

## NOTES

### *MGM v. Grokster*: A Disincentive for Technological Responsibility

I. INTRODUCTION .....	299
II. BACKGROUND.....	300
III. COURT’S DECISION.....	305
IV. ANALYSIS.....	310

#### I. INTRODUCTION

The plaintiffs in the noted case are songwriters, music publishers, and motion picture studios who own the copyrights to a multitude of sound recordings and motion pictures.<sup>1</sup> The defendants, Grokster Ltd. (Grokster) and StreamCast Networks, Inc. (StreamCast), are companies that distribute peer-to-peer software that enables users to share computer files with one another by connecting to each other’s computers through the Internet.<sup>2</sup> The files shared through this software include “digital audio, video, picture, and text files.”<sup>3</sup> They fall into one of three categories: (1) files that are copyrighted and shared without permission of the copyright owners; (2) files that are not copyrighted; and (3) files that are copyrighted, but that are shared with the permission of the copyright owners.<sup>4</sup>

In order to enable users to access and search one another’s files, the software provides an indexing system for the files.<sup>5</sup> There are three different kinds of indexing systems that are currently used in peer-to-peer software: (1) a centralized indexing system, (2) a decentralized indexing system, and (3) a “supernode” system.<sup>6</sup> Under a centralized indexing system, the list of available files is located “on one or more centralized servers.”<sup>7</sup> Under a decentralized index system, each computer lists the “files available on that computer only.”<sup>8</sup> A “supernode” system is one where a group of computers maintains indexes for the shared files.<sup>9</sup>

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1. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1158 (9th Cir.), cert. granted, 125 S. Ct. 686 (2004).

2. See *Grokster*, F.3d at 1158, 1160.

3. *Id.* at 1160.

4. See *id.*

5. See *id.* at 1158-59.

6. See *id.*

7. See *id.* at 1158.

8. *Id.* at 1158-59.

9. See *id.* at 1159.

Under all these systems, the software searches for a requested file by accessing the given index(es) and compiling a list of the users willing and able to share the requested file.<sup>10</sup> The user can then select one of these available files and download it directly from the computer where the file is located.<sup>11</sup> Both defendants initially used the “supernode” system of indexing in their software; however, Grokster now uses a decentralized indexing system.<sup>12</sup>

The plaintiffs brought suit against the defendants pursuant to 17 U.S.C. § 501 in federal district court for copyright infringement under contributory and vicarious copyright infringement theories.<sup>13</sup> The district court granted defendants’ motions for partial summary judgment and the plaintiffs appealed.<sup>14</sup> The United States Court of Appeals for the Ninth Circuit affirmed and *held* that the defendants’ software could not give rise to liability under either contributory copyright infringement or vicarious copyright infringement theories. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1157 (9th Cir. 2004).

## II. BACKGROUND

There is no express provision in the Copyright Act that would make anyone liable for the copyright infringement of another, but it is generally accepted by the courts that one can be held liable for such an act of infringement.<sup>15</sup> This liability is imposed either through a contributory copyright infringement theory or a vicarious copyright infringement theory.<sup>16</sup> To be found liable for contributory copyright infringement in the Ninth Circuit, there are three elements that must be satisfied: (1) direct infringement of the copyright by another, (2) knowledge of that infringement, and (3) a material contribution to that infringement.<sup>17</sup> In order to be found vicariously liable for copyright infringement in the Ninth Circuit, there must be: (1) a direct infringement by someone other than the defendant, (2) a direct financial benefit to the defendant caused

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10. *See id.*

11. *See id.*

12. *See id.*

13. *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1031 (C.D. Cal. 2003).

14. *See Grokster*, 380 F.3d at 1157; *see also Grokster*, 259 F. Supp. 2d at 1031.

15. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 434 (1984); *see also Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996).

16. *See Cherry Auction*, 76 F.3d at 261-62, 264.

17. *See Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004).

by that infringement, and (3) the right and ability of the defendant to supervise those who directly infringed.<sup>18</sup>

In *Sony v. Universal Studios, Inc.*, the United States Supreme Court found that manufacturers of video tape recorders (VTRs) were not liable for contributory copyright infringement based on direct copyright infringement by purchasers of the VTRs.<sup>19</sup> The Court rejected the plaintiffs' argument that merely supplying the means which allows someone to infringe on another's copyright was enough to sustain liability for contributory copyright infringement.<sup>20</sup> In order for the copyright holders to establish contributory liability, constructive knowledge of the infringing uses needed to be shown.<sup>21</sup> The Court declined to find constructive knowledge of the infringing uses because the VTRs were capable of substantial noninfringing uses.<sup>22</sup> The Ninth Circuit interpreted this to mean that constructive knowledge cannot be imputed where the device that is being sold is capable of substantial noninfringing uses.<sup>23</sup> If this is the case, then a plaintiff must show that a defendant either had actual knowledge or reason to know of the direct infringement in order to succeed on a contributory infringement claim.<sup>24</sup>

The final element that must be satisfied to prevail on a contributory copyright infringement claim is that the defendant must materially contribute to the direct infringement.<sup>25</sup> In *Cherry Auction*, the court found that merely "providing the site and facilities for *known* infringing activity is sufficient to establish contributory liability."<sup>26</sup> An operator of a swap meet was found to provide the "site and facilities" for direct infringement in this case.<sup>27</sup> The court reasoned that without the support services that the operators provided, such as "the provision of space, utilities, parking, advertising, plumbing, and customers," the copyright infringement could not have occurred on such a large scale.<sup>28</sup> Material contribution was also found to be present in an online context in *Religious Netcom* where an Internet service provider (ISP) was found to

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18. See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001).

19. See *Sony*, 464 U.S. at 456.

20. See *id.* at 436-37.

21. See *id.* at 438.

22. See *id.* at 456.

23. See *Napster*, 239 F.3d at 1020-21.

24. See *id.* at 1020.

25. See *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004) (citing *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

26. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (emphasis added).

27. See *id.*

28. *Id.*

have materially contributed to direct infringement when it had knowledge of infringing material on its system and allowed it to remain there.<sup>29</sup>

Traditionally, vicarious liability was limited to the employer-employee relationship until the Second Circuit in the *Shapiro* case established a principle for vicarious copyright infringement that expanded its application.<sup>30</sup> The *Shapiro* court analyzed two separate types of decisions: the so-called “landlord-tenant cases” and “dance hall” cases.<sup>31</sup> In these cases, landlords were not found to be vicariously liable for direct infringement by their tenants where the landlord did not have knowledge of the infringing activity and did not supervise the tenants, but dance hall operators, who leased their premises or hired a band, were liable for infringing performances that provided a financial benefit to the operator.<sup>32</sup> The Second Circuit found these cases to suggest that a chain store owner was liable for the direct copyright infringement of a phonograph record concessionaire, even though the owner did not have knowledge of the infringing conduct.<sup>33</sup> The court reasoned that the owner derived a direct financial benefit from the conduct and had the power to prevent it.<sup>34</sup> The principle that emerged from this case was that a defendant must obtain a direct financial benefit from the direct infringement and must have the right and ability to supervise the direct infringer (and fail to do so) for a finding of vicarious copyright infringement.<sup>35</sup>

The Ninth Circuit adopted the Second Circuit’s test for vicarious copyright infringement.<sup>36</sup> The court in *Cherry Auction* applied the “right and ability to supervise” test to hold that an operator/promoter of a swap meet, who had the right to terminate its vendors for any reason and policed its premises, could be held liable for vicarious copyright infringement.<sup>37</sup> In the Internet context, a federal district court found a plaintiff had raised a genuine issue of material fact as to the right and ability to supervise prong, with allegations that an Internet service provider reserved the right to take remedial action against its users, could

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29. See *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1375 (N.D. Cal. 1995).

30. See *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963).

31. *Cherry Auction*, 76 F.3d at 262 (citing *Shapiro*, 316 F.2d at 307).

32. See *Shapiro*, 316 F.2d at 307.

33. See *id.*

34. See *id.*

35. See *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (citing *Shapiro*, 316 F.2d at 307).

36. See *Cherry Auction*, 76 F.3d at 262-64.

37. See *id.*

terminate and had terminated user accounts in the past, and could delete specific postings of its users.<sup>38</sup>

The Ninth Circuit faced a very similar situation, as in the noted case, in *A & M Records v. Napster*.<sup>39</sup> Napster produced software similar to that at issue in the noted case—its software used a central indexing system, however, rather than a decentralized or “supernode” indexing system.<sup>40</sup> The *Napster* court found a likelihood of success on the merits that Napster would be liable for both contributory and vicarious copyright infringement.<sup>41</sup>

In analyzing the “knowledge” element for the contributory copyright infringement claim, the *Napster* court refused to find that there was constructive knowledge of infringing activity because the software was *capable* of substantial noninfringing uses.<sup>42</sup> However, the *Napster* court found that Napster had actual knowledge of specific infringing files and thus satisfied the knowledge prong for contributory infringement.<sup>43</sup> Having found that there was knowledge of the infringing activity, the court also found that Napster “provide[d] ‘the site and facilities’ for direct infringement,” and thus materially contributed to the direct infringement.<sup>44</sup>

Napster was also found liable for vicarious copyright infringement because it derived a direct financial benefit from the infringing activity of its users.<sup>45</sup> The court also found the “right and ability to supervise” element to be satisfied.<sup>46</sup> Napster expressly reserved the right to terminate user accounts or refuse access to the software for anyone who it believed was using the software to violate the law.<sup>47</sup> The court stated that the only way that Napster could escape vicarious liability would be to demonstrate that the reserved right to police its network was exercised

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38. See *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F. Supp. 1361, 1375-76 (N.D. Cal. 1995).

39. *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

40. See *id.* at 1011.

41. See *id.* at 1022.

42. See *id.* at 1020-21 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 436 (1984) (emphasizing that a product need only be *capable* of substantial noninfringing uses and does not actually have to have substantial noninfringing uses at the time of the direct infringement)).

43. See *id.* at 1021-22.

44. See *id.* at 1022 (quoting *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996)).

45. See *id.* at 1024. The direct financial benefit here was the advertising revenue Napster garnered from its software. *Id.* at 1023.

46. *Id.* at 1023-24.

47. See *id.* at 1023.

to the “fullest extent” possible.<sup>48</sup> The court emphasized that this right and ability is limited by the current capabilities of the software.<sup>49</sup> Nevertheless, the court found that Napster did have the ability to police its network by looking at the infringing file names on its server index and terminating the account of the corresponding user.<sup>50</sup> Thus, the court noted a likelihood of success on the merits in an action against Napster for vicarious copyright infringement.<sup>51</sup>

The Seventh Circuit faced a similar product to Napster in the *Aimster* case.<sup>52</sup> It also held that Aimster was liable for contributory and vicarious copyright infringement; however, its analysis differed in a few key respects.

When looking at the knowledge of infringing uses element, the Seventh Circuit disagreed with *Napster’s* proposition that if the copyright holders demonstrated that the defendant had “actual knowledge of specific infringing uses,” then this was enough to establish contributory infringement.<sup>53</sup> Rather, the Seventh Circuit felt that where a substantial noninfringing use was found to be present, the court should look at the magnitude of this substantial noninfringing use versus the infringing uses.<sup>54</sup>

One issue that the Seventh Circuit touched on in its analysis in *Aimster*, which the Ninth Circuit did not address in *Napster*, was whether the software owner could “shield” itself from knowledge of the infringing files in order to escape contributory infringement liability.<sup>55</sup> The Seventh Circuit adopted the position that “willful blindness is knowledge, in copyright law,” meaning that, a person who remains willfully ignorant of direct infringement will not escape liability for the infringement.<sup>56</sup>

In sustaining the vicarious liability claim, the *Aimster* court found it relevant that the defendant *could* eliminate the encryption feature on its

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48. *See id.* (“Turning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability.” (citations omitted)).

49. *See id.* at 1023-24.

50. *See id.* at 1024.

51. *See id.*

52. *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003).

53. *Id.* at 649.

54. *See id.* at 649-50.

55. *See id.* at 650-51; *Napster*, 239 F.3d at 1020-22. The *Napster* court did however address this issue in its discussion of the right and ability to supervise under the vicarious infringement claim. *Napster*, 239 F.3d at 1023.

56. *Aimster*, 334 F.3d at 650 (citing *Casella v. Morriss*, 820 F.2d 362, 365 (11th Cir. 1987)).

system and monitor its use.<sup>57</sup> This is in contrast to the *Napster* court's emphasis on the *current* architecture of Napster's system.<sup>58</sup>

When confronted with similar software in the noted case, as that in *Napster*, the Ninth Circuit found that the decentralization of the indexing of files was a significant legal difference, which called for a different result than it had reached in *Napster*.<sup>59</sup>

### III. COURT'S DECISION

In the noted case, the Ninth Circuit refused to extend liability for contributory and vicarious copyright infringement for software similar to that at issue in the *Napster* case because of the decentralized nature of the indexing of copyrighted files.<sup>60</sup> The direct infringement by the users of the defendant's software was not a disputed issue in this case.<sup>61</sup> In its analysis of contributory copyright infringement, the court found that constructive knowledge of direct copyright infringement could not be imputed because the software at issue was capable of substantial noninfringing uses.<sup>62</sup> Furthermore, the defendant did not have actual knowledge of copyright infringement by the users of its software.<sup>63</sup> The court also found that the defendants did not materially contribute to the direct infringement by the users of its software because it did not provide the "site and facilities" for direct infringement, nor did it materially contribute in any other way.<sup>64</sup> For the vicarious copyright infringement claim, the elements of direct infringement and direct financial benefit were not disputed by the defendants, and thus the court did not discuss these issues.<sup>65</sup> However, the court found that the defendants did not have the right and ability to supervise the directly infringing users and thus were not liable for vicarious copyright infringement.<sup>66</sup>

The court began its analysis by stating the three elements of contributory copyright infringement: "(1) direct infringement by a primary infringer, (2) knowledge of the infringement, and (3) material

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57. *See id.* at 654-55.

58. *Napster*, 239 F.3d at 1023-24.

59. *See Metro-Goldwyn-Mayer v. Grokster, Ltd.*, 380 F.3d 1154, 1163, 1165 (9th Cir. 2004).

60. *See id.* at 1157.

61. *See id.* at 1160.

62. *See id.* at 1162.

63. *See id.*

64. *See id.* at 1163-64.

65. *See id.* at 1164 (finding the direct financial benefit to be the advertising revenue garnered from the software).

66. *See id.* at 1164-66.

contribution to the infringement.”<sup>67</sup> As previously mentioned, the element of direct infringement was not an issue in this case and the court began its analysis with the “knowledge” element.<sup>68</sup>

It first looked to the *Sony-Betamax* case for guidance on this element.<sup>69</sup> It concluded that *Sony-Betamax* stands for the proposition that one cannot be held liable for contributory copyright infringement if the product at issue is “capable of substantial” or “commercially significant noninfringing uses.”<sup>70</sup> The Ninth Circuit then drew on the *Napster* case in construing *Sony-Betamax* to mean that if a device is capable of substantial or commercially noninfringing uses, then constructive knowledge of a direct infringement cannot be implicated.<sup>71</sup> Therefore, if a defendant can show that the device is capable of substantial or commercially significant noninfringing uses, the copyright owner must prove that the defendant had actual “reasonable knowledge” of the direct infringement to satisfy the knowledge element.<sup>72</sup> The court agreed with the district court’s determination “that the software was capable of substantial noninfringing uses.”<sup>73</sup> In support of this, the court referenced statements made by users who distributed public domain works via the software and statements by copyright owners who allowed their works to be distributed through the software.<sup>74</sup>

The court rejected the plaintiffs’ argument that the software was used primarily for copyright infringement activities, and should be found to impute constructive knowledge of direct infringement.<sup>75</sup> The court reasoned that this was a misreading of the *Sony-Betamax* standard because the defendants needed only to show that the software was *capable* of substantial noninfringing uses.<sup>76</sup> The court noted that the Seventh Circuit interprets the *Sony-Betamax* decision differently and uses how probable the noninfringing uses are as a factor in the

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67. *Id.* at 1160.

68. *See id.*

69. *See id.*

70. *Id.* (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 446 U.S. 417, 442 (1984)).

71. *See id.*

72. *See id.* at 1161 (citing *A & M Records v. Napster, Inc.*, 239 F.3d 1004, 1027 (9th Cir. 2001)).

73. *Id.* at 1161-62.

74. *See id.*

75. *See id.* at 1162.

76. *See id.* (citing *Napster*, 239 F.3d at 1021).



infringement analysis.<sup>77</sup> The court also said, however, that it was not allowed to disregard its own binding precedent on this matter.<sup>78</sup>

Since there was no constructive knowledge found by the court, it analyzed whether there was actual knowledge of the direct infringement.<sup>79</sup> The standard for actual knowledge of the direct infringement was that the defendants had to have “specific knowledge of infringement at a time at which they contribute[d] to the infringement, and . . . fail[ed] to act upon that information.”<sup>80</sup> The court emphasized that the timing of the knowledge of direct infringement is significant in this analysis.<sup>81</sup> It found the defendants’ actual knowledge to be irrelevant because the notices arrived after the defendants could do anything about the infringing activity.<sup>82</sup> They distinguished the actual knowledge present in the *Napster* decision, because of the central indexing design employed by Napster, as opposed to the decentralized and supernode designs employed by the defendants in this case.<sup>83</sup> The court found that since the defendants do not maintain control over the indexes of files, they could not take any action against the infringing users at the time they learned of the infringing files.<sup>84</sup>

The next part of the court’s analysis focused on the material contribution required for contributory copyright infringement.<sup>85</sup> The court found that the defendants did not provide the “site and facilities” for infringement and did not do anything else that could be considered material contribution to the direct infringement.<sup>86</sup> It distinguished the software at issue from the *Netcom* and *Napster* holdings.<sup>87</sup> “[T]he Software Distributors here are not access providers [as in *Netcom*], and they do not provide file storage and index maintenance [as in *Napster*].”<sup>88</sup> Rather, the users of the software are the ones that store the files, maintain the indexes, and provide access to the copyrighted material.<sup>89</sup>

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77. *See id.* at 1162 n.9 (comparing the *Napster* decision to the Seventh Circuit’s *Aimster* decision).

78. *See id.*

79. *See id.* at 1162.

80. *Id.* (quoting *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1036 (C.D. Cal. 2003)).

81. *See id.*

82. *See id.*

83. *See id.* at 1163.

84. *See id.* at 1162.

85. *See id.* at 1163.

86. *See id.*

87. *See id.*

88. *See id.*

89. *See id.*

The court then acknowledged that the defendants engaged in some activity that might arguably be considered a material contribution, but the court characterized this activity as “too incidental” to the direct infringement to be considered a material contribution.<sup>90</sup>

Finally, the court insisted that the software design in this case was not just a mere technical deviation from the Napster software that allows the defendants “to get around” the *Napster* holdings.<sup>91</sup> Instead of being a mere technical deviation, it reasoned that the defendants’ software was beneficial because it lowered “distribution costs of public domain” works and works that copyright owners permit to be shared, while at the same time “reducing the centralized control of that distribution.”<sup>92</sup>

The court then analyzed the vicarious copyright infringement claim.<sup>93</sup> It stated that the three elements required to show vicarious copyright infringement are: “(1) direct infringement by a primary party, (2) a direct financial benefit to the defendant, and (3) the right and ability to supervise the infringers.”<sup>94</sup> The first two elements were not issues before the court, so it began its analysis with the third.<sup>95</sup>

The court compared this case to *Cherry Auction* and *Napster I* and found that the defendants in this case did not have the ability to block individual users from accessing its software, whereas the defendants in *Cherry Auction* and *Napster I* did have the ability to prevent the infringers from gaining access to its facilities.<sup>96</sup> It was acknowledged that one of the defendants, Grokster, reserved the right to terminate access to its users.<sup>97</sup> However, the court found that this was insignificant because Grokster did not have a log-in or registration process, and thus could not *actually* terminate access for infringing users.<sup>98</sup> Furthermore, the court noted that the defendants communicated with the direct infringers on occasion, but none of this communication “provide[d] a point of access for filtering or searching for infringing files.”<sup>99</sup>

The court then discussed why the defendants should not or could not shut down the software altogether.<sup>100</sup> If Streamcast shut down its XML file, this would not prevent users from using the Gnutella network

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90. *See id.* at 1164.

91. *See id.*

92. *Id.*

93. *See id.*

94. *Id.* (citing *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001)).

95. *See id.*

96. *See id.* at 1164-65.

97. *See id.* at 1165.

98. *See id.*

99. *See id.*

100. *See id.*

to share files.<sup>101</sup> Grokster was not able to shut down the root nodes that allowed users to share files because of a licensing agreement with a third party.<sup>102</sup> The court then stated that the lack of a party's ability to shut down its operations altogether is not the type of supervisory relationship that it has found to support liability for vicarious copyright infringement in the past.<sup>103</sup> Rather, it was the ability to exclude *individuals* from a swap meet (*Cherry Auction*) and the ability to delete *individual* infringing files (*Napster I*) that imposed the right and duty to supervise on the defendants in the previous cases.<sup>104</sup> The decentralized design of the software here prevented the defendants from blocking individual users or purging individual files.<sup>105</sup>

The court then considered the copyright owners' argument that the software itself could be altered to prevent infringement as a misunderstanding of the law.<sup>106</sup> In *Napster II*, the court held that the defendant, *who had already been found liable for vicarious copyright infringement*, had to do "everything feasible to block files from its system."<sup>107</sup> The court then said the duty a district court can impose on a defendant who has already been found vicariously liable is not the same as the duty to supervise under the "right and ability to supervise" element of vicarious liability.<sup>108</sup> It continued to differentiate the duty to supervise in the *Napster* decisions by emphasizing the decentralized nature of the software at issue in the noted case and classified the "duty to alter software and files located on one's own computer system [as] quite different . . . from a duty to alter software located on another person's computer."<sup>109</sup>

The court then addressed the plaintiffs' argument that "[t]urning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability."<sup>110</sup> It pointed out that this was just mere rhetoric in earlier decisions and that there is not a separate "blind-eye" theory to vicarious

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101. *See id.*

102. *See id.* (noting the third-party licensing agreement was with Kazaa/Sharman).

103. *See id.* at 1166.

104. *See id.* at 1165 (citing *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023-24 (9th Cir. 2001); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261-62 (9th Cir. 1996)).

105. *See id.*

106. *See id.* at 1165-66.

107. *Id.* at 1166 (quoting *A & M Records, Inc. v. Napster, Inc.*, 284 F.3d 1091, 1098 (9th Cir. 2002)).

108. *Id.*

109. *Id.*

110. *Id.* (quoting *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023 (9th Cir. 2001)).

copyright infringement “that exists independently of the traditional elements of liability.”<sup>111</sup>

Finally, the court addressed the plaintiffs’ suggestion that the law be reexamined for public policy reasons.<sup>112</sup> This reexamination was rejected because of its conflict with binding precedent and because it would be “unwise” and “would . . . alter general copyright law in profound ways with unknown ultimate consequences outside the present context.”<sup>113</sup> Further, the court acknowledged that new technology can have the effect of disrupting the “well-established distribution mechanisms” for copyrighted works; however, it defended its position by asserting that “history has shown that time and market forces often provide equilibrium in balancing interests” of copyright holders and the new technologies.<sup>114</sup> Thus, the court asserted that it should not restructure liability theories hastily and supported this with Supreme Court precedent that states that Congress should be the one to determine how far liability should extend for copyright infringement.<sup>115</sup>

#### IV. ANALYSIS

The Ninth Circuit placed special emphasis on the fact that the software providers do not maintain any control over the software that they distribute.<sup>116</sup> If the defendants had maintained control, were notified of the infringing files, and failed to do anything about it, then they would have been found liable for contributory infringement; this is a similar scenario to that in *Napster*.<sup>117</sup> The problem with the rule created by the Ninth Circuit in the noted case is that it creates a disincentive to monitor for infringing uses in peer-to-peer technology. The same criticism is applicable to the vicarious copyright infringement analysis. The court found that they do not have a right and ability to supervise the direct infringers precisely because they have chosen not to have a right and ability to supervise.<sup>118</sup> There is no apparent reason why the defendants in the noted case employed a decentralized design rather than a centralized one, other than to avoid liability for copyright infringement.

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111. *Id.*

112. *See id.*

113. *Id.*

114. *Id.* at 1167.

115. *See id.* (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984)).

116. *See id.* at 1163.

117. *Id.* at 1162-63.

118. *See id.* at 1165.

The court attempted to justify its decision by saying that the software here is not just a mere technical deviation from the Napster software that allows the defendants to get around the *Napster* holdings.<sup>119</sup> It reasoned that the software is beneficial because it reduces distribution costs of noninfringing material, while at the same time reducing the centralized control of that distribution.<sup>120</sup> However, Napster also reduced the distribution costs of noninfringing material with its system.<sup>121</sup> Thus, there must be something beneficial to the decentralized nature of the software, independent of it not violating copyright laws, to justify the assertion that the software is not just a technical deviation to get around the *Napster I* and *Napster II* holdings. The court did not provide a reason as to why the software's less centralized nature is beneficial to society and it is difficult to see why it would be.

Ultimately, however, the court's holding is consistent with its *Napster* precedent, and the court is probably wise in deferring to the judgment of Congress in restructuring the rules of copyright infringement liability, in light of the history of technological advances and their effects on copyright law.<sup>122</sup>

The Supreme Court has granted certiorari for the noted case and heard oral arguments in March 2005.<sup>123</sup> The split between the Seventh and Ninth Circuits on their interpretation of *Sony-Betamax* will likely be resolved by the Court.<sup>124</sup> One of the likely issues to be resolved by the Court is whether the software providers can shield themselves from liability by designing their software so that they are not aware of specific infringing files.<sup>125</sup> Another issue that will likely be resolved by the Supreme Court is whether actual knowledge of copyright infringement will suffice to satisfy the knowledge element in a contributory copyright infringement claim despite the magnitude of substantial noninfringing uses of the technology at issue.<sup>126</sup> It is difficult to predict how the Court

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119. *See id.* at 1164.

120. *See id.*

121. *See* A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1011 (9th Cir. 2001).

122. *See Grokster*, 380 F.3d at 1167.

123. *See* John Borland, *Supreme Court to Hear P2P Case*, at [http://news.com.com/Supreme+Court+to+hear+P2P+case/2100-1027\\_3-5487491.html](http://news.com.com/Supreme+Court+to+hear+P2P+case/2100-1027_3-5487491.html) (last visited Feb. 24, 2005).

124. *Cf.* Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir. 2004), *petition for cert. filed*, 2004 WL 2289200, at \*13 (U.S. Oct. 8, 2004) (No. 04-480) (stating this as a reason for granting the petition for certiorari).

125. *Cf. id.* (noting this as one of the ways in which the Seventh and Ninth Circuits diverge).

126. *Cf. id.* (noting this as another way in which the Seventh and Ninth Circuits diverge).

will decide the case, but its decision could have a significant impact on copyright law and a wide range of technologies.<sup>127</sup>

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127. See Borland, *supra* note 123, ¶ 3.

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