also *New York Times Co., Inc. v. Tasini*, 533 U.S. 483 (2001) (securing to authors rights in digital reproductions of their works separate from the right of publication). For an example impacting the movie industry, the FBI's Computer Hacking and Intellectual Property Squad identified an individual distributing pirated copies of *The Hulk*. David Becker, *Copyright Infringement Bad; Hulk Smash!*, CNET NEWS.COM, at http://news.com.com/2100-1026_3-1021005.html (June 25, 2003) (reporting that "[b]ootleg copies of major films, such as *The Matrix Reloaded* often begin circulating on the Internet before the movie hits theaters").

16. Iser & Toma, *supra* note 8, at C1 (citing statement made by Rep. Howard L. Berman on September 26, 2002).

Until recently, copyright holders have been extremely successful in enforcing their rights against third parties that manufacture or distribute file-trading software.¹⁷ For example, in *A&M Records, Inc. v. Napster, Inc.*, the record companies successfully obtained an injunction against the popular file-trading service.¹⁸ Despite such success, Internet piracy of copyrighted materials persists as a mainstream activity.¹⁹ Offenders are often members of the general public with no discernable class delineation.²⁰ Psychologically, the public disassociates online theft from the actual, physical taking of the work and perceives little risk associated with the behavior.²¹ Furthermore, the public is accustomed to receiving musical works online free of charge, making it very difficult to charge for an online distribution system.²² Also, until recently, copyright owners have been reluctant to sue individuals for fear of alienating their client base.²³

The Comment evaluates whether file-swapping software distributors should be subject to copyright liability.²⁴ Part II of this Article will

17. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *Aimster I*, 252 F. Supp. 2d 634 (N.D. Ill. 2002); *UMG Recordings, Inc., v. MP3.com, Inc.*, 92 F. Supp. 2d 349 (S.D.N.Y. 2000). In addition to the copyright holders comprised of songwriters and music publishers, the RIAA has also initiated lawsuits and issued statements on behalf of its music industry members. See, e.g., *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072 (9th Cir. 1999).

18. *Napster*, 239 F.3d at 1011.

19. Jeffrey L. Dodes, *Beyond Napster; Beyond the United States: The Technological and International Legal Barriers to On-line Copyright Enforcement*, 46 N.Y.L. SCH. L. REV. 279, 279 (2002-2003) (stating that Napster was a "worldwide phenomenon with 65 million software downloads and 16.9 million unique users as of February 2001"). The trend continues today. A recent Google search revealed 66.7 million hits to a search for "free music" and 1.7 million hits for "Napster." Google Inc., Search Results, at <http://www.google.com> (last visited Oct. 17, 2003). Likewise, a Yahoo! search found 26.8 million hits to "free music" and 1.6 million hits for "Napster." Yahoo! Inc., Search Results, at <http://www.yahoo.com> (last visited Oct. 17, 2003). Admittedly, not every website listed is a haven for music piracy; some represent legitimate fee-based websites, while others engage in commentary about the online music debate.

20. Long, *supra* note 2, at 775 (explaining that Internet piracy is prevalent among members of the general public, appealing not only to college kids or "techno-geeks," but even to "grey-haired grannies," who download copyrighted sewing patterns or recipes).

21. *Id.* at 781 ("People who would never engage in shoplifting have no apparent compunction in making and distributing illegal downloads of copyrighted songs."). For more information about the social and psychological behaviors associated with file-sharing, see Lior Jacob Strahilevitz, *Charismatic Code, Social Norms, and the Emergence of Cooperation on the File-Swapping Networks*, 89 VA. L. REV. 505 (2003).

22. Long, *supra* note 2, at 786 ("Once customers have become used to free music . . . it is more difficult to develop a digital subscription service that will meet the demands of these customers, while maintaining acceptable profit levels for content providers.").

23. Iser & Toma, *supra* note 8, at C10 (stating that winning in court is expensive and suing individuals carries public relations risks).

24. See *infra* Part IV (arguing that the imposition of liability to the purveyors of file-trading software is inappropriate).

outline the historical evolution of copyright law and its relationship to emerging forms of technology.²⁵ Then, Part III will explore two federal court cases, *In re Aimster Copyright Litigation*²⁶ and *MGM, Inc. v. Grokster, Ltd.*,²⁷ which diverge not only in their ultimate determinations of copyright liability but also in their applications of pertinent legal concepts.²⁸ Part IV will analyze the problem of third-party copyright infringement liability in connection with file-trading tools, ultimately arguing that the reasoning employed by the *Grokster* court is correct.²⁹ Finally, Part V will suggest strategies for copyright holders to protect their intellectual property rights in the context of a world in which file-trading software is legal.³⁰

II. BACKGROUND

This Part begins with a discussion of the origin and goals of copyright law.³¹ Next, this Part examines third-party liability, including the necessary elements and underlying policy rationale.³² This Part then inspects decisions shaping copyright law, most notably the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios*.³³ Next, this Part examines copyright law in an online context.³⁴ This Part then considers the DMCA enacted by Congress in 1998³⁵ and discusses the application of the DMCA, focusing on *A&M Records, Inc. v. Napster, Inc.*³⁶ Finally, this Part appraises the current state of the struggle between copyright holders, developers, and distributors of file-swapping technologies.³⁷

25. See *infra* Part II (discussing the evolution of copyright law in relation to emerging technologies).

26. See *infra* Part III.A (examining the *Aimster I* and *Aimster II* decisions).

27. See *infra* Part III.B (outlining the court's analysis in *Grokster*).

28. See *infra* Part III.C (pinpointing the areas of contention in the *Aimster II* and *Grokster* decisions).

29. See *infra* Part IV (exploring the legal arguments and policy considerations of third-party copyright infringement liability as it applies to file-swapping software).

30. See *infra* Part V (proposing business, educational, and technological strategies to protect copyrighted works online).

31. See *infra* Part II.A (discussing the advent of copyright law).

32. See *infra* Part II.B (exploring the origin and early developments of third-party theories of liability for copyright infringement).

33. See *infra* Part II.C. (examining early decisions shaping copyright law, including *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)).

34. See *infra* Part II.D (considering the application of copyright law in cyberspace).

35. See *infra* Part II.E (studying the attributes of the DMCA).

36. See *infra* Part II.F (delving into the application of the DMCA and reviewing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001)).

37. See *infra* Part II.G (appraising the developments post *Napster*).

A. *Fundamentals of Copyright Law*

Copyright law is embodied in statute, pursuant to the congressional power over the intellectual property arena granted in the Constitution.³⁸ Liability attaches where an actor violates one of the exclusive rights given to the copyright holder, or where an actor aids another in infringing behavior.³⁹ Yet, because the copyrighted materials and copying technologies have value to the public, various exceptions to the exclusive rights exist.⁴⁰

1. Origin of Copyright Law

Article I, section 8 of the Constitution gives Congress the power to grant exclusive rights to inventors and artists for the purpose of advancing science and the arts.⁴¹ The Framers did not question the wisdom of this constitutional provision; indeed, they passed it with little controversy.⁴² Congress has the discretion to determine the length of time a copyright will last, as well as the scope of the rights.⁴³ As a result, Congress has enacted various copyright acts, granting a bundle of exclusive rights to copyright holders.⁴⁴ These rights are not unlimited

38. U.S. CONST. art. I, § 8, cl. 8; 17 U.S.C. § 106 (2000); *see also infra* Part II.A.1 (outlining the origin of copyright law).

39. 17 U.S.C. § 106 (2000) (allocating to copyright holders certain exclusive rights); *see also infra* Part II.A.2 (describing bases for copyright liability).

40. *See infra* Part II.A.3 (discussing the fair use defense); *infra* Part II.C.1 (discussing the staple article of commerce doctrine).

41. U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”). The purpose behind this provision of the Constitution was to encourage scientific and artistic endeavors. *Goldstein v. California*, 412 U.S. 546, 555 (1973).

42. THE FEDERALIST NO. 43, at 268 (James Madison) (Clinton Rossiter ed., First Signet Classic Prtg., Penguin Books 2003). As Mr. Madison noted:

The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged in Great Britain to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals. The States cannot separately make effectual provisions for either of the cases, and most of them have anticipated the decision of this point by laws passed at the instance of Congress.

Id.

43. *Pennock v. Dialogue*, 27 U.S. 1 (1829). The period of time protected under copyright law began at fourteen years with the first act in 1790, but Congress gradually extended the time period to the life of the author plus seventy years, with the Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998). *See* AMY MASCIOLA, *TIMELINE: A HISTORY OF COPYRIGHT IN THE UNITED STATES*, at <http://www.arl.org/info/frn/copy/timeline.html> (last modified Nov. 22, 2002) (tracking the evolution of copyright law in the United States).

44. 17 U.S.C. § 106 (2000) (allocating to copyright holders the right to reproduce their work, make derivative works, distribute copies of the work, and perform the work). Notably, the 1909 version of the copyright act also extended the protection to musical compositions. Act of March,

and must yield to the overall purpose of copyright law: to promote art and science, as statutorily enumerated.⁴⁵ Thus, the Constitution and these early congressional enactments provided the basis of modern copyright law.⁴⁶

2. Liability Pursuant to the Copyright Act

There are three principal ways to establish liability for copyright infringement: 1) direct liability, 2) contributory liability, and 3) vicarious liability.⁴⁷ Direct liability is determined by a strict liability standard, making issues of knowledge or notice irrelevant to the outcome.⁴⁸ To establish a case of direct infringement, a plaintiff must

4, 1909, ch. 320, 35 Stat. 1075 (granting exclusive rights to copyright holders). However, Congress noted:

The main object to be desired in expanding copyright protection accorded to music has been to give the composer an adequate return for the value of his composition, and it has been a serious and difficult task to combine the protection of the composer with the protection of the public, and to so frame an act that it would accomplish the double purpose of securing to the composer an adequate return for all use made of his composition and at the same time prevent the formation of oppressive monopolies, which might be founded upon the very rights granted to the composer for the purpose of protecting his interest.

H.R. REP. NO. 60-2222, at 7 (1909).

45. 17 U.S.C. §§ 107–121 (2002) (limiting rights of copyright owners). The limited duration and limited rights of copyright protection serve to uphold the public interest by ensuring that the work enters the “public domain.” LEE A. HOLLAR, *LEGAL PROTECTION OF DIGITAL INFORMATION* ch. 1:1.B (2002), available at <http://digital-law-online.info/lpdi1.0/treatise4.html> (last visited Nov. 20, 2003). According to Hollar:

Federal copyright can be viewed as a bargain between the creator of the writing or invention and the people, as represented by the federal government. In trade for protection for a limited term (and the ability to commercially exploit the writing or invention during that time because of that protection), the creator lets the public have all rights to the writing or invention after the term of protection ends. The writing or invention enters the “public domain,” where anybody can do whatever he or she wishes with it. (Since Congress continues to extend the term of copyright protection, there are some that question whether this original bargain theory holds today.)

Id. See JOHN KENNEDY ET AL., *Copyright: Foundations and Progress*, in 1 *INTERNET LAW AND PRACTICE* § 12:9 (2003) (enumerating many of the limitations available under the DMCA, including “fair use, first sale doctrine,” library specific provisions, computer caching, and educational uses).

46. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 346 (1908) (noting that copyright law is entirely statutory, dependent solely on Congressional statute enacted pursuant to Constitutional grant).

47. See KENNEDY ET AL., *supra* note 45, § 12:9; RAYMOND T. NIMMER, *LAW OF COMPUTER TECHNOLOGY* § 1:32 (3d ed. 1997) [hereinafter NIMMER, *COMPUTER TECHNOLOGY*];

48. KENNEDY ET AL., *supra* note 45, § 12:9 (explaining that strict liability is the standard for direct infringement; the intent of the actor is irrelevant to finding infringement); NIMMER, *COMPUTER TECHNOLOGY*, *supra* note 47, § 1:32. In an online context, it may be difficult to distinguish between direct and third-party theories of infringement, and in fact, the same party may be liable under both theories. NIMMER, *COMPUTER TECHNOLOGY*, *supra* note 47, § 15:66.

prove: 1) her ownership of the copyright associated with the work; and 2) violation of a reserved use, such as copying the work without authorization.⁴⁹

Contributory liability and vicarious liability are third-party theories of liability, affixing liability on one party for the infringing acts of another.⁵⁰ In contrast with direct liability, third-party theories do not follow strict liability; rather, they require some element of knowledge or inducement.⁵¹ Direct liability is relevant to third-party theories because, as a threshold matter, for a third party to be responsible, there must be a direct violation of one of the exclusive rights granted by copyright law.⁵² This aspect of third-party liability is also significant because some of the defenses available to a direct infringer may be relevant in determining whether the assignment of third-party liability is appropriate in a given case.⁵³ In fact, many third-party liability cases

49. Feist Publ'ns., Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991).

50. See Emily E. Larocque, Casenote, *No Free Music: Effect of A&M Records, Inc. v. Napster, Inc. on the Music Industry and Internet Copyright Law*, 23 U. HAW. L. REV. 767, 772 (2001) (characterizing contributory liability as the relationship between the defendant and the act of direct infringement, and vicarious liability as the relationship between the defendant and the party directly infringing).

51. NIMMER, COMPUTER TECHNOLOGY, *supra* note 48, §§ 1:32, 15:66; RAYMOND T. NIMMER, INFORMATION LAW § 4:47 (1996) [hereinafter NIMMER, INFORMATION LAW]. Determining whether direct liability or third-party theories apply sometimes can be difficult, especially in an online context. Compare Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc., 907 F. Supp. 1361, 1361 (N.D. Cal. 1995) (finding no cause of action for direct liability, but finding that a cause of action exists under third-party liability theories), and Perfect 10, Inc. v. Cybernet Ventures, Inc., 213 F. Supp. 2d 1146, 1146 (C.D. Cal. 2002) (same), with Playboy Enters., Inc. v. Russ Hardenburgh, Inc., 982 F. Supp. 503, 512–14 (N.D. Ohio 1997) (determining that although images were uploaded to the system by third parties, the defendants were directly and vicariously liable for copyright infringement), and Playboy Enters., Inc. v. Webworld, Inc., 991 F. Supp. 543, 554 (N.D. Tex. 1997) (same). Furthermore, a party may simultaneously be guilty of both direct and indirect infringement. See, e.g., Creative Labs, Inc. v. Cyrix Corp., No. C. 97-0912CW, 1997 WL 337553, at *4 (N.D. Cal. May 7, 1997) (finding that directly copying software onto a website constituted direct infringement, as well as contributory liability for providing resources and encouraging others to download copyrighted software).

52. A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1013 n.2 (9th Cir. 2001) (“Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party.” (citing *Netcom*, 907 F. Supp. at 1371)); NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 1:32.

53. See NIMMER, COMPUTER TECHNOLOGY, *supra* note 48, § 1:32 (discussing the relevance of infringement defenses to third-party cases). For example, in *Sony Corp. of America v. Universal City Studios, Inc.*, much of the Court’s analysis focused on the affirmative defense of fair use as applied to the activities of the end users of VCRs. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 447–55 (1984); see also Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys., Inc., 180 F.3d 1072, 1079 (9th Cir. 1999) (evaluating the portable MP3 player, called Rio, and determining that the end users of the product were engaged in a private, fair use, thereby invalidating any claim of third-party liability for the manufacturer); *infra* notes 106–09 and accompanying text (discussing the treatment of fair use in the *Sony* case).

revolve around direct liability and the defenses available to the direct infringers.⁵⁴

3. Fair Use Defense

Ultimately, copyright law struggles to achieve a meaningful balance between public access or use and an individual's protection of his or her work.⁵⁵ The concept of fair use reflects this philosophy by allowing some use of copyrighted materials.⁵⁶ Fair use provides an affirmative defense to a claim of copyright infringement.⁵⁷ This defense applies equally to use of materials in an online context.⁵⁸

To determine whether the fair use defense applies, Congress has set forth a four factor standard: 1) the nature of the use, particularly whether it is commercial or personal in nature, 2) the nature of the protected work, 3) the extent that the work was copied, and 4) the potential economic effect on the market.⁵⁹ Although Congress intended

54. *E.g.*, *Sony*, 464 U.S. 417; *Napster*, 239 F.3d 1004; *see also* NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 1:32 (“[S]ome cases involving allegations of indirect infringement . . . focus[] on whether the third party’s actions infringed the copyright or [were] protected under some copyright law doctrine.”).

55. *Sony*, 464 U.S. at 454–55 (considering the fair use defense, evaluating the societal benefit of increased public access to broadcast programs through time-shifting practice enabled by VCRs).

56. KENNEDY ET AL., *supra* note 45, § 12:17 (“The rationale underlying the fair use doctrine is to permit the dissemination of original works of expression, where such dissemination would further learning and the free exchange of information and ideas without unfairly impairing the present or future economic value of the author’s work.”). For example, the Copyright Act allows use for purposes of “criticism, comment, news reporting, teaching . . . , scholarship, or research.” 17 U.S.C. § 107 (2002).

57. KENNEDY ET AL., *supra* note 45, § 12:17; *see also* *Harper & Row, Publishers v. Nation Enters.*, 471 U.S. 539, 549 (1985) (applying the fair use defense to a charge of copyright infringement).

58. NIMMER, INFORMATION LAW, *supra* note 51, § 4:47; *see, e.g.*, *Religious Tech. Ctr. v. F.A.C.T.Net, Inc.*, 901 F. Supp. 1519, 1526 (D. Colo. 1995) (finding Internet postings made for the purpose of criticism, comment, or research fell within the fair use doctrine).

59. 17 U.S.C. § 107 (2000). The statute states:

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.

Id. Fair use initially emerged as a common-law doctrine, which Congress later codified in the

fair use to be fact-intensive with no bright line distinctions, the test is vague and can be difficult to apply.⁶⁰ Courts often evaluate these factors inconsistently, and the evaluative process necessarily involves subjective determinations.⁶¹ Fair use relates to theories of contributory or vicarious liability because if courts deem the activity a fair use, then no liability to the software manufacturer may result.⁶²

B. Third-party Liability

Because the Copyright Act contained no provisions for third-party liability, contributory and vicarious theories emerged in the courts.⁶³

1. Contributory Liability

Contributory liability holds a defendant accountable for actions that aid or encourage copyright infringement.⁶⁴ A contributory liability claim has two elements: 1) knowledge and 2) material contribution to the direct infringer's activities.⁶⁵ Third parties satisfy the first element if they "know or have reason to know" of direct infringement.⁶⁶ Therefore, a defendant may be liable with actual or constructive knowledge of the infringing activity.⁶⁷

1976 version of the copyright law. *See* Act for General Revision of the Copyright Law, Pub. L. No. 94-553, § 107, 90 Stat. 2541, 2546 (1976) (codified as amended at 17 U.S.C. § 107). The statutory list of factors is nonexclusive; courts may freely consider other factors, although in practice, they rarely do. 17 U.S.C. § 107; KENNEDY ET AL., *supra* note 45, § 12:17 ("Courts often weigh [fair use] factors differently, and may introduce additional factors to their analysis as well (although they rarely do), in the course of conducting what is typically a highly fact-specific inquiry, with a modicum of subjectivity.").

60. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577-78 (1994).

61. KENNEDY ET AL., *supra* note 45, § 12:17 ("In practice, fair use is one of the grayest areas of copyright law.").

62. *See supra* notes 52-54 and accompanying text (exploring the role of direct infringement in a third-party context).

63. Charles S. Wright, Comment, *Actual Versus Legal Control: Reading Vicarious Liability for Copyright Infringement into the Digital Millennium Copyright Act of 1998*, 75 WASH. L. REV. 1005, 1009-10 (2000); *see infra* Part II.B.1 (describing contributory liability); *infra* Part II.B.2 (describing vicarious liability).

64. NIMMER, *COMPUTER TECHNOLOGY*, *supra* note 47, § 15:66; *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001).

65. *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

66. *Napster*, 239 F.3d at 1020 (quoting *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845, 846 n.29 (11th Cir. 1990)).

67. *See Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987); *Gershwin Publ'g*, 443 F.2d at 1162.

The second element of contributory liability requires material contribution from the defendant.⁶⁸ However, courts have not adequately or consistently defined “material contribution,” making contributory liability difficult to evaluate.⁶⁹ For example, the Ninth Circuit characterized material contribution as providing facilities used in the infringement, which represents the lowest threshold for establishing liability.⁷⁰ In contrast, some courts, like the Second Circuit in *Gershwin Publishing Corp. v Columbia Artists Management, Inc.*, characterize material contribution as substantial participation in the activity, which is a markedly higher standard.⁷¹

2. Vicarious Liability

A second form of third-party liability is vicarious liability, which began as a common-law doctrine.⁷² Vicarious liability emerged as a modification of the common-law tradition of respondeat superior,⁷³ but in the realm of copyright infringement, it extends beyond the employment setting.⁷⁴ Vicarious liability requires the plaintiff to establish two elements: 1) the right and ability to control another’s actions and 2) a direct financial benefit derived from the infringing activities.⁷⁵

68. NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 15.66 (requiring “proof that defendant induced, caused, or materially contributed to the infringement”). See generally *Design Craft Fabric Corp. v. K-Mart Corp.*, No. 98 C 5698, 1999 U.S. Dist. LEXIS 19630, at *11 (N.D. Ill. Dec. 21, 1999) (“[T]here are two types of contributing infringement: one, where theft is personal conduct that forms part of or furthers the infringement and two, where there is contribution of goods which are means to infringe.”).

69. Larocque, *supra* note 50, at 771.

70. NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 15.66 (citing *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996)).

71. *Gershwin Publ’g*, 443 F.2d at 1162; NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 15.66 (citing *Gershwin Publ’g*, 443 F.2d at 1162); see also *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1373–75 (N.D. Cal. 1995) (applying a higher threshold determination of material contribution).

72. Wright, *supra* note 63, at 1008.

73. The tort doctrine of respondeat superior (meaning “let the superior make answer”) holds “an employer or principal liable for the employee’s or agent’s wrongful acts committed within the scope of employment or agency.” BLACK’S LAW DICTIONARY 609 (2d pocket ed. 2001).

74. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001) (citing *Fonovisa*, 76 F.3d at 262).

75. NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 15.66; Wright, *supra* note 63, at 1011 (citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963)). *Shapiro* was the first case to establish the dual criteria required to establish vicarious liability. See *Shapiro*, 316 F.2d at 307 (enumerating the test for establishing vicarious liability).

Courts apply the control element of the test broadly: a court must simply find that there is an ability to control the direct infringer.⁷⁶ Courts have found that the control element turns on the continuing relationship between the parties.⁷⁷ In fact, mere retention of a contractual ability to restrict the activities of the direct infringer is sufficient to find control.⁷⁸

By contrast, courts traditionally have interpreted the direct financial benefit element of the test narrowly, requiring that the benefit conferred be conditioned upon the infringing activity.⁷⁹ However, modern courts interpret the financial benefit element expansively: a party need not receive actual payment for the product or service, but rather if the infringement brings in customers, then financial benefit exists.⁸⁰

Two lines of cases are relevant in the context of vicarious liability: the “landlord-tenant cases” and the “dance hall cases.”⁸¹ These cases represent a spectrum of liability.⁸² The dance hall owners’ relationship with the people they hire to supply music to paying customers is closely analogous to an employment relationship and easily fits the model of vicarious liability.⁸³ On the other hand, a landlord who receives fixed rents from tenants regardless of the tenants’ activities and who does not participate in the tenants’ infringing behaviors will not be subject to vicarious liability.⁸⁴

76. Wright, *supra* note 63, at 1012. For an expansive description of how the control element has evolved to establish vicarious liability, see *id. passim*. Wright traces the evolution of the control element of the *Shapiro* test, finding authority split. *Id.* at 1013–18. The narrow end of the spectrum requires the defendant actually to control the other party’s behavior. See *RCA Ariola Int’l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 781 (8th Cir. 1988) (applying the control element narrowly). For legal control, the retention of a contractual right, for example, is sufficient to establish this element. See *Gershwin Publ’g*, 443 F.2d at 1163 (finding “no formal power to control” but allowing the mere possibility of control to satisfy the element).

77. Wright, *supra* note 63, at 1012.

78. *Id.* at 1018.

79. NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 15.66.

80. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001) (quoting *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263–64 (9th Cir. 1996)).

81. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 437 n.18 (1984); see also *Fonovisa*, 76 F.3d at 262.

82. *Sony*, 464 U.S. at 437 n.18.

83. *Id.*; *Fonovisa*, 76 F.3d at 262. The “dance hall cases” involve hiring an infringing supplier of music to entertain paying customers in the establishment. *E.g.*, *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass’n.*, 554 F.2d 1213, 1214 (1st Cir. 1977); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929); *KECA Music, Inc. v. Dingus McGee’s Co.*, 432 F. Supp. 72, 75 (W.D. Mo. 1977).

84. *Sony*, 464 U.S. at 437 n.18; *Fonovisa*, 76 F.3d at 262. The “dance hall cases,” where there was liability, contrast with the “landlord-tenant cases,” in which liability is not triggered because the landlord leasing the premises does not participate in the infringing acts and receives a fixed rent regardless of the infringing activities. See, *e.g.*, *Deutsch v. Arnold*, 98 F.2d 686, 688 (2d Cir.

C. *Shaping Copyright Law in the Courts*

Copyright law continually struggles to adjust to developing technology.⁸⁵ The invention of the printing press created the initial need for copyright law.⁸⁶ Since then, the emergence of typewriters, photocopying machines, audiocassette recorders, player pianos, teleprompters, and cameras maintained copyright law's presence within the court system.⁸⁷ With each new invention, Congress and the courts must determine the appropriate balance between freedom of expression and technological improvements in the ability to copy and distribute.⁸⁸ Generally, the judiciary prefers to defer to Congressional determination.⁸⁹ Nonetheless, some cases have attempted to apply copyright law in new situations, with variant results.⁹⁰

1. Staple Article of Commerce Doctrine and *Sony Corp. of America v. Universal City Studios*

In *Sony Corp. of America v. Universal City Studios*, the Supreme Court held that the VCR qualified as a staple article of commerce because it was capable of "substantial noninfringing uses" and, thus, Sony was not contributorily liable.⁹¹ Defendant Sony manufactured and

1938) (holding that the existence of a landlord-tenant relationship, without more, was insufficient to trigger vicarious liability).

85. See, e.g., *Sony*, 464 U.S. at 430–31 (1984) (describing the correlative effect of technological innovation on copyright law).

86. *Id.* at 430 n.12. In 1710, British Parliament enacted the Statute of Anne, the first English copyright law, in response to the proliferation of printers as a result of the advent of the printing press. HOLLAAR, *supra* note 45, ch. 1:1.A, at 3 (noting that the statute's full name was "An act for the encouragement of learning, by vesting the copies of printed books in the authors or purchasers of such copies, during the times therein mentioned").

87. *Sony*, 464 U.S. at 430 n.11.

88. *Id.* at 430 n.12.

89. *Id.* at 431; see, e.g., *Teleprompter Corp. v. CBS, Inc.*, 415 U.S. 394, 414 (1974) (stating that "[d]etailed regulation of these relationships . . . must be left to Congress"); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 401–02 (1968) ("We take the Copyright Act of 1909 as we find it."); *White-Smith Music Publ'g Co. v. Apollo Co.*, 147 F. 226, 227 (2d Cir. 1906) (stating that "the law of copyright is a creature of statute"); *Williams & Wilkins Co. v. United States*, 487 F.2d 1345, 1363 (Ct. Cl. 1973) ("[T]he courts are now precluded, both by the Act and by the nature of the judicial process, from contriving pragmatic or compromise solutions which would reflect the legislature's choices of policy and its mediation among the competing interests.")

90. See *Sony*, 464 U.S. at 456 (concluding that Sony's new technology, the VCR, would not trigger copyright liability). *But see* *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1029 (9th Cir. 2001) (assigning copyright liability to Napster for file-trading software).

91. *Sony*, 464 U.S. at 456. The district court originally denied relief to the copyright holders, *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 469 (C.D. Cal. 1979), but was reversed on appeal, *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 977 (9th Cir. 1981). The Supreme Court decided the case with a narrow five-to-four margin, and over

sold a novel piece of technology, the Betamax VCR.⁹² Many of the end users who bought the VCR utilized the technology to record television programs, which often were copyrighted.⁹³

At the time of *Sony*, copyright law was silent on the issue of third-party liability.⁹⁴ However, the Court went on to apply and analyze contributory and vicarious theories of liability.⁹⁵ Of great significance in its determination that Sony was not contributorily liable was the relationship between Sony and the end user, which was limited to the sale itself.⁹⁶ For courts to justly apply contributory liability, the Court indicated that a continued relationship between the parties was necessary, such that the defendant has control over the use or infringement.⁹⁷ The Court determined that mere constructive

a strong dissent. *Sony*, 464 U.S. at 418, 456–57. The staple article of commerce doctrine first applied in the patent context. *Id.* at 440 & n.20. Although the Sony Court was the first to apply the doctrine in the copyright arena, the Court compared the VCR to a camera and photocopying machine, implicitly indicating precedent for the acceptance of technologies that replicate. *See id.* at 456.

92. *Sony*, 464 U.S. at 422–23. The Betamax is a VCR (videocassette recorder). The *Sony* opinion refers to this technology as a Video Tape Recorder. *Id.* at 422. This Article will utilize the term “VCR” to refer to the technology generally. The Betamax consists of three components: 1) a tuner, noteworthy because the VCR may tune to a station independent of the television, allowing for recording one station while simultaneously watching another; 2) a recorder, which records the signals received onto the tape; and 3) an adapter, which converts the recorded sounds and images into signals that can be utilized and displayed by the television. *Id.*

93. *Id.* at 420.

94. *Id.* at 434. The Court explored patent law, finding express language requiring liability for anyone who “actively induces infringement of a patent.” *Id.* at 435 (quoting statutory language from 35 U.S.C. § 271(b) (1982)).

95. *Id.* at 435 (stating that “vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another”). The *Sony* Court cited to *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911), for its utilization of third-party liability theories. *Sony*, 464 U.S. at 435. The Court in *Kalem* held the producer of an unauthorized copy of the film *Ben Hur* liable for selling it to “jobbers,” who in turn displayed the work commercially. *Kalem*, 222 U.S. at 62–63. The *Sony* Court conflated the theories of contributory and vicarious liability, recognizing that the contours of each theory had not been clearly established. *Sony*, 464 U.S. at 435 n.17. Therefore, when the *Sony* Court referred to vicarious liability, “it did so broadly and outside of a technical analysis of the doctrine of vicarious copyright infringement.” *Napster*, 239 F.3d at 1023. In fact, the *Sony* Court referred to the respondents’ “unprecedented contributory infringement claim.” *Sony*, 464 U.S. at 435 n.17. The Court did not explicitly analyze elements of contributory or vicarious liability as currently understood, but focused on knowledge, the relationship between the parties, and the VCR’s capability for noninfringing use. *Id.* at 439, 441.

96. *Sony*, 464 U.S. at 438 (“The only contact between Sony and the users of the Betamax that is disclosed by this record occurred at the moment of sale.”).

97. *Id.* at 437–38.

knowledge that customers possibly used the equipment for infringing purposes was insufficient to affix liability in this case.⁹⁸

Next, the Court evaluated the staple article of commerce doctrine.⁹⁹ The Court explained that the doctrine served to establish a balance between the public interest in the technology and the artist's interest in protecting her copyright.¹⁰⁰ Thus, the doctrine permits the production and sale of products with substantial noninfringing use capabilities.¹⁰¹ The Court stated that if the staple article of commerce doctrine is found to apply, then a producer of a product that is capable of infringing use would be free from liability, notwithstanding the instrument's infringing potential.¹⁰² The Court noted that the doctrine applied only to contributory theories of liability and would not shield a defendant from vicarious liability.¹⁰³

The Supreme Court then applied the staple article of commerce doctrine, determined that VCRs were not sold primarily for the purpose of copying television programs, and thus held that they could qualify as a staple article of commerce.¹⁰⁴ The Court found the Sony Betamax capable of substantial noninfringing use because it could be used for time-shifting or copying works that were not copyrighted or whose copyright owners authorized the copying of their programs.¹⁰⁵

Part of the Court's evaluation under the staple article of commerce doctrine revolved around application of the fair use defense.¹⁰⁶ The Court weighed the fair use factors, determining that the activity had no

98. *Id.* at 439 (“There is no precedent in the law of copyright for the imposition of vicarious liability on [a theory of constructive knowledge].”).

99. *Id.* at 442.

100. *Id.* According to the Supreme Court in *Sony*:

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 . . . 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.

Id.

101. *Id.*

102. *Id.*

103. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001) (relying on *MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][2]* (2000)).

104. *Sony*, 464 U.S. at 442.

105. *Id.* at 442–46.

106. *Id.* at 433–34. Substantial noninfringing uses and the concept of fair use relate to each other only to the extent that if a particular activity is deemed a fair use, it is noninfringing on the copyright. *See id.* at 442 (stating that noninfringing uses necessarily include legitimate fair uses).

effect on the commercial value of the works and that the use was private in nature.¹⁰⁷ Thus, the Court concluded that time-shifting, or recording broadcast television to be viewed later at a more convenient time, was a fair use.¹⁰⁸ Moreover, the Court concluded that VCRs were capable of substantial noninfringing uses; therefore, Sony was not responsible for the infringing use in which some end users engaged.¹⁰⁹ The *Sony* Court's application of the staple article of commerce doctrine to copyright law constituted a significant development in the law and remains the leading case for analyzing third-party copyright liability.¹¹⁰

2. *Fonovisa, Inc. v. Cherry Auction, Inc.*¹¹¹

In *Fonovisa*, the Ninth Circuit determined that Cherry Auction, the host of a "swap meet," was liable for the sale of counterfeit music by its vendors.¹¹² Vendors at the meet paid a daily rental fee to Cherry Auction, and Cherry Auction supplied utilities, parking, advertising, plumbing, and customers.¹¹³ Customers paid a fee upon entrance to the premises.¹¹⁴ Cherry Auction knew that many of the vendors sold counterfeit music, infringing upon copyrights owned by Fonovisa.¹¹⁵

107. See *id.* at 450 (noting that there was "no demonstrable effect upon the potential market for, or the value of, the copyrighted work").

108. *Id.* at 442, 454–55. Time-shifting means that the VCR is used to record a program from television to be watched later, at a more convenient time. *Id.* at 421. The district court found that time-shifting was a legitimate fair use, even if the copyright holder did not authorize the conduct. *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 466 (C.D. Cal. 1979).

109. *Sony*, 464 U.S. at 456.

110. *E.g.*, *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020–22 (9th Cir. 2001) (analyzing the *Sony* doctrine and finding Napster liable for copyright infringement arising from its revolutionary file-trading software).

111. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996). Although *Fonovisa* did impact the music industry through the distribution of counterfeit music, the value of the analysis in *Fonovisa* is not its response to a new technology but its definition of the type of relationship required to impose vicarious liability. See *id.* at 264–65 (analyzing the application of copyright law to counterfeit music).

112. *Id.* at 260–61. A "swap meet" is a forum where vendors may sell their wares, like a flea market. *Id.* at 260.

113. *Id.* at 261.

114. *Id.*

115. *Id.* The court noted:

There is . . . no dispute for purposes of this appeal that Cherry Auction and its operators were aware that vendors in their swap meet were selling counterfeit recordings in violation of Fonovisa's trademarks and copyrights. Indeed, it is alleged that in 1991, the Fresno County Sheriff's Department raided the Cherry Auction swap meet and seized more than 38,000 counterfeit recordings. The following year, after finding that vendors at the Cherry Auction swap meet were still selling counterfeit recordings, the Sheriff sent a letter notifying Cherry Auction of the on-going sales of infringing material

The case presented a difficult issue with regard to vicarious liability because the relationship between the parties contained elements consistent with both the “dance hall cases” and the “landlord-tenant cases.”¹¹⁶ In the end, the court resolved the hybrid relationship in favor of the plaintiffs, holding that Cherry Auction was more similar to a dance hall owner, had demonstrated the requisite level of control to impose vicarious liability because it could control admission and advertising, and had contractually reserved the right to restrict market access and vendor behavior.¹¹⁷ Furthermore, the court found that the financial benefit element of vicarious liability was satisfied because the defendant received rental fees, admission fees, and revenues from parking, food, and other customer services.¹¹⁸ All of these financial benefits can be attributed to the appeal the swap meet held in the eyes of potential customers, an appeal likely bolstered by the simple presence of the infringing activities.¹¹⁹

In addition to vicarious liability, the court evaluated a claim of contributory infringement and held Cherry Auction liable.¹²⁰ The court stated that Cherry Auction clearly knew of the infringing activities, thereby establishing the knowledge element.¹²¹ The court also determined that Cherry Auction’s activities constituted a material contribution.¹²² The support services provided by Cherry Auction, which the court characterized as site and facilities, adequately evinced a

116. See *id.* at 262–63; see also *supra* notes 81–84 and accompanying text (outlining the landlord-tenant and dance hall lines of cases and explaining the attributes of each). The district court agreed with the defendant that Cherry Auction was like a landlord, charging rent to the vendors. *Fonovisa*, 76 F.3d at 262; *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1496 (E.D. Cal. 1994). Nevertheless, the appellate court reversed, finding that the fees paid by customers made the case more analogous to the dance hall line of decisions, subjecting the defendant-appellee to liability. *Fonovisa*, 76 F.3d at 263–64.

117. *Fonovisa*, 76 F.3d at 262; see also Wright, *supra* note 63, at 1018–20 (analyzing the divergent application of control in the district and appellate rulings).

118. *Fonovisa*, 76 F.3d at 263.

119. *Id.* The financial benefits reaped from parking fees, admission fees, and food all correlate directly with the number of customers present. *Id.* Likewise, the vendor rental fees have a less direct correlation to total financial benefit; a vendor is more likely to rent space on the premises based on the number of customers likely to be present, as this will translate into revenues for the vendors. *Id.* Therefore, all of the financial benefits derived relate to the infringing activities if it is found that the infringing activities act to bring in customers, as the appellate court in fact found. *Id.* (comparing *Fonovisa* to the dance hall cases and stating that the “infringing [behaviors] enhance the attractiveness of the venue to potential customers”).

120. *Id.* at 264–65.

121. *Id.*; see also *supra* note 115 and accompanying text (demonstrating Cherry Auction’s sufficiency of knowledge).

122. *Fonovisa*, 76 F.3d at 264.

material contribution.¹²³ In making this determination, the Ninth Circuit rejected the district court's reasoning that it would require some type of express encouragement or some measure of protecting the identity of the infringers, neither of which were present in the case.¹²⁴ *Fonovisa* stands for a broader application of third-party liability to activities that do not actively contribute to the infringing behaviors, but that nonetheless provide a forum and support for those infringing activities.¹²⁵

D. Copyright Law in Cyberspace¹²⁶

Lessons learned in the real world of swap meets and VCRs create the backdrop for evaluation of similar issues in an online context.¹²⁷ The exclusive rights granted by copyright law have remained essentially unchanged over time, although technologies such as peer-to-peer network topologies and the Internet have since appeared.¹²⁸

123. *Id.* (finding that Cherry Auction provided "space, utilities, parking, advertising, plumbing, and customers" without which the infringing activity would not be able to proceed in the "massive quantities alleged").

124. *Id.* at 265; *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1496 (E.D. Cal. 1994).

125. Wright, *supra* note 63, at 1020.

126. According to the *Netcom* court, "Cyberspace is a popular term for the world of electronic communications over computer networks." *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1365 n.1 (N.D. Cal. 1995). See generally I. Trotter Hardy, *The Proper Legal Regime for Cyberspace*, 55 U. PITT. L. REV. 993, 994 (1994) (discussing the legal implications of cyberspace).

127. See PATRICIA L. BELLIA ET AL., *Problems of Metaphor and Analogy, in CYBERLAW: PROBLEMS OF POLICY AND JURISPRUDENCE IN THE INFORMATION AGE* ch. 2 (2003); see also Brett M. Frischmann, *The Prospect of Reconciling Internet and Cyberspace*, 35 LOY. U. CHI. L.J. 205 (2003) (analyzing the different perspectives (internal and external) that one may use to address various Internet-related issues and arguing that both perspectives add value to legal analyses of the Internet); Orin S. Kerr, *The Problem of Perspective in Internet Law*, 91 GEO. L.J. 357 (2003) (identifying and discussing the internal and external perspectives used to resolve issues in an online context). Compare Frank H. Easterbook, *Cyberspace and the Law of the Horse*, 1996 U. CHI. LEGAL F. 207, 207 (arguing that existing law sufficiently elucidates various principles that are applicable online), with Lawrence Lessig, *The Law of the Horse: What Cyberlaw Might Teach*, 113 HARV. L. REV. 501, 502 (1999) (arguing that architectural aspects of the Internet create new and different problems that cannot be resolved by looking to existing real-world legal principles).

128. KENNEDY ET AL., *supra* note 45, § 12:9 (elucidating the bundle of rights and discussing its applicability in the face of developing Internet technologies). Peer-to-peer network technology, sometimes referred to as P2P, is "a system where each computer on a network serves as both a workstation and a server," meaning that information can be shared between users connected on the network. Rob Hassett & Jeffrey D. Neuburger, *Interactive Online Entertainment*, 695 PRAC. L. INST. 683, 690 (2002); see also Kevin P. Cronin & Ronald N. Weikers, *Security and Privacy in the Networked World, in DATA SECURITY AND PRIVACY LAW: COMBATING CYBERTHREATS* § 2:12 (Kevin P. Cronin & Ronald N. Weikers eds., 2003) (analogizing a peer-to-peer network to a train—data passes between linked devices that

Technological changes require courts to interpret copyright rules as applied to a particular new technology.¹²⁹ Courts are generally reluctant to expand existing laws; they prefer to defer to Congressional guidance.¹³⁰ Courts must resolve any ambiguities in the law by considering the underlying purpose of copyright law, specifically public benefit, and not the incidental private economic gain achieved through a grant of exclusive rights.¹³¹

The Internet provided the context for novel problems regarding third-party liability in copyright law.¹³² Two cases evaluated content-based third-party liability and reached opposite conclusions.¹³³ In *Playboy Enterprises, Inc. v. Frena*, the District Court for the Middle District of Florida held an online service provider (“OSP”) liable for copyright infringement as a direct infringer.¹³⁴ Service subscribers uploaded information onto Frena’s servers, which then became available for download by other subscribers.¹³⁵ The court explained that direct

communicate as equals, as “people [move] between cars in a passenger train”). Peer-to-peer networks are the most prevalent mechanism for Internet piracy, but not the only vehicle. See Long, *supra* note 2, at 776–77 (enumerating other methods of piracy, including websites that offer works for free or minimal fees, electronic mail, and bulletin boards).

129. KENNEDY ET AL., *supra* note 45, § 12:9 (claiming that the existing copyright bundle of rights is sufficient when applied to new technologies, “albeit with occasional need for interpretation and analysis”); see, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 421 (1984) (discussing the Supreme Court’s application of copyright law to the then-novel VCR); see also *supra* Part II.C.1 (discussing the *Sony* Court’s analysis).

130. *Sony*, 464 U.S. at 430–31; e.g., *Eldred v. Ashcroft*, 537 U.S. 186, 188, 222 (2003) (upholding the Copyright Term Extension Act, which extends copyright protection from fifty years to seventy years after the author’s death, finding that it “reflects judgments of a kind Congress typically makes”); *Teleprompter Corp. v. CBS, Inc.*, 415 U.S. 394, 414 (1974); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 401–02 (1968); *White-Smith Music Publ’g Co. v. Apollo Co.*, 209 U.S. 1, 11–12 (1908); *Williams & Wilkins Co. v. United States*, 487 F.2d 1345, 1363 (Ct. Cl. 1973).

131. *Sony*, 464 U.S. at 429 (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948)); see also Dodes, *supra* note 19, at 282 (characterizing the *Sony* Court’s decision as a balancing of “promoting widespread distribution” against “providing incentives” to musicians and other artists to create new works).

132. See generally RONALD J. MANN & JANE K. WINN, ELECTRONIC COMMERCE, at xxv (2002) (introducing legal themes related to the Internet). The Internet impacts many other areas of law besides copyright. *Id.* For an example of a case imposing liability for defamatory content, see *Zeran v. Am. Online, Inc.*, 129 F.3d 327 (4th Cir. 1997) (denying plaintiff’s request for relief from an OSP for defamatory content posted by another party on its website). For property issues, see generally *eBay, Inc. v. Bidder’s Edge, Inc.*, 100 F. Supp. 2d 1058, 1069–72 (N.D. Cal. 2000) (applying the trespass to chattels doctrine to websites).

133. *Netcom*, 907 F. Supp. 1361; *Playboy Enters., Inc. v. Frena*, 839 F. Supp. 1552 (M.D. Fla. 1993).

134. *Playboy Enters.*, 839 F. Supp. at 1556–57.

135. *Id.* at 1554.

liability existed because the OSP made copies of the information incidental to it being housed on its servers.¹³⁶

In contrast, the Northern District of California in *Religious Technology Center v. Netcom On-Line Communication Services* reached the opposite conclusion regarding OSP liability on similar facts.¹³⁷ Specifically, the court held that no direct infringement existed, even though the OSP, Netcom, made copies of copyrighted works, and therefore, Netcom was not liable for copyright infringement under a third-party theory.¹³⁸ In this case, a Netcom subscriber and former member of the Church of Scientology posted information copyrighted by the church to his bulletin-board service, a forum dedicated to criticism of the Church of Scientology.¹³⁹ Netcom's system made a copy of the copyrighted works and stored the copy for eleven days.¹⁴⁰ The court analogized Netcom's role to that of an owner of a copying machine that is available for public use.¹⁴¹ Netcom merely made the copies automatically, without any assertive act, and thus provided mechanistically for the copies of the works rather than a concerted intent to infringe the copyright.¹⁴²

On the contributory infringement theory, the court denied a motion for summary judgment, citing the need for a factual determination of whether Netcom knew of the infringement before it was too late for action.¹⁴³ In outlining the knowledge requirement, the court determined that the timing of the knowledge is critical; specifically, the defendant must know of the infringement when the defendant is in a position to attempt to prevent the infringement.¹⁴⁴ The *Netcom* court applied the high-threshold test, which requires substantial participation in the direct infringer's activities, and found no material contribution.¹⁴⁵ The

136. *Id.* at 1559.

137. *Netcom*, 907 F. Supp. at 1370–71.

138. *Id.* at 1369–70. The court analyzed direct, contributory, and vicarious theories of liability and found each lacking. *Id.* at 1372, 1375–77.

139. *Id.* at 1365–66.

140. *Id.* at 1368.

141. *Id.* at 1369.

142. *Id.*

143. *Id.* at 1374.

144. *Id.* at 1373–74 (comparing Netcom's activities with a line of landlord-tenant cases that held that landlords were not liable for contributory copyright infringement because they had no knowledge of the intended infringing uses at the time the leases were signed; subsequent knowledge came at a time when the defendants were unable to do anything about the infringing activities).

145. *Id.* at 1375.

divergence in opinions set the stage for Congress to take action and decide the fate of online service providers.¹⁴⁶

E. Congress Acts—The DMCA

In response to changing technologies, Congress realized the need for an update to copyright law, which came in the form of the DMCA.¹⁴⁷ The DMCA expanded existing copyright law through two fundamental methods: 1) safe harbor provisions and 2) anti-circumvention provisions.¹⁴⁸

1. Safe Harbors

The DMCA's safe harbor provisions protect service providers from liability for their customers' conduct.¹⁴⁹ The DMCA sanctions contributory and vicarious liability; Congress designed the safe harbor provisions to insulate a would-be third-party infringer.¹⁵⁰ Prior to the statutory provisions, courts differed in their determination of whether third-party liability existed and how much liability should be assigned to service providers.¹⁵¹

There are four types of safe harbors within the DMCA, but two types are at issue in file-trading cases: the "Transitory Digital Network Communications Safe Harbor"¹⁵² and the "Information Location Tools Safe Harbor."¹⁵³ The former arises when a service provider provides connections for infringing material through its network.¹⁵⁴ The latter applies when the service provider refers or links users to infringing

146. See *infra* Part II.E (discussing Congressional enactment of the DMCA).

147. Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified in relevant parts at 17 U.S.C. §§ 512, 1201–1205).

148. Mousley, *supra* note 12, at 679 (discussing the provisions of the DMCA that affect the entertainment industry).

149. 17 U.S.C. § 512 (a)–(c) (2000).

150. Wright, *supra* note 63, at 1033 (indicating Congress's intentions in implementing safe harbors).

151. See *supra* Part II.D (discussing Internet service provider liability prior to the DMCA). Cases diverged as to reasoning before the codification of the safe harbor provision. Compare, e.g., *Playboy Enters., Inc. v. Frena*, 839 F. Supp. 1552, 1563 (M.D. Fla. 1993) (holding an OSP liable when a subscriber uploaded infringing material), with *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1381 (N.D. Cal. 1995) (holding that an OSP was merely a passive conduit for content and therefore not liable for infringing material posted by a subscriber). For application of the safe harbor provision to an OSP, see *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1096 (C.D. Cal. 2001), in which the court found that eBay complied with the requirements of the safe harbor provision of the DMCA and therefore was excused from liability.

152. 17 U.S.C. § 512(a).

153. *Id.* § 512(d).

154. *Id.* § 512(a).

material or activities.¹⁵⁵ As a threshold matter, for either safe harbor provision to apply, the actor must qualify as a service provider under one of the broad definitions contained in the statute.¹⁵⁶ Also, the service provider must embrace a policy to terminate access of repeat infringers.¹⁵⁷

Essentially, the safe harbor provisions protect networks and force copyright holders to pursue their claims against the individuals who directly infringe upon their work.¹⁵⁸ If a service provider receives notice of copyright infringement, the service provider may not be shielded from liability; however, absent notice from a copyright holder, a provider can claim protection under the DMCA provisions despite having actual knowledge of the infringement.¹⁵⁹

2. Anti-Circumvention

The anti-circumvention provisions are independent of other copyright law sections, meaning that an actor need not infringe on a copyright to be liable for circumvention.¹⁶⁰ When a copyright holder puts in place a technological measure designed to prevent infringements on its work,

155. *Id.* § 512(d).

156. *Id.* § 512(k). A service provider for purposes of the “Transitory Digital Network Communication Safe Harbor” is “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material . . . as sent or received.” *Id.* § 512(k)(1)(A). For purposes of the “Information Location Tools Safe Harbor,” a service provider is “a provider of online services or network access, or the operator of facilities therefor.” *Id.* § 512(k)(1)(B).

157. *Id.* § 512(i)(1)(A) (noting that safe harbors only protect a service provider that “has adopted and reasonably implemented, and informs subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers”).

158. Dodes, *supra* note 19, at 284 (arguing that safe harbor provisions force copyright holders to sue individuals).

159. *Id.* (characterizing the notice requirement as a loophole unsuccessfully utilized by Napster); *see also* Aimster II, 334 F.3d 643, 650–51 (7th Cir. 2003) (finding that defendant Aimster could not rely on a voluntary act of encryption to excuse lack of knowledge of copyright infringement).

160. Kirk R. Ruthenberg, *Digital Millennium Copyright Act*, in DATA SECURITY AND PRIVACY LAW: COMBATING CYBERTHREATS, *supra* note 128, § 6.88. In addition to prohibiting actual tampering, the anti-circumvention provisions prohibit “‘trafficking’ in any technology, product, service, device, component or part that is primarily designed or produced for the purpose of circumventing a [protected] technological protection measure.” Long, *supra* note 2, at 790 (citing 17 U.S.C. § 1201(b)–(c) (2000)). There are exceptions, however, which allow limited circumvention rights to educational institutions and law enforcement for reverse engineering, encryption research, security testing, and privacy protection. *Id.* Notably missing is any general fair use exception. *Id.*

no one may tamper with or attempt to circumvent that safeguard.¹⁶¹ Congress enacted these provisions to encourage copyright holders to utilize available technologies and to make their works available on the Internet.¹⁶² Nonetheless, some skepticism surrounds the anti-circumvention provisions.¹⁶³

In order for a technological measure to qualify for coverage under the DMCA anti-circumvention laws, the measure must be effective.¹⁶⁴ For example, the record industry sought to protect the intellectual property contained on compact discs by a technological measure that prevented a compact disc's owner from copying the music into an MP3 format.¹⁶⁵ Unfortunately for musicians, the public quickly learned that the measure was easily circumvented by the use of a black felt-tip marker.¹⁶⁶

F. Applying the DMCA to Internet Piracy: Diamond Multimedia and Napster

Courts have reached variant conclusions when applying the DMCA to new online technologies.¹⁶⁷ In 1999, the Ninth Circuit, in *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.* evaluated a novel piece of technology manufactured by Diamond Multimedia called the Rio.¹⁶⁸ The Rio is a device capable of downloading MP3 files from a computer hard drive, which makes the songs more mobile.¹⁶⁹ Relying on *Sony*, the Ninth Circuit determined that space-shifting, or the movement of music already owned from one

161. Ruthenberg, *supra* note 160, § 6.88. Circumvention is a “technological measure that effectively controls access to [a] work,” described by Congress as “the electronic equivalent of breaking into a locked room in order to obtain a copy of a book.” H.R. REP. NO. 105-551(I), at 17 (1998).

162. Ruthenberg, *supra* note 160, § 6.88 (citing 144 CONG. REC. S12730-01 (daily ed. Oct. 20, 1998) (statement of Sen. Leahy)).

163. See Matthew Fagin et al., *Beyond Napster: Using Antitrust Law to Advance and Enhance Online Music Distribution*, 8 B.U. J. SCI. & TECH. L. 451, 477 (2002) (stating that critics of anti-circumvention legislation argue that this provision unduly expands copyright law).

164. 17 U.S.C. § 1201 (2000) (stating that no person may circumvent “a technological measure that effectively controls access to a work protected” by the statute); Long, *supra* note 2, at 789 (stating that effectiveness is determined by whether the measure works absent attempts to circumvent).

165. Iser & Toma, *supra* note 8, at C10.

166. *Id.* (stating that CDs thought to be protected against copying were easily converted to MP3 files after their owners drew lines on the discs with felt-tip markers).

167. *Compare* Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys., Inc., 180 F.3d 1072, 1079 (9th Cir. 1999) (holding a manufacturer of new technology not liable for copyright infringement), *with* A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1029 (9th Cir. 2001) (affixing liability to a purveyor of novel online technology).

168. *Diamond Multimedia*, 180 F.3d at 1072.

169. *Id.*

medium to another, is a fair use.¹⁷⁰ As in *Sony*, the court emphasized that the activity involved was private in nature.¹⁷¹ Because use of the device was a fair use, the court held that the Rio did not subject its manufacturers to liability.¹⁷²

Meanwhile, Napster developed its “MusicShare” software, which enabled the transfer of MP3 files.¹⁷³ MusicShare employs a peer-to-peer network, which is a decentralized network architecture that does not utilize a server.¹⁷⁴ Napster also maintained a centralized database of available songs that its users could peruse.¹⁷⁵ To determine whether Napster was liable for its users’ music piracy, the Ninth Circuit, in *A&M Records, Inc. v. Napster, Inc.*, evaluated Napster under third-party theories of liability.¹⁷⁶ At issue in *Napster* and other cases brought against file-swapping software distributors were the exclusive rights of reproduction and distribution.¹⁷⁷

In holding Napster liable for copyright infringement, the court rejected the fair use defense that the software could be used for sampling, space-shifting, and permissive uses.¹⁷⁸ The court found two

170. *Id.* at 1079 (noting that the portable MP3 player, called Rio, “merely makes copies in order to render portable, or ‘space-shift,’ those files that already reside on a user’s hard drive” and that “[s]uch copying is a paradigmatic noncommercial personal use entirely consistent with the purposes of the Act”). See generally *supra* Part II.C.1 (discussing the *Sony* case).

171. *Diamond Multimedia*, 180 F.3d at 1079. See generally *supra* Part II.C.1 (discussing the *Sony* case).

172. *Diamond Multimedia*, 180 F.3d at 1079.

173. Fagin et al., *supra* note 163, at 459.

174. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011 (9th Cir. 2001). For further discussion of peer-to-peer technology, see *supra* note 128 and accompanying text.

175. *Napster*, 239 F.3d at 1012 (describing Napster’s music library); Fagin et al., *supra* note 163, at 459 (stating that although the transfers of the files were peer-to-peer, the Napster scheme relied on the centralized searching capabilities).

176. *Napster*, 239 F.3d at 1019–24; ALEXANDER LINDEY & MICHAEL LANDAU, *LINDEY ON ENTERTAINMENT, PUBLISHING & THE ARTS* § 1:15 (2d ed. 2003) (stating that “[b]ecause Napster itself does not actually store the music files on its system, its liability would be for contributory infringement or vicarious liability”).

177. See NIMMER, *INFORMATION LAW*, *supra* note 51, § 4:27. The right of reproduction is set forth in 17 U.S.C. § 106(1), and the right of distribution is embodied in § 106(3).

178. *Napster*, 239 F.3d at 1017. Sampling refers to the practice of downloading the file to determine whether to buy the recording. *Id.* at 1018. The court found sampling to be commercial and deleterious to the music industry. *Id.* If a user downloads music in an MP3 format that she already owns on a CD or in another format, then she has engaged in space-shifting. *Id.* at 1019. The court determined that the shifting analyses of *Sony* and *Diamond Multimedia* were inapplicable because “the methods of shifting in these cases did not also simultaneously involve distribution of the copyrighted material to the general public; the time or space-shifting of copyrighted material exposed the material only to the original user.” *Id.* Permissive reproduction means that either the artists themselves engage in distributing their own works, a right reserved to them by virtue of the copyright, or that the copyright owner has authorized others to distribute her works. *Id.*

of the district court findings persuasive: first, that distribution to anonymous requesters cannot qualify as a private use, and second, that users receive for free something they would ordinarily be required to buy.¹⁷⁹ Furthermore, unlike in *Sony*, the users' activities adversely impacted the products' commercial value.¹⁸⁰ The court distinguished the Napster users' actions with those at issue in *Diamond Multimedia* because Napster users' activities involved simultaneous distribution of the music rather than a private fair use of the copyrighted works.¹⁸¹ Moreover, the *Napster* court determined that the shifting analyses of *Sony* and *Diamond Multimedia* were inapplicable.¹⁸²

The court then held that Napster was liable under both contributory and vicarious theories of liability.¹⁸³ Looking first to the knowledge requirement of contributory liability, the *Napster* court interpreted the *Sony* decision to mean that a party satisfied the knowledge requirement only by actual knowledge.¹⁸⁴ The court noted that this is especially true in the online context, where the ability of service providers to monitor behaviors and individual uses is particularly limited.¹⁸⁵ Despite the higher standard, the court determined that Napster had sufficient knowledge to make contributory liability appropriate.¹⁸⁶

Next, the *Napster* court analyzed contributory liability's second element of material contribution, utilizing a "but for"-style analysis: the court determined that absent the support services provided by Napster, the infringement would be more difficult.¹⁸⁷ Services offered by

179. *Id.* at 1015.

180. *Id.* at 1016 (finding that Napster's service reduced CD sales among college students and created obstacles to plaintiffs' ability to enter the market for digital downloading); *see supra* Part II.C.1 (discussing the *Sony* case). The appellate court seemed to reason in the alternative that even if online sampling is beneficial to CD sales, that would still be insufficient to "deprive the copyright holder of the right to license the material." *Napster*, 239 F.3d at 1018 (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 591 n.21 (1994)).

181. *Napster*, 239 F.3d at 1019; *see supra* notes 168–72 and accompanying text (discussing *Diamond Multimedia*).

182. *Napster*, 239 F.3d at 1019; *see supra* Part II.C.1 (discussing the *Sony* case); *supra* 168–172 and accompanying text (discussing *Diamond Multimedia*).

183. *Napster*, 239 F.3d at 1020, 1024.

184. *Id.* at 1020–22 (noting the *Sony* Court's refusal to apply liability based on constructive knowledge); *see supra* Part II.C.1 (discussing *Sony*); *see also* *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1371 (N.D. Cal. 1995) (implying that actual knowledge is required in an online context).

185. *Napster*, 239 F.3d at 1020 ("[A]bsent any specific information which identifies infringing activity, a computer system operator cannot be liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material.").

186. *Id.* at 1021, 1022 & n.6 (determining that the defendants had actual notice because they were informed of the infringement by the RIAA).

187. *Id.* at 1022.

Napster included software, search engines, and servers, which were essentially the means to establish peer connections, and without which users would be unable to find and download the music they desired.¹⁸⁸

Finally, the court examined the two elements of vicarious liability; it decided that Napster received a financial benefit from infringement by its customers, the first element of vicarious liability.¹⁸⁹ Relying on *Fonovisa*, the court found that the infringing activity attracted customers to Napster, and that Napster's future revenue depended on the increased customer base.¹⁹⁰ Likewise, the court found that Napster had the right and ability to supervise the conduct of its users, the second requirement for vicarious liability.¹⁹¹ Like in *Fonovisa*, Napster expressly reserved the right to block access to its website at its discretion.¹⁹² Thus, the *Napster* court determined that this early-generation file-sharing software subjected Napster to copyright infringement liability.¹⁹³

G. *The Digital World Post Napster*

Internet purveyors of file-swapping software continue to market their wares; indeed, most have not relented in the wake of the *Napster* decision.¹⁹⁴ Digital piracy is still prevalent.¹⁹⁵ Many services have attempted to modify their specific technology and particular behaviors to avoid liability.¹⁹⁶ Some utilize the popular FastTrack software, which, unlike Napster, uses the "super-node" rather than a centralized

188. *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 920 (N.D. Cal. 2000), *aff'd in part, rev'd in part*, 239 F.3d 1004 (9th Cir. 2001).

189. *Napster*, 239 F.3d at 1023.

190. *Id.*; see *supra* Part II.C.2 (discussing *Fonovisa*).

191. *Napster*, 239 F.3d at 1023–24.

192. See *supra* Part II.C.2 (discussing *Fonovisa*).

193. *Napster*, 239 F.3d at 1027.

194. See *After Napster—The Free Alternatives*, at <http://www.afternapster.com> (last visited Oct. 18, 2003) (listing fifty-three services replacing Napster). The term "Napster Knockoffs" refers to the many systems that have emerged contemporaneously to or since *Napster*. Hassett & Neuburger, *supra* note 128, at 690 (referring to Gnutella- and Morpheus-based systems).

195. See *After Napster—The Free Alternatives*, *supra* note 194; *supra* note 19 and accompanying text (discussing the current prevalence of Internet music piracy). Several websites represent themselves as "Napster replacements" or "Napster alternatives." See, e.g., MP3 Grand Central, at <http://www.mp3grandcentral.net> (last visited Oct. 18, 2003) (describing itself as a "Napster replacement," and charging the nominal fee of ninety-nine cents per month); Ideal World Direct, Napster Lives On!, at <http://www.ishareit.com> (last visited Oct. 18, 2003) (same); see also MP3DownloadHQ.com, at <http://www.mp3downloadhq.com> (last visited Oct. 3, 2003) (describing itself as a "Napster alternative," charging the nominal fee of \$1.00 per month); Download-Doctor.com, at <http://www.download-doctor.com> (last visited Oct. 3, 2003) (same).

196. *E.g.*, *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1040 (C.D. Cal. 2003).

database of available files.¹⁹⁷ Others utilize another type of peer-to-peer technology called the “virtual private network,” which piggy-backs on instant messaging services.¹⁹⁸ These modified technologies and new business models indicate that additional online copyright infringement litigation may occur.¹⁹⁹

Another attribute of modern file-trading software is encryption technology, which is used to secure the identities of its users, making it difficult to monitor or determine the identity of the offenders.²⁰⁰ In response to these and other technologies, record companies and artists who are frustrated by the prolific piracy and resultant losses in revenue have resorted to self-help tactics.²⁰¹ Self-help remedies include “spoofing”²⁰² and “interdiction.”²⁰³ These measures raise the stakes in the battle over music.²⁰⁴ Furthermore, the Internet is global, as is the problem of Internet piracy, making the issues all the more difficult to solve.²⁰⁵

197. Fagin et al., *supra* note 163, at 461 (explaining the utilization of “super-nodes” as an alternative to centralized search capabilities). Super-nodes are other users’ computers, and the systems are self-organizing. *Id.* The FastTrack providers included StreamCast Networks, Kazaa, and Grokster. *Id.*

198. *Id.* at 462. For more information about the peer-to-peer network generally, see *supra* note 128 and accompanying text.

199. See *infra* Parts III.A–B (discussing litigation against Aimster and Grokster, respectively).

200. See, e.g., *Aimster I*, 252 F. Supp. 2d 634, 641 (N.D. Ill. 2002), *aff’d*, 334 F.3d 643 (7th Cir. 2003).

201. Long, *supra* note 2, at 791–92.

202. See Iser & Toma, *supra* note 8, at C10 (“Spoofing involves the creation of decoy files to hinder file swappers searching for a particular song.”). These decoy files may be infected with computer viruses. Long, *supra* note 2, at 792. One recent example of spoofing involved Eminem’s label, which “allegedly flooded the file-swapping networks with bogus copies of songs from his recently released album.” Iser & Toma, *supra* note 8, at C10; see also *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1042 (C.D. Cal. 2003) (referring to angry Grokster customers who downloaded files containing a computer virus).

203. See Iser & Toma, *supra* note 8, at C10 (“Interdiction creates an online traffic jam that blocks others on the network from accessing a work offered for copying.”).

204. See *id.* (discussing potential technological self-help measures).

205. See Fagin et al., *supra* note 163, at 470–71 (arguing that international solutions to the global problem are emerging slowly but are currently still in their infancy, making the proper focus for solutions domestic). The World Intellectual Property Organization and the World Trade Organization offer hope for “multinational harmonization,” the traditional approach to international intellectual property law, as opposed to “international governance.” *Id.* at 470; see also John Borland, *Spanish Site Offers Music-File Fiesta*, CNET NEWS.COM, at <http://news.com.com/2100-1027-1007920.html> (May 19, 2003) (discussing a new Spanish Web service offering music online, thereby demonstrating the issues that result from the international character of the Internet); John Lui, *Antipiracy Team Scans Asia P2P Sites*, CNET NEWS.COM, at http://news.com.com/2100-1027_3-1013483.html (June 5, 2003) (discussing the Business Software Alliance and Internet service providers working to shut down websites that traffic pirated software).

III. DISCUSSION

Two recent cases addressed new technological models of file-trading software, diverging not only in their conclusion of liability but also in their applications of law.²⁰⁶ In *In re Aimster Copyright Litigation*, the Seventh Circuit found Aimster contributorily liable for copyright infringement.²⁰⁷ Conversely, in *MGM Studios v. Grokster*, the Central District of California held Grokster not liable under any third-party theory of liability and concluded that the software was protected under the staple article of commerce doctrine.²⁰⁸ This Part traces in depth the rationale employed by the district court and Seventh Circuit opinions in *Aimster*.²⁰⁹ Next, this Part delves into the analysis utilized in the *Grokster* decision.²¹⁰ This Part concludes by isolating the points of contention between the two cases.²¹¹

A. *In re Aimster Copyright Litigation*²¹²

In June 2003, the Seventh Circuit affirmed the Northern District of Illinois' order which granted a preliminary injunction against Aimster in a multi-district consolidation of eleven cases.²¹³ Aimster distributed a file-sharing technology that customers used to trade files, often in violation of copyright law.²¹⁴ The Northern District of Illinois affixed liability to Aimster based on contributory and vicarious liability

206. Borland, *supra* note 7.

207. *Aimster II*, 334 F.3d 643, 653–54 (7th Cir. 2003).

208. *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2003). The recording industry plaintiffs motioned for an expedited appeal, a motion subsequently granted by the Ninth Circuit on July 16, 2003. *MGM Studios, Inc. v. Grokster, Ltd.*, Nos. 03-55894, 03-55901 (9th Cir. 2003). Party and amici briefs as well as motions and other court documents in this case are available on the Electronic Frontier Foundation's website: http://www.eff.org/IP/P2P/MGM_v_Grokster/.

209. See *infra* Part III.A (examining the *Aimster* decision).

210. See *infra* Part III.B (studying the *Grokster* case).

211. See *infra* Part III.C (pinpointing the areas of divergence between the *Aimster* and *Grokster* courts).

212. *Aimster II*, 334 F.3d 643 (7th Cir. 2003), *aff'g* 252 F. Supp. 2d 634 (N.D. Ill. 2002). The name "Aimster" was a derivation of AOL's instant messaging service, "AIM." JOHN W. HAZARD, JR., *Contributory Infringement Via New Technology*, in *COPYRIGHT LAW IN BUSINESS AND PRACTICE* § 7:40 (2003). Aimster's name change to Madster resulted from litigation with America Online over the name. See *Madster*, at <http://www.madster.com> (last visited Oct. 17, 2003).

213. *Aimster II*, 334 F.3d at 645, 655–56.

214. *Aimster I*, 252 F. Supp. 2d 634, 648 (N.D. Ill. 2002); see also *infra* Part III.A.1 (iterating the facts presented in the *Aimster* case).

theories.²¹⁵ The Seventh Circuit affirmed on the contributory theory but declined to determine the issue of vicarious liability.²¹⁶

1. Facts

Aimster is a file-sharing service that utilizes America Online's instant messaging system, AIM.²¹⁷ The defendants in the action included the John A. Deep, the creator of Aimster, and two additional companies of his founding, collectively referred to as "Aimster."²¹⁸ The plaintiffs included record companies as well as songwriters and music publishers, who collectively owned copyrights on most popular American music.²¹⁹

Aimster's software facilitated the creation of peer-to-peer networks through which users could transfer files.²²⁰ Significantly, Aimster's software assured its users privacy through the use of encryption technology.²²¹ This technology prevented anyone other than the users themselves, including Aimster, from monitoring or discovering the contents of a file transfer.²²²

Aimster's original software, called Classic Aimster, enabled users to transfer MP3 music files, or any other type of file, at the will of the individual user.²²³ A user would download the software free of charge.²²⁴ The Aimster software allowed a user to designate other users as buddies, but in lieu of customer designation, the software identified all other Aimster users logged on to AIM as members of the buddy list,

215. *Aimster I*, 252 F. Supp. 2d at 651–53, 659; *see also infra* Part III.A.2 (outlining the rationale employed by the Northern District of Illinois).

216. *Aimster II*, 334 F.3d at 654–56; *see also infra* Part III.A.3 (describing the reasoning utilized by the Seventh Circuit).

217. *Aimster II*, 334 F.3d at 646–47.

218. *Id.* at 645. The two other companies Deep founded were BuddyUSA, Inc., devoted to software development, and AbovePeer, Inc., charged with operating the systems. *Aimster I*, 252 F. Supp. 2d at 638–39.

219. *Aimster II*, 334 F.3d at 645.

220. *Aimster I*, 252 F. Supp. 2d at 641. The Seventh circuit characterized the functionality as "similar to that of a stock exchange, which is a facility for matching offers rather than a repository of the things being exchanged (shares of stock)." *Id.* at 647. "But unlike transactions on a stock exchange, the consummated 'transaction' in music files does not take place in the facility, that is, in Aimster's server." *Id.* For more information on the peer-to-peer network technology, *see supra* note 128 and accompanying text.

221. *Aimster I*, 252 F. Supp. 2d at 641; *see also Aimster II*, 334 F.3d at 646, 650 (noting that "[e]ncryption' comes from the Greek word for concealment").

222. *Aimster II*, 334 F. 3d at 650.

223. *Aimster I*, 252 F. Supp. 2d at 642; *see also Aimster II*, 334 F.3d at 647 (describing the potential for file-sharing systems to be used for "innocuous purposes" such as transferring "confidential business data").

224. *Aimster II*, 334 F.3d at 646.

increasing the file-searching capabilities between peer users.²²⁵ The file transfer itself was easy and initiated solely by the user.²²⁶ The Aimster system accomplished the transfer through a private, encrypted peer network.²²⁷ Also, the system provided status information as the copying progressed and the ability to automatically resume an interrupted transfer.²²⁸

The more recent version of the Aimster service, Club Aimster, was a re-bundled version of Classic Aimster that charged a monthly fee.²²⁹ In addition to the Classic Aimster functionality, Club Aimster utilized a website that included a list of the top-forty selections, commentary, and a one-click download option for its users, leaving no need to manually search the network for a peer with the desired song.²³⁰ The website also provided a system tutorial, which showed copyrighted material being swapped.²³¹ The Club Aimster version became the only version of the system available, and any attempts to download the free Classic Aimster software resulted in a connection and request to join Club Aimster.²³²

2. The Northern District of Illinois Decision

The Northern District of Illinois determined that Aimster's technology subjected defendants to third-party liability.²³³ The court reasoned that Aimster met the requirements of contributory liability and no applicable defenses applied.²³⁴ The court refused to apply the staple article of commerce doctrine because it found the doctrine inapplicable.²³⁵ Furthermore, the court found sufficient basis to establish vicarious liability.²³⁶ Finally, the court rejected the applicability of the DMCA's safe harbor provisions.²³⁷

225. *Id.*

226. *Aimster I*, 252 F. Supp. 2d at 642–43.

227. *Id.* at 643.

228. *Id.*

229. *Id.* at 644. The monthly fee was \$4.95. *Id.*

230. *Id.* at 644–45.

231. *Aimster II*, 334 F.3d 643, 651 (7th Cir. 2003).

232. *Aimster I*, 252 F. Supp. 2d at 645.

233. *Id.* at 653, 659.

234. *Id.* at 649, 653; *see also infra* Part III.A.2.a (outlining the district court's analysis of the contributory liability claim and applicable defenses).

235. *Aimster I*, 252 F. Supp. 2d at 653; *see also infra* Part III.A.2.b (discussing the staple article of commerce doctrine as applied to Aimster by the Northern District of Illinois).

236. *Aimster I*, 252 F. Supp. 2d at 659; *see also infra* Part III.A.2.c (examining the court's analysis of vicarious liability).

237. *Aimster I*, 252 F. Supp. 2d at 659; *see also infra* Part III.A.2.d (exploring the district court's rationale in refusing to apply of the DMCA safe harbor provisions).

a. Contributory Liability

The district court in *Aimster* began with an evaluation of contributory liability and the fair use defense raised by Aimster.²³⁸ The court determined, like the *Napster* court, that the case did not represent permissible space-shifting.²³⁹ *Aimster* was distinguishable from *Diamond Multimedia* because that case did not involve further distribution of the copyrighted materials.²⁴⁰

In its threshold determination of contributory liability, the court found direct infringement existed on the part of the Aimster users, a fact not contested by Aimster.²⁴¹ Next, the court evaluated whether Aimster knew, or had reason to know, of the infringing activities, as required for the knowledge element of contributory liability.²⁴² The court determined that various letters by the plaintiffs put Aimster on notice.²⁴³ Also, the court placed significance on the Club Aimster website because the defendants identified and commented on particular copyrighted materials on the website.²⁴⁴

Moreover, the court rejected the defendants' argument that they could not know the identity of users or contents of particular transfers because

238. *Aimster I*, 252 F. Supp. 2d at 649.

239. *Id.*; see also *supra* notes 178–82 and accompanying text (discussing fair use in the *Napster* case). See generally *supra* note 170 and accompanying text (defining space-shifting).

240. *Aimster I*, 252 F. Supp. 2d at 649. In *Diamond Multimedia*, the issue revolved around the use of files already in the users' possession, and the court had no reason to evaluate the acquisition of those files. *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079–80 (9th Cir. 1999). For further discussion of fair use arguments in *Diamond Multimedia* and *Napster*, see *supra* Part II.F. For more information about the Rio specifically, see *supra* note 168–169 and accompanying text (noting that Rio is a portable MP3 player).

241. *Aimster I*, 252 F. Supp. 2d at 648. See generally *supra* Part II.B.1 (outlining the elements of contributory liability); *supra* notes 52–54 and accompanying text (discussing the importance of direct liability to claims of third-party theories of copyright infringement).

242. *Aimster I*, 252 F. Supp. 2d at 650; see also *supra* Part II.B.1 (outlining the elements of contributory liability).

243. *Aimster I*, 252 F. Supp. 2d at 650; see also *supra* Part II.B.1 (outlining the elements of contributory liability). Three letters were sent, as the district court detailed:

On April 3, 2000, Frank Creighton of the RIAA sent a cease-and-desist letter to Defendants in which he detailed the availability of copyrighted works on Aimster. Again, on May 9, 2001, Mr. Creighton sent a cease-and-desist letter to Defendants, this time including screen shots showing approximately 2900 sound recordings owned or controlled by RIAA members available for download through Aimster. On November 26, 2001, Mr. Creighton sent a third letter to Defendants again demonstrating the existence of unauthorized sound recordings available through Aimster and specifically mentioning Club Aimster.

Id. (citations omitted).

244. *Aimster I*, 252 F. Supp. 2d at 650; see *supra* Part III.A.1 (discussing the attributes of Aimster's file-trading system).

the software utilized encryption technology.²⁴⁵ While the evidence demonstrated that the encryption technology prevented the defendants from possessing information regarding any specific transfers, the court dismissed Aimster's argument because Aimster created and provided the encryption technology; thus, Aimster hindered its own knowledge.²⁴⁶ Also, the court stated that no authority existed that required such specificity in knowledge to assign contributory liability.²⁴⁷ The court further reasoned that encryption technology did not prevent constructive knowledge, which the court found sufficient to establish contributory liability.²⁴⁸

Next, the court turned to the second element of contributory liability, material contribution.²⁴⁹ The court, relying on *Napster* and *Fonovisa*, held that Aimster materially contributed to the direct infringement of copyrighted works.²⁵⁰ The court found that Aimster provided software and services that enabled the Aimster users to connect to each other.²⁵¹ The court stressed that the Aimster service was different from an ordinary service provider because the Club Aimster website ranked songs and enticed would-be infringers.²⁵² Moreover, the court stressed how easy Aimster made the process of downloading music files for its customers.²⁵³ Thus, having established the requisite elements, the court found Aimster contributorily liable for copyright infringement, unless the defendants could find justification in a defense.²⁵⁴

b. Staple Article of Commerce Doctrine

Aimster argued that its software was capable of substantial noninfringing use, within the meaning of *Sony*, because it could be used

245. *Aimster I*, 252 F. Supp. 2d at 650–51.

246. *Id.* at 651.

247. *Id.*

248. *Id.*; see also *supra* notes 64–67 and accompanying text (outlining the requirements of contributory liability and the knowledge element).

249. *Aimster I*, 252 F. Supp. 2d at 651–52.

250. *Id.*; see also *supra* Part II.C.2 (discussing broad application of the material contribution element in *Fonovisa*); *supra* notes 187–88 and accompanying text (discussing the court's finding that Napster materially contributed to acts of infringement).

251. *Aimster I*, 252 F. Supp. 2d at 652.

252. *Id.*; see also *supra* notes 229–32 and accompanying text (discussing the attributes of Club Aimster).

253. *Aimster I*, 252 F. Supp. 2d at 652. The court, quoting in part from the plaintiff's brief, determined that "'Aimster predicat[ed] its entire service upon furnishing a 'road map' for users to find, copy, and distribute copyrighted music.'" *Id.* at 652 (quoting plaintiffs' brief). The court stated that the "Defendants manage[d] to do everything but actually steal the music off the store shelf and hand it to Aimster's users." *Id.*

254. *Id.* at 651–53.

to transfer any file, including non-copyrighted works and business records.²⁵⁵ Aimster also contended that its service could be used to find persons of similar interests to form social ties and clubs.²⁵⁶ The court rejected these arguments because the record showed a dearth of evidence, beyond mere assertion, that Aimster users employed any of these uses.²⁵⁷

Furthermore, the court rejected the notion that Aimster could represent a staple article of commerce.²⁵⁸ The court distinguished the Aimster service from *Sony* on the basis that Aimster was not a discrete product but, instead, a bundled service.²⁵⁹ Also, the relationship between Aimster and the direct infringer was continuous, therefore distinguishing it from *Sony*, where the relationship ended at the moment the sale occurred.²⁶⁰ Furthermore, the court distinguished *Sony* by the character of the use employed.²⁶¹ In *Sony*, the use was private and in-home and never extended to distribution.²⁶² In contrast, Aimster users' activities were not private because each user became a "global distributor" of the music, which any other Aimster user could copy.²⁶³ Finally, the court concluded that the software was designed and marketed specifically for its infringing uses.²⁶⁴ Therefore, the staple article of commerce doctrine failed to shield Aimster from contributory liability.²⁶⁵

c. Vicarious Liability

Next, the court determined whether Aimster was vicariously liable for the copyright infringements, based on Aimster's ability to control its users and Aimster's receipt of a financial benefit from the infringing activities.²⁶⁶ The court held that Aimster did control its users; it noted

255. *Id.* at 652–53; *see supra* Part II.C.1 (discussing *Sony* and the staple article of commerce doctrine).

256. *Aimster I*, 252 F. Supp. 2d at 653.

257. *Id.*

258. *Id.* *See generally supra* Part II.C.1 (discussing *Sony* and the staple article of commerce doctrine).

259. *Aimster I*, 252 F. Supp. 2d at 653 (finding that Aimster more closely resembled the swap meet of *Fonovisa* than the VCRs of *Sony*). *See generally supra* Part II.C.1 (discussing the *Sony* decision).

260. *Aimster I*, 252 F. Supp. 2d at 653; *see also supra* Part II.C.1 (discussing *Sony*).

261. *Aimster I*, 252 F. Supp. 2d at 653–54. *See generally supra* Part II.C.1 (discussing the *Sony* decision).

262. *Aimster I*, 252 F. Supp. 2d at 653–54; *see also supra* Part II.C.1 (discussing *Sony*).

263. *Aimster I*, 252 F. Supp. 2d at 654.

264. *Id.*

265. *Id.*

266. *Id.* at 654–55.

that Aimster contractually retained the right to terminate individual users and stressed in its policy that it would take down infringing works and that repeat infringement would result in termination.²⁶⁷ Also, the court relied on the existence of Club Aimster, reasoning that the requirement of a user name and password login necessarily meant that Aimster maintained a supervisory role over its users.²⁶⁸ Because copyright law does not require precise knowledge, the court rejected the defendants' claim that they could not supervise user behavior due to the encryption software.²⁶⁹ However, the login process and monthly payment scheme refuted this contention.²⁷⁰

The *Aimster* court also found a financial benefit because Club Aimster required payment of a monthly fee.²⁷¹ Additionally, defendants solicited money on their website to support their legal fight for free music downloads, ironically providing an additional financial tie.²⁷² The court noted that even beyond these examples of direct financial benefit, the Aimster system satisfied the financial benefit prong for vicarious liability if the infringing activities enticed potential customers, as demonstrated here.²⁷³ In summary, the court established Aimster's ability to control its users and that Aimster received financial benefit from the infringing activities, and thus assessed vicarious liability.²⁷⁴

d. Safe Harbor Provisions

In its analysis of the safe harbor provisions, the court found as a threshold matter that Aimster was a service provider under both definitions of the DMCA.²⁷⁵ However, the court determined that Aimster was ineligible for either the Transitory Communications Safe Harbor or the Information Location Tools Safe Harbor because Aimster

267. *Id.*

268. *Id.* at 655. See generally *supra* notes 229–32 and accompanying text (discussing attributes of Aimster's website and Club Aimster).

269. *Aimster I*, 252 F. Supp. 2d at 655.

270. *Id.* See generally *infra* Part III.A.1 (outlining the attributes of Aimster's file-trading business).

271. *Aimster I*, 252 F. Supp. 2d at 655.

272. *Id.*; see *infra* Part III.A.1 (outlining the attributes of Aimster's file-trading business).

273. *Aimster I*, 252 F. Supp. 2d at 655 (citing with approval *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263–64 (9th Cir. 1996), and *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001)).

274. *Id.*

275. *Id.* at 658 (commenting that the court has “trouble imagining the existence of an online service that *would not* fall under the definitions”). For the required definitions, see *supra* note 156.

had not adopted and implemented a policy to bar repeat copyright infringers.²⁷⁶ Despite the formal indications that Aimster had such a policy,²⁷⁷ the court noted that the problem was Aimster's implementation of the policy.²⁷⁸ The defendants claimed that they could not adequately implement the policy due to their encryption technology but stated that they would respond if given notice of specific cases of infringement.²⁷⁹ The court rejected the defendants' contention that they would respond to notice, finding that the DMCA safe harbor did not place the burden on the copyright holder to discover infringement or provide notice.²⁸⁰ Furthermore, the encryption argument failed, as it had for the knowledge element, because, as the court noted, a provider may not willfully create a scheme, hiding from itself the information sought, and then claim the benefit of its ignorance.²⁸¹

Even though the court found that Aimster did not qualify for protection under the safe harbor provisions because it lacked a reasonably implemented policy against infringement, the court considered each of the safe harbors in turn.²⁸² The court held that the Transitory Communications Safe Harbor did not shield Aimster because it applied to materials or information traveling through a defendant's system.²⁸³ Because Aimster established a peer-to-peer connection between its users, the files did not travel through Aimster's systems.²⁸⁴

276. *Aimster I*, 252 F. Supp. 2d at 658.

277. *Id.* (referring to the copyright infringement notice found on defendant's website).

278. *Id.* at 659.

279. *Id.*

280. *Id.*

281. *Id.* (determining that adopting a policy, then voluntarily preventing it from ever being actionable is not the implementation required under 17 U.S.C. § 512(i)).

282. *Id.* at 659–61 (addressing relevant safe harbor arguments for the sake of completeness, although Aimster failed to qualify for the provisions).

283. *Id.* The parties disagreed as to the meaning of the word "through"; the plaintiffs' urged a narrow construction, implying that the defendants' systems must act "as a conduit" for the materials. *Id.* at 660. The defendants suggested that "through" should be interpreted more broadly, as "by means of." *Id.* However, the court looked to the legislative history, finding that the plaintiffs' theory was more in line with Congress' intentions. *Id.* The court found that the "Transitory Communications Safe Harbor is limited to situations 'in which a service provider plays the role of a conduit for the communications of others.'" *Id.* (relying on H.R. REP. NO. 105-551(II) (1998)); see also *supra* Part II.E.1 (discussing safe harbor provisions).

284. *Aimster I*, 252 F. Supp. 2d at 660. The court found that Aimster provided services beyond mere infrastructure, which disqualified it for protection. *Id.* (citing Aimster's "broad search capabilities, . . . automatic resumption of interrupted downloads, . . . easy one-click downloading, . . . and editorial comments" as evidence that Aimster is more than a mere conduit). The court also briefly turned to the System Caching safe harbor, summarily determining that defendants did not qualify. *Id.* at 660–61. According to the court in *Aimster*, the defendants misconstrued this safe harbor to mean that if they did copy materials onto their servers, they

The court also looked to the Information Location Tools Safe Harbor.²⁸⁵ This safe harbor did not protect Aimster because a party who has knowledge of the infringing activities or receives a financial benefit from the activity fails to qualify.²⁸⁶ Thus, Aimster could not find protection under any of the safe harbor provisions.²⁸⁷ In sum, the court granted the plaintiffs' motion for preliminary injunction, noting a strong likelihood of success on the merits.²⁸⁸

3. The Seventh Circuit Decision

The appellate court largely accepted the rationale of the district court and focused its opinion on addressing specific arguments brought by the parties on appeal.²⁸⁹ Like the district court, the Seventh Circuit determined that Aimster subjected itself to contributory liability.²⁹⁰ Furthermore, instead of declining to apply the staple article of commerce doctrine, the appellate court determined that the evidence proffered was insufficient to establish substantial noninfringing uses.²⁹¹ The Seventh Circuit did not reach the issue of vicarious liability, finding it unnecessary to affirm the lower court's decision of liability.²⁹²

would be immune from liability. *Id.* at 660. Instead, they would be sheltered only if the cause of action cited their caching as an infringement of the copyright. *Id.* at 661.

285. *Id.* at 661. See generally *supra* Part II.E.1 (discussing safe harbor provisions).

286. *Aimster I*, 252 F. Supp. 2d at 661. A service provider is deemed to meet the knowledge requirement if it has knowledge of actual infringing activities or constructive knowledge from facts making the existence of infringement apparent. *Id.* This element is satisfied by the same rationale as the knowledge requisite for contributory liability. *Id.*; see also *supra* notes 66–67 and accompanying text (discussing the knowledge element generally). On the financial benefit provision, as under the vicarious liability element, the court found that a financial benefit existed and the defendants had the ability to control the activities. *Aimster I*, 252 F. Supp. 2d at 661; see also *supra* notes 79–80 and accompanying text (discussing the financial benefit element). Finally, the safe harbor provisions required defendants to remove infringing material promptly upon notice. *Aimster I*, 252 F. Supp. 2d at 661. The court found that, based on a technicality, this notice requirement was not met because the plaintiffs gave notice to the owner personally rather than to the designated agent; however, the court held that this point was moot since the defendants failed to qualify under the first two threshold conditions. *Id.*

287. *Id.* at 656–61.

288. *Id.* at 665.

289. *Aimster II*, 334 F.3d 643, 648–56 (7th Cir. 2003).

290. *Id.* at 654; see also *infra* Part III.A.3.a (tracing the Seventh Circuit's rationale of contributory liability).

291. *Aimster II*, 334 F.3d at 653; see also *infra* Part III.A.3.b (discussing application of the staple article of commerce doctrine by the Seventh Circuit).

292. *Aimster II*, 334 F.3d at 654; see also *infra* Part III.A.3.c (examining the vicarious liability claim as reasoned by Seventh Circuit).

Finally, the court noted that the safe harbor provisions could not protect Aimster from liability.²⁹³

a. Contributory Liability

The Seventh Circuit first noted that the policy behind contributory liability is to provide meaningful copyright protection to copyright holders, allowing them to pursue their claims with third parties who help direct infringement to occur.²⁹⁴ The court characterized the users of Aimster software as teenagers and young adults uninterested in or contemptuous of copyright law and thus found that pursuing individual infringers would not provide meaningful copyright protection.²⁹⁵ The court stated that even though infringing transactions did not occur on Aimster's systems, Aimster still took part in the transactions by facilitating the transfers between individuals, making contributory liability appropriate.²⁹⁶

Like the district court, the Seventh Circuit rejected Aimster's argument that its encryption technology prevented it from acquiring the requisite knowledge, thereby shielding it from liability.²⁹⁷ The court characterized the encryption technology as "willful blindness," which was sufficient to establish the knowledge requirement.²⁹⁸ The court highlighted the social benefits of encryption technology generally and reasoned that employing such software did not automatically make one

293. *Aimster II*, 334 F.3d at 655; *see also infra* Part III.A.3.d (outlining the safe harbor rationale utilized by Seventh Circuit).

294. *Aimster II*, 334 F.3d at 645. As the court reasoned, "Recognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers . . . the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor." *Id.* at 645. In addition to comparing contributory liability to aiding and abetting, the court also drew an analogy to intentional interference with contract, stating that more effective enforcement requires holding these third parties liable. *Id.* *See generally supra* Part II.B.1 (discussing contributory liability generally).

295. *Aimster II*, 334 F.3d at 645 ("The swappers, who are ignorant or more commonly disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement, are the direct infringers."). The court referred to suing individual users as "impracticabl[e] and futil[e]." *Id.*

296. *Id.* at 646–47. The court compared Aimster's functionality to "a stock exchange, which is a facility for matching offers rather than a repository of the things being exchanged." *Id.* at 647.

297. *Id.* at 650. *See generally supra* Part II.B.1 (discussing contributory liability).

298. *Aimster II*, 334 F.3d at 650.

One who, knowing or strongly suspecting that he is involved in shady dealings, takes steps to make sure that he does not acquire full or exact knowledge of the nature and extent of those dealings is held to have a [guilty] intent . . . because a deliberate effort to avoid guilty knowledge is all that the law requires to establish a guilty state of mind.

Id.

a contributory infringer.²⁹⁹ Encryption did not exonerate an otherwise culpable party, however.³⁰⁰ Thus, the court affirmed the district court's conclusion that Aimster had the requisite knowledge for contributory liability.³⁰¹

The Seventh Circuit refused to separate Club Aimster from Classic Aimster because the fees obtained by users of Club Aimster financed Aimster exclusively.³⁰² Also, the court reasoned that the tutorial on the website, which featured illustrations of music pirating, was essentially an invitation to infringe—the sort of inducement absent in the facts of *Sony*.³⁰³ Additionally, Aimster listed top-forty selections on its website and allowed for an automatic download option of those works that tended to be copyrighted.³⁰⁴ The tutorial, the top-forty selection listing, and the automatic download option pointed to the material contribution element necessary for contributory liability.³⁰⁵ In sum, the court found the application of contributory liability appropriate.³⁰⁶

299. *Id.* Encryption allows for increased privacy, which the Seventh Circuit characterized as both “a social benefit” and “a source of social costs.” *Id.* It is critical to the acceptance of instant messaging for “some industries and federal agencies.” *Id.* America Online had plans to offer an encrypted version of its instant messaging service, a decision the appellate court characterized as “alarming” as well as “paradoxical, since subsidiaries of AOL’s parent company . . . are among the plaintiffs in this case.” *Id.* at 649. Additional social benefits of encryption include allowing “users to engage in political speech without fear of retribution, to engage in whistle-blowing while greatly reducing the risk of detection, and to seek advice about embarrassing personal problems without fear of discovery.” A. Michael Froomkin, *The Internet as a Source of Regulatory Arbitrage* (writing generally about anonymous communications, not specifically encryption), in *BORDERS IN CYBERSPACE: INFORMATION POLICY AND THE GLOBAL INFORMATION INFRASTRUCTURE* 129, 133–34 (Brian Kahin & Charles Nesson eds., 1997), available at <http://www.law.miami.edu/~froomkin/articles/arbitr.htm> (last visited Dec. 23, 2003). Likewise, encryption technology also has costs, such as reducing “the chances of identifying the authors of libel, hate speech and other undesirable communications.” *Id.* at 134; see also A. Michael Froomkin, *Flood Control on the Information Ocean: Living with Anonymity, Digital Cash, and Distributed Databases*, 15 J.L. & COM. 395, 402 (1996) (“There is no consensus, nor is there likely to be, as to whether, on balance, anonymity is a good [because it] has both valuable and harmful consequences.”).

300. *Aimster II*, 334 F.3d at 650–51. The court focused its rationale, stating that “a service provider that would otherwise be a contributory infringer does not obtain immunity by using encryption to shield itself from actual knowledge of the unlawful purposes for which the service is being used.” *Id.*

301. *Id.* at 650.

302. *Id.* at 652.

303. *Id.* at 651.

304. *Id.* at 652.

305. See *id.* at 651–52 (discussing the tutorial, the top-forty listings, and the auto-play button as reasons why contributory liability is appropriate, but not specifically referring to the element of material contribution).

306. *Id.* at 654.

b. Staple Article of Commerce Doctrine

The Seventh Circuit recognized that the interpretation of just how far the Supreme Court's decision in *Sony* reached was outcome determinative and that this was the principal divisive issue between the parties.³⁰⁷ Furthermore, in its interpretation of *Sony*, the court underscored the Supreme Court's concern in *Sony* about unduly extending copyright holders' dominion to include a monopoly over the technology.³⁰⁸ The court appreciated the value of instant messaging and file-swapping technology generally and carefully differentiated *Aimster* from the more general forms of the technology.³⁰⁹

Furthermore, the Seventh Circuit rejected the recording industry's assertion that the staple article of commerce doctrine was inapplicable to services because of the implicit continuing relationship between the parties.³¹⁰ Instead of agreeing with the categorical inapplicability of the doctrine to services, as the recording industry suggested, the court found that the ability of the service provider, or indeed a product manufacturer, to affect the ability of the end users to infringe should receive consideration.³¹¹ Moreover, the Seventh Circuit noted that *Sony* could have reengineered the Betamax to eliminate, or at least reduce, the ability of its customers to use it for infringing purposes, a factor not discussed in the majority opinion in *Sony*.³¹²

In interpreting the *Sony* Court's rationale, the court noted that the Betamax at issue in *Sony* was used for both infringing and noninfringing uses, yet the Court held that the VCR was a staple article of

307. *Id.* at 647.

308. *Id.* at 648. See generally *supra* Part II.C.1 (discussing the *Sony* decision).

309. *Aimster II*, 334 F.3d at 647, 648–49. The Seventh Circuit characterized file-sharing systems generally as capable of “innocuous purposes such as the expeditious exchange of confidential business data among employees of a business firm.” *Id.* at 647. Furthermore, the court took the recording industry's argument—that the service provider's ability to control the end use makes it a contributory infringer—to its next logical step, applying it to instant messaging services generally. *Id.* at 648. Judge Posner found the rule would be “highly burdensome” for the service providers to detect and prevent those noninfringing uses, and would therefore be “contrary to the clear import of the *Sony* decision.” *Id.* at 648–49.

310. *Aimster II*, 334 F.3d at 648. See generally *supra* Part II.C.1 (discussing the *Sony* decision and the staple article of commerce doctrine).

311. *Aimster II*, 334 F.3d at 648.

312. *Id.* *Sony* could have “eliminat[ed] the fast-forward capability” to prevent the user from skipping commercials or could have “enabl[ed] broadcasters by scrambling their signal[s] to disable the Betamax from recording their programs (for that matter, it could have been engineered to have only a play, not a recording capability).” *Id.* See generally *supra* Part II.C.1 (discussing the *Sony* decision).

commerce.³¹³ Therefore, the Seventh Circuit determined that the *Napster* court erred when it suggested that knowledge of specific infringing uses alone was sufficient to affix liability under a contributory theory.³¹⁴ The court also rejected Aimster's argument that the recording industry must prove financial harm to prevail.³¹⁵ The court noted that, like nominal damages for a trespass claim, in the act of direct copyright infringement, the actor is culpable regardless of resulting harm.³¹⁶

Additionally, the Seventh Circuit accepted Aimster's contention that its services could be used in noninfringing endeavors but found that this fact alone was inadequate to place Aimster's service among staple articles of commerce.³¹⁷ A mere potential legitimate use, without some showing of actual or probable use, is insufficient.³¹⁸ The court explored several potential noninfringing uses.³¹⁹ Ultimately, however, the court found that Aimster failed to meet its burden of showing the frequency with which its service was utilized for noninfringing purposes, or even

313. *Id.* at 649. Explaining the apparent disconnect, the appellate court determined that the Supreme Court "was unwilling to allow copyright holders to prevent infringement effectuated by means of a new technology at the price of possibly denying noninfringing customers the benefit of the technology." *Id.* See generally *supra* Part II.C.1 (discussing *Sony* and the staple article of commerce doctrine).

314. *Aimster II*, 334 F.3d at 649; see also PAUL GOLDSTEIN, 2 COPYRIGHT § 6.1.2, at 6:12-1 (2d ed. 2003) (noting that the requirement that a contributory infringer supply materials to enable direct infringement is different from the requirement of actual knowledge); *supra* notes 184-86 and accompanying text (discussing the *Napster* court's analysis of knowledge element).

315. *Aimster II*, 334 F.3d at 649.

316. *Id.*

317. *Id.* at 651. Aimster argued that all it "has to show in order to escape liability for contributory infringement is that its file-sharing system *could* be used in noninfringing ways, which obviously it could be." *Id.* The court analogized to the law of aiding and abetting to illustrate the difference between blameworthy and innocent behaviors. *Id.* As the court explained:

A retailer of slinky dresses is not guilty of aiding and abetting prostitution even if he knows that some of his customers are prostitutes—he may even know which ones are. . . . But the owner of a massage parlor who employs women who are capable of giving massages, but in fact as he knows sell only sex and never massages to their customers, is an aider and abettor of prostitution

Id. (citation omitted).

318. *Id.* at 651.

319. *Id.* at 652-53. The noninfringing uses discussed by the court included: 1) the exchange of non-copyrighted music; 2) using music as online "currency in the music-sharing community, since someone who only downloads and never uploads, thus acting as a pure free rider, will not be very popular"; 3) networked buddy-lists and chat-rooms that may promote the exchange of ideas and opinions about popular music; 4) the encryption feature itself, which may allow the exchange of "off-color, but not copyrighted, photographs, or dirty jokes, or other forms of expression that people like to keep private"; and 5) space-shifting as a fair use of the copyrighted works. *Id.*

that it was ever utilized for such legitimate purposes.³²⁰ Even if Aimster had met this burden, the Seventh Circuit would require a further showing, if the infringing uses were substantial, that the cost to the party of reducing or eliminating the infringing use would be unduly burdensome.³²¹ Therefore, the court found the staple article of commerce doctrine inapplicable to Aimster.³²²

c. Vicarious Liability

The Seventh Circuit evaluated the district court's reasoning as to vicarious liability and found itself "less confident than the district [court]" that the appellees would prevail on the merits.³²³ The court noted that vicarious liability applies to an agency relationship or a relationship analogous to agency.³²⁴ However, the court found unnecessary the resolution of whether vicarious liability extends far enough to implicate Aimster, having already determined that Aimster was contributorily liable.³²⁵

d. Safe Harbor Provisions

Finally, the court evaluated the safe harbor provisions of the DMCA and found, like the district court, that Aimster was not eligible for safe harbor protection.³²⁶ Although the legislature enacted the safe harbor provisions for Internet service providers ("ISPs") rather than file-swapping software, the Seventh Circuit agreed with the district court that the legislature had drafted the definitions broadly enough to

320. *Id.* at 653. The court determined that the evidence shifted "the burden of production to Aimster to demonstrate that its service has substantial noninfringing uses." *Id.* at 652. Furthermore, it was "not enough that a product or service be physically capable, as it were, of a noninfringing use." *Id.* at 653. Also, the court ruled that the district court did not err in denying an evidentiary hearing, because Aimster would have needed to show that there was a genuine and material factual dispute and that it planned "to introduce evidence that if believed will so weaken the moving party's case as to affect the judge's decision on whether to issue an injunction." *Id.* at 653-54.

321. *Id.* at 653. The court seemed to indicate that if Aimster had shown that the encryption feature added value to the service, then it might have met this added burden. *Id.*

322. *Id.*

323. *Id.* at 654 ("[W]e are less confident than the district judge was that the recording industry would also be likely to prevail on the issue of vicarious infringement should the case be tried.").

324. *Id.* The court evaluated the dance hall cases as an example of a non-agency relationship sufficiently analogous to invoke vicarious liability. *Id.* For a further discussion of the dance hall cases, see *supra* notes 81-84 and accompanying text (contrasting the dance hall cases with the landlord-tenant cases to establish the contours of vicarious liability applicability).

325. *Aimster II*, 334 F.3d at 654-55.

326. *Id.* at 655. The DMCA "provides a series of safe harbors for Internet service providers and related entities, but none in which Aimster can moor." *Id.*

encompass *Aimster*.³²⁷ However, the Seventh Circuit noted that for the safe harbor provisions to shield a party from liability, the entity seeking asylum must make certain efforts to reduce or eliminate repeat infringement.³²⁸ The court found that *Aimster* did not engage in such efforts; instead, *Aimster* encouraged and invited infringement and was unable to prevent infringement due to the encrypted transactions.³²⁹ Thus, the safe harbor provisions did nothing to protect *Aimster* from liability.³³⁰ Moreover, a discussion of the merits rendered the same conclusion as the district court—the recording industry would likely prevail should the case be tried.³³¹

B. *MGM Studios, Inc. v. Grokster, Ltd.*

In *MGM Studios, Inc. v. Grokster*, a file-sharing case with facts and arguments similar to those in *Aimster* reached the courts in the Central District of California.³³² The *Grokster* court noted that the defendants may have purposefully structured their software and services to reap the benefits of infringement without accruing liability but deferred that question to the legislature.³³³ The *Grokster* court determined that contributory liability did not apply because *Grokster* lacked the requisite knowledge.³³⁴ Furthermore, the court concluded that the defendants were not susceptible to vicarious liability because they could not control the behavior of their users.³³⁵

1. Facts

On April 25, 2003, Judge Stephen V. Wilson of the Central District of California determined that *Grokster* escaped liability under facts

327. *Id.*; see also *supra* note 156 (providing a statutory definition of service provider for purposes of the DMCA's safe harbor provisions).

328. *Aimster II*, 334 F.3d at 655. "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.'" *Id.* (citing 17 U.S.C. § 512(i)(1)(A) (2000)).

329. *Id.*

330. *Id.*

331. *Id.*

332. See *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (C.D. Cal. 2003) (reaching a conclusion opposite to that of the *Aimster* court and utilizing different rationale based on similar facts).

333. *Id.* at 1046.

334. *Id.* at 1043; see also *infra* Part III.B.2 (examining the *Grokster* court's analysis of contributory liability).

335. *Grokster*, 259 F. Supp. 2d at 1045–46; see also *infra* Part III.B.3 (exploring the court's vicarious liability rationale).

similar to *Aimster*.³³⁶ This case consolidated two actions against Grokster, StreamCast, and Kazaa for contributory and vicarious liability brought by motion picture studios as well as record companies.³³⁷ The parties cross-motivated for summary judgment, citing no issues of material fact.³³⁸

The defendants all used FastTrack network software developed by the makers of Kazaa.³³⁹ Individual users downloaded the technology employed by the defendants and used it to transfer files of any type.³⁴⁰ By launching the software, the user automatically connected to a peer-to-peer network and files were available to be shared.³⁴¹ The software contained other “incidental features,” which improved the functionality of the software.³⁴² To determine whether this software violated copyright law, the court analyzed both the contributory and vicarious theories of liability.³⁴³

2. Contributory Liability

The court found, as did the *Aimster* and *Napster* courts, that some end users of the system engaged in infringing behavior and met the threshold direct liability element of third-party liability.³⁴⁴ The court interpreted the knowledge element as requiring actual knowledge by the defendants of specific direct infringement by its end users.³⁴⁵ The court

336. *Grokster*, 259 F. Supp. 2d at 1031, 1043, 1046; see also *supra* Part III.A.1 (discussing the facts of the *Aimster* case). The court entered a default judgment against Kazaa because its parent company, Kazaa BV, failed to defend the suit; therefore, its decision does not apply to Kazaa. *Grokster*, 259 F. Supp. 2d at 1032 n.2. Kazaa’s owners, Sharman Networks Ltd., have filed suit against entertainment companies for copyright infringement, alleging that the industry utilizes unauthorized copies of its software to access the networks. *Kazaa’s Owners Turn Tables, File Copyright Suit Against Record Labels*, THE MERCURY NEWS, Sept. 24, 2003, available at <http://www.siliconvalley.com/mld/siliconvalley/6849062.htm> (last visited Dec. 23, 2003). The suit also alleges that the industry’s use of the system violates the terms for using the network and also revives antitrust claims against the industry. *Id.*

337. *Grokster*, 259 F. Supp. 2d at 1031 & n.1.

338. *Id.* at 1031.

339. *Id.* at 1032. StreamCast now uses the Morpheus software from the open source Gnutella. *Id.*

340. *Id.*

341. *Id.*

342. *Id.* at 1033 (stating that the incidental features include “[f]acilities for organizing, viewing and playing media files, and for communicating with other users”).

343. *Id.* at 1034–39, 1043–45.

344. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013–14 & n.2 (9th Cir. 2001); *Grokster*, 259 F. Supp. 2d at 1034–35; *Aimster I*, 252 F. Supp. 2d 634, 648 (N.D. Ill. 2002). See generally *supra* Part II.F (discussing the *Napster* case); *supra* Part III.A (discussing the *Aimster* decision).

345. *Grokster*, 259 F. Supp. 2d at 1035.

relied on *Sony*, noting that the Supreme Court refused to affix liability on the basis that the defendants knew generally that their products were being used for infringing purposes.³⁴⁶ Specifically, the court stated that constructive knowledge was insufficient to establish contributory liability under the staple article of commerce analysis.³⁴⁷

Unlike *Aimster*, however, the court found the software capable of substantial noninfringing use within the meaning of *Sony*.³⁴⁸ Specifically, the software could be used to transfer non-copyrighted materials, such as Shakespeare's works, free songs, and movie trailers, and was regularly used to search for government documents, nonproprietary computer software, and media content.³⁴⁹ The court stressed the importance of looking at future and current system uses.³⁵⁰ Moreover, the plaintiffs in this case did not dispute the current and future potential for noninfringing uses.³⁵¹ On this basis, the court held that constructive knowledge was insufficient; thus, to be liable, defendants must be aware of specific instances of infringement.³⁵²

Relying on *Napster's* analysis, the court determined that the defendants were liable only if they knew of specific items of infringement and failed to act on that knowledge.³⁵³ The court further adopted the *Netcom* approach that knowledge of specific infringement must coincide with the ability to prevent the infringement.³⁵⁴ On the issue of knowledge, the plaintiffs' evidence was similar to that used in *Napster*: the defendants marketed themselves as the next Napster; the defendants' internal documents showed knowledge; and the plaintiffs sent notices of infringement to the defendants.³⁵⁵ Therefore, liability hinged on the material contribution prong of contributory liability.³⁵⁶ If

346. *Id.* See generally *supra* Part II.C.1 (discussing the *Sony* decision).

347. *Grokster*, 259 F. Supp. 2d at 1035; see also *supra* Part II.C.1 (discussing the staple article of commerce doctrine).

348. *Grokster*, 259 F. Supp. 2d at 1035; see also *supra* Part II.C.1 (exploring the rationale of the *Sony* decision).

349. *Id.*

350. *Id.* at 1036 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020–21 (9th Cir. 2001)).

351. *Grokster*, 259 F. Supp. 2d at 1035.

352. *Id.* at 1036.

353. *Id.*; see also *supra* notes 184–86 and accompanying text (discussing the *Napster* court's treatment of the knowledge element).

354. *Grokster*, 259 F. Supp. 2d at 1037; see also *supra* notes 143–45 and accompanying text (noting the *Netcom* court's finding that knowledge must coincide with the ability to address the infringement).

355. *Grokster*, 259 F. Supp. 2d at 1036–37.

356. *Id.* at 1038.

the defendants materially contributed to the infringing activities, then they were in a position to do something about the infringement.³⁵⁷

The court distinguished the defendants' software from the scheme evaluated in *Napster*.³⁵⁸ *Napster* was an integrated service that provided the "site and facilities" that enabled user infringement, similar to the swap meet host in *Fonovisa*.³⁵⁹ The centralized database in *Napster* provided the axis of the network, and if the company's doors closed, the network would likewise cease.³⁶⁰ Unlike *Napster*, *Grokster's* network was not centralized; thus, the searching required other means.³⁶¹ Also significant to the district court's reasoning was that the FastTrack software utilized by *Grokster* was proprietary, and thus, *Grokster* had no control over the technical processes.³⁶² The software employed by *StreamCast* required a different analysis because it utilized the *Morpheus* software, which *StreamCast* owned and controlled and which was based on the open-source *Gnutella* platform.³⁶³ *StreamCast's* scheme was even more decentralized than *Grokster's* system.³⁶⁴

357. *See id.* (explaining that liability exists if the defendant engages in conduct that materially contributes to infringement).

358. *Id.* at 1039–40; *see also supra* note 175 and accompanying text (highlighting the centralized aspects of *Napster's* service).

359. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001); *Grokster*, 259 F. Supp. 2d at 1038; *see also supra* Part II.C.2 (discussing *Fonovisa*); *supra* notes 189–93 and accompanying text (outlining the *Napster* court's reliance on *Fonovisa*).

360. *Grokster*, 259 F. Supp. 2d at 1040; *see also supra* note 175 and accompanying text (highlighting the centralized aspects of *Napster's* service).

361. *Grokster*, 259 F. Supp. 2d at 1040 (stating that the super-node process of locating files occurs independent of *Grokster*). *See generally supra* note 197 and accompanying text (explaining *Grokster's* super-node technology).

362. *Grokster*, 259 F. Supp. 2d at 1040.

363. *Id.* at 1041. Open source refers to:

Free source code of a program, which is made available to the development community at large. The rationale is that a broader group of programmers will ultimately produce a more useful and more bug-free product for everyone, especially because more people will be reviewing the code. Peer review is considered one of the most important safeguards to prevent buggy code, but is often not given enough, if any, attention by software companies. Peer review is a natural byproduct of open source projects.

In addition to having better code, open source software allows an organization to modify the product for its own use rather than hope that the vendor of a proprietary product will implement its suggestions in a subsequent release. . . .

Examples of popular open source programs are the Apache Web server, sendmail mail server and Linux operating system. Netscape Communicator was made open source in 1998 (*see Mozilla*). For more information, visit www.opensource.org.

TECHWEB, TECH ENCYCLOPEDIA, at <http://www.techweb.com/encyclopedia> (last visited Nov. 23, 2003).

364. *Grokster*, 259 F. Supp. 2d at 1041.

Based on these attributes of the defendants' software and scheme, the court concluded that neither defendant provided sites or facilities for the infringing behavior within the meaning of *Fonovisa* or *Napster*.³⁶⁵ After downloading the software, users only had minimal relationships with the defendants, such that the relationships did not amount to the material or substantial contribution on the part of the defendants.³⁶⁶ Thus, the court determined that Grokster could not be liable under a contributory theory.³⁶⁷

3. Vicarious Liability

Even though the software was provided by the defendants free of charge, the court found a financial benefit because the promise of exchanging copyrighted materials acted as a "draw" for the services.³⁶⁸ This translated into a financial benefit through consideration of advertising revenue.³⁶⁹

On the issue of control, the *Grokster* court examined the standard set forth in *Fonovisa*, reasoning that any ability to supervise or terminate the users' ability to utilize the system was sufficient to find control.³⁷⁰ Despite plaintiffs' evidence that the defendants could modify their software to screen out copyrighted materials, the court determined that because the network was decentralized and independent of the defendants, no obligation to police the networks existed.³⁷¹ Therefore, the court concluded that the defendants escaped liability for copyright infringement by their end users under both contributory and vicarious theories.³⁷²

365. *Id.* ("[I]f either [Grokster or StreamCast] closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.").

366. *Grokster*, 259 F. Supp. 2d at 1042 (noting the "isolated technical support e-mails" sent to aid users having difficulty with the downloaded files and the discussions between end users about the "propriety of exchanging copyrighted files").

367. *Id.* at 1043.

368. *Id.* at 1043–44 (analogizing Grokster's service with swap meet in *Fonovisa*).

369. *Id.* at 1044.

370. *Id.* at 1044–45 (citing with approval the *Aimster* court's application of the control element—that "the defendant had the ability to terminate users and control access to the system"—which implicated Aimster's vicarious liability); see also *Aimster I*, 252 F. Supp. 2d 634, 655 (N.D. Ill. 2002) (holding that the defendants had control over Aimster users); *supra* Part II.C.2 (discussing *Fonovisa*).

371. *Grokster*, 259 F. Supp. 2d at 1045.

372. *Id.* at 1031, 1043, 1045–46.

C. *Points of Divergence Between Aimster and Grokster*

The courts differed not only in their ultimate conclusions of liability but also in their application of existing law to relatively similar facts.³⁷³ The courts disagreed in their analysis of: 1) the staple article of commerce doctrine, 2) the knowledge element of contributory liability, 3) willful ignorance, 4) the material contribution element of contributory liability, and 5) the requisite level of control needed to establish vicarious liability.³⁷⁴

First, the *Aimster* court determined that the staple article of commerce doctrine could not protect *Aimster* from liability.³⁷⁵ The doctrine, according to the Seventh Circuit, required not only that the system be capable of noninfringing uses, but also that individuals probably would use the system for those noninfringing purposes.³⁷⁶ In contrast, the *Grokster* court found the software capable of substantial noninfringing uses, a fact sufficient to place *Grokster* within the staple article of commerce doctrine.³⁷⁷

Second, the courts differed in their application of the knowledge element of contributory infringement.³⁷⁸ The *Aimster* court found actual knowledge based on the facts of the case, despite the lack of specific information.³⁷⁹ The *Grokster* court found the lack of specificity in the knowledge fatal to the record company's case of contributory liability.³⁸⁰

Third, the courts diverged on the impact of willful ignorance.³⁸¹ The *Aimster* court accepted the defendants' contention that their encryption

373. *Aimster II*, 334 F.3d 643, 656 (7th Cir. 2003); *Grokster*, 259 F. Supp. 2d at 1046.

374. In some respects, the divergent facts of the cases presented compelling reasons for divergent conclusions. For example, *Grokster* actively pursued noninfringing uses through partnerships with independent artists. Brief for Appellee at 17, *Grokster* (Nos. 03-55894, 03-55901), available at http://www.eff.com/IP/P2P/MGM_v_Grokster/20030917_grokster_appeal.pdf (last visited Nov. 21, 2003). On the other hand, *Aimster* demonstrated intent to market its services to would-be direct infringers, evidenced by the tutorial featuring copyrighted music as well as the top-forty listing. *Aimster II*, 334 F.3d at 651. Furthermore, although both cases applied the *Sony* decision, the Seventh Circuit was not bound to follow *Napster* or *Fonovisa*, two Ninth Circuit decisions, and thus, the relevant precedential law differs among the circuits. See generally *supra* Parts II.F and II.C.2 (discussing *Fonovisa* and *Napster*, respectively).

375. *Aimster II*, 334 F.3d at 651, 653.

376. *Id.* at 650, 653. As evidence of the need to look to potential as well as actual uses, the court noted that as a result of VCR technology, "[a]n enormous new market thus opened for the movie industry." *Id.* at 650.

377. *Grokster*, 259 F. Supp. 2d at 1035.

378. Compare *Aimster II*, 334 F.3d at 650–51, with *Grokster*, 259 F. Supp. 2d at 1035–38.

379. *Aimster II*, 334 F.3d at 650.

380. *Grokster*, 259 F. Supp. 2d at 1038.

381. Compare *Aimster II*, 334 F.3d at 650, with *Grokster*, 259 F. Supp. 2d at 1046.

technology prevented them from acquiring specific knowledge of infringement, but found that encryption use alone did not prove lack of knowledge.³⁸² The *Grokster* court acknowledged that the defendant, Grokster, likely designed its technology and business model purposefully to avoid liability.³⁸³ Yet, the court still mechanically applied the law, finding a lack of meritorious claims as to third-party liability.³⁸⁴

Fourth, on the issue of material contribution, the two courts again parted company.³⁸⁵ The *Grokster* court found no ongoing relationship between the parties.³⁸⁶ Because of Club Aimster, the *Aimster* court found an extensive ongoing relationship between the parties.³⁸⁷ This point of divergence represents a difference in the facts rather than a distinguishable application of the law.³⁸⁸

Finally, both courts determined that the defendants received a financial benefit from the infringing activities.³⁸⁹ Even in *Grokster*, where the end users did not explicitly pay a monthly fee for the services, the court noted that the infringing activity acted as an enticement for downloading the software.³⁹⁰ Yet, the courts differed in their findings of control—that is, the right and ability of each company to supervise the actions of its users.³⁹¹ The *Grokster* court found no ability to supervise, even if software modifications could have been made to restrict copyrighted materials.³⁹² In short, the *Grokster* and *Aimster* courts applied the law differently and reached divergent conclusions.³⁹³

382. *Aimster II*, 334 F.3d at 650.

383. *Grokster*, 259 F. Supp. 2d at 1046.

384. *Id.* at 1045–46.

385. *Compare Aimster II*, 334 F.3d at 651–52, with *Grokster*, 259 F. Supp. 2d at 1038–43.

386. *Grokster*, 259 F. Supp. 2d at 1042.

387. *Aimster I*, 252 F. Supp. 2d 634, 653 (N.D. Ill. 2002).

388. *See id.* at 644–65 (describing attributes of Club Aimster).

389. *Grokster*, 259 F. Supp. 2d at 1043–44; *Aimster I*, 252 F. Supp. 2d at 654–55. Because the appellate court did not conclusively determine whether Aimster could be vicariously liable, the points of divergence on vicarious liability refer to the district court analysis. *See Aimster I*, 252 F. Supp. 2d at 654–55 (describing the plaintiff's likelihood of success on a vicarious infringement claim).

390. *Grokster*, 259 F. Supp. 2d at 1044.

391. *Compare id.* at 1045, with *Aimster I*, 252 F. Supp. 2d at 655. Again, factual differences between the cases drove the variant conclusions: Club Aimster utilized a website with a password, demonstrating a continued relationship between the parties and an ability to restrict users' access. *Aimster I*, 252 F. Supp. 2d at 655.

392. *Grokster*, 259 F. Supp. 2d at 1045.

393. *See Borland*, *supra* note 7.

IV. ANALYSIS

This Part begins with an analysis of the staple article of commerce doctrine, concluding that its application to file-trading tools is not only appropriate but also that substantial noninfringing uses of the technology exist.³⁹⁴ Then, this Part explores contributory liability in the context of digital piracy.³⁹⁵ Next, this Part turns to a discussion of imposing vicarious liability on the makers and distributors of file-sharing tools.³⁹⁶ Finally, this Part scrutinizes application of the DMCA safe harbor provisions.³⁹⁷

A. Application of the Staple Article of Commerce Doctrine

The staple article of commerce doctrine is significant in the context of file-swapping software because the application of the doctrine is dispositive.³⁹⁸ The district court in *Aimster* failed to apply the staple article of commerce doctrine, neglecting to examine properly both the legal doctrine and the implications of the technology.³⁹⁹ The appellate court properly rectified this oversight and considered the staple article of commerce doctrine.⁴⁰⁰ However, the appellate court held that *Aimster* failed to meet its burden because it had offered insufficient evidence to establish the existence of noninfringing uses.⁴⁰¹

1. Policy Rationale Underlying Staple Article of Commerce Doctrine

The policy underlying the staple article of commerce doctrine coincides with public policy considerations, as well as the overarching goals of intellectual property law, namely to promote progress in the

394. See *infra* Part IV.A (considering the staple article of commerce doctrine).

395. See *infra* Part IV.B (examining the knowledge element of contributory liability).

396. See *infra* Part IV.C (appraising vicarious liability).

397. See *infra* Part IV.D (investigating the DMCA safe harbor provisions).

398. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 426–27, 456 (1984) (outlining the staple article of commerce doctrine). Both the *Aimster* and *Grokster* courts applied the *Sony* rationale, but differed as to whether the new generation of file-swapping software was distinguishable from the VCRs that were at issue in *Sony*. Compare *Aimster I*, 252 F. Supp. 2d 634, 653–54 (N.D. Ill. 2002) (distinguishing *Aimster*'s service from *Sony*'s Betamax product because *Aimster* maintained ongoing relationships with customers and the use could not be characterized as private), with *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1035 (C.D. Cal. 2003) (finding *Grokster*'s file-swapping software capable of substantial noninfringing uses, and therefore within the staple article of commerce doctrine espoused in *Sony*).

399. *Aimster I*, 252 F. Supp. 2d at 653–54 (finding *Sony* inapplicable).

400. *Aimster II*, 334 F.3d 643, 651–53 (7th Cir. 2003) (applying the *Sony* doctrine and analyzing the sufficiency of potential noninfringing uses).

401. *Id.* at 653 (finding inadequate proof of substantiality of noninfringing uses).

arts and sciences.⁴⁰² The *Grokster* court correctly recognized that industrial advancement and substantial consumer benefit balance favorably against some infringing activity, allowing some infringement to continue for the overall good of the general public.⁴⁰³ The policy rationale appears sound: to allow copyright law to impede technology produces a result antithetical to the law's intended purpose.⁴⁰⁴ The *Grokster* court correctly heeded the Supreme Court's instructions that when applying copyright law to a new technology, the law must be interpreted in light of its overarching goals.⁴⁰⁵

2. Technological Attributes

The district court in *Aimster* suggested that attributes of the technology itself made it ineligible for protection under *Sony's* staple article of commerce doctrine.⁴⁰⁶ For example, the district court in *Aimster* suggested that the software was distinguishable from a VCR because the VCR is a discrete, free-standing product rather than a bundled service.⁴⁰⁷ Also, the technology's potential for distribution made it inherently different from the VCR in *Sony*, which had no similar capability.⁴⁰⁸ Although that distinction may mean that the users of file-sharing software are ineligible for fair use defenses, the

402. *Sony*, 464 U.S. at 442 (explaining the staple article of commerce doctrine in relation to VCRs). See generally *Grokster Ruling Sparks Reaction; RIAA Vows to Appeal*, 4 ANDREWS E-BUS. L. BULL. NO. 10 (June 2003) (comparing file-swapping software to photocopiers and VCRs), available at Westlaw 4 No. 10 ANEBUSLB 1.

403. See *Grokster*, 259 F. Supp. 2d at 1035–36 (finding that substantial noninfringing uses balance favorably against the technology's potential for infringement); Larocque, *supra* note 50, at 790 (contending that the scope and duration of the infringement are significant in the court's balancing of competing interests inherent in the *Sony* decision). According to Larocque, the *Napster* decision represents a shift from *Sony*, in which courts put less weight on the consumer benefit of the technology. *Id.* at 791; see also Fagin et al., *supra* note 163, at 479–80 (arguing that *Napster* takes a narrow view of the *Sony* defense). See generally *supra* Part II.F (discussing the *Napster* case).

404. Fagin et al., *supra* note 163, at 498–99 (arguing that copyright law, as currently written, “threatens technological development by (i) giving content owners de facto control over new technologies of distribution, (ii) failing to encourage the development of (fair) use technologies, and (iii) giving content owners control over every step in the chain of distribution”).

405. See *Sony*, 464 U.S. at 431–32, 442 (discussing previous cases where striking a balance between public interests and copyright holder protections influenced analyses); *Grokster*, 259 F. Supp. 2d at 1035–36 (allowing intent of copyright law to supersede limited infringement). See generally *supra* Part II.C.1 (discussing *Sony*).

406. See, e.g., *Aimster I*, 252 F. Supp. 2d 634, 653–54 (N.D. Ill. 2002).

407. *Id.* at 653.

408. Larocque, *supra* note 50, at 791 (reasoning that variant conclusions of *Napster* and *Sony* are attributable to the world-wide implications of *Napster* use, that “one *Napster* user could distribute essentially perfect copies worldwide in a matter of minutes creating significant and far reaching harmful effects”).

distinction should not make a difference as to application of the *Sony* defense.⁴⁰⁹

Clearly, the file-swapping technology is different from the technology utilized in *Sony*, but the overall principle is the same—that courts must analyze new technologies in light of the purposes underlying copyright law.⁴¹⁰ Other useful technological devices provide the framework for distribution, such as fax machines, e-mail, and instant messaging.⁴¹¹ Yet, that attribute alone is not enough to remove the items from coverage under the staple article of commerce doctrine.⁴¹² Technology is merely a tool capable of multiple uses.⁴¹³ If a new technological innovation meets the requirements of the *Sony* defense, that does not necessitate sanctioning every conceivable use of that software.⁴¹⁴ On the contrary, a user may not employ a VCR to copy a movie from another videotape, because that would subject the user to liability.⁴¹⁵ Similarly, although users may permissively engage

409. See *Sony*, 464 U.S. at 442 (outlining the staple article of commerce doctrine as requiring substantial noninfringing uses, not necessarily fair uses). The appellate court in *Aimster* negated this reasoning employed by the district court. *Aimster II*, 334 F.3d 643, 648 (7th Cir. 2003). Instead of making the software ineligible for protection under the staple article of commerce doctrine, the appellate court determined that the fact that *Aimster* was a service tended to show that it retained some control over how its product was used, which was a factor to be considered when applying the *Sony* defense. *Id.*

410. *Sony*, 464 U.S. at 432.

411. See *TECHWEB*, *supra* note 363 (providing definitions of fax, e-mail, and instant messaging and noting the distribution capabilities of each).

412. See *Sony*, 464 U.S. at 442 (outlining the staple article of commerce doctrine requirements); see also *Aimster II*, 334 F.3d at 648 (applying the staple article of commerce doctrine, but finding proof insufficient to establish the element).

413. See *Grokster Ruling Sparks Reaction*, *supra* note 402 (reporting that after the *Grokster* ruling, a representative of the Electronic Frontier Foundation stated, “[T]he Morpheus case is about technology, not piracy, and today the court agreed, making it clear that technology companies are not responsible for every misuse of the tools they make.”).

414. See *Sony*, 464 U.S. at 442 (balancing legitimate use against infringing use).

415. 17 U.S.C. § 106 (2000 & West Supp. 2002) (granting a right of reproduction to copyright owners). The FBI warns users of liability at the beginning of copyrighted movies on videocassettes:

WARNING

Federal law provides severe civil and criminal penalties for the unauthorized reproduction, distribution or exhibition of copyrighted motion pictures, video tapes or video discs.

Criminal copyright infringement is investigated by the FBI and may constitute a felony with a maximum penalty of up to five years in prison and/or a \$250,000 fine.

Legal Information Institute, <http://www.law.cornell.edu/copyright/courses/law410/topic01/fbiwarning.htm> (last visited Sept. 28, 2003). By way of analogy, “[s]elling someone a car does not make one liable for the subsequent vehicular manslaughter committed by the driver, even if that crime could not have been committed without the car.” Brief for Appellee *Grokster, Ltd.*, at 30, *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, *appeal docketed*, Nos. 03-55894,

in file-trading generally, certain uses by individuals may still infringe.⁴¹⁶

3. File-trading Viewed as a Service: the Long Term Relationship of the Parties

The district court in *Aimster* found the *Sony* doctrine inapplicable to services, which necessitate a long-term relationship between the parties, a view not shared by the Seventh Circuit.⁴¹⁷ Likewise, the Seventh Circuit found that the *Sony* doctrine was inapplicable because of the marketing behaviors of the companies promoting their file-swapping software.⁴¹⁸

However, the relationship that existed in *Aimster* because of Club Aimster is not inherent in the file-swapping software; the technology itself is capable of functioning without continued contact between the manufacturer and the end user.⁴¹⁹ By its terms, the staple article of commerce doctrine applies to products, or articles, not to conduct.⁴²⁰ Although it is true that some companies perpetuate the abuse of the software and its illegal use, the technology itself is not prone to such

03-55901 (9th Cir. 2003), available at http://www.eff.com/IP/P2P/MGM_v_Grokster/20030917_grokster_appeal_brief.pdf (last visited Dec. 22, 2003).

416. See *Grokster Ruling Sparks Reaction*, *supra* note 402 (comparing file-swapping software to photocopiers and VCRs).

417. *Aimster II*, 334 F.3d at 648; *Aimster I*, 252 F. Supp. 2d 634, 653 (N.D. Ill. 2002).

418. Kimberly D. Simon, Note, *Establishing Accountability on the Digital Frontier: Liability for Third Party Copyright Infringement Extends to Manufacturers of Audio Compression Software*, 52 SYRACUSE L. REV. 921, 941 (2002).

419. *Aimster I*, 252 F. Supp. 2d at 653 (referring to the ongoing relationship of the parties). The appellate court determined that Club Aimster and Classic Aimster could not be discussed separately because Club Aimster's monthly fee constituted Aimster's sole means of financing. *Aimster II*, 334 F.3d at 652. For an example of a utilization of the technology without necessitating a continuing relationship, see *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1041 (C.D. Cal. 2003) (stating that if the company's doors closed, the users' activities would continue uninterrupted). For a description of the functionality of decentralized software that emerged after *Napster*, see Fagin et al., *supra* note 163, at 461.

420. *Sony*, 464 U.S. at 442; see also *supra* note 100 and accompanying text (discussing the rationale for the staple article of commerce doctrine grounded in the legitimate public use of the product). Clearly, a party's behavior may also subject it to liability, but that conduct should be evaluated separately because liability would stem from actions rather than use of the technology, thus no longer implicating the legitimate uses of the technology. See *Aimster II*, 334 F.3d at 651 (evaluating Aimster's behavior in terms of aiding and abetting law, but not separating the behavioral aspects from the product offered).

criticism.⁴²¹ In fact, the technology is capable of many uses beyond copyright infringement.⁴²²

Also, an ongoing relationship between the parties is significant to a determination of vicarious liability, rather than contributory liability, which instead is concerned with the relationship between the party and the act of infringement.⁴²³ Yet, the staple article of commerce doctrine applies as a defense only to contributory liability, rendering the argument less persuasive.⁴²⁴ Furthermore, the *Sony* defense does not refer to the purpose for which something was created, but instead to the functions for which it may be used.⁴²⁵

4. Substantial Noninfringing Uses

Peer-to-peer technology has the potential for substantial noninfringing use, measured not only by current uses but also by the potential for future uses.⁴²⁶ The *Grokster* court explored some of the noninfringing uses, both actual and potential, and correctly found that the software could be and was used for a number of legitimate,

421. Fagin et al., *supra* note 163, at 503 (explaining that the same technology that Napster used to promote illegal activity has the potential to “advance the underlying goals of copyright law”).

422. *See infra* part IV.A.4 (analyzing the noninfringing uses of file-sharing software).

423. *See* Larocque, *supra* note 50, at 772 (exploring the requisite relationship to evoke third-party theories of liability); *supra* note 50 and accompanying text (differentiating contributory and vicarious liability in terms of the relationship each examines).

424. *See supra* note 102 and accompanying text (stating that the staple article of commerce doctrine applies only to contributory liability). The *Sony* decision placed emphasis on the fact that the relationship between the parties did not extend beyond the moment of sale. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 438 (1984). *See supra* note 96 and accompanying text for a further description of this aspect of the *Sony* decision. The Supreme Court in *Sony* did not differentiate between contributory and vicarious liability, despite the current consensus that the two theories exist as separate causes of third-party liability. *See Sony*, 464 U.S. at 435 n.17; *see also supra* note 95 and accompanying text (explaining how the *Sony* court compared contributory and vicarious liability). Admittedly, the relationship between the parties may bear on the relationship between the defendant and the act of infringement; however, those making the argument fail to make that critical inferential step. *See, e.g., Aimster I*, 252 F. Supp. 2d at 653 (stating that the relationship between the parties negates application of the staple article of commerce doctrine). The appellate court rectified this gap in logic, reasoning that “the provider of a service, unlike the seller of a product, has a continuing relation with its customers and therefore should be able to prevent, or at least limit, their infringing copyright.” *Aimster II*, 334 F.3d at 648.

425. *Sony*, 464 U.S. at 442.

426. Fagin et al., *supra* note 163, at 501–02 (“File-sharing technology has the potential to do far more than channel illicit content,” but “exists as a generalized means of information production and exchange.”); *see, e.g., Sony*, 464 U.S. at 442; *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020–21 (9th Cir. 2001); *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1036 (C.D. Cal. 2003).

noninfringing purposes.⁴²⁷ The technology has the potential for the quick and cheap exchange of information, revolutionary distribution channels, and diverse cultural access.⁴²⁸ Additionally, it has potential for marketing⁴²⁹ and community development.⁴³⁰

The *Aimster* court also explored possible noninfringing uses of the software, but found that the appellants failed to meet their burden on the issue.⁴³¹ The legitimate uses explored by the court included copying non-copyrighted materials, establishing communities for the exchange of ideas, and creating private communications between members of those communities.⁴³² However, the *Aimster* court reasoned that the capability of the software for legitimate purposes fell short of implicating the *Sony* rationale.⁴³³ The *Aimster* court's reasoning explicitly accepted the possibility of protection for peer-to-peer networking software upon a showing of legitimate uses.⁴³⁴

Furthermore, a relatively small number of players dominate the music recording industry; thus, they have an incentive to protect their concentration of popularity and wealth.⁴³⁵ However, the peer-to-peer

427. *Grokster*, 259 F. Supp. 2d at 1035 (enumerating noninfringing uses, including "to facilitate and search for public domain materials, government documents, media content for which distribution is authorized, media content as which the rights owners do not object to distribution, and computer software for which distribution is permitted").

428. See Fagin et al., *supra* note 163, at 502 (citing Yochai Benkler, *Coase's Penguin or Linus and the Nature of the Firm*, 112 YALE L.J. 369 (2002)).

429. See *id.* at 504 (contending that because of the interactivity of the system, users' tastes are developed and recorded, offering potential for gathering information to be used for marketing purposes).

430. See *id.* at 503–04 (likening the development of P2P networks to the communal innovation that advanced the Internet itself). Also, the interactive nature of the networks permits the diversification of tastes and increases exposure to less-well-known artists. *Id.*

431. *Aimster II*, 334 F.3d 643, 652 (7th Cir. 2003).

432. *Id.*

433. *Id.* at 653. According to the court, "It is not enough . . . that a product or service be physically capable . . . of a noninfringing use . . ." *Id.*

434. *Id.* at 652.

The evidence that we have summarized does not exclude the *possibility* of substantial noninfringing uses of the *Aimster* system, but the evidence is insufficient, especially in a preliminary-injunction proceeding, which is summary in character, to shift the burden of production to *Aimster* to demonstrate that its service has substantial noninfringing uses.

Id.

435. See Fagin et al., *supra* note 163, at 490–91 (explaining the oligopolistic nature of the music recording industry). As Machiavelli remarked, "[A]n innovator has as enemies all the people who were doing well under the old order, and only halfhearted defenders in those who hope to profit from the new." Brief for Appellee *Grokster, Ltd.*, at 30, *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, *appeal docketed*, Nos. 03-55894, 03-55901 (9th Cir. 2003) (quoting from Machiavelli's, *The Prince*), available at http://www.eff.com/IP/P2P/MGM_v_Grokster/20030917_grokster_appeal_brief.pdf (last visited Dec. 22, 2003).

network represents a way for less mainstream artists to have an audience, which actually furthers the goals of copyright law and American ideals in general.⁴³⁶ The new technology promotes a bottom-up approach to musical tastes, allowing listeners to dictate demand, rather than demand being determined by MTV or popular radio.⁴³⁷ The goal of copyright law and intellectual property law is to encourage innovation, not to protect any particular business model.⁴³⁸

Also, the Internet and peer-to-peer networks will make distribution and marketing cheaper.⁴³⁹ Thus, as law is moving to increase copyright protections, through third-party liability, anti-circumvention provisions, and the rights to control digital reproduction, the practical use is moving in the opposite direction: copyright holders need less protection because their craft is now less cost prohibitive.⁴⁴⁰ Furthermore, some argue that record companies have attempted to limit use of the new technology as a means to secure and perpetuate the continuation of their current business model.⁴⁴¹ Instead, true competition is more adept at promoting innovative business models and content diversity.⁴⁴²

In short, the *Grokster* court correctly applied the staple article of commerce doctrine, finding the existence of substantial noninfringing uses inherent in the file-trading software.⁴⁴³

B. The Knowledge Prong of Contributory Liability

The *Grokster* and *Aimster* courts differed on how specific the defendants' knowledge must be to satisfy this element of contributory liability.⁴⁴⁴ The *Grokster* court correctly required greater specificity

436. Fagin et al., *supra* note 163, at 504–11 (explaining how peer-to-peer networks diversify listeners' exposure to new artists in a desirable manner).

437. *Id.* at 510–11.

438. See *supra* notes 41–45 and accompanying text (discussing the goals of copyright law, and the need to achieve meaningful balance between protection of individual property interests and public benefit).

439. Fagin et al., *supra* note 163, at 495.

440. *Id.* at 503–04.

441. *Id.* at 491 (“[T]he existing industry structure should not dictate technological development.”).

442. *Id.*

443. *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1035 (C.D. Cal. 2003).

444. *Id.* The *Aimster* court did not develop a line of reasoning as to what level of knowledge should be required. Instead it stated in conclusory form, tucked away in a parenthetical, that constructive knowledge would be sufficient. *Aimster II*, 334 F.3d 643, 650 (7th Cir. 2003) (“Willful blindness is knowledge, in copyright law (where indeed it may be enough that the defendant *should* have known of the direct infringement . . .), as it is in the law generally.”).

than the *Aimster* court.⁴⁴⁵ The district court in *Aimster* noted that specific knowledge had never been required to affix liability.⁴⁴⁶

As a general matter, either actual or constructive knowledge may satisfy the element of knowledge and establish contributory liability.⁴⁴⁷ If the software fulfills the staple article of commerce requirements, then constructive knowledge may not implicate contributory liability.⁴⁴⁸ However, would the Supreme Court have resolved *Sony* differently if Sony had had actual knowledge that a particular person was using a Betamax for copyright infringement?⁴⁴⁹ A different result seems unlikely when one considers the policy implications underlying the staple article of commerce doctrine.⁴⁵⁰ Indeed, the *Aimster* court postulated that the *Napster* court erred on just that argument, instead determining that *Sony* does not make knowledge alone a condition sufficient to establish contributory liability.⁴⁵¹

Furthermore, within the context of the *Netcom* case, for knowledge to trigger liability, it must coincide with the ability to effect a change.⁴⁵² Therefore, if accepted, the *Netcom* holding necessitates that knowledge must be specific, because to know as a general matter that infringement exists (constructive knowledge) does not leave the defendant with the ability to curb the infringement.⁴⁵³ The rationale behind this rule is axiomatic.⁴⁵⁴ When examining real-world conditions, it makes sense to

445. *Grokster*, 259 F. Supp. 2d at 1035.

446. *Aimster I*, 252 F. Supp. 2d 634, 651 (N.D. Ill. 2002).

447. See NIMMER, COMPUTER TECHNOLOGY, *supra* note 47, § 1:32 (explaining the knowledge element of contributory liability). Constructive knowledge is sufficient to establish contributory liability. *Id.*

448. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984).

449. See *id.* at 417 (rationalizing the application of the staple article of commerce doctrine).

450. See *supra* notes 402–04 and accompanying text (explaining the rationale behind the staple article of commerce doctrine).

451. *Aimster II*, 334 F.3d 643, 649 (7th Cir. 2003).

452. *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1373–74 (N.D. Cal. 1995); see also *supra* note 144 and accompanying text (explaining the *Netcom* court's rationale for the rule that knowledge must coincide with the ability to act on such information). The *Netcom* decision is binding on the Ninth Circuit to the extent that it was adopted by the *Napster* court, but is only persuasive authority in the Seventh Circuit. See notes 184–185 and accompanying text (outlining *Napster's* analysis of the knowledge element and the court's application of the high-threshold test from *Netcom*).

453. *Netcom*, 907 F. Supp. at 1373–74; see also *supra* notes 143–45 and accompanying text (explaining the *Netcom* court's approach to the knowledge element, specifically that actual knowledge at a time when the defendant may do something about the infringement is a condition precedent for a finding of contributory liability). But see *Grokster Ruling Sparks Reaction*, *supra* note 402 (quoting copyright attorney Prager, that when tools are “primarily [used for] infringement,” then “case-by-case knowledge” is not necessary).

454. *Netcom*, 907 F. Supp. at 1373–74.

require actual knowledge rather than constructive knowledge since it is difficult in practice for service providers to monitor online activities.⁴⁵⁵

Finally, the *Aimster* court noted that *Aimster's* encryption technology, voluntarily imposed, cannot shield it from liability.⁴⁵⁶ However, the *Grokster* court determined that although *Grokster* may have purposefully structured its company to avoid liability, the law necessitated a particular answer.⁴⁵⁷ The *Grokster* court correctly deferred to Congress to change the law based on its unwillingness to expand copyright protections without legislative guidance.⁴⁵⁸ *Aimster* did not have knowledge of specific acts of infringement and, particularly within the realm of Classic *Aimster*, was not in a position to effect a change.⁴⁵⁹

Furthermore, the law indicates that the providers of such services need not police or monitor their networks since actual knowledge triggers liability, not the failure to exercise the ability to discover infringement.⁴⁶⁰ Although the two concepts are not identical, ISP liability and peer-to-peer software distributor liability are somewhat analogous.⁴⁶¹ Congress chose to excuse service providers from liability for the activities of their users, despite the fact that the safe harbors remove the incentive to monitor their networks.⁴⁶²

455. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001). The *Napster* court relied on *Cubby, Inc. v. Compuserve, Inc.*, 776 F. Supp. 135, 141 (S.D.N.Y. 1991) ("recognizing that online service provider[s] do[] not and cannot examine every hyperlink for potentially defamatory material").

456. *Aimster II*, 334 F.3d at 650.

457. *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2003).

458. *Id.*

To justify a judicial remedy, however, Plaintiffs invite this Court to expand existing copyright law beyond its well-drawn boundaries. As the Supreme Court has observed, courts must tread lightly in circumstances such as these:

The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. . . .

In a case like this, in which Congress had not plainly marked our course, we must be circumspect in construing the scope of rights created by legislative enactment which never calculated such a calculus of interests.

Id. (citations omitted).

459. *Aimster I*, 252 F. Supp. 2d 634, 650 (N.D. Ill. 2002) (stressing the significance of Club *Aimster*); *id.* at 651 (noting that specific knowledge is not required). The Seventh Circuit did not address the level of specificity required, but was adamant that willful blindness met the knowledge requirement. See *Aimster II*, 334 F.3d at 650.

460. See *supra* Part II.E.1 (discussing safe harbors).

461. Fagin et al., *supra* note 163, at 570.

462. See *infra* Part IV.D (analyzing safe harbor provisions).

Therefore, the knowledge element necessitates actual knowledge within the auspices of the *Netcom* holding and by implication in the *Sony* decision, lending credence to the *Grokster* rationale.⁴⁶³

C. Vicarious Liability

The *Aimster* and *Grokster* courts both determined that the defendants received financial benefit from the infringing activities.⁴⁶⁴ Even in *Grokster*, in which the end users did not pay a monthly fee for the services, the court noted that the infringing activity acted as a draw for downloading the software.⁴⁶⁵ The courts were correct in finding a financial benefit from the infringement because part of the service's appeal was the prospect of free music.⁴⁶⁶

However, the two courts differed in their findings of control.⁴⁶⁷ The *Grokster* court found no ability to supervise, even if the company could have made software modifications to restrict copyrighted materials.⁴⁶⁸ The *Grokster* court properly applied the facts as they were; it did not consider an obligation to supervise if able, which was an important distinction.⁴⁶⁹ The *Aimster* court relied on Club Aimster in its determination that Aimster retained control over its customers.⁴⁷⁰ Based on the facts, the *Aimster* court was also correct, but absent the existence of Club Aimster, the same decision would not have resulted.⁴⁷¹ Thus, file-trading activities do not implicate the control element of vicarious liability.⁴⁷²

463. *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1373–74 (N.D. Cal. 1995); see also *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 437–39 (1984) (outlining knowledge element of contributory liability); *supra* note 144 and accompanying text (explaining the *Netcom* court's rationale for the rule that knowledge must coincide with the ability to act on such information).

464. *Aimster II*, 334 F.3d at 652; *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1044 (C.D. Cal. 2003).

465. *Grokster*, 259 F. Supp. 2d at 1044.

466. See *supra* notes 19, 195 and accompanying text (discussing Internet piracy on the Web).

467. *Grokster*, 259 F. Supp. 2d at 1044–45; *Aimster II*, 334 F.3d at 648 (recognizing that because Aimster is a service with a continuing relationship with its customers, it “should be able to prevent, or at least limit, their infringing copyright by monitoring their use of the service and terminating them when it is discovered that they are infringing”). The appellate court in *Aimster* did not analyze control as an element of contributory liability per se, but did determine that a continuing relationship with clients was a factor to be considered in the analysis because of some implicit control retained by Aimster. *Aimster II*, 334 F.3d at 648.

468. *Grokster*, 259 F. Supp. 2d at 1045.

469. See *id.* (imposing no affirmative obligation on the party to supervise).

470. *Aimster II*, 334 F.3d at 648.

471. See *id.* (noting that requiring a user name and password tended to show supervision and control).

472. *Grokster*, 259 F. Supp. 2d at 1045.

D. Safe Harbor

The *Grokster* court, having determined that the defendants were not liable for infringement, had no cause to evaluate the safe harbor provisions.⁴⁷³ The safe harbor provisions produce a counterintuitive result, as exemplified in *Aimster*.⁴⁷⁴ The court refused to qualify *Aimster* for the Transitory Communications Safe Harbor because no materials passed through its servers.⁴⁷⁵ On the spectrum of culpability, however, a company that does not utilize centralized systems to transfer information should be less culpable than a company that does because of its decreased involvement.⁴⁷⁶

The *Aimster* court also determined that *Aimster* did not qualify for safe harbor because it had not reasonably implemented a repeat copyright infringer policy.⁴⁷⁷ Merely having the policy without effectuating its purpose did not meet the requirements of the DMCA safe harbor shelter.⁴⁷⁸ The *Aimster* court was not persuaded by *Aimster*'s argument that it did not have the ability to monitor the networks.⁴⁷⁹ According to the district court in *Aimster*, reasonable implementation of the policy would necessitate the ability to monitor the networks to gain knowledge as to specific infringers' activities.⁴⁸⁰ This standard is overly harsh when contrasted with the control element of vicarious liability.⁴⁸¹ The control element, as interpreted, allowed for the contractual retention of a right to terminate a user, without any showing of an ability to control, to satisfy the element.⁴⁸² Words, without the corollary ability to effectuate their meaning, either should

473. *Id.* at 1031, 1043, 1046.

474. *Aimster II*, 334 F.3d at 655.

475. *Aimster I*, 252 F. Supp. 2d 634, 659 (N.D. Ill. 2002). The appellate court addressed the safe harbor provisions by examining the threshold requirement of a policy to prevent repeat infringement only. *Aimster II*, 334 F.3d at 655. Although both courts reached the conclusion that *Aimster* could not qualify for safe harbor protection because it failed to implement a policy to prevent repeat infringement, the district court analyzed each of the safe harbors in turn, as though *Aimster* could potentially qualify. *Aimster I*, 252 F. Supp. 2d at 659.

476. *Cf.* Niva Elkin-Koren, *Copyright Law and Social Dialogue on the Information Superhighway: The Case Against Copyright Liability of Bulletin Board Operators*, 13 CARDOZO ARTS & ENT. L.J. 345, 390 (1995) (providing policy reasons against imposing copyright liability on bulletin board operators, prior to enactment of the DMCA safe harbor provisions).

477. *Aimster I*, 252 F. Supp. 2d at 658.

478. *Id.* at 658–59. The appellate court did not specifically analyze the policy, finding it sufficient that *Aimster* encouraged infringement through its website, rather than working to eliminate infringement. *Aimster II*, 334 F.3d at 655.

479. *Aimster I*, 252 F. Supp. 2d at 659.

480. *Id.*

481. *See Wright, supra* note 63, at 1026 (advocating a narrower definition of control).

482. *See supra* note 76 (discussing the evolution of the control element of vicarious liability).

be: 1) sufficient to prove implementation of the direct infringers' policy and therefore allow for application of the safe harbor provisions; or 2) insufficient to show a right and ability to supervise the network, and therefore should not result in a finding of vicarious liability.⁴⁸³

Ultimately, the *Grokster* court correctly determined that file-sharing software deserves protection under the staple article of commerce doctrine, and that for contributory liability to be imposed justly, the party must have actual and specific knowledge of the infringing activities.⁴⁸⁴ Additionally, the *Grokster* court correctly found a lack of basis for the imposition of vicarious liability.⁴⁸⁵ Finally, the safe harbor provisions, as analyzed by the *Aimster* court, represent an inconsistent determination of control.⁴⁸⁶ In short, file-trading software provides noninfringing benefits to the community that outweigh some infringing use.⁴⁸⁷

V. PROPOSAL

File-swapping tools are legal.⁴⁸⁸ However, this reality does not leave copyright holders without the ability to protect their intellectual property.⁴⁸⁹ Instead, copyright holders must utilize available technology and should tailor their marketing and business models to reflect the reality of a world with file-swapping software.⁴⁹⁰ They also must hold accountable the individuals who directly infringe on their copyrights.⁴⁹¹ This Part first explores the practical avenues available to copyright holders, suggesting business models and a campaign to change public perception.⁴⁹² Next, this Part advocates holding individuals accountable for their direct infringement activities.⁴⁹³ This Part then examines the legal framework and its support role in copyright

483. See 17 U.S.C. § 510 (2000) (requiring implementation of infringement policy for safe harbor protection); Wright, *supra* note 63, at 1012.

484. *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1035 (C.D. Cal. 2003).

485. *Id.* at 1046.

486. *Aimster II*, 334 F.3d 643, 659 (7th Cir. 2003).

487. *Grokster*, 259 F. Supp. 2d at 1035.

488. See *supra* Parts III.B., IV (examining the *Grokster* decision and urging that its interpretation is correct).

489. See *infra* Part V (providing strategies to copyright holders to protect their intellectual property).

490. See Iser & Toma, *supra* note 8, at C10 (“[S]tuffing the technology genie back in the bottle is not the solution.”).

491. See *infra* Part V.B (discussing individual accountability).

492. See *infra* Part V.A (surveying real-world solutions available to copyright holders).

493. See *infra* Part V.B (contending that individual accountability is essential to copyright protection).

disputes.⁴⁹⁴ Finally, this Part concludes by proposing guidelines for potential future legislation.⁴⁹⁵

A. *Practical Solutions: Business and Education*

The music industry is beginning to recognize the need to embrace technology and work with the creators of technology, in an effort to help eliminate piracy and to exploit the Internet as an inexpensive distribution alternative.⁴⁹⁶ The music industry has attempted various fee-based distribution models, a concept that is continuing to evolve despite early failures.⁴⁹⁷ One cited reason for the failure of these legitimate and sanctioned distribution schemes is limited selection and a failure to release the most recent and desirable tracks.⁴⁹⁸ Some doubt that legitimate subscription services will ever be effective, citing the common-sense argument that a company cannot charge a price for something others give away for free.⁴⁹⁹

Yet, Professor Doris Estelle Long suggests some tactics both to succeed in the online distribution business and reduce piracy.⁵⁰⁰ Long

494. See *infra* Part V.C (discussing the legal framework underlying enforcement of copyright laws).

495. See *infra* Part V.D (offering strategies for future legislation).

496. Press Release, Rep. Howard L. Berman, Berman Lauds Agreement Between Recording Industry and Technology Companies (Jan. 14, 2003) (referring approvingly to an agreement between the RIAA and the Business Software Alliance and Computer Systems Policy Project, calling the relationship between copyright and the creators of technology “symbiotic”), available at http://www.house.gov/apps/list/press/ca28_berman/riaa_bsa_agreement.html (last visited Dec. 23, 2003).

497. Frank Ahrens, *Real Networks, Like Apple, Starts Online Song Service*, WASH. POST, May 29, 2003, at E-01, available at 2003 WL 55934830. Apple Computers started iTunes Music Store, providing a 200,000-song selection, available to download for ninety-nine cents each. *Id.* Real Networks offered a similar service, with 330,000 songs at seventy-nine cents each, with a \$9.95 monthly subscription fee. *Id.* Rob Glasner, chairman of Real Networks, reportedly talked to Steve Jobs, chief executive of Apple, agreeing that they “need to get consumers to see the benefit of legitimate music services.” *Id.* Earlier attempts by the recording industry, like MusicNet (owned by AOL and others), Pressplay (joint venture between Universal Music Group and Sony Music Entertainment), “met with critical scorn and consumer indifference.” *Id.* This is because they were not easy to use, the song selections were limited, and the songs were often rented rather than sold. *Id.* The services offered by Apple and Real Networks are the first real viable options. *Id.*

498. Iser & Toma, *supra* note 8, at C11 (referring to Pressplay and MusicNet).

499. *Id.* (quoting skeptics of the music subscription business model who say that “[n]o one can compete against free”).

500. Long, *supra* note 2, at 784 (stating that the Internet “offers opportunities for developing new distribution methods that take advantage of its economies of scale and access”). Long suggests three business models: 1) the “Internet Promotion Model,” which “[o]ffer[s] works over the Internet for free or markedly reduced prices in order to promote hard goods sales of the works”; 2) the “Internet Distribution Model,” which “[o]ffer[s] copyrighted works over the Internet through digital ordering or subscription services”; and finally, 3) the “Value Added

first argues that online distribution businesses must overcome the public's expectations of free music.⁵⁰¹ Also, the music industry should offer alternatives to the public that are more appealing to the public than pirated materials.⁵⁰² By lowering prices and increasing music selection, which may be achieved through increased cross-licensing, the music industry may be able to overcome its early failures at online distribution.⁵⁰³ Furthermore, the distributors need not be the record companies themselves, for third parties may be able to develop legitimate distribution channels with the cooperation of the music industry.⁵⁰⁴

Educational initiatives, aimed at educating the public as a whole of the risks associated with infringing behavior, also serve as a practical solution to piracy.⁵⁰⁵ To be successful, the music industry must overcome the current consumer mindset that there is nothing wrong with downloading music files—that it is a victimless crime.⁵⁰⁶ The record industry should argue that fairness dictates that artists receive

Model,” which “[c]reat[es] value-added products in the hard goods world that make pirate versions less desirable.” *Id.* at 784–85.

501. *Id.* at 786 (referring to the “Internet Distribution Model” and outlining challenges associated with introducing fee-based services, most notably overcoming the public’s expectation of free music).

502. Stefanie Olsen, *Metallica Strikes New Net Chord*, CNET NEWS.COM, at http://news.com.com/2100-1027_3-1012785.html. (last modified June 3, 2003). Even Metallica, once a vocal enemy of online music distribution and party to the *Napster* suit, reportedly launched a website promoting free downloads of its songs to customers who buy its CD. *Id.* Metallica’s website is at www.metallicavault.com. *Id.* Other musicians are attempting similar utilizations of web distribution; for example Madonna sold her “American Life” single on her website, www.madonna.com. *Id.*

503. Iser & Toma, *supra* note 8, at C11 (indicating that if the music industry would “loosen its grip over music,” then industry-sponsored or -sanctioned subscription services offer “hope for the future”).

504. See E-mail from The Napster Team to author (June 20, 2003) (on file with author) (stating that “[o]ur goal is to bring you the best music site in the world while at the same time respect the artists who created the music we all love”). (The e-mail was received upon registering for updates on the progress of Napster at www.napster.com.) The record companies have not traditionally owned radio stations or retail establishments where music is sold, so Fagin argues that there is no need for the record companies to own or run online distribution channels. Fagin et al., *supra* note 163, at 490–91.

505. Mousley, *supra* note 12, at 668, 686–88 (arguing that changing societal perceptions about copyright infringement is theoretically the best means to fight piracy, but it faces substantial challenges and may never become reality).

506. Iser & Toma, *supra* note 8, at C11; see also EDISON MEDIA RESEARCH, NATIONAL RECORD BUYERS STUDY II (June 10, 2002) (citing survey results that found that 22% of people between 12 and 44 agreed that one no longer has to buy CDs because one can download music for free, and that 74% of people aged 12 to 17 agree that there is nothing morally wrong with downloading music for free), available at <http://www.edisonresearch.com/Microsoft%20Word%20-%20RecordBuyers2.pdf> (last visited Dec. 23, 2003).

compensation for their work; the simplicity and general appeal of this argument should make the educational aspect effective.⁵⁰⁷ To that end, the music industry recently launched a print, radio and television campaign enlisting the help of Britney Spears and Eminem.⁵⁰⁸ Ultimately, the music industry must compensate for the evolving market conditions resulting from technological innovation and avail itself of available marketing and educational options.⁵⁰⁹

B. Individual Accountability

Copyright holders may sue the individuals who utilize file-swapping software to infringe.⁵¹⁰ The RIAA has begun utilizing this option⁵¹¹ by electing to sue some college students in April 2003.⁵¹² If the decision

507. Reuters, *Music Industry Goes on Offensive To Push Downloads* (May 21, 2003), available at <http://in.tech.yahoo.com/030521/137/24h71.html> (last visited Nov. 23, 2003). The music industry recognizes the need to combat public perceptions that copyright infringement is a victimless crime. *Id.* To combat the widespread misconceptions, the music industry is utilizing cyberspace in its own way, launching a new website, www.ProMusic.org, aimed at promoting fee-based services and meeting the industry's educational goals. *Id.* The campaign was launched by the International Federation of the Phonographic Industry, a global trade group representing many music labels, including Warner Music, Universal Music, EMI, Sony Music, and BMG. *Id.* The premise that artists should be compensated for their work is axiomatic and has general appeal, as no one works for free. *Id.*

508. Iser & Toma, *supra* note 8, at C11. Critics fear that fans will not view rich, multimillionaire recording artists sympathetically. *Id.*

509. *Id.*

510. *Grokster Ruling Sparks Reaction*, *supra* note 402 (noting that critics disagree as to propriety of the *Grokster* result, but agree that the decision will likely result in more suits against the end users). Digital piracy carries criminal penalties, both monetary fines and imprisonment. 17 U.S.C. § 506(a) (2000); *see also* 18 U.S.C. § 2319 (2000 & West Supp. 2003) (criminalizing digital piracy). There are four elements to the charge of digital piracy: 1) a valid copyright, 2) that was infringed, 3) willfully, and 4) threshold amounts sold or offered for distribution (required for some felony convictions). Long, *supra* note 2, at 797. For digital piracy to be considered a felony, the defendant must have made or distributed at least ten copies, commercially valued at more than \$2500, within a 180-day period. *Id.*

511. Lisa M. Bowman, *RIAA Warns Individual Swappers*, CNET NEWS.COM, at http://www.news.com.com/2100-1027_3-1019184.html (June 19, 2003). This strategy has succeeded in slowing down P2P activity, with traffic on Kazaa down 41%. Reuters, *Traffic on P2P Services Down After Lawsuits – Data* (Sept. 30, 2003), available at <http://in.tech.yahoo.com/031001/137/284i6.html> (last visited Dec. 23, 2003).

512. *Grokster Ruling Sparks Reaction*, *supra* note 402. That suit against four college students resulted in a settlement, requiring each student to pay between \$12,000 and \$17,000. Bowman, *supra* note 511. Perhaps a testament to the popularity of online music piracy, one of the students was able to collect the full \$12,000 he owed through donations solicited online. Jefferson Graham, *Fined Student Gets Donations to Tune of \$12K*, USA TODAY, June 25, 2003, available at 2003 WL 5314115. In a similar suit, the RIAA sought compensation from college students in a streaming music suit that resulted in a settlement requiring college radio stations and educational broadcasters to pay a \$250 flat fee, a fee substantially lower than usually assessed to commercial enterprises. Reuters, *Music Industry, Schools Agree Webcasting Rate* (June 3, 2003),

in *Grokster* withstands appeal, then the music industry has few options other than to sue the individuals directly responsible for the infringement.⁵¹³

The music industry, however, has been reluctant to select this course of action for fear of alienating its customer base.⁵¹⁴ Also, given that the average individual user engages in this behavior for private use, not profit, those users will make particularly sympathetic defendants, especially compared to the record labels and other large commercial enterprises.⁵¹⁵ Furthermore, successful lawsuits are expensive, and given the dispersed nature of the activities and the potentially shallow pockets of the users, the music industry questions the efficacy of such individual suits.⁵¹⁶

However, the direct approach has distinct advantages, including confronting the party whose behavior is most culpable—the one actually stealing the music.⁵¹⁷ Furthermore, the lawsuits will change the users' perceptions that there are no legal risks associated with their behavior.⁵¹⁸ This should have a deterrent effect, and therefore a few cases would provide adequate warning and decrease the prevalence of the behavior.⁵¹⁹ Moreover, successful prosecution of prudently selected defendants, who steal large volumes of copyrighted materials, may reduce the availability of music on those networks.⁵²⁰ Finally, the industry must work to change perceptions about the crime of online theft, including availing itself of the legal system and thus capitalizing on the deterrent effect.

available at <http://www.forbes.com/markets/newswire/2003/06/03/rtr990147.html> (last visited Nov. 23, 2003).

513. Bowman, *supra* note 511 (quoting Hilary Rosen, CEO of RIAA, in response to the *Grokster* decision, stating that “individual infringers cannot expect to remain anonymous when they engage in this illegal activity”).

514. Iser & Toma, *supra* note 8, at C10. *But see* Long, *supra* note 2, at 806 (finding it difficult to reconcile the fear of alienating a potential customer with illegal downloaded files).

515. Iser & Toma, *supra* note 8, at C10.

516. NIMMER, INFORMATION LAW, *supra* note 51, § 4:53 (stating that “enforcement against individuals does not provide a viable remedy”).

517. Iser & Toma, *supra* note 8, at C10.

518. *Id.*

519. *Id.*

520. *Id.*

C. *The Legal Framework*

The law should provide the framework for allowing a successful and meaningful defense of copyrights by artists.⁵²¹ Currently, the DMCA accomplishes this goal through its subpoena provision, facilitating suits against individuals responsible for file-trading, and through its anti-circumvention provisions, supporting technological measures used to protect copyrights.⁵²²

1. DMCA Fast-Track Subpoena Provision

One example of this support role of the law is the DMCA fast-track subpoena provision, which provides for an expedited track to compel ISPs to reveal names of suspected copyright infringers.⁵²³ The RIAA successfully employed this provision, obtaining the identities of some Verizon users despite constitutional concerns.⁵²⁴ More recently, the RIAA controversially utilized the same provision to compel service providers and universities, including Loyola University Chicago, to surrender the names of additional alleged file-traders.⁵²⁵ Although some have criticized Loyola's compliance with the subpoena provision,

521. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (stating the need to offer "effective—not merely symbolic—protection of the statutory monopoly").

522. 17 U.S.C. §§ 512(h), 1201(a)–(b) (2000).

523. *Id.* § 512(h). The statutory provision provides in pertinent part:

(h) Subpoena to identify infringer.

(1) Request. A copyright owner or a person authorized to act on the owner's behalf may request the clerk of any United States district court to issue a subpoena to a service provider for identification of an alleged infringer in accordance with this subsection.

....

(3) Contents of subpoena. The subpoena shall authorize and order the service provider receiving the notification and the subpoena to expeditiously disclose to the copyright owner or person authorized by the copyright owner information sufficient to identify the alleged infringer of the material described in the notification to the extent such information is available to the service provider.

....

(5) Actions of service provider receiving subpoena. Upon receipt of the issued subpoena, either accompanying or subsequent to the receipt of a notification described in subsection (c)(3)(A), the service provider shall expeditiously disclose to the copyright owner or person authorized by the copyright owner the information required by the subpoena, notwithstanding any other provision of law and regardless of whether the service provider responds to the notification.

Id.

524. *In re Verizon Internet Servs. Inc.*, 257 F. Supp. 2d 244, 275 (D.D.C. 2003) (upholding 17 U.S.C. § 512(h)); Bowman, *supra* note 511.

525. Foster, *supra* note 3; *Music Industry Goes After Students*, *supra* note 5.

school officials carefully evaluated their position and determined that they were legally bound to abide by the terms of the subpoena.⁵²⁶

2. Anti-Circumvention Provisions

The anti-circumvention provisions of the DMCA⁵²⁷ represent a big step in the direction of the law working with, rather than against, technology.⁵²⁸ The provisions allow copyright holders to develop technology to protect their intellectual property.⁵²⁹ Although many past

526. Anthony D'Amato, *Loyola Hits Sour Note in Naming Students in Net Music Case*, NW. L. NEWS (July 28, 2003), available at http://www.law.northwestern.edu/inthenews/article_full.cfm?eventid=920&pagetype='current' (last visited Nov. 18, 2003). According to an article giving Loyola's perspective:

"We take these things seriously," said the Rev. Richard Salmi, the university's vice president of student affairs. . . .

Salmi said the two students, who have not been identified, share a dorm room and are currently enrolled in summer school. He said their Internet access has been terminated pending the outcome of the university's disciplinary proceedings.

"It's a Catholic university," Salmi said. "What you're trying to help students to understand is that there are ethical uses of the Internet and there are unethical [uses of the Internet]."

Music Industry Goes After Students, *supra* note 5.

Loyola University Chicago has posted the university's DMCA policy on its website. LOYOLA UNIV. CHI., DIGITAL MILLENNIUM COPYRIGHT ACT POLICY, at <http://www.luc.edu/infotech/cease/dmca/dmca-policy.html> (last visited Oct. 16, 2003). The university is committed to educating its students regarding copyright infringement, and drafted a "Statement to be Read to Residents by Residence Life Staff" to that end. Statement from Loyola University Chicago Residence Hall Staff, to incoming residents (n.d.) (on file with author). The statement warns students of the stiff civil and criminal penalties that may result from copyright infringement, notes the RIAA's increasingly aggressive posture, and states that Loyola is "[un]able to help [students] if [they] should be brought into federal court for violation of federal copyright laws." *Id.* The statement further urges students passionate about the issue of file-trading to get involved in the political dialogue, and provides information to students on available resources and discussion forums. *Id.*

The strategy and basis for the statement emerged from the American Council on Education. See Michael J. Remington, Background Discussion of Copyright Law and Potential Liability for Students Engaged in P2P File Sharing on University Networks (Aug. 8, 2003) (stating its intended purpose of aiding university administrators in understanding problems arising from P2P file sharing), available at <http://www.acenet.edu/washington/legalupdate/2003/P2P.pdf> (last visited Dec. 23, 2003). A portion of the report reads:

Colleges and universities are under no legal obligation to defend, or accept responsibility for, the illegal actions of their students in the P2P context. A major step toward ending unlawful P2P activities on college and university campuses lies in education. Ultimately, it is important for institutions to provide information about students' rights and responsibilities with regard to copyrighted works on P2P services.

Id.

527. 17 U.S.C. § 1201(a)(1)(A), (a)(2), (b) (2000).

528. Ruthenberg, *supra* note 160, § 6.88 (characterizing DMCA's three anti-circumvention provisions as "providing the legal framework to support enabling technologies").

529. *Id.*

attempts at technological protection of copyrights have failed, the industry should not throw in the towel.⁵³⁰ One technological measure that could help the music industry avail itself of the anti-circumvention provisions is known as digital rights management (“DRM”).⁵³¹ Additionally, encryption technology may allow the protection of copyrighted material, making it harder for a would-be pirate to obtain a file.⁵³² Finally, watermarking is another helpful technology.⁵³³ Watermarking will not prevent the illegal copying of a file, but may help identify offending files, which will aid in the prosecution of an individual infringer.⁵³⁴ These represent permissible levels of self-help, as opposed to the possibly debilitating ones currently employed, such as the decoy file containing a computer virus.⁵³⁵

D. Possible Future Legislation

Congress may elect to legislate specifically on the topic of file-trading or peer-to-peer networks, an option explicitly outlined by Judge Wilson’s opinion in *Grokster*.⁵³⁶ Congress has considered but failed to pass several provisions to address this issue.⁵³⁷ Should Congress elect

530. *Id.* (stating that CDs thought to be protected against copying were easily converted to MP3 files after individuals drew a line on each disc with a felt-tip marker). More recently, SunnComm Technologies, Inc. developed a mechanism to prevent copying CDs, but the measure can be circumvented by pressing the shift key to disable the encryption software. Reuters, *CD Copy Protection Trumped by Shift Key*, CNN.COM, at <http://www.cnn.com/2003/TECH/ptech/10/08/bmg.protection.reut/index.html> (Oct. 8, 2003). Last year, one failed legislative push would have required agreement on one particular DRM standard. Iser & Toma, *supra* note 8, at C10 (referring to the Consumer Broadband and Digital Television Promotion Act introduced by Senator Fritz Hollings, Democrat from South Carolina).

531. Iser & Toma, *supra* note 8, at C10. See generally TECHWEB, *supra* note 363, for a definition of DRM.

532. Long, *supra* note 2, at 788.

533. *Id.* Watermarking is a digital identification technique, marking the applicable file with copyright information. *Id.*

534. *Id.* Watermarking has value, not in preventing the file from being copied, but instead as evidence in civil suits or criminal prosecutions against alleged copyright infringers. *Id.* Furthermore, although “pirates have the know-how to break copy protection technologies, they often pay little attention to digital identification markers.” *Id.*

535. See *supra* notes 201–04 and accompanying text (discussing self-help measures currently employed).

536. MGM Studios, Inc. v. Grokster, Ltd., 259 F. Supp. 2d 1029, 1046 (C.D. Cal. 2003). Currently, three House members are creating a new Congressional caucus to address Internet piracy and stronger intellectual property laws. Declan McCullagh, *Congressional Caucus Targets Piracy*, CNET NEWS.COM, at http://news.com.com/2100-1028_3-1007908.html (May 19, 2003). Congress has introduced legislation on behalf of intellectual property holders in the past to allow for self-help. *Id.*

537. Iser & Toma, *supra* note 8, at C1 (noting that the RIAA and the technology industry both opposed legislation mandating copy protection in computer hardware and software); Amy Harmon, *Music Industry Won't Seek Government Aid on Piracy*, N.Y. TIMES, Jan 15, 2003, at

to take action, it should do so in a manner conducive to future technological innovation in order to be consistent with the constitutional objectives of copyright law.⁵³⁸ Furthermore, it should seek to promote innovative market solutions and foster cooperation, not divisiveness, between the music and technology industries.⁵³⁹

The music industry must adapt to a change in the economic climate of the industry, as effected by technological innovation.⁵⁴⁰ Copyright owners maintain meaningful copyright protection through 1) revised business and educational strategies; 2) the legal framework, which allows suits to hold individuals accountable; and 3) technological measures as protected by anti-circumvention provisions.⁵⁴¹ Should Congress choose to legislate on this issue, it must balance the copyright owners' interests in their intellectual property rights with the public interest in both the copyrighted material and technological innovation.⁵⁴²

VI. CONCLUSION

American intellectual property law rewards innovation, whether in science or technology or arts. File-swapping software is one incarnation of technological innovation, deserving of both protection and praise. It promises social benefits not only in the form of improved access to information but also by offering alternatives to traditional marketing and business practices for the astute entrepreneur. Despite initial tensions between file-trading technologies and copyright holders, the author remains optimistic that copyright holders may protect their intellectual property in an online context, while still allowing technological innovation to flourish.

C3, available at LEXIS, News Library, The New York Times File. Another potential legal solution, championed by Representative Howard L. Berman, Democrat from California, is the Peer-to-Peer Piracy Prevention Act. H.R. 5211, 107th Cong. § 1(a) (2002), available at <http://www.thomas.loc.gov> (last visited Dec. 23, 2003). See generally Ruthenberg, *supra* note 160, § 6:108.40 (outlining the attributes of the Peer-to-Peer Piracy Prevention Act).

538. U.S. CONST. art. I, § 8, cl. 8; see also *supra* note 41 and accompanying text (discussing the Constitutional grant of copyright protection).

539. Fagin et al., *supra* note 163, at 491.

540. See Iser & Toma, *supra* note 8, at C11 (explaining that the file-trading technology cannot be stifled to protect music industry interests).

541. Long, *supra* note 2, at 784, 788, 806.

542. U.S. CONST. art. I, § 8, cl. 8; see also *supra* note 41 and accompanying text (discussing the Constitutional grant of copyright protection).