

# THE FACT AND FICTION OF GROKSTER AND SONY: USING FACTUAL COMPARISONS TO UNCOVER THE LEGAL RULE

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*In its recent and highly anticipated decision in MGM Studios, Inc. v. Grokster, Ltd., the U.S. Supreme Court appeared reluctant to make any significant changes to copyright law. The Court avoided comment on the vigorously debated definition of the “substantial noninfringing uses” standard from Sony Corp. v. Universal City Studios, Inc., affirmed the Sony doctrine without modifying it, and characterized the new inducement theory as a classic case of common law secondary liability. But in trying to limit the impact of its opinion, the Grokster Court said too little. It left significant ambiguities in its holding and many unanswered questions in copyright law.*

*The ambiguities and gaps in the legal rule of Grokster will make it very difficult for technology companies to predict their liability for copyright infringement. Instead of relying on the law of Grokster, technology companies need to focus on the facts of Grokster and identify which facts proved determinative of Grokster’s liability. By piecing together a rule from the facts of the case, technology companies can structure their conduct to avoid future liability for contributory copyright infringement and can prevent the stifling effect of an uncertain legal rule.*

*This Comment examines the Sony and Grokster opinions and the reasons why the legal rule from Grokster is too unclear to be predictive. The Comment then closely analyzes the Sony and Grokster opinions and identifies the key determinative facts that distinguish the two cases. Using these key facts, the Comment then turns to an analysis of the potential liability of several emerging-technology companies and presents a new view of Sony and Grokster from a factual perspective.*

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<sup>\*</sup> Comments Editor, UCLA Law Review, Volume 53. J.D., UCLA School of Law, 2006; B.S., The University of Texas, 2003. Special thanks to Professor Mark Grady for providing the guidance and inspiration for this Comment, and to the editors and staff of the *UCLA Law Review* for their valuable insights and assistance.

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## INTRODUCTION

The U.S. Supreme Court's unanimous majority opinion and sharply divided concurring opinions in the recent case of *MGM Studios, Inc. v. Grokster, Ltd.*<sup>1</sup> have spurred a flurry of academic commentary on the changing landscape of copyright law.<sup>2</sup> Many commentators fault the *Grokster* Court for failing to issue a majority opinion on one of the most contested copyright issues of the day—the definition of the “substantial noninfringing use” standard adopted by the Court in the landmark case of *Sony Corp. v. Universal City Studios, Inc.*<sup>3</sup> over twenty years ago. The *Sony* Court carved out a safe harbor for technology companies, shielding them from copyright liability based on their sale of dual-use products<sup>4</sup> if the product was “capable of

1. 125 S. Ct. 2764 (2005).

2. See, e.g., Julie E. Cohen, *The Place of the User in Copyright Law*, 74 *FORDHAM L. REV.* 347, 353–55 (2005) (examining how the *Grokster* Court treated direct infringers); David L. Wardle, *Broken Record: Revisiting the Flaws in Sony's Fair Use Analysis in Light of the Grokster Decision*, 26 *LOY. L.A. ENT. L. REV.* 1, 2 (2005) (arguing that Sony could have been held liable under *Grokster*'s new standard); Timothy K. Andrews, Note, *Control Content, Not Innovation: Why Hollywood Should Embrace Peer-to-Peer Technology Despite the MGM v. Grokster Battle*, 25 *LOY. L.A. ENT. L. REV.* 383, 422 (2005) (describing the *Grokster* opinion as “an ambitious attempt to strike the elusive balance between copyright and innovation”); Seth A. Miller, Note, *Peer-to-Peer File Distribution: An Analysis of Design, Liability, Litigation, and Potential Solutions*, 25 *REV. LITIG.* 181, 186–90 (2006) (discussing the significance of the *Grokster* case); Stuart Meyer, *The Supreme Court Speaks to Technology Companies on Ethics: MGM v. Grokster*, *COMPUTER & INTERNET LAW.*, Mar. 2006, at 34 (discussing the impact of corporate ethics on the *Grokster* case); David Post, *The Impact of 'Grokster'*, *NAT'L L.J.*, Aug. 3, 2005, at 10 (describing *Grokster* as “one of the most closely watched copyright cases of recent years”).

3. 464 U.S. 417 (1984); see also Randal C. Picker, *Rewinding Sony: The Evolving Product, Phoning Home and the Duty of Ongoing Design*, 55 *CASE W. RES. L. REV.* 749, 753 (2005) (explaining that “defenders of Sony characterize its test as the Magna Carta of product innovation”); Andrews, *supra* note 2, at 423 (“By distinguishing *Sony*, the Court avoids answering the most disputed issue before it: What level of infringing use qualifies as ‘substantial’?”); Miller, *supra* note 2, at 214 (arguing that the *Grokster* Court’s holding “does not give much guidance to innovators and distributors”); Post, *supra* note 2, at 10 (“Uncertainty remains, though, about how this will play out in the future—and in particular, about the precise meaning of ‘capable of substantial noninfringing use.’”); Fred von Lohmann, *Remedying 'Grokster'*, *LAW.COM*, July 25, 2005, <http://www.law.com/jsp/article.jsp?id=1122023112436> (describing the *Sony* question as “direct and critically important” and calling the Court’s silence on the issue “particularly troubling”).

4. A dual-use product is a product capable of both infringing and noninfringing uses. See *Grokster*, 125 S. Ct. at 2770 (“The question is under what circumstances the distributor of a product

substantial noninfringing uses.”<sup>5</sup> Since then, courts have struggled to define how much noninfringing use qualifies as “substantial.”<sup>6</sup>

The Court had another chance to address this question in *Grokster*, a copyright infringement lawsuit brought by Metro-Goldwyn-Mayer, Inc. (MGM), a large motion picture and entertainment studio, against Grokster, a company that distributed free file-sharing software over the Internet. However, instead of addressing the “substantial noninfringing use” issue, the *Grokster* Court went out of its way to avoid it.<sup>7</sup> The majority opinion gave a terse summary of the Sony doctrine,<sup>8</sup> claimed to affirm it,<sup>9</sup> distinguished the Sony case to avoid applying it,<sup>10</sup> adopted a new “inducement” theory of secondary liability for copyright infringement,<sup>11</sup> and remanded for further proceedings on that theory.<sup>12</sup> The majority opinion explained that “because we find below that it was error to grant summary judgment . . . on MGM’s inducement claim, we

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capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product.”); Sverker K. Hogberg, Note, *The Search for Intent-Based Doctrines of Secondary Liability in Copyright Law*, 106 COLUM. L. REV. 909, 921 (2006) (defining dual-use devices as “devices which are capable of being used for both infringing and noninfringing purposes”).

5. Sony, 464 U.S. at 442 (“[T]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.”).

6. Compare *MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1162 (9th Cir. 2004), *rev’d*, 125 S. Ct. 2764 (2005) (stressing that a product need only be capable of substantial noninfringing uses, even if “the vast majority of the [product’s] use is for copyright infringement”), and *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001) (holding that the “substantial noninfringing use” standard should include both current and future uses of a product), with *In re Aimster Copyright Litig.*, 334 F.3d 643, 653 (7th Cir. 2003) (finding that Aimster’s software did not have substantial noninfringing uses because Aimster did not show that its product was actually used for noninfringing purposes, or the frequency of actual noninfringing use). See also Mark A. Lemley & R. Anthony Reese, *Reducing Digital Copyright Infringement Without Restricting Innovation*, 56 STAN. L. REV. 1345, 1356–66 (2004) (describing how the Seventh and Ninth Circuit Courts of Appeals have differed in their interpretations of the standard); Andrews, *supra* note 2, at 400 (highlighting the question as “critical”); Post, *supra* note 2, at 10 (“Sony engendered considerable confusion in the two decades since it was handed down.”); von Lohmann, *supra* note 3 (“Since the court’s Sony ruling, the technology and entertainment industries have bickered about the scope of the [Sony] defense.”).

7. See *infra* Part II.A.

8. *Grokster*, 125 S. Ct. at 2776–77.

9. *Id.* at 2777–78 (“[T]he doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one’s products will be misused. It leaves breathing room for innovation and a vigorous commerce.” (citing Sony, 464 U.S. at 442)).

10. *Id.* at 2778–79.

11. *Id.* at 2779–80.

12. *Id.* at 2783.

do not revisit *Sony* further.”<sup>13</sup> The *Sony* question was relegated to the two concurring opinions, where the justices argued the issue in dicta.<sup>14</sup>

The majority seemed to want to change copyright law as little as possible by avoiding the *Sony* question, affirming the *Sony* doctrine, and characterizing the new inducement theory as a classic case of common law secondary liability.<sup>15</sup> But in trying to limit the scope of its opinion, the *Grokster* Court said too little. It left significant ambiguities in its holding and many unanswered questions in copyright law.<sup>16</sup>

Commentators will no doubt continue to study these questions and debate competing interpretations of copyright law. But in the mean time, what can technology companies do to avoid liability for distributing dual-use products? This Comment considers the *Grokster* decision from the point of view of an emerging-technology company, a perspective that is often missing from academic debate. This Comment argues that the ambiguities and gaps in the legal rule of *Sony* and *Grokster* will make it very difficult for technology companies to predict their liability for copyright infringement. Instead of relying on the law of *Sony* and *Grokster*, technology companies need to focus on the facts and identify which facts proved determinative of *Grokster*'s liability. By piecing together a rule from the facts of the case, technology companies can design their products and services to avoid liability for contributory copyright infringement.

This Comment proceeds in four parts. Part I introduces the law of copyright and the two landmark cases of *Sony* and *Grokster*. Part II argues that the legal rule set out in *Grokster* contains too many ambiguities to be predictive. Part III looks critically at the facts of *Grokster* and compares them to the facts of *Sony* to determine which facts are determinative of liability. Finally, Part IV examines several emerging-technology companies and what they can do now to avoid becoming the next *Grokster*.

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13. *Id.* at 2778.

14. *Id.* at 2783 (Ginsburg, J., concurring); *id.* at 2787 (Breyer, J., concurring).

15. *Id.* at 2779 (“The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or ‘entic[es] or persuad[es] another’ to infringe, as by advertising. Thus at common law a copyright or patent defendant who ‘not only expected but invoked [infringing use] by advertisement’ was liable for infringement ‘on principles recognized in every part of the law.’”) (citation omitted) (emphasis added).

16. See *infra* Part II.

## I. SONY, GROKSTER, AND THE EVOLVING STANDARDS OF COPYRIGHT INFRINGEMENT

The Copyright Act does not include any provision imposing secondary liability for copyright infringement.<sup>17</sup> Secondary liability for copyright infringement was born in the courts and made famous in the Court's landmark decision in *Sony Corp. v. Universal City Studios*.<sup>18</sup> In the *Sony* case, plaintiffs Universal City Studios, Inc. and Walt Disney Productions (Universal) sued the Sony Corporation<sup>19</sup> for contributory copyright infringement based on Sony's manufacturing, marketing, and sales of the videocassette recorder, today's commonplace VCR.<sup>20</sup> The Court found that the "primary use" of the VCR was "time-shifting," the practice of recording a television show in order to view it once at a later time and then delete it.<sup>21</sup> Universal objected to the growing practice of time-shifting, arguing that VCR users were making unauthorized copies of Universal's copyrighted programs.<sup>22</sup>

To determine whether Sony was contributorily liable for the VCR users' unauthorized copying, the Court adopted the staple article of commerce doctrine from patent law,<sup>23</sup> holding that "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need

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17. The Copyright Act defines infringement as follows: "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . is an infringer of the copyright . . ." 17 U.S.C. § 501(a) (2000). The *Sony* Court acknowledged that "[t]he Copyright Act does not expressly render anyone liable for infringement committed by another." *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 434 (1984).

18. *Sony*, 464 U.S. at 435.

19. Also defendants in the action were the Sony Corporation of America, Carter Hawley Hale Stores, Inc., Associated Dry Goods Corporation, Federated Department Stores, Inc., Henry's Camera Corporation, Doyle Dane Bernbach, Inc., and William Griffiths. *Universal City Studios, Inc. v. Sony Corp.*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984).

20. *Sony*, 464 U.S. at 419–20.

21. *Id.* at 423 (finding that the "primary use of the machine for most owners was 'time-shifting'"); *id.* at 421 (defining time-shifting as "record[ing] a program [the VCR user] cannot view as it is being televised and then . . . watch[ing] it once at a later time").

22. *Id.* at 420.

23. The staple article of commerce doctrine comes from the definition of contributory infringement in the Patent Act:

Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, . . . knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c) (2000). See generally 5 DONALD S. CHISUM, CHISUM ON PATENTS § 17.02[6] (2004).

merely be capable of substantial noninfringing uses.”<sup>24</sup> Thus, the issue at hand was whether the VCR was capable of substantial noninfringing uses.<sup>25</sup>

The Court concluded that time-shifting constituted a substantial noninfringing use for two independent reasons.<sup>26</sup> First, a significant amount of programming could be time-shifted without objection from its copyright holders. Sony introduced evidence that 7.3 percent of VCR use was the time-shifting of sporting events, which the sports leagues did not oppose.<sup>27</sup> The Court described this, together with religious, educational, and other programming, as “a significant quantity.”<sup>28</sup> Second, time-shifting at home represented a fair use of copyright, not an infringement.<sup>29</sup>

After *Sony*, lower courts organized the law of secondary liability for copyright infringement into two separate categories: vicarious liability and contributory liability.<sup>30</sup> A defendant is vicariously liable for its users’ infringement if the defendant has a financial interest in the infringement and has the right and ability to supervise the users.<sup>31</sup> A defendant is contributorily liable for its users’ infringement if the defendant materially contributes to and has actual or constructive knowledge of the infringement.<sup>32</sup> The *Sony* doctrine prohibits a court from imputing constructive knowledge of infringement to a defendant that distributes a product capable of substantial noninfringing uses.<sup>33</sup> Distribution of such a product renders its distributor contributorily liable only if the distributor has actual knowledge of specific acts of infringement.

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

25. *Id.* (“The question is thus whether the [VCR] is capable of commercially significant noninfringing uses.”).

26. *Id.* (“For one potential use of the Betamax plainly satisfies this standard, however it is understood: private, noncommercial time-shifting in the home. It does so both (A) because respondents have no right to prevent other copyright holders from authorizing it for their programs, and (B) because the District Court’s factual findings reveal that even the unauthorized home time-shifting of respondents’ programs is legitimate fair use.”).

27. *Id.* at 424.

28. *Id.* at 444.

29. *Id.* at 442. The fair use exception allows certain copies to be made without the copyright holder’s authorization. See 17 U.S.C. § 107 (2000) (“Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.”). Fair use was codified in the Copyright Act in 1976. See MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHTS § 13.05 (2005) (providing detailed background and analysis of the fair use doctrine).

30. See NIMMER & NIMMER, *supra* note 29, § 12.04 (discussing the two types of indirect liability for copyright infringement).

31. *MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1164 (9th Cir. 2004), *rev’d*, 125 S. Ct. 2764 (2005); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001); *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

32. *Grokster*, 380 F.3d at 1160; *Napster*, 239 F.3d at 1019; *Gershwin*, 443 F.2d at 1162.

33. *Grokster*, 125 S. Ct. at 2778.

In the *Grokster* case, plaintiff copyright holders (MGM) argued that defendant software distributors (Grokster) were contributorily and vicariously liable for their users' direct copyright infringement.<sup>34</sup> Grokster distributed free peer-to-peer file-sharing software that enabled users to exchange files with each other, including music files protected by MGM's copyrights.<sup>35</sup> Grokster specifically designed its software as a pure, decentralized peer-to-peer program that did not depend on any central support or interaction from Grokster.<sup>36</sup> This design had technical benefits, such as reliability, efficiency, and speed.<sup>37</sup> It also had potential legal benefits, because the decentralized network operated without notifying Grokster of the specific files being traded. Grokster had no actual knowledge of what files were traded by which users at what time.<sup>38</sup>

Without actual knowledge of specific acts of infringement, Grokster could only be liable for contributory infringement if MGM could prove constructive knowledge of copyright infringement. But the Ninth Circuit Court of Appeals found that the Sony doctrine stepped in to protect Grokster. The Ninth Circuit held that Grokster's software was capable of substantial noninfringing uses, and therefore constructive knowledge of infringement could not be imputed to Grokster.<sup>39</sup> Without actual or constructive knowledge of its users' infringement, Grokster was not contributorily liable. The Ninth Circuit also found for Grokster on the vicarious liability claim and granted Grokster's motion for summary judgment.<sup>40</sup>

MGM appealed, and the Supreme Court reversed. However, it did so without ruling on vicarious or contributory liability. Instead, the Court introduced a third theory of secondary liability for copyright infringement: the inducement theory. The Court wrote, "[W]e hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."<sup>41</sup> Because the evidence showed that Grokster was likely to be found liable on this theory, the Court

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34. *Id.* at 2774–75.

35. *Id.* at 2771.

36. *Id.* at 2772; see also Kevin Allison, *The Battle for Grokster Leaves a War to Be Won*, FIN. TIMES (London), Dec. 20, 2005, at 12 ("When you shut down Grokster, you shut down a company but you don't shut down the network." (quoting Eric Garland, Chief Executive, BigChampagne)).

37. *Grokster*, 125 S. Ct. at 2770; Miller, *supra* note 2, at 192–93 (describing the benefits of Grokster's decentralized model).

38. *Grokster*, 125 S. Ct. at 2772 ("Grokster and StreamCast do not therefore know when particular files are copied.").

39. *MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1161–63 (9th Cir. 2004), *rev'd*, 125 S. Ct. 2764 (2005).

40. *Id.* at 1165–67.

41. *Grokster*, 125 S. Ct. at 2770.

reversed the Ninth Circuit's grant of summary judgment.<sup>42</sup> However, it did not reverse or affirm the Ninth Circuit's holding that Grokster's software was capable of substantial noninfringing uses.

## II. LEGAL UNCERTAINTIES IN THE GROKSTER OPINION

The *Grokster* opinion leaves unfilled several significant gaps in the law of secondary liability for copyright infringement. First, the *Grokster* Court did not address a crucial question in copyright law—the definition of Sony's "substantial noninfringing uses." Second, the Court's opinion leaves many ambiguities in the new doctrine of inducement liability. Third, the facts of the case left the Court unable to rule on the issue of fair use, a doctrine that very much needs clarification. Fourth, the statements of law in *Grokster* contradict statements from Sony, although the *Grokster* Court claims to affirm Sony. In the end, the legal rule set out in the *Grokster* opinion creates more confusion than it resolves.

### A. Sidestepping the Sony Question

When the Court agreed to hear MGM's appeal in the *Grokster* case, most people expected a definitive ruling on the biggest unresolved question in copyright law—how much noninfringing use qualifies as "substantial" under the Sony doctrine.<sup>43</sup> MGM's and Grokster's briefs argued this issue at length.<sup>44</sup> Amicus briefs focused on the Sony question.<sup>45</sup> Commentators predicted it would be the central issue.<sup>46</sup> The *Grokster* Court was well aware of these expectations, stating that "[t]he parties and many of the *amici* in this case think

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42. *Id.* at 2782.

43. See *supra* note 3.

44. Brief for Songwriter & Music Publisher Petitioners, *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) (No. 04-480), available at [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/Songwriters\\_brief.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/Songwriters_brief.pdf); Brief for Motion Picture Studio & Recording Co. Petitioners, *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) (No. 04-480), available at [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/04-480\\_Petitioners\\_brief.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/04-480_Petitioners_brief.pdf); Brief for Respondents, *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) (No. 04-480), available at [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/20050301\\_respondents\\_brief.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/20050301_respondents_brief.pdf).

45. See Jonathan Band, *The Grokster Scorecard* (2005), [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/summary.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/summary.pdf) (summarizing the arguments made in the fifty-five amicus briefs filed with the Court).

46. See Andrews, *supra* note 2, at 423 (characterizing it as "the most disputed issue before [the Court]"); Post, *supra* note 2, at 10 (describing the issue as "the very questions many of us thought the court would resolve here: Was Grokster 'capable of substantial noninfringing uses?' and, if so, what are the legal consequences of that?"); von Lohmann, *supra* note 3 ("The proper scope of the [Sony] defense was the 'main event' in the briefs filed by the parties and *amici* in *Grokster*.").



the key to resolving it is the Sony rule and, in particular, what it means for a product to be 'capable of commercially significant noninfringing uses.'"<sup>47</sup>

However, six justices agreed that answering that question was not necessary to resolve the dispute before the Court. Instead, the Court disposed of the case on the narrow holding that summary judgment was not warranted under the new inducement theory of liability.<sup>48</sup>

The remaining three justices wanted to address Sony. Justice Ginsburg, joined by Justice Kennedy and the late Chief Justice Rehnquist, wrote a concurring opinion to argue that the Ninth Circuit's grant of summary judgment to Grokster was error not only on the inducement theory, as explained in the majority opinion, but also on the contributory infringement theory.<sup>49</sup> In Justice Ginsburg's opinion, "the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time."<sup>50</sup> MGM's evidence showed that approximately 10 percent of the uses of Grokster were noninfringing.<sup>51</sup> Justice Ginsburg was not convinced that this 10 percent figure was accurate, or that a 10 percent level automatically qualifies as "substantial" under Sony's standard.<sup>52</sup>

Justice Ginsburg also commented on the type of evidence required to satisfy Sony, explaining that Grokster presented "little beyond anecdotal evidence of noninfringing uses."<sup>53</sup> Justice Ginsburg criticized the district court for relying on declarations that contained "mostly anecdotal evidence, sometimes obtained second-hand" and "general statements about the benefits of

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47. *Grokster*, 125 S. Ct. at 2778.

48. *Id.* at 2778–79.

49. *Id.* at 2783 (Ginsburg, J., concurring) ("There is here at least a 'genuine issue as to [a] material fact,' on the liability of Grokster or StreamCast, not only for actively inducing copyright infringement, but also or alternatively, based on the distribution of their software products, for contributory copyright infringement. On neither score was summary judgment for Grokster and StreamCast warranted.") (citation omitted).

50. *Id.* at 2786.

51. MGM's evidence "showed that nearly 90% of the files available for download . . . were copyrighted works." *Id.* at 2772. Thus, the remaining 10 percent could be downloaded without infringing. Grokster argued that the level of noninfringing use was even higher than 10 percent, since some copyrighted files could be downloaded without infringing. *Id.*

52. Justice Ginsburg explained that "[e]ven assuming . . . that the Sony Court would have absolved Sony of contributory liability solely on the basis of . . . authorized time-shifting . . . summary judgment is not inevitably appropriate here." *Id.* at 2786 n.3 (Ginsburg, J., concurring). Authorized time-shifting constituted approximately 10 percent of the uses of the VCR. *Id.* Thus, according to Justice Ginsburg, that 10 percent level is not automatically enough to qualify for the shelter of Sony.

53. *Id.* at 2785 (Ginsburg, J., concurring).

peer-to-peer technology.”<sup>54</sup> Justice Ginsburg found this type of evidence insufficient to warrant summary judgment.<sup>55</sup>

Three justices wrote a second concurring opinion specifically to disagree with Justice Ginsburg’s application of the *Sony* test.<sup>56</sup> Justice Breyer, joined by Justices Stevens and O’Connor, would have affirmed the Ninth Circuit’s grant of summary judgment for Grokster on the contributory infringement claim. Justice Breyer explained that “the evidence now before us shows that Grokster passes *Sony*’s test—that is, whether the company’s product is capable of substantial or commercially significant noninfringing uses.”<sup>57</sup> Thus, according to these justices, a 10 percent level of noninfringing use satisfies *Sony*. In fact, Justice Breyer argued that the *Sony* rule “establishes that the law will not impose copyright liability upon the distributors of dual-use technology (who do not themselves engage in unauthorized copying) unless the product in question will be used *almost exclusively* to infringe copyrights (or unless they actively induce infringements as we today describe).”<sup>58</sup> This interpretation of *Sony* differs drastically from Justice Ginsburg’s.<sup>59</sup>

Justice Breyer also responded to Justice Ginsburg’s evidentiary objections by noting that the *Sony* Court itself relied “upon general declarations, some survey data, and common sense.”<sup>60</sup> Justice Breyer argued that Justice Ginsburg’s “heavier evidentiary demand” would “undercut the protection that *Sony* now offers.”<sup>61</sup>

Thus, the concurring opinions split on two issues—the type of evidence required to prove noninfringing uses and the amount of noninfringing uses required to satisfy *Sony*.<sup>62</sup> Concurring opinions can sometimes be helpful as guides to what interpretations of the law the majority rejected. Not so in this case. Because the three remaining justices—Scalia, Thomas, and Souter—insisted that further consideration of *Sony* was simply not required to resolve the case,<sup>63</sup> we do not know whether they would agree with either concurrence in a case that

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54. *Id.*

55. *Id.* at 2786.

56. *Id.* at 2787 (Breyer, J., concurring) (agreeing with the majority opinion that “we need not now ‘revisit’ *Sony*” but nevertheless revisiting *Sony* in his concurring opinion “to explain why I disagree with [Justice Ginsburg’s concurrence]”).

57. *Id.* at 2788.

58. *Id.* at 2791.

59. *Id.* at 2784 n.1 (Ginsburg, J., concurring) (“*Sony*, as I read it, contains no clear, near-exclusivity test.”).

60. *Id.* at 2791 (Breyer, J., concurring). But Justice Ginsburg points out that the *Sony* Court based its conclusion on “a full trial record,” not motions for summary judgment. *Id.* at 2783 (Ginsburg, J., concurring).

61. *Id.* at 2792 (Breyer, J., concurring).

62. See Andrews, *supra* note 2, at 425 (“Read together, these two concurrences reveal that the Justices are deeply divided over the future of *Sony*.”).

63. *Grokster*, 125 S. Ct. at 2778–79.

did require consideration of Sony. Therefore, future litigants cannot rule out either of the two *Grokster* concurrences, because either one might attract a majority of justices in a future case.

The Court's divided 3–3–3 opinion spurred some commentators to write that it was the worst possible outcome, expanding liability and increasing uncertainty about Sony.<sup>64</sup> Such criticism is a bit extreme. Although the Court did not resolve the most important question about Sony, it did answer another key question. The Court explained that the Sony safe harbor does not provide complete immunity from liability for copyright infringement.<sup>65</sup> Instead, "Sony's rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product."<sup>66</sup> But culpable intent can be proven in other ways, such as the inducement theory introduced by the *Grokster* Court. Thus, it is now clear that Sony is not a complete shield from liability, but exactly how to apply the Sony standard in practice remains unclear.

## B. Leaving Ambiguities in the Inducement Theory

Also unclear is the new inducement theory of secondary liability for copyright infringement. The Court stated the rule very simply: "We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."<sup>67</sup> Intent is the critical element in this theory of liability.<sup>68</sup>

The culpable intent to which the Court referred is the intent to promote infringement. A defendant who acts with this culpable intent will be liable

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64. See, e.g., Meyer, *supra* note 2, at 34 ("[The] *Grokster* case revealed the worst in Supreme Court ivory towerism." (quoting Lawrence Lessig, *A Rotten Ruling*, WIRED, Sept. 2005)); Andrews, *supra* note 2, at 429 ("Although the Supreme Court may have solved the problem before it, the *Grokster* decision raises more questions than it answers."); von Lohmann, *supra* note 3 ("Don't you hate it when you ask someone a question and, rather than answering it, they choose to answer a different one? Then you understand the frustration that technology lawyers feel in the wake of the Supreme Court's opinion in [*Grokster*].").

65. *Grokster*, 125 S. Ct. at 2778 (holding as error the Ninth Circuit's interpretation that "whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties' infringing use of it"); see also Post, *supra* note 2, at 10 (explaining that, before the *Grokster* opinion, it was not clear whether Sony granted complete immunity); Denise M. Howell et al., *Grokking Grokster: Staying Out of Court and in Business in the Wake of the Supreme Court's Decision*, MONDAQ.COM, Aug. 23, 2005, <http://www.mondaq.com/article.asp?articleid=34061> (arguing that "the belief that any substantially noninfringing use of a product or service would serve as an absolute bar and complete shield against liability has been dispelled").

66. *Grokster*, 125 S. Ct. at 2779.

67. *Id.* at 2770.

68. See Miller, *supra* note 2, at 214 (describing the inducement standard as "an intent-based test that focuses on the object of a defendant's enterprise").

under the inducement theory even if the product is capable of substantial noninfringing uses, satisfying the *Sony* standard. By contrast, a defendant who acts with knowledge that his or her product can be used to infringe, but without the culpable intent to promote infringement, may still be protected by *Sony*. The key to the inducement theory is distinguishing between these two mental states—the culpable intent to promote infringement and the innocent intent to promote a dual-use product.

The easiest way to prove intent is by inferring it from action.<sup>69</sup> Thus, the crucial step in the analysis of inducement liability is determining which actions constitute evidence of culpable intent, and which actions simply reveal an innocent intent to promote a dual-use product. That determination is very difficult when a defendant distributor knows that some of its users will infringe. If a defendant uses advertising to encourage consumers to buy and use the product, does that advertising show an unlawful intent to encourage infringement, or an innocent intent to promote the product? The inducement standard needs to be crafted very carefully in order to make this fine distinction.

Unfortunately, the Court's opinion was not so carefully written. It left open one very important question—is the action of designing a dual-use product an action that shows culpable intent? The Court stated that “in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.”<sup>70</sup> This statement indicates that liability cannot be based solely on the failure to design the product to prevent infringement. The Court also stated that the *Sony* rule prohibits a court from finding culpable intent solely from the design or distribution of a dual-use product.<sup>71</sup> But the way the Court used the facts of the case seems to contradict its statement of the law. The facts on which the Court relied in concluding that *Grokster* may be liable for inducing

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69. See, e.g., *Grokster*, 125 S. Ct. at 2782 (“If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was.”); *Rose v. Clark*, 478 U.S. 570, 581 (1986) (“No one doubts that the trial court properly could have instructed the jury that it could infer malice from respondent’s conduct. Indeed, in the many cases where there is no direct evidence of intent, that is exactly how intent is established.”) (citations omitted); *Paragon Podiatry Lab., Inc. v. KLM Lab., Inc.*, 984 F.2d 1182, 1190 (Fed. Cir. 1993) (holding that intent “must generally be inferred from the facts and circumstances surrounding the applicant’s overall conduct”); *Merck & Co. v. Danbury Pharmacal, Inc.*, 873 F.2d 1418, 1422 (Fed. Cir. 1989) (“Intent need not, and rarely can, be proven by direct evidence.”).

70. *Grokster*, 125 S. Ct. at 2781 n.12.

71. *Id.* at 2779 (“*Sony*’s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product.”).

infringement include facts about the design of the *Grokster* software, such as the way the software performed searches, the functional similarities between the *Grokster* software and Napster, and the absence of a filtering mechanism.<sup>72</sup> Thus the role of product design in the inducement theory is still unclear.<sup>73</sup>

The Court also failed to explain how to distinguish between actions that show culpable intent and actions that do not. The Court stated that “purposeful, culpable expression and conduct” are grounds for inducement liability.<sup>74</sup> This vague statement simply reiterates the obvious, that “culpable” actions deserve liability,<sup>75</sup> without explaining how to recognize this culpable conduct. The Court needed to identify the specific characteristics that determine whether a particular action reveals culpable or innocent intent. For example, the Court explained that “ordinary acts incident to product distribution” do not incur inducement liability.<sup>76</sup> This statement is more helpful because it identifies a specific characteristic of an action—being incidental to distribution—and explains that this characteristic indicates that the action is not evidence of culpable intent.

Most of the *Grokster* opinion, however, lacks such specific guidance. Instead, the Court made sweeping statements about the inducement rule without fine-tuning the narrow distinction that the inducement rule actually has to make. For example, the Court stated that the evidence against StreamCast included “unequivocal indications of unlawful purpose” without explaining why these indications were so unequivocally evidence of culpable intent instead of innocent intent.<sup>77</sup>

In the Court’s defense, intent is a fact-intensive question. Evidence of intent in individual cases will vary widely. The Court may have purposely left the inducement theory broad and open in order to leave room for the idiosyncratic facts of each future case. But some guidance on which types of actions show culpable intent and which do not would have been helpful. If the Court

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72. *Id.* at 2774 (noting that StreamCast’s software was designed to “allow[] users to search specifically for ‘Top 40’ songs”); *id.* (noting that the software was not designed to filter copyrighted material); *id.* at 2781 (stating that the function of *Grokster*’s software was similar to Napster); *id.* at 2782 n.13 (“[T]he distribution of a product can itself give rise to liability where evidence shows that the distributor intended and encouraged the product to be used to infringe. In such a case, the culpable act is not merely the encouragement of infringement but also the distribution of the tool intended for infringing use.”).

73. See Cohen, *supra* note 2, at 355 (arguing that the *Grokster* Court “articulate[d] a standard for inducement that entangles intent with design”).

74. *Grokster*, 125 S. Ct. at 2780.

75. “Purposeful” means “aiming at a specific goal,” and “culpable” simply means “deserving blame.” WEBSTER’S NEW WORLD DICTIONARY 337, 1092 (3d college ed. 1991).

76. *Grokster*, 125 S. Ct. at 2780.

77. *Id.* at 2781.

cannot identify *ex ante* which types of conduct reveal culpable intent, then how can potential defendants predict their own liability? The inducement theory will be much easier to apply retrospectively by a court than prospectively by a start-up technology company,<sup>78</sup> which favors plaintiffs and hurts defendants.<sup>79</sup>

The *Grokster* opinion also failed to lay out clearly the application of the inducement test. The inducement standard appears to have two prongs—intent and affirmative acts. However, intent must be inferred from action.<sup>80</sup> Does proving culpable intent automatically satisfy the action prong? The Court did not explicitly adopt that rule, but seemed to follow it in practice. The Court identified *Grokster*'s affirmative acts in order to prove that *Grokster* had culpable intent but did not revisit the same facts or present any other arguments to show that *Grokster* took sufficient affirmative steps to satisfy the action prong of the inducement standard.<sup>81</sup> Moreover, if an action prong is present, it is not clear whether it is satisfied simply by the distribution of the product or whether it requires actions going beyond distribution.<sup>82</sup>

The inducement theory leaves other questions open as well. Can unlawful intent be inferred from the actions of users or a defendant's knowledge of

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78. See Howell et al., *supra* note 65 ("Because the criteria for making such a showing [of intent] are broad and open-ended, it is impossible to predict what products or services could be the targets of new lawsuits under the Supreme Court's new standard.").

79. See Miller, *supra* note 2, at 214 (arguing that the inducement standard will lead to discovery disputes where plaintiffs will demand "every communication voiced, written, emailed, or conveyed by the defendants").

80. *Grokster*, 125 S. Ct. at 2782 ("If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was."); see also *supra* note 69.

81. After adopting the inducement theory, the *Grokster* Court analyzed the facts of the case to determine whether *Grokster* could survive summary judgment on inducement. This part of the opinion is divided into Parts A and B. *Id.* at 2780, 2782. Part A concluded that the defendants acted with unlawful intent. *Id.* at 2782 ("The unlawful objective is unmistakable."). Part B simply concluded that there was sufficient evidence of direct infringement by users, a necessary element for induce infringement. *Id.* There is no Part C to analyze whether *Grokster* engaged in affirmative acts to induce infringement. Although the Court did conclude that there was evidence of *Grokster*'s "intentional facilitation" of infringement, the Court cited that evidence only to support its finding of unlawful purpose. *Id.* at 2781 (finding that evidence of "intentional facilitation" of infringement bolstered the Court's finding of an "unlawful objective"). The Court did not cite that evidence to support a finding of affirmative steps to induce infringement. Yet earlier in the opinion the Court claims that *Grokster* both "voiced the objective that" its users infringe and "took active steps to encourage infringement." *Id.* at 2772.

82. The Court concluded that "words and deeds going beyond distribution" proved *Grokster*'s unlawful intent and hence subjected *Grokster* to liability. *Id.* at 2782. But *Grokster* argued that its conduct other than distribution was not properly before the Court. *Id.* at 2782 n.13. The Court responded that "the distribution of a product itself can give rise to liability," hinting that *Grokster*'s past actions were irrelevant given its distribution of the software. *Id.* Thus it is not clear whether distribution alone or deeds going beyond distribution are necessary to prove inducement.

their actions?<sup>83</sup> Is culpable intent easier to infer where the scope of infringement is very large? Is a defendant's self-proclaimed lawful purpose evidence of innocent intent?<sup>84</sup> "[I]s it inducement if you reasonably, but incorrectly, believed that the use for which you promoted your product was covered by fair use (or any other copyright exception)?"<sup>85</sup> Is liability based on activity at the time of design, or at the time of distribution? By not answering these questions, the Court leaves us without a bright-line rule to apply in future cases.<sup>86</sup>

### C. Keeping Silent on Fair Use

Another looming question in copyright law is the application of the fair use doctrine, which is not well understood or consistently applied.<sup>87</sup> The Sony Court's application of the doctrine has been criticized,<sup>88</sup> and other courts have struggled to apply it.<sup>89</sup> Unfortunately, the *Grokster* Court did not have the opportunity to clarify the fair use doctrine because *Grokster* conceded that its

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83. See Post, *supra* note 2, at 10 ("If *Grokster*/StreamCast had not been so overt in their encouragement of infringement (as the next generation of software developers and distributors surely will not be) could an intent to cause infringement have still been imputed to them based solely on the fact that most of what their users were doing was infringing?").

84. See Christine Pope, *Unfinished Business: Are Today's P2P Networks Liable for Copyright Infringement?*, 2005 DUKE L. & TECH. REV. 22, 32 ("[S]ome programmers insist that their objective is to create software to benefit society by circumventing censorship and political repression, rather than aiding in copyright infringement. Will the inducement theory of liability leave anyone who posits a lawful goal for their service and who does not encourage infringement free from liability?").

85. Fred von Lohmann, *Grokster = More Fair Use Cases?*, ELECTRONIC FRONTIER FOUND., June 28, 2005, <http://www EFF.ORG/deep links/archives/003755.php> ("If these innovators are wrong on the fair use score, however, are they all liable for inducement? To put it another way, the Supreme Court's ruling may put 'fair use technology companies' in the position of having to litigate, and win, the fair use question on behalf of their customers in order to resist an inducement charge. That's an expensive burden to foist on these companies.").

86. See Howell et al., *supra* note 65 ("Unfortunately, the [*Grokster*] Court provided no bright line test for what will henceforth demonstrate culpable intent or active inducement of user infringement.").

87. See NIMMER & NIMMER, *supra* note 29, § 13.05 (describing the history of the fair use doctrine and the difficulty in applying it).

88. See, e.g., Ned Snow, *The TiVo Question: Does Skipping Commercials Violate Copyright Law?*, 56 SYRACUSE L. REV. 27, 63–64 (2005) (arguing that the Sony fair use holding is limited to its facts); Wardle, *supra* note 2, at 26–27 (arguing that "the Court's fair use analysis in Sony is flawed" and that the four-factor fair use test "does not justify a finding that unauthorized off-the-air recording of copyrighted works for home use is a fair use"); Matthew W. Bower, Note, *Replaying the Betamax Case for the New Digital VCRs: Introducing TiVo to Fair Use*, 20 CARDOZO ARTS & ENT. L.J. 417, 419 (2002) ("Some scholars were dissatisfied with the [Sony] Court's inability to articulate a consistent standard for fair-use analysis, providing inadequate direction for lower courts.").

89. See *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939) (per curiam) (stating that "the issue of fair use . . . is the most troublesome in the whole law of copyright"); *Time, Inc. v. Bernard Geis Assocs.*, 293 F. Supp. 130, 144 (S.D.N.Y. 1968) ("The [fair use] doctrine is entirely equitable and is so flexible as virtually to defy definition.").

users were infringing.<sup>90</sup> Grokster's concession rendered fair use irrelevant, and any comment by the Court on fair use would have been dictum.

Grokster's concession had several consequences for the Court's opinion. The first is that the Court was unable to consider whether Grokster users had a fair use defense. This result leads to the troubling possibility that, had the Court considered fair use, it would have found private home copying to be fair, at least in some circumstances.<sup>91</sup> Thus it is possible that Grokster was found secondarily liable for some direct infringement that did not actually take place.

Grokster's concession also allowed the Court to equate "downloading" with "infringing," and "copyrighted" with "infringed." Without a fair use defense, downloading was always infringing, and every file that was copyrighted was also infringed, assuming it was downloaded even once. By equating downloading with infringing, and copyrighted with infringed, the Court removed the user from the analysis entirely.<sup>92</sup> The Court could then focus on Grokster's knowledge that the files on its network were copyrighted, something it could and did know, rather than Grokster's knowledge that its users were infringing, something it could not know without having specific facts about each individual user's potential fair use defense.<sup>93</sup>

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90. See *MGM Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2772 (2005) ("Grokster and StreamCast concede the infringement in most downloads, and it is uncontested that they are aware that users employ their software primarily to download copyrighted files . . .") (citation omitted); Brief of Amici Curiae Law Professors in Support of Respondents at 3, *MGM Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) (No. 04-480) [hereinafter Lunney Brief], available at [http://www.eff.org/IP/P2P/MGM\\_v\\_Grokster/20050301\\_lunney.pdf](http://www.eff.org/IP/P2P/MGM_v_Grokster/20050301_lunney.pdf) ("[T]his case comes before the Court on the assumption that all unauthorized private copying constitutes copyright infringement.").

91. See Lunney Brief, *supra* note 90, at 12 (arguing that private home copying for personal use is "predominantly fair").

92. See Cohen, *supra* note 2, at 354–55 (arguing that "the user is an afterthought" in the copyright debate, and that the *Grokster* Court "envision[s] users in aggregate, as an installed base of would-be thieves to whose baser instincts the *Grokster* defendants deliberately appealed"). A group of law professors filed an amicus brief with the Court specifically to criticize the exclusion of the user from the dispute. "It is troubling, and perhaps more than troubling, that this case comes before the Court on a theory of direct infringement developed initially in secondary infringement cases, such as this one, where the alleged direct infringers were neither parties nor otherwise represented at all." Lunney Brief, *supra* note 90, at 1. J. Glynn Lunney objects because the users "are being branded copyright infringers *en masse* without any such opportunity [to be heard]." *Id.* at 2; see also Lemley & Reese, *supra* note 6, at 1379 ("Suits against third parties in the digital environment do not—indeed generally cannot—address specific conduct by particular end users."). Although this is a problem with secondary liability in general, it is particularly troublesome where, as Professor Lunney argues here, some individual end users making private home copies may have a fair use defense.

93. The fair use defense depends on the unique factual circumstances of the user. To determine whether a particular use of a copyrighted work qualifies as a fair use, courts consider the following factors:

- (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;



Additionally, by equating downloading with infringing, the Court rendered its statements inaccurate in future cases where the defendants do not concede infringement. For example, the Court focused on the availability of copyrighted files on the *Grokster* network, rather than the actual act of copying those files, because the Court assumed that if a copyrighted file was available on the *Grokster* network, then it was infringed.<sup>94</sup> But the fact that copyrighted content is available for free is not actually determinative of liability.<sup>95</sup> In relying on availability as evidence of liability, the *Grokster* Court confused the legal rule.

#### D. Overruling Sony

The *Grokster* Court claimed that revisiting Sony was not necessary to decide the case before it and appeared to affirm Sony by restating it with approval.<sup>96</sup> But a close comparison of the legal statements in *Grokster* and Sony reveals a few contradictions.

The Sony Court rejected the argument that encouraging infringement leads to liability: "Respondents argue that . . . supplying the 'means' to accomplish an infringing activity and *encouraging that activity through advertisement* are sufficient to establish liability for copyright infringement. This argument rests on a gross generalization that cannot withstand scrutiny."<sup>97</sup> Compare the rule from the *Grokster* case: "Evidence of 'active steps . . . to encourage direct infringement', *such as advertising an infringing use* . . . show[s] an affirmative intent that the product be used to infringe, and a showing that infringement was encouraged overcomes the law's reluctance to find liability when a defendant merely sells a [dual-use product]."<sup>98</sup> The *Grokster* Court emphasized that "[t]he classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations."<sup>99</sup> This language indicates that advertising an infringing use is a ground for liability. But the

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(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.

17 U.S.C. § 107 (2000).

94. *Grokster*, 125 S. Ct. at 2772 (focusing on the percentage of files on the *Grokster* network that were copyrighted); *id.* at 2774 (focusing on StreamCast's desire to have many copyrighted songs available); *id.* at 2780 (finding *Grokster*'s advertisements of its ability to download copyrighted files as evidence of intent that users infringe).

95. Public libraries, over-the-air television stations, and radio stations make copyrighted works available for free and are not therefore liable for contributory infringement.

96. *Grokster*, 125 S. Ct. at 2778–79.

97. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 436 (1984) (emphasis added).

98. *Grokster*, 125 S. Ct. at 2779 (citation omitted).

99. *Id.* at 2780 (emphasis added).

Sony Court said that advertising to encourage an infringing activity—not simply to encourage use of the product, but specifically to encourage an infringing activity—is not a ground for liability.

A second contradiction between the two cases is their treatment of the inducement doctrine. The Sony Court specifically rejected Universal's suggestion that the Court adopt an inducement theory of liability for copyright infringement. Universal cited a trademark case<sup>100</sup> in which the Court imposed liability for inducing trademark infringement, but the Court refused to extend that doctrine from trademark into copyright law.<sup>101</sup> The Court also declined to adopt the inducement theory from the Patent Act.<sup>102</sup> Instead, the Sony Court adopted the Patent Act's staple article of commerce doctrine.<sup>103</sup> The *Grokster* Court cited the same provisions of the Patent Act that were cited in *Sony*, this time to adopt the same inducement theory that the Sony Court rejected.<sup>104</sup>

Overall, the statements of law in *Grokster* start to sound more like the Sony dissent than the Sony majority. The Sony dissent advocated adopting the inducement theory from trademark law, a theory similar to the one the *Grokster* Court adopted.<sup>105</sup> Both the *Grokster* majority and the Sony dissent emphasized the importance of focusing on the aggregate total amount of infringement, instead of individual infringing acts.<sup>106</sup> Both opinions also

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100. *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 854–55 (1982).

101. *Sony*, 464 U.S. at 439 n.19 (explaining that “we do not look to the standard for contributory infringement set forth in *Inwood Laboratories*” where a distributor was liable for inducing trademark infringement).

102. *Id.* at 440 n.20 (quoting the Patent Act, including the provision imposing liability on “[w]hoever actively induces infringement,” but declining to extend the inducement theory into copyright law).

103. *Id.* at 441–42. After rejecting the inducement standard from trademark law, the Sony Court examined the staple article of commerce doctrine from patent law, a doctrine that protects the distribution of products with commercial noninfringing uses. The Sony Court explained that “contributory infringement cases arising under the patent laws . . . deny the patentee any right to control the distribution of unpatented articles unless they are ‘unsuited for any commercial noninfringing use.’” *Id.* at 441 (citation omitted). The Court then analogized contributory patent infringement to contributory copyright infringement and applied the staple article of commerce doctrine to copyright law. *Id.* at 442.

104. *Grokster*, 125 S. Ct. at 2780 (“For the same reasons that Sony took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright.”).

105. *Sony*, 464 U.S. at 489–90 (Blackmun, J., dissenting) (approving a trademark case where the Court imposed liability “on a manufacturer who ‘suggested, even by implication’ that a retailer use the manufacturer’s goods to infringe the trademark of another”).

106. *Id.* at 482 (“Although such a use may seem harmless when viewed in isolation, ‘[i]solated instances of minor infringements, when multiplied many times, become in the aggregate a major inroad on copyright that must be prevented.’”) (citation omitted); *Grokster*, 125 S. Ct. at 2776 (“The argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day . . .”).

emphasized that copyright infringement liability does not require actual knowledge of infringement.<sup>107</sup>

Thus, although *Grokster* claimed to affirm *Sony*, it actually narrowed the *Sony* holding and moved copyright law closer to where the *Sony* dissent wanted it to be. The contradictions between *Grokster* and *Sony*, the three-way split on defining “substantial noninfringing uses,” the silence on fair use, and the considerable confusion about the new inducement theory are all ways in which the legal rule from *Grokster* is unclear. Potential defendants will need to study the facts from *Grokster* and *Sony* in order to predict and avoid liability.

### III. RECONCILING SONY AND GROKSTER THROUGH FACTUAL COMPARISONS

One legal conclusion is clear from the *Sony* and *Grokster* decisions—*Sony* escaped liability while *Grokster* did not. Technology companies can look to the two different factual scenarios, instead of the legal statements, to determine what saved *Sony* and what doomed *Grokster*. However, even these careful comparisons and distinctions have limited value, given that three justices analogized *Grokster* to *Sony*, and three distinguished the two.<sup>108</sup> This split makes it difficult to identify which facts are important.

#### A. Comparing the Facts of *Sony* and *Grokster*

The *Sony* and *Grokster* cases contain many parallels that cast doubt on their opposite legal outcomes. Both *Sony* and *Grokster* distributed dual-use products—products capable of both infringing and noninfringing uses.<sup>109</sup>

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107. The *Sony* dissent argued that “a finding of contributory infringement has never depended on actual knowledge of particular instances of infringement; it is sufficient that the defendant have reason to know that infringement is taking place.” *Sony*, 464 U.S. at 487 (Blackmun, J., dissenting). Similarly, in justifying its holding that *Grokster* was potentially liable, the *Grokster* Court stated that the defendants “are aware that users employ their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks fail to reveal which files are being copied, and when.” *Grokster*, 125 S. Ct. at 2772.

108. Compare *Grokster*, 125 S. Ct. at 2785 (Ginsburg, J., concurring) (“This case differs markedly from *Sony*.”), with *id.* at 2788–89 (Breyer, J., concurring) (comparing the two cases and concluding that “*Grokster* passes *Sony*’s test”).

109. The VCR user “could use that machine for non infringing purposes, such as recording for later viewing” or “for infringing purposes as well, such as building libraries of taped copyrighted programs.” *Id.* at 2787 (Breyer, J., concurring); see also *Sony*, 464 U.S. at 436 (finding that *Sony* supplies a “piece of equipment that is generally capable of copying the entire range of programs that may be televised: those that are uncopyrighted, those that are copyrighted but may be copied without objection from the copyright holder, and those that the copyright holder would prefer not to have copied”). Similarly, *Grokster*’s software was used to make unauthorized copies of

Both companies were aware, even before they began distributing, that their product could be used to infringe copyrights.<sup>110</sup> After they began distributing, they were both aware that customers were actively and repeatedly using the product to infringe.<sup>111</sup> But neither company had direct knowledge of specific acts of infringement by specific customers.<sup>112</sup> In both cases, close to 10 percent of the available content could be recorded or downloaded freely, either because it was uncopyrighted or because the copyright owner did not object to the copying.<sup>113</sup>

For both companies, more users meant more revenue, whether or not users were infringing.<sup>114</sup> To attract more customers and increase revenue, both

copyrighted music files, an infringing use, and to trade copies of uncopyrighted public domain works, a noninfringing use. *Grokster*, 125 S. Ct. at 2772.

110. *Grokster* was aware because the *Napster* case gave it clear warning. *Grokster*, 125 S. Ct. at 2780 (noting that the software was “designed . . . to invite the custom of patrons of *Napster*, then under attack in the courts for facilitating massive infringement”). Sony included with the VCR instruction booklet a warning about copyright infringement. *Sony*, 464 U.S. at 426. The warning stated: “Television programs, films, videotapes and other materials may be copyrighted. Unauthorized recording of such material may be contrary to the provisions of the United States copyright laws.” *Universal City Studios, Inc. v. Sony Corp.*, 480 F. Supp. 429, 436 (C.D. Cal. 1979), *rev’d*, 659 F.2d 963 (9th Cir. 1981), *rev’d*, 464 U.S. 417 (1984). Sony’s distribution of this warning shows its awareness of the VCR’s infringing potential.

111. *Grokster* was notified of its users’ infringement by copyright owners. *Grokster*, 125 S. Ct. at 2772 (“MGM notified [*Grokster* and *StreamCast*] of 8 million copyrighted files that could be obtained using their software.”). Sony conducted a survey that showed that “a substantial number of [VCR users] had accumulated libraries of tapes.” *Sony*, 464 U.S. at 423; *see also id.* at 483 n.35 (Blackmun, J., dissenting) (citing survey evidence that at least 40 percent had a library of more than ten tapes and more than 40 percent of VCR users planned to view tapes more than once); *id.* at 489 (“It is undisputed in this case that Sony had reason to know the [VCR] would be used by some owners to tape copyrighted works off the air.”).

112. *Grokster* had no actual knowledge of specific acts of infringement. *Grokster*, 125 S. Ct. at 2772 (finding that *Grokster* and *StreamCast* “are aware that users employ their software primarily to download copyrighted files, although the decentralized networks do not reveal which files are being copied, and when”); *id.* at 2772 (“*Grokster* and *StreamCast* do not therefore know when particular files are copied . . .”). Sony also had no actual knowledge of infringement by its users: “The only contact between Sony and the users of the [VCR] that is disclosed by this record occurred at the moment of sale. The District Court expressly found that ‘no employee of Sony . . . had either direct involvement with the allegedly infringing activity or direct contact with purchasers of [the VCR] who recorded copyrighted works off-the-air.’” *Sony*, 464 U.S. at 438.

113. Approximately 10 percent of the files on the *Grokster* network were uncopyrighted. *Grokster*, 125 S. Ct. at 2772. In the *Sony* case, approximately 9 percent of the programs on television could be recorded without objection. *Id.* at 2788 (Breyer, J., concurring) (“But of all the taping actually done by Sony’s customers, only around 9% was of the sort the Court referred to as authorized.”); *see also Sony*, 464 U.S. at 424. This similarity led Justice Breyer to conclude that the 10 percent level in *Grokster* was “very similar to the 9% or so of authorized time-shifting uses of the VCR that the Court faced in *Sony*.” *Grokster*, 125 S. Ct. at 2789 (Breyer, J., concurring).

114. *See Wardle, supra* note 2, at 15 (“The [*Sony*] Court found that Sony had no financial interest in the VTR’s use because Sony derived the same financial benefit from the sale of a VTR whether or not it was put to infringing use. Yet, the Court may draw the same conclusion for both *Grokster* and *StreamCast*. While their advertising revenue directly correlated to the number of individuals who downloaded *Grokster* and *Morpheus* software, the financial benefit was the same whether used for lawful or unlawful purposes.”).

companies distributed advertisements that encouraged an infringing use of the product. Sony's ads encouraged customers to "build a library" of copyrighted programming,<sup>115</sup> and its salesmen openly recorded copyrighted programs in electronics stores to demonstrate how to use the VCR.<sup>116</sup> Similarly, Grokster advertised its software as a replacement for Napster, a peer-to-peer network that was used predominantly for infringement.<sup>117</sup> None of the advertisements by either company contained warnings about copyright infringement.<sup>118</sup>

Neither company made any effort to curb infringement by its users, although both could have. Sony could have removed the tuner from its VCR, so that the VCR could play prerecorded tapes but would be unable to record over-the-air television broadcasts.<sup>119</sup> Instead, Sony failed to remove the tuner.<sup>120</sup> Likewise, Grokster refused to monitor or filter the files available on its network.<sup>121</sup> But neither company actually provided its users with the copyrighted works. The users themselves provided the copyrighted content on the Grokster network, and the plaintiffs in Sony provided television stations with the copyrighted content that VCR users recorded.

Neither company could control its users after the point of distribution of the product. Grokster could not block access to certain users or shut down the network.<sup>122</sup> Sony could not prevent its customers from recording television broadcasts. But both companies did warn their customers about the risk of copyright infringement. Sony included a disclaimer in the instruction booklet that came with the VCR,<sup>123</sup> and Grokster sent email warnings to users who had been identified as infringers.<sup>124</sup>

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115. Sony, 464 U.S. at 459 (Blackmun, J., dissenting).

116. Universal City Studios, Inc. v. Sony Corp., 480 F. Supp. 429, 439 (C.D. Cal. 1979), *rev'd*, 659 F.2d 963 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984).

117. Grokster, 125 S. Ct. at 2773.

118. Sony, 464 U.S. at 459 (Blackmun, J., dissenting) (explaining that "Sony's Betamax advertising has never contained warnings about copyright infringement").

119. Sony, 464 U.S. at 422–23; *see also id.* at 458 n.1 (Blackmun, J., dissenting). The VCR consisted of three parts: a tape recorder, adapter, and tuner. Sony, 480 F. Supp. at 435. The tuner enabled the VCR user to record over-the-air broadcasts; without the tuner, the VCR could only have played prerecorded videotapes.

120. *See* Universal City Studios, Inc. v. Sony Corp., 480 F. Supp. 429, 462 (C.D. Cal. 1979) ("Plaintiffs also assert that defendants could remove the tuner from the Betamax and thereby make it impossible to record off-the-air."); Sony, 464 U.S. at 492 n.42 (Blackmun, J., dissenting) (noting that the plaintiffs did "not object to [the] sale of [VCR]s without tuners").

121. Grokster, 125 S. Ct. at 2774, 2781.

122. *See supra* note 36 and accompanying text.

123. *See supra* note 110.

124. Grokster, 125 S. Ct. at 2774.

These factual similarities have led some commentators to conclude that Sony would be found liable under *Grokster*'s new inducement test.<sup>125</sup> But the Sony Court explicitly held that "Sony certainly does not 'intentionally induc[e]' its customers to make infringing uses of respondents' copyrights."<sup>126</sup> And the *Grokster* Court stated that it was not even "conceivable" that Sony could have been held liable for inducement.<sup>127</sup> Thus, despite the similar facts, the *Grokster* Court drew a sharp distinction between *Grokster* and Sony. The key to liability lies in the spaces between those facts, and the ways the facts of the two cases can be distinguished.

#### B. Distinguishing the Facts of Sony and Grokster

In order to find against *Grokster* without overruling Sony, the *Grokster* Court first attempted to distinguish Sony. The Court stated that "[t]here was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping."<sup>128</sup> No evidence? Sony's advertisements encouraging customers to "build a library" could certainly be interpreted as active steps to increase profits from unlawful taping. Sony's refusal to remove the tuner from the VCR also indicates an object of bringing about unlawful taping. Sony profited from unlawful taping in the same way that *Grokster* profited from unlawful downloading—more unlawful uses meant the product was more popular, attracted more customers, and brought in more revenue.

The *Grokster* Court also claimed to distinguish Sony by stating that "[a]lthough Sony's advertisements urged consumers to buy the VCR to 'record favorite shows' or 'build a library' of recorded programs, neither of these uses was necessarily infringing."<sup>129</sup> But downloading a file from the *Grokster* network was not necessarily infringing either, if the user had a fair use defense or was downloading an uncopyrighted file.

Still, *Grokster* and Sony can successfully be distinguished in other ways. The opposite outcomes of the two cases are not due solely to the new inducement

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125. See, e.g., Wardle, *supra* note 2, at 2 ("Under the standard articulated in *Grokster* for finding intent to induce infringement, the Sony Court could have held that it was Sony's intent to induce copyright infringement but for the Court's own finding that off-the-air recording of copyrighted television programs is a fair use of copyrighted material.").

126. Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 439 n.19 (1984).

127. The *Grokster* Court summarized the facts of Sony and then stated that "[o]n those facts, with no evidence of stated or indicated intent to promote infringing uses, the only conceivable basis for imposing liability was on a theory of contributory infringement." *Grokster*, 125 S. Ct. at 2777.

128. *Id.*

129. *Id.* (citations omitted).

theory adopted by the *Grokster* Court. As explained below, key factual differences between the two cases include the principal use of the product, the total amount of infringement enabled by the product, the scope of the plaintiff's copyright protection, the defendant's business model, the source of the copyrighted content, the product's lineage, and the defendant's active involvement with infringement after the sale.

The first important distinction between the two cases is the principal use of the products. The VCR was principally used for time-shifting, which the Sony Court held was a fair use.<sup>130</sup> Thus, most of the VCR users in Sony were not even infringing. By contrast, *Grokster* conceded that most users of the *Grokster* software were infringing.<sup>131</sup>

A second distinction is the total amount of infringement enabled by the product. The aggregate scope of infringement by *Grokster* users was much higher and much more widespread than the library-building infringement by VCR users. The *Grokster* network enabled massive infringement through free and fast file exchanges,<sup>132</sup> while library building took place on a much smaller scale.<sup>133</sup>

Another reason Sony escaped liability was that Universal owned copyrights to less than 10 percent of over-the-air television broadcasts.<sup>134</sup> The Sony Court was reluctant to enjoin distribution of the VCR, a remedy that would have significantly affected all copyrights, when Universal clearly did not speak for all copyright holders.<sup>135</sup> MGM, on the other hand, owned 75 percent of the copyrighted files traded on the *Grokster* network.<sup>136</sup>

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130. Sony, 464 U.S. at 442; see also Wardle, *supra* note 2, at 26–27 (arguing that “the difference in the outcomes of the Sony and *Grokster* decisions has less to do with the defendants’ intentions than with the Supreme Court’s finding in Sony that unauthorized off-the-air recording of copyrighted audiovisual material for home use was a fair use of copyrighted material”).

131. *Grokster*, 125 S. Ct. at 2772.

132. *Id.* at 2776 (holding that “[t]he argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day using StreamCast’s and *Grokster*’s software”); see also Lunney Brief, *supra* note 90, at 19 (arguing that “courts seem overwhelmed by the large number of private copies being made”).

133. Library building was not the primary use of the VCR, and survey evidence indicated that most VCR users did not build substantial libraries of copyrighted programs. Sony, 464 U.S. at 423–24 n.4 (1984) (summarizing survey evidence that indicated that library building was not substantial, including that “75.4% of the [VCR] owners use their machines to record for time-shifting purposes half or most of the time” and that, “of the total programs viewed by interviewees in the past month, 70.4% had been viewed only that one time”) (citations omitted).

134. *Id.* at 443 (“Each of the respondents owns a large inventory of valuable copyrights, but in the total spectrum of television programming their combined market share is small. The exact percentage is not specified, but it is well below 10%.”).

135. *Id.* at 446 (“But in an action for contributory infringement against the seller of copying equipment, the copyright holder may not prevail unless the relief that he seeks affects only his programs, or unless he speaks for virtually all copyright holders with an interest in the outcome.”) (emphasis omitted).

136. *Grokster*, 125 S. Ct. at 2786 n.3 (Ginsburg, J., concurring).

Another distinction that carried substantial weight with the *Grokster* Court was the defendant's business model.<sup>137</sup> *Grokster* offered its file-sharing software to users for free and collected profits not from the users but from advertisers.<sup>138</sup> By contrast, Sony's revenue came directly from its customers. Why should that distinction matter? Regardless of business model, both Sony and *Grokster* increased revenue by distributing their product to more users. But there is a difference. Sony's profits depended only on sales. How VCR customers used the product after the sale had no direct effect on Sony's revenue. *Grokster*'s revenue, on the other hand, depended on continued high-volume use after the point of sale. If *Grokster* users decreased their use of the *Grokster* network, *Grokster*'s advertising space would lose value and its profits would fall. Because the most popular high-volume use of the *Grokster* network was infringing, *Grokster*'s revenue depended directly on continued infringement, unlike Sony's revenue.<sup>139</sup> This distinction suggests that a business model based on advertising is more incriminating than one based on sales.<sup>140</sup> In fact, any business model that derives revenue directly and proportionally from repeated, widespread infringement will likely be viewed with suspicion. An advertising-based business is a clear example of such a business model.

A further distinction between *Grokster* and Sony is the way the copyrighted content was made available. In *Sony*, the plaintiffs themselves freely offered their copyrighted content to VCR users by broadcasting it over the air. As the Sony Court explained, "[Sony] in the instant case do[es] not supply [VCR] consumers with respondents' work; respondents do."<sup>141</sup> Universal was reimbursed by the television networks, who paid Universal for the right to

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137. The *Grokster* Court relied heavily on *Grokster*'s advertising-based business model. *Id.* at 2781–82 (emphasizing that "StreamCast and *Grokster* make money by selling advertising space" and therefore "the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing"); see also Andrews, *supra* note 2, at 431 (arguing that the *Grokster* Court was biased against advertising-based business models, and that the Court should have focused on the users' access to copyrighted works instead of on the defendants' revenue stream).

138. *Grokster*, 125 S. Ct. at 2774 ("Grokster and StreamCast receive no revenue from users, who obtain the software itself for nothing.").

139. See Wardle, *supra* note 2, at 25–26 (arguing that "[t]he [*Grokster*] Court determined that demand for copyright infringement enabling software was translating into dollars for *Grokster* and StreamCast").

140. See Howell et al., *supra* note 65 ("A product that is not free and does not depend economically on user volume and ad revenues might thus stand a better chance of avoiding indirect liability."); Andrews, *supra* note 2, at 431 ("The central issue is unauthorized access to copyrighted work, not how a company chooses to profit from that unauthorized access. The Court confuses its concern with businesses based on infringement with a business' choice of revenue model. In doing so, the Court reveals its business model bias and casts a shadow over advertising-based businesses.").

141. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 436 (1984).



broadcast the copyrighted content.<sup>142</sup> Thus, the VCR simply increased access to copyrighted content that was already purchased and licensed.<sup>143</sup> No one paid for that content in the *Grokster* scenario. In *Grokster*, the users supplied each other with MGM's copyrighted work by uploading copyrighted files onto the Grokster network. Grokster users did not pay for the rights to distribute that copyrighted content, as the television networks had in the *Sony* case.<sup>144</sup>

Another important difference between *Sony* and *Grokster* is lineage. The Napster lawsuit made clear that peer-to-peer networks enabled massive infringement, and that the software users predominantly used the networks to infringe. Instead of distancing itself from its predecessor, Grokster actually advertised itself as the next Napster and intentionally recruited former Napster users.<sup>145</sup> In effect, Grokster targeted a known group of infringers.<sup>146</sup> The *Grokster* Court found this particularly incriminating.<sup>147</sup> Sony, by contrast, did not target its advertisements toward customers with a history of infringement.

Next, despite the similarity in Sony's and Grokster's advertisements, the two Courts drew very different conclusions about them. The *Sony* Court relied on the district court's conclusion that "there was no evidence that any of the copies made by . . . individual witnesses in this suit were influenced or encouraged by [Sony's] advertisements."<sup>148</sup> Additionally, Sony had no direct

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142. *Id.* at 446 n.28 (explaining that the VCR user "is not required to pay a fee for access to the underlying work" because the television networks have paid for it).

143. See Howell et al., *supra* note 65 ("If your product enables users to access duly licensed and authorized material, . . . you are increasing its commercially significant noninfringing utility and helping diffuse an argument that your business model is premised on user infringement.").

144. This distinction has flaws. The *Sony* plaintiffs would argue that the television networks only paid to broadcast the copyrighted content once. They did not buy a license to distribute permanent copies to their viewers. No one was actually paying the copyright owner for the permanent copy that the VCR user made. Similarly, the copyrighted content available through Grokster's network was actually paid for at one point; presumably, the first Grokster user who uploaded a copyrighted song onto the network purchased that song on CD, thus paying for the content. But MGM would argue that this user did not pay for the rights to make the content available to everyone over the Internet. However, the distinction remains that the copyrighted content in *Sony* was freely available to anyone with a television, while the copyrighted content in *Grokster* was not available to consumers unless they paid for it.

145. MGM Studios, Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2773 (2005).

146. See Howell et al., *supra* note 65 ("The lesson of these evidentiary items is to target a broad universe of users, and avoid marketing activities that could be construed as appealing to customers who are particularly interested in copyright infringement.").

147. *Grokster*, 125 S. Ct. at 2781 ("[E]ach company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users."); see also *id.* ("Grokster and StreamCast's efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.").

148. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 438 (1984) (citations omitted).

involvement with VCR users after the sale.<sup>149</sup> But according to the *Grokster* Court, Grokster did influence its users. Grokster sent emails to users explaining how to open copyrighted files, organized "Top 40" searches for popular copyrighted songs, and distributed newsletters that promoted infringing uses.<sup>150</sup> Thus, the impact of advertising on the user, and not just the advertising itself, is another factor that distinguishes Sony from Grokster.

In the end, one simple distinction between *Grokster* and *Sony* may explain both cases. Would any consumer buy or use the defendant's product for its noninfringing uses alone?<sup>151</sup> In *Sony*, the answer was yes. If the VCR were only capable of time-shifting and playing purchased or rented video tapes, and did not enable library building, consumers would most likely still purchase the VCR. The opposite is true of Grokster's software. Had it enabled users to download only public domain works, very few Internet users, and even fewer advertisers, would have been interested.<sup>152</sup> If a product's popularity is based almost exclusively on infringing uses, even though the product is capable of substantial noninfringing uses, courts may be inclined to hold the defendant distributor liable.

In fact, several of the above factual distinctions can be wrapped up into this one. If consumers are only interested in a product's infringing uses, then the principal use of the product will be infringing, and the scope of infringement is likely to be widespread. Additionally, if consumers are only buying the product for its infringing uses, then the defendant's business is probably profiting directly from that infringement and may be actively encouraging it to increase profits. A product that is only popular for its infringing uses is also more likely than a noninfringing product to have descended from an incriminating lineage of infringing products, or to owe its popularity to procuring access to copyrighted content that is not otherwise freely available. Thus, if consumers would not buy or use the defendant's product for its noninfringing uses alone, courts may be inclined to impose liability.

These factual distinctions are no guarantees. But when a court's statements of law are as unclear as they are in *Grokster*, factual distinctions such as these can identify the important issues and help potential defendants avoid liability.

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149. *Id.* at 438.

150. *Grokster*, 125 S. Ct. at 2772-74.

151. This test was suggested by Justice Blackmun in his *Sony* dissent: "[I]f no one would buy the product for noninfringing purposes alone, it is clear that the manufacturer is purposely profiting from the infringement, and that liability is appropriately imposed." *Sony*, 464 U.S. at 491 (Blackmun, J., dissenting).

152. *Grokster*, 125 S. Ct. at 2774 ("While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work.").

#### IV. THE POTENTIAL LIABILITY OF EMERGING-TECHNOLOGY COMPANIES

The factual analogies and distinctions between *Sony* and *Grokster* provide a rough roadmap for emerging-technology companies that need to structure their conduct, business models, and products to avoid copyright liability. The following part compares three new technologies to the *Sony* and *Grokster* cases to identify the problems these companies may face in future litigation.

##### A. Satellite Radio Recorders: TimeTrax and XM Satellite Radio

TimeTrax is a new device that records songs from satellite radio. The TimeTrax website advertises that the device “lets you record XM and SIRIUS broadcasts including music, talk, news, sports, comedy, and more. Content is stored on your hard drive as individual MP3s (or any other of six file formats), ready for a CD-R, your MP3 player or to enjoy right on your computer.”<sup>153</sup> Some articles refer to use of the TimeTrax device to “timeshift” radio broadcasts.<sup>154</sup> TimeTrax has also developed a product called the TraxCatcher, “an FM radio clock with an MP3 player allowing anyone to ‘tune and rip.’”<sup>155</sup> The device, ranging from \$99 to \$499, records over-the-air radio and stores each song into an individual MP3 file.<sup>156</sup> According to TimeTrax’s CEO, “You just tune to an FM station, hit record, walk away, and you have a music library of 50 songs.”<sup>157</sup> When you return home to your library of songs, “you can grab and go with the MP3 player or use its completely integrated USB 2.0 connection to drop them on your computer to have them tagged with artist and song information and sorted for you.”<sup>158</sup> The MP3 files recorded by the device are embedded with serial numbers to discourage online file sharing, since the files can be traced.<sup>159</sup>

XM Satellite Radio’s new Pioneer Inno is a similar device that records up to fifty hours of XM radio.<sup>160</sup> XM advertises the device with the slogan “Hear

153. TimeTrax, *Timeshifting Software for XM Satellite Radio*, <http://www.timetraxtech.com> (last visited Oct. 13, 2006).

154. See *id.*; Ritwik Sinha, “Tune and Rip” by using TraxCatcher from Time Trax Technologies, *MOBILE MAG.*, Jan. 9, 2006, <http://mobilemag.com/content/100/353/C5919>.

155. Sinha, *supra* note 154.

156. See *id.*; Posting of Ryan Block to Engadget.com, TimeTrax’s TraxCatcher, <http://www.engadget.com/2006/01/06/timetraxs-popcatcher> (Jan. 6, 2006, 09:32 PST).

157. Posting of Ryan Block, *supra* note 156.

158. *Will TimeTrax Product Launch Rattle the RIAA, Again?*, *BUS. WIRE*, Jan. 7, 2006, available at [http://www.findarticles.com/p/articles/mi\\_m0EIN/is\\_2006\\_Jan\\_7/ai\\_n15988366](http://www.findarticles.com/p/articles/mi_m0EIN/is_2006_Jan_7/ai_n15988366).

159. *Id.*

160. Pioneer Inno, <http://img.xmradio.com/innodemo> (last visited Oct. 13, 2006).

it. Click it. Save it.”<sup>161</sup> The Inno website boasts “one touch recording” that allows users to record songs “with the touch of a button.” The device enables users to organize individual songs into custom playlists and “listen to the songs you want to hear when you want to hear them.”<sup>162</sup> The Inno sells for \$349.99, and requires a \$12.95 per month subscription to XM Satellite Radio.<sup>163</sup> The songs cannot be transferred from the Inno to any other device and cannot be played if the user’s XM subscription lapses.<sup>164</sup>

Could TimeTrax or XM be the next Sony or Grokster? The Recording Industry Association of America (RIAA) has already filed suit against XM alleging that the Inno violates existing copyright law and demanding damages and a complete ban on distribution.<sup>165</sup> TimeTrax recently overhauled its website and removed all references to its TraxCatcher device.<sup>166</sup> The determinative facts outlined in the previous part—the product’s principal use, the total amount of infringement, the scope of the plaintiff’s copyrights, the defendant’s business model, the source of the copyrighted content, the product’s lineage, and the defendant’s active involvement after the sale—may help to predict TimeTrax’s and XM’s copyright infringement liability.<sup>167</sup>

161. *Id.*

162. *Id.*; see also David Colker, *Technopolis: XM Recording Is Easy; Issue Is Difficult*, L.A. TIMES, June 29, 2006, at C7 (explaining that “users of the Inno have the ability—while on the go—to save individual songs that can be later mixed with downloaded tracks from a user’s personal collection” and describing how “[o]rganizing recorded tracks into customized playlists is fairly easy”).

163. Pioneer Inno, *supra* note 160; see also Colker, *supra* note 162, at C7.

164. See Stephen H. Wildstrom, *Copyrights and Wrongs*, BUS. WK., July 3, 2006, at 24 (explaining that “once saved, the songs are locked in the device until they are deleted or the XM subscription lapses, when they vanish”); Ted Bridis, *Record Labels Sue XM Satellite Over Player*, MSNBC.COM, May 16, 2006, <http://www.msnbc.msn.com/id/12822547>.

165. The Recording Industry Association of America (RIAA) filed suit against XM in federal district court in New York on May 16, 2006, seeking \$150,000 in damages per song and a complete ban on Inno sales. XM’s competitor, Sirius Satellite Radio, offers a similar recording device, but reached an agreement with the RIAA to pay extra licensing fees for its distribution. Wildstrom, *supra* note 164 (explaining that Sirius “avoided a lawsuit by signing a license with three major record companies to pay extra royalties for its recording-capable S50 player”); Bridis, *supra* note 164.

166. TimeTrax, *supra* note 153.

167. However, even if TimeTrax and XM avoid liability in the courts, they face opposition in the U.S. Congress as well. A proposed bill would make these new recording devices illegal by imposing new restrictions on the streaming MP3 file format. See Platform Equality and Remedies for Rights Holders in Music Act of 2006, H.R. 5361, 109th Cong. (2006); see also Carlos Bergfeld, *XM vs. the Industry and Congress*, BUS. WK. ONLINE, June 21, 2006, [http://www.businessweek.com/technology/content/jun2006/tc20060621\\_591400.htm?chan=search](http://www.businessweek.com/technology/content/jun2006/tc20060621_591400.htm?chan=search) (discussing how the proposed legislation “would make XM’s newest line of satellite radio players illegal”); *Perform Act Is ‘Half the Banana’ but Good Start, Content Partisans Say*, CONSUMER ELECTRONICS DAILY, June 6, 2006, available at LEXIS (explaining the impact of the bill on content, format, and royalties).

First, the principal use of the TimeTrax and Inno devices is probably library building.<sup>168</sup> Both devices separate individual songs into different MP3 files, which is not necessary if the user is going to listen all the way through the recorded radio program once and then delete it. The TimeTrax device cuts out commercials and DJ comments and can even label the MP3 files with artist and song information. The Inno organizes songs into multiple customized playlists.<sup>169</sup> The RIAA argues that the Inno “is designed to free subscribers from ever having to experience XM’s transmissions as a unified, integrated radio broadcast.”<sup>170</sup> These features suggest that the user is going to accumulate a large library of files that need to be carefully organized in order to be played many times in the future. The files are being formatted for permanent storage, not temporary time-shifting. Thus, a court would probably find that the devices are not used principally to time-shift, but to build libraries of infringing copies, aligning TimeTrax and XM with Grokster instead of Sony.

Second, the companies’ business models can be compared to predict liability. The *Grokster* Court focused heavily on Grokster’s advertising-based business model. TimeTrax’s revenue is not based on advertising.<sup>171</sup> Like Sony’s VCR users, TimeTrax users buy the product and pay TimeTrax directly. XM’s revenue is based partly on advertising but also on subscription fees and direct sales of the Inno device. Thus XM’s and TimeTrax’s profits do not depend as heavily as Grokster’s profits did on high-volume infringing use.

Third, the method of obtaining the copyrighted content through these satellite recorders resembles Sony more than Grokster. The satellite and FM radio stations pay the copyright owners for the content, just like the television stations did in Sony.<sup>172</sup> In the case of satellite radio, the copyright owners also receive compensation directly from the users’ subscriptions. Thus, as in Sony, the copyright owners are compensated for the use of their copyrighted content, which they voluntarily make available.

Fourth, TimeTrax and XM are not tainted by an incriminating predecessor such as Napster and do not appear to be targeting a known base of

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168. See NIMMER & NIMMER, *supra* note 29, § 8B.01[D][2] (arguing that audio tapings are typically for the purpose of building libraries, not time-shifting; “audio taping is almost always done for ‘librarying’ purposes, and almost never for time-shifting purposes”).

169. Pioneer Inno, *supra* note 160; see also Colker, *supra* note 162, at C7 (explaining how Inno users “can put together songs for listening while at the gym, during a romantic dinner or for other occasions”).

170. Wildstrom, *supra* note 164, at 24 (quoting the RIAA).

171. However, recently TimeTrax overhauled its website and began offering its software for free download, aligning it with Grokster instead of Sony, and potentially increasing its risk of liability. TimeTrax, *supra* note 153.

172. See Wildstrom, *supra* note 164, at 24 (noting that “XM is paying about 7% of its gross revenues in music royalties”).

infringers. However, like Grokster, their advertisements encourage users to build libraries of copyrighted songs. According to one news article, the CEO of TimeTrax stated that, although TimeTrax is a legitimate product, "he also knows that many users of technology, especially those who are the quickest to latch onto new gadgets and services, may be willing to push legal boundaries."<sup>173</sup> A future plaintiff could point to this statement to argue that, like Grokster, TimeTrax was well aware that its product would be used to infringe. And although TimeTrax enables time-shifting—a fair use—and the name of the product even refers to time-shifting, self-proclaiming a lawful purpose will not save TimeTrax from inducement liability. After all, if Grokster's website had stated, "Enjoy all the public domain works on the Grokster network today!" the Court would not have found lawful instead of culpable intent.<sup>174</sup>

Next, both companies take affirmative steps to prevent piracy. TimeTrax stamps a serial number into the files to prevent filesharing online, and XM designed the Inno to prevent the transfer of the files to other devices and to delete the files when the user's XM subscription ends.<sup>175</sup> But these steps may not be enough to show innocent intent. Grokster sent email warnings to users who were identified by MGM as infringing MGM's copyrights.<sup>176</sup> Those emails certainly did not preclude a finding of culpable intent. The steps taken by TimeTrax and XM do not address the main way in which their users infringe. The serial-number stamp and the Inno restrictions prevent infringement via online file sharing but do nothing to prevent infringement via library building.

One final factor also points to liability: Would any consumer buy the TimeTrax or Inno for its noninfringing uses alone if it did not enable library building? Probably not. The primary use of these recording devices is library building, an infringing use, and both companies designed and promoted their product specifically for that purpose. Statements in press releases and on their websites show an intent to encourage users to build libraries of songs, and an awareness that users are likely to infringe. Based on the facts we know today and the facts of *Grokster* and *Sony*, TimeTrax and XM are likely to be held liable for inducing infringement.

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173. Jonathan Krim, *High-Tech Tension Over Illegal Uses*, WASH. POST, Feb. 22, 2005, at E1.

174. The Court was not concerned with Grokster's publicly expressed intent, but with its subjective intent to promote infringement. The fact that a lawful use was publicly encouraged or stated would not negate that subjective intent. See NIMMER & NIMMER, *supra* note 29, § 12.04[A][4][b] (explaining that "it suffices for a plaintiff invoking *Grokster*'s innovation to demonstrate through objective evidence that the defendant harbored a subjective intent to induce infringement, even if no such inducement actually occurred").

175. See *supra* notes 159, 164 and accompanying text.

176. MGM Studios, Inc. v. Grokster, Ltd., 125 S. Ct. 2764, 2774 (2005).

## B. The Personal Video Recorder: TiVo

Another product that records and organizes copyrighted content is the new digital version of the VCR, the personal video recorder (PVR). TiVo is the most widely used and well recognized brand of PVR.<sup>177</sup> The device operates much like a VCR, digitally recording over-the-air television broadcasts to a hard drive instead of to a tape.<sup>178</sup>

Using a VCR to record over-the-air broadcasts was very difficult, so the VCR did not diminish drastically commercial viewing.<sup>179</sup> Therefore, the Sony Court concluded that the VCR was not likely to decrease the value of television advertisements and thus did not harm the value of the plaintiffs' copyrights in their television programming.<sup>180</sup> This conclusion was one of the reasons the Court found time-shifting to be a fair use. TiVo, though, makes recording programs and skipping commercials much easier.<sup>181</sup> The TiVo owner can simply tell the TiVo to record all episodes of a certain television show, without manually setting any timers or channels.<sup>182</sup> Then, while watching a recorded program, the TiVo owner can easily fast forward through the commercials without having

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177. See Jefferson Graham & Michelle Kessler, *Ads to Pop Up When TiVo Users Scan Past Commercials*, USA TODAY, Nov. 18, 2004, at 1B (stating that "2 million consumers have TiVos" as of November 2004 and "TiVo expects to have 2.8 million subscribers by January [2005]"). For background on the founders of TiVo and the origins of the TiVo brand, see Michael Lewis, *Boom Box*, N.Y. TIMES, Aug. 13, 2000, § 6 (Magazine), at 36.

178. For more background information on how the PVR works, see Snow, *supra* note 88, at 35–37; Bower, *supra* note 88, at 422–24.

179. See Lewis, *supra* note 177, at 38 ("[N]o American, not even a geek, could figure out how to make [a VCR] work."). In order to record a program while away from home, the VCR user had to manually set the VCR clock (no easy task) and then manually set the timer to start recording a certain channel at a certain time. Then, in order to skip commercials when viewing the program later, the VCR owner would have to guess how long to fast forward. Fast forwarding too little meant the VCR owner sat through some of the commercials, and fast forwarding too much meant the VCR owner missed part of the show. Because of the difficulties with fast forwarding, most VCR owners watched the commercials that they had recorded. In order to cut the commercials out of the recording altogether, the VCR owner would have to watch the live broadcast, pause the machine during commercial breaks, watch all of the commercials as they aired, and then release the pause button when the television show resumed. Thus the VCR did not drastically diminish commercial viewing.

180. Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 452 n.36 (1984).

181. TiVo.com, What is TiVo, <http://www.tivo.com/1.0.asp> (last visited Oct. 13, 2006) (touting the TiVo as having "[a]ward-winning features that automatically record your favorite shows"); Snow, *supra* note 88, at 68 (describing as "effortless" the commercial skipping ability of the PVR); Bower, *supra* note 88, at 422 (arguing that the biggest difference between VCR's and PVR's is ease of use); Lewis, *supra* note 177 (praising the PVR's "phenomenal simplicity" and explaining that it "required almost no technical aptitude").

182. TiVo.com, *supra* note 181 (explaining that TiVo "find[s] and automatically record[s] the shows that match your interests").

to guess when they are over.<sup>183</sup> Survey evidence showed that VCR owners skipped commercials in the programs they recorded 25 percent of the time,<sup>184</sup> compared with 90 percent for TiVo owners.<sup>185</sup> Recording programs not just to watch them later but to watch them without advertisements is much more likely to harm the value of television advertisements than was recording with the VCR.<sup>186</sup> In fact, some evidence shows that television advertisement spots are already losing value.<sup>187</sup>

TiVo not only enables quick and easy commercial skipping; it also enables users to build libraries of recorded programs with much greater ease than the VCR. The Sony Court recognized that the VCR enabled library building, but noted that tapes were expensive.<sup>188</sup> Recording to the TiVo, however, is free. The newest TiVo devices offer eighty hours of space.<sup>189</sup> A TiVo owner could easily record several movies or other favorite programs for permanent storage and still have plenty of space left for temporary, rotating recordings of other shows. Moreover, new TiVo's enable users to burn TiVo recordings to DVD.<sup>190</sup>

The commercial-skipping and library-building features of the TiVo cast doubt on the claim that the primary use of the device is time-shifting.<sup>191</sup> Given these differences between the TiVo and the VCR, it is likely that the Sony Court's fair use holding does not shield TiVo from liability.<sup>192</sup>

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183. The TiVo device has three different fast forward speeds. Even at the fastest speed, the commercials are visible on the television screen as they flash by. Thus "[t]he TiVo user is able to speed through the commercials but not skip them entirely: the ad still makes some sort of blurry impression on the viewer." Lewis, *supra* note 177, at 36. A competing PVR manufacturer called ReplayTV initially included a "QuickSkip" button on the remote control that enabled the user to automatically jump forward thirty seconds, the exact length of a commercial spot. Television networks were more comfortable with the fast forward feature than the QuickSkip. *Id.*

184. Sony, 464 U.S. at 483 n.35.

185. See Snow, *supra* note 88, at 31 (citing evidence that PVR users skip commercials approximately 90 percent of the time); Lewis, *supra* note 177, at 40 (concluding that PVR users skip 88 percent of commercials); Daisy Whitney, *Carat Convenes iTV Think Tank*, TELEVISION WK., Jan. 3, 2005, at 33 (citing to Forrester Research for the claim that PVR "users skip 92 percent of the ads").

186. See Snow, *supra* note 88, at 32 (arguing that PVR's cause much greater harm to copyrights than the VCR did).

187. *Id.* at 31 (citing survey evidence that 75 percent of national advertisers planned to spend less on television commercials because of PVR's); Gina Piccalo, *TiVo Will No Longer Skip Past Advertisers*, L.A. TIMES, Nov. 17, 2004, at A1 (stating that "TV advertising and programming must change dramatically to survive").

188. Sony, 464 U.S. at 423 n.3.

189. TiVo.com, *supra* note 181.

190. *Id.* (announcing a feature that allows users to burn shows to DVD); see also Bower, *supra* note 88, at 435 (predicting that PVR's will grow to allow cheap, easy librarying).

191. See Snow, *supra* note 88, at 80.

192. See *id.* at 64-69 (applying the four fair use factors and concluding that PVR use is not fair); Daniel E. Abrams, Comment, *Personal Video Recorders, Emerging Technology and the Threat to Antiquate*



TiVo users who skip commercials and build DVD libraries are decreasing the value of television studios' copyrights.<sup>193</sup>

Assuming that Sony's fair use holding does not extend to TiVo, and that TiVo users are infringing, could TiVo be liable? Some facts align TiVo closer to Sony than *Grokster*. TiVo sells its product directly to consumers, without relying on advertising for revenue.<sup>194</sup> TiVo does not target a known base of infringers, such as former Napster users; instead, it targets VCR users who want to upgrade to the newer digital device. In fact, the Sony Court specifically found that VCR users were not infringers. And, as in Sony, the copyright owners are voluntarily providing their content to television viewers free of charge and are compensated by the television networks.

However, if skipping commercials and building DVD libraries are infringing uses, the scope of infringement is widespread and growing.<sup>195</sup> And TiVo is certainly aware that its users skip commercials and make permanent copies of television shows; TiVo's advertisements directly encourage users to skip commercials and build libraries of programming.<sup>196</sup> TiVo has even shown popup ads

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the *Fair Use Doctrine*, 15 ALB. L.J. SCI. & TECH. 127, 137 (2004) (noting that fair use may not protect the PVR); Staci D. Kramer, *Content's King*, CABLE WORLD, Apr. 29, 2002, available at [http://www.findarticles.com/p/articles/mi\\_m0DIZ/is\\_2002\\_April\\_29/ai\\_87380361/pg\\_6](http://www.findarticles.com/p/articles/mi_m0DIZ/is_2002_April_29/ai_87380361/pg_6). ("My bet would be the [Sony] case is not going to cover this usage."); Wardle, *supra* note 2, at 31 ("Prospective television viewers were offered a 'limited license' to perform, on his or her own home television set, a studio's copyrighted work in exchange for their attention to the program during the scheduled telecast. If viewers rejected that offer, they had no right use the studios' works."); *In re Aimster Copyright Litig.*, 334 F.3d 643, 647–48 (7th Cir. 2003) (describing how the Court in Sony held that commercial skipping by fast forwarding over a taped program "amounted to creating unauthorized derivative work").

193. See Bower, *supra* note 88, at 424 (arguing that the PVR "threatens the very lifeblood of the television industry: advertising revenue"); *id.* at 440–43 (describing the two ways the PVR harms copyrights—reducing the value of primetime and commercials); Kramer, *supra* note 192 (PVRs are going to hurt the broadcast industry "[b]ecause of the ad skips . . . It's theft. Your contract with the network when you get the show is you're going to watch the spots. Otherwise you couldn't get the show on an ad-supported basis. Any time you skip a commercial or watch the button you're actually stealing the programming."). Many commentators argue that TiVo is intentionally "profiting at the expense of the television networks." See, e.g., Snow, *supra* note 88, at 28–29 (arguing that "[r]evenues from commercial spots represent the networks' return on their investment in creative programming" and that "DVR manufacturers deny networks the return on their investment in creativity"); Lewis, *supra* note 177, at 39 (arguing that TiVo "intended to plop itself down between the 102 million homes with televisions and the \$50 billion TV industry").

194. TiVo.com, *supra* note 181 (offering the TiVo box and service plan for sale directly to consumers).

195. Snow, *supra* note 88, at 30–31 (citing statistics showing the rapid spread of PVR technology into American households, with an expected thirty million users in 2009); Lewis, *supra* note 177 (describing the initial introduction and rapid spread of the TiVo device); Piccalo, *supra* note 187, at A1 (citing statistics that 41 percent of all households are expected to use PVR's in five years); Whitney, *supra* note 185 (same).

196. TiVo.com, *supra* note 181 ("[TiVo] records all of your favorite shows, every time they're on. Every episode of your favorite series. Every Coppola movie. Every home improvement program. Even Dora cartoons! Whatever you choose.").

while the user is skipping through commercials, thus showing an intent to profit from its users' infringement.<sup>197</sup> From its beginning, TiVo "[was] proposing to do politely to the television industry what Napster was about to do to the music industry: help consumers to help themselves to entertainment without 'paying' the networks and advertisers."<sup>198</sup>

Would consumers buy the TiVo if they could only use it for noninfringing purposes? Probably yes. For example, the TiVo would probably still be popular even if it automatically deleted programs after one viewing, in order to prevent library building and limit consumers to time-shifting. The VCR was hugely popular, and consumers are now accustomed to having the capability to record a program while away from home. Because it seems likely that a market for TiVo would exist without the infringing uses, and because TiVo shares several characteristics with Sony's VCR, a court may be reluctant to condemn the distributors for contributory or inducement liability.

In the end, what will most likely save TiVo is that a lawsuit will never be filed against it. Initially, television networks resisted the technology because of the threat it presented to advertising revenues.<sup>199</sup> But TiVo is actively cooperating with networks to develop an entirely new method of advertising, based on the user viewing preferences that each TiVo box records.<sup>200</sup> The TiVo enables networks to target viewers with advertisements that match those preferences. This new advertising method is potentially very effective, efficient, and lucrative; television networks are actually investing in PVRs.<sup>201</sup> PVR owners also watch more television than they did without the device.<sup>202</sup> Thus the TiVo "does not mean the end of commercial television, only of commercial

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197. See Snow, *supra* note 88, at 78 ("Recently, TiVo has begun running pop-up advertising over the broadcasted advertisements that a DVR viewer fast-forwards through. The pop-up advertising demonstrates that TiVo intends to commercially gain from its users skipping broadcasted advertisements."); Bower, *supra* note 88, at 423-24 (explaining that PVR manufacturers can replace the television network's ads with its own ads); Graham & Kessler, *supra* note 177 (announcing TiVo's plans to show pop-up ads while users fast forward through commercials); Piccalo, *supra* note 187 (discussing TiVo's lucrative sales of "tags," or pop-up ads, to advertisers such as Best Buy, Lexus, General Motors, Nissan, Coca-Cola, Walt Disney World, and Royal Caribbean).

198. Lewis, *supra* note 177, at 39.

199. *Id.* (quoting an advertising executive as calling the TiVo "the devil incarnate" that was going to destroy network television).

200. *Id.* at 38 ("While the viewer watched the television, the [PVR] box would watch the viewer.").

201. In 1999, Time Warner, Disney, and NBC invested \$57 million in ReplayTV, and NBC and CBS invested \$45 million in TiVo. An NBC executive explained the strategy: "We thought that the technology was going to come, and it was better to have some voice in shaping it than none." *Id.* at 40-41.

202. *Id.* at 40 ("Replay now has actual data to prove that its new customers watch, on average, three hours more television each week than they did before they got the box.").

television as we know it.”<sup>203</sup> Based on these facts, copyright infringement liability will probably not be the end of the PVR either.

### C. Place-Shifting Devices: Sling Media and TiVoToGo

Much of the same analysis applies to new devices that enable “place-shifting” of copyrighted content.<sup>204</sup> TiVoToGo is a new product that allows TiVo customers to view content on a portable device away from their home televisions.<sup>205</sup> A similar device, the Slingbox, “enables viewers to route the live television signal coming into their homes to a portable device anywhere on the globe via broadband connection.”<sup>206</sup> The Sling Media website advertises the Slingbox as “a groundbreaking piece of hardwired ingenuity that will literally transform the way you watch television. The Slingbox enables you to watch your TV programming from wherever you are by turning virtually any Internet-connected PC into your personal TV. Whether you’re in another room or in another country, you’ll always have access to your television.”<sup>207</sup>

While the VCR enabled viewers to watch the same television content at a different time, these technologies enable viewers to watch the same content at a different place. These place-shifting technologies are marketed as “giv[ing] consumers access to their own content on any device, anywhere.”<sup>208</sup> Sling Media’s vice president describes the technology as simply giving consumers “access to what they’ve already paid for.”<sup>209</sup> Another executive asks, “Why pay again for the same channels I get at home?”<sup>210</sup>

203. *Id.* at 41; see also Piccalo, *supra* note 187.

204. Andrew Wallenstein, *Slingbox Could Spark New Lawsuits*, HOLLYWOOD REP., July 6, 2005, available at [http://www.hollywoodreporter.com/thr/article\\_display.jsp?vnu\\_content\\_id=1000973572](http://www.hollywoodreporter.com/thr/article_display.jsp?vnu_content_id=1000973572) (“Does the consumer have the right to place-shift as they do time-shift their content?” (quoting an executive)).

205. TiVo.com, *supra* note 181 (announcing that TiVoToGo “let[s] you transfer shows to your laptop or easily burn them to DVD”); see also Jonathan Skillings, *TiVo Goes Mobile With New Free Service*, CNET NEWS.COM, Jan. 6, 2005, [http://news.com.com/TiVo+goes+mobile+with+new+free+service/2100-1041\\_3-5510240.html](http://news.com.com/TiVo+goes+mobile+with+new+free+service/2100-1041_3-5510240.html) (explaining how the TiVoToGo software works).

206. Wallenstein, *supra* note 204. Another company with a similar product is Orb Networks, which develops software that enables users to send content from home to a remote device. See Brad Smith, *Place-Shifting Gets Noticed by Networks*, WIRELESS WK., Mar. 15, 2006, <http://www.wirelessweek.com/article/CA6316219.html?spacedesc=Features>.

207. Sling Media, *Introducing the Slingbox*, <http://www.slingmedia.com/uk> (last visited Oct. 13, 2006). The Slingbox has been extremely popular so far, selling quickly and attracting great reviews. See Smith, *supra* note 206 (stating that the Slingbox “has received rave reviews from a number of publications”).

208. Smith, *supra* note 206.

209. *Id.*

210. *Id.* (quoting the vice president of product marketing at Orb).

The National Football League (NFL) has an answer—because the price you paid only purchased access at home, not anywhere else.<sup>211</sup> Place-shifting allows viewers to evade geographic boundaries that restrict the broadcast of certain content to certain areas.<sup>212</sup>

No media-driven entity is being more zealous in this area than the NFL, which blitzes copyright infringers with the speed of a lottery-pick defensive lineman.

... Slingbox subscribers conceivably could make end runs around the NFL's blackout rule, which eliminates the local broadcast of a game that isn't sold out, and Sunday Ticket, the subscription package delivering out-of-market games via DirecTV, which paid the NFL \$3.5 billion over five years for exclusive rights through 2010.<sup>213</sup>

The facts surrounding these place-shifting devices line up along both sides of the divide between *Grokster* and *Sony*. Place-shifting is the only use for these products. If, like TiVo's streamlined time-shifting, place-shifting is not a fair use, then TiVoToGo and Sling Media have designed a product whose principal use is infringing. The total amount of infringement is yet to be seen, but if the popularity of the TiVo is any indicator, these place-shifting devices may become widespread as well.<sup>214</sup> These distributors have also actively promoted infringement through their advertisements, which directly encourage place-shifting.<sup>215</sup> These facts indicate *Grokster*-type liability.

However, TiVoToGo and Sling Media collect revenue directly from users' subscriptions and sales, not from advertising.<sup>216</sup> The copyrighted content the

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211. One commentator argues that television networks "did not offer viewers television with no strings attached" but rather that "viewers were offered a 'limited license' to perform, on his or her own home television set, a studio's copyrighted work in exchange for their attention to the program during the scheduled telecast." Wardle, *supra* note 2, at 29–31. "[T]he invitation to view the work was not an invitation to copy it"—or to view it anywhere else. *Id.* at 32; see also Kramer, *supra* note 192 (arguing that technology companies have no right to step in between the television network and the viewer and to deliver the copyrighted content in a different way).

212. Wallenstein, *supra* note 204 ("Place-shifting is problematic to many copyright holders because it sidesteps what is known in legalese as proximity control, which restricts the distribution of content to specific regions and times."); Miller, *supra* note 2, at 185 (explaining that the National Football League (NFL) is concerned about unauthorized redistribution of its games).

213. Wallenstein, *supra* note 204.

214. See *supra* note 177 and accompanying text.

215. See *supra* notes 205, 207 and accompanying text.

216. TiVo.com, *supra* note 181. But another company, Orb Networks, offers its place-shifting software to users for free and collects revenue from advertisers, just like *Grokster* did. Olga Kharif, *Will Sling Media Shift Places?*, BUS. WK. ONLINE, Mar. 3, 2006, [http://www.businessweek.com/technology/content/mar2006/tc20060303\\_485877.htm?chan=search](http://www.businessweek.com/technology/content/mar2006/tc20060303_485877.htm?chan=search) ("Orb provides its place-shifting software and Web services to users for free, and makes most of its money from advertising and from fees it charges carriers.").

devices access has already been purchased, through cable television subscriptions, or made freely available, through over-the-air broadcasts, as in Sony. The products also are not derived from an incriminating predecessor such as Napster and do not target known infringers. These facts align place-shifting companies with Sony instead of *Grokster*.

Again, liability may rest on whether users would buy the product for noninfringing uses alone. If place-shifting is found to be an infringing use, then the answer is clearly no. Place-shifting is the only use of these products, so no one would buy it for noninfringing purposes. Thus, these potential defendants will likely face liability unless they can convince a court that place-shifting is a fair use, like time-shifting on a VCR.

### CONCLUSION

The facts and law of *Grokster* and Sony combine to form a patchwork legal landscape, with some rules reasonably clear and others very uncertain. Technology companies can use the facts from the two cases as a rough roadmap of liability, but rough predictions may not satisfy the investors on whom start-up technology companies heavily rely.<sup>217</sup> As the above analysis has demonstrated, it will be difficult for these companies to glean a consistent legal rule from *Grokster* and Sony governing secondary liability for copyright infringement based on the design and distribution of a dual-use product.

The *Grokster* Court was clearly suspicious of *Grokster*'s business model and the way it turned infringement into profit. The determinative facts discussed above focused on *Grokster*'s advertising revenue, product lineage, and business activities. The Court may have been motivated by a concern for the ethics of *Grokster*'s business and the legitimacy of its business model.<sup>218</sup> Technology

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217. See Lorraine Woellert, *Hobbling Grokster—and Innovation, Too*, BUS. WK. ONLINE, Mar. 24, 2005, [http://www.businessweek.com/technology/content/mar2005/tc20050324\\_0001.htm?chan=search](http://www.businessweek.com/technology/content/mar2005/tc20050324_0001.htm?chan=search) (arguing that “venture capitalists are reluctant to place their bets on promising technologies that might be subject to lawsuits”); von Lohmann, *supra* note 3 (arguing that liability insurance is not available for copyright infringement because statutory damages are so large).

218. One commentator argues that *Grokster*'s impact will be the lesson “that genuine business ethics are still of the greatest importance.” Meyer, *supra* note 2, at 34; see also Asher Meir, *Grokster File-Sharing and Glue-Sniffing*, JERUSALEM POST, July 3, 2005, at 17 (stating that the *Grokster* decision “is good ethics” because it means that a company “can’t take a ‘see no evil, hear no evil, speak no evil’ approach to the use of its product”). Stuart Meyer questions the Court’s new legal standard by asking, “Is it proper or not for a software developer to discuss with the research & development (R&D) team possible product designs, some of which might be more friendly to unauthorized copying than others? . . . How much can warnings, disclaimers, and alert windows indicate good ethics when they accompany a product that is, in effect, a highly efficient copyright infringement machine?” Meyer, *supra* note 2, at 35.

companies should try to make sure that consumers would buy the technology for its noninfringing uses alone in order to avoid courts' suspicion.

The preceding factual and legal analysis of *Grokster* reveals two problems with the opinion. First, lower courts and technology companies will have to struggle with unclear legal doctrines and scrutinize narrow factual distinctions in order to discern the legal rule of copyright infringement. Second, the result of this difficult analysis appears to be a legal rule based more on corporate structure, revenue streams, and business model than actual acts of infringement of particular copyrighted works by individual consumers. The facts concerning *Grokster's* business model clearly mattered to the *Grokster* Court,<sup>219</sup> while facts concerning individual instances of infringement did not.<sup>220</sup> The question going forward is whether they should have.

Copyright law is intended to spur creativity and progress in the arts and sciences.<sup>221</sup> Will a stricter focus on the defendant's business model accomplish that goal? Perhaps the *Grokster* opinion will encourage emerging-technology companies to show greater respect for copyrights when they develop new technologies. But in the mean time, individual consumers are still out there infringing<sup>222</sup> and are becoming increasingly distant from the copyright debate.<sup>223</sup> It may be time for courts to reconsider whether existing legal doctrines are accomplishing the goals of the copyright system.

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219. See *supra* note 137 and accompanying text.

220. See *supra* note 92 and accompanying text.

221. U.S. CONST. art. I, § 8, cl. 8 (granting to 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").

222. See Steve Woodward, *Downloading Controversy Music Biz vs. Music Pirates*, OREGONIAN, Mar. 24, 2006, at C01 ("Between August 2003 and June 2005, the average number of people each month who share files via the Internet rose 130 percent, to nearly 9 million . . . swapping an estimated 5 billion files a month—10 times the number of paid downloads that it took Apple more than two years to sell . . .").

223. See *generally* Cohen, *supra* note 2; Lunney Brief, *supra* note 90.