UIC John Marshall Journal of Information Technology & Privacy Law

Volume 23
Issue 2 *Journal of Computer & Information Law - Winter 2005*

Article 1

Winter 2005

Yours For Keeps: MGM v. Grokster, 23 J. Marshall J. Computer & Info. L. 209 (2005)

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ARTICLES

YOURS FOR KEEPS: *MGM v. GROKSTER*

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I. INTRODUCTION

Every day, millions of people download billions of music files over the Internet, using peer-to-peer ("P2P") services such as Grokster, StreamCast, Morpheus, and Kazaa. This practice has been challenged as violative of copyright and, it has been argued, the magnitude of copyright violations facilitated by P2P services justifies banning the services entirely. To date, this argument has been based on the unexamined assumption that most transfers over P2P services violate copyright. Before banning P2P services, it is critical to analyze this assumption, with particular attention to the question of whether the individuals transferring files have the right to do so.

On December 10, 2004, the United States Supreme Court granted the certiorari petition[1] of Metro-Goldwyn-Mayer Studios and a group[2] of

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1. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *petition for cert. filed*, _ U.S.L.W._ (U.S. Oct. 8, 2004), *cert. granted*, 73 U.S.L.W. 3350 (U.S. Dec. 10, 2004) (No. 04-480) (hereinafter, "MGM Petition").

2. The Petitioners are Metro-Goldwyn-Mayer Studios Inc.; Columbia Pictures Industries, Inc.; Disney Enterprises, Inc.; Warner Bros. Entertainment, Inc. (as successor-in-interest to the Filmed Entertainment Division of Time Warner Entertainment Company, L.P.); New Line Cinema Corporation; Paramount Pictures Corporation; Twentieth Century Fox Film Corporation; Universal City Studios LLLP (f/k/a Universal City Studios, Inc.); Arista Records, Inc.; Atlantic Recording Corporation; Rhino Entertainment Company; Bad Boy Records; Capitol Records, Inc.; Elektra Entertainment Group, Inc.; Hollywood Records, Inc.; Interscope Records; LaFace Records, Inc.; London-Sire Records, Inc.; Motown Record

other copyright owners to review the Ninth Circuit decision in *Metro-Goldwyn-Mayer Studios v. Grokster*[3] which, the petition asserted, presented "one of the most important copyright cases ever to reach this Court."[4]

The Petitioners MGM, et. al. (plaintiffs/appellants below; hereinafter collectively "MGM") complained that P2P software distributed by Respondents Grokster, Ltd. and StreamCast Networks, Inc. (defendants/appellees below; hereinafter collectively "Grokster") was used to transfer files in which they held the copyrights.[5] Since the P2P network in question is decentralized and does not maintain a central master copy of files on the network,[6] MGM did not allege that Grokster committed direct copyright infringement, but instead argued that, by enabling copyright

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Company, L.P.; The RCA Records Label, a unit of BMG Music d/b/a BMG Entertainment; Sony Music Entertainment, Inc.; UMG Recordings, Inc.; Virgin Records America, Inc.; Walt Disney Records; Warner Bros. Records, Inc.; WEA International, Inc.; Warner Music Latina, Inc.; Zomba Recording Corporation; Jerry Leiber, individually and d/b/a Jerry Leiber Music; Mike Stoller, individually and d/b/a Mike Stoller Music; Peer International Corporation; Songs of Peer, Ltd.; Peermusic, Ltd.; Criterion Music Corporation; Famous Music Corp.; Bruin Music Company; EnsignMusic Corp.; and Let's Talk Shop, Inc. d/b/a Beau-Di-O-Do Music. Petitioners are the combined plaintiffs in two cases filed in the U.S. District Court for the Central District of California (No. CV-01-08541-SVW and No. CV-01-09923-SVW) and consolidated. Motions for partial final judgment were granted in favor of defendants Grokster, Ltd. and StreamCast Networks, Inc. and certified for interlocutory appeal to the Ninth Circuit, which affirmed. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004).

3. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004) (hereinafter, "*Grokster*").

4. MGM Petition at 1 (Statement of the Case).

5. Petitioners allege that they "own the copyright in most of the material infringed on Grokster and StreamCast and they are the only copyright owners with sufficient resources and incentives to litigate effectively against respondents." MGM Petition at 29 ("III. Immediate Review Is Urgently Needed"). For an overview of the structure of the Internet, see *Reno v. American Civil Liberties Union*, 521 U.S. 844, 849-53 (1997).

6. This fact distinguishes the instant case from *Napster* and arguably from *Aimster*.

> Grokster does not operate a centralized file-sharing network like that seen in Napster. Rather, the Grokster-licensed Kazaa Media Desktop software employs FastTrack networking technology. . . . One of the central features distinguishing FastTrack-based software from other peer-to-peer technology is the dynamic, or variable use of 'supernodes.' A 'node' is an end-point on the Internet, typically a user's computer. A 'supernode' is a node that has a heightened function, accumulating information from numerous other nodes. . . . An individual node using FastTrack-based software automatically self-selects its own supernode status; a user's node may be a supernode one day and not on the following day, depending on resource needs and availability of the network.

Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 259 F. Supp. 2d 1029, 1040 (2003). *Cf. A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000) (defendant maintained a centralized list of available files and could therefore monitor file locations and traffic); *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 642 (N.D. Ill. 2002) ("[w]hether Aimster catalogued available files was 'hotly contested'", although, it was undisputed that Aimster did not store all of the files themselves). *Id.* at 642 n.8.

infringement on a massive scale,[7] Grokster was liable for secondary copyright infringement.[8] Applying the 1984 Supreme Court decision in *Sony v. Universal City Studios,*[9] the Ninth Circuit affirmed[10] the district court's grant of partial summary judgment in favor of Grokster,[11] holding that Grokster did not materially contribute to the primary infringement[12] and the software was being used to transfer a commercially significant number of noninfringing files.[13] The Supreme Court granted MGM's petition for certiorari.[14]

The parties agree that *Sony* controls, but disagree as to the standard established by *Sony*. The parties also appear to agree that it may be assumed that the vast majority of files transferred over P2P networks infringe copyrights. If this assumption is incorrect, then the disagreement over the *Sony* standard becomes irrelevant: software which facilitates P2P file transfers over the Internet does not give rise to secondary liability.

The stakes are high: amici supporting MGM cite reports that billions of files are downloaded daily, that hundreds of thousands of movies and TV programs are available online, and even that some movies appear on the Internet before they debut in theaters.[15]

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7. The MGM Petition cites the Register of Copyrights description of the scale of infringement as "mind boggling," and alleges that "[m]ore than 2.6 billion infringing music files are downloaded each month," that "between 400,000 and 600,000 copies of motion pictures are unlawfully downloaded each day," that "record sales over the past three years are down 31%, and sales of the top 10 selling albums have dropped nearly 50%," and that "conservative estimates of lost sales of music alone range from $700 million to several billion dollars annually." MGM Petition at 8. The Petition also predicts that "petitioners stand to lose billions more as computers become faster, as user 'bandwidth' grows, and as more consumers become aware of, or emboldened to use, the infringing services Grokster and StreamCast maintain." *Id.* For details and internal citations, see *infra* notes 21, 114-15 and accompanying text.

8. Secondary liability is imposed on a party who has not committed an act of direct infringement but has been sufficiently involved in facilitating the infringement. For a more detailed discussion, see *infra* Part III(C). MGM alleged that "copyright infringement takes place . . . whenever one of their users, without authorization of the copyright owner, uses Defendants' network to download a copyrighted content file . . ." Complaint at 10, ¶ 51, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 259 F. Supp. 2d 1029 (No.'s CV 01-08541-SVW, CV 01-09923-SVW).

9. *Sony Corp. of America. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (hereinafter, "*Sony*").

10. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 380 F.3d 1154 (9th Cir. 2004).

11. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 259 F. Supp. 2d 1029 at 1035.

12. *Grokster*, 380 F.3d at 1163.

13. *Id.* at 1160-62.

14. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004), *petition for cert. filed*, _ U.S.L.W._ (U.S. Oct. 8, 2004), *cert. granted*, 73 U.S.L.W. 3350 (U.S. Dec. 10, 2004) (No. 04-480) (hereinafter, "MGM Petition").

15. For details and citations, see *infra* notes 21, 114-15 and accompanying text.

This article explores the basic assumption that most P2P transfers are infringing, and identifies two theories which contradict that assumption: a significant number of individuals who transfer files over P2P networks may have a license to do so, and provisions of the Copyright Act itself may exempt the transfer of certain categories of entertainment files over P2P networks from the definition of infringement.

While it is necessary to review the background of the P2P cases and copyright fundamentals, the focus of the article is on the undercounting of noninfringing uses of P2P networks by virtue of the assumption that transfers of copyrighted files are necessarily infringing.

This article begins with a brief description of the technology involved and the posture of the case (Section II), summarizes the applicable principles of copyright law (Section III), explicitly states what appear to be the implicit assumptions in the cases (Section IV), analyzes those assumptions (Section V), and concludes that the fundamental assumption as to the magnitude of infringement is overstated, or at least not demonstrated in the record (Section VI).

II. TECHNOLOGICAL AND PROCEDURAL BACKGROUND

Grokster distributes software which allows users to participate in P2P networks to transfer files over the Internet.

In a peer-to-peer distribution network, the information available for access does not reside on a central server. No one computer contains all of the information that is available to all of the users. Rather, each computer makes information available to every other computer in the peer-to-peer network. In other words, in a peer-to-peer network, each computer is both a server and a client.[16]

The basic technology of peer-to-peer file transfers is well summarized in the District Court's decision:

> Although novel in important respects, both the Grokster and Morpheus platforms operate in a manner conceptually analogous to the Napster system described at length by the district court in *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896 (N.D. Cal. 2000).
>
> In both cases, the software can be transferred to the user's computer, or "downloaded," from servers operated by Defendants. Once installed, a user may elect to "share" certain files located on the user's computer, including, for instance, music files, video files, software applications, e-books and text files. When launched on the user's computer, the software automatically connects to a peer-to-peer network (FastTrack in Grokster's case; Gnutella in the case of Morpheus), and

16. *Grokster*, 380 F.3d at 1158. It is well to remember that the forerunner of the Internet was explicitly designed to support decentralized operations so as to survive the destruction of parts of the network.

> makes any shared files available for transfer to any other user currently connected to the same peer-to-peer network.
>
> Both the Morpheus and Grokster software provide a range of means through which a user may search through the respective pool of shared files. For instance, a user can select to search only among audio files, and then enter a keyword, title, or artist search. Once a search commences, the software displays a list (or partial list) of users who are currently sharing files that match the search criteria, including data such as the estimated time required to transfer each file.
>
> The user may then click on a specific listing to initiate a direct transfer from the source computer to the requesting user's computer. When the transfer is complete, the requesting user and source user have identical copies of the file, and the requesting user may also start sharing the file with others. Multiple transfers to other users ("uploads"), or from other users ("downloads"), may occur simultaneously to and from a single user's computer.
>
> Both platforms include other incidental features, such as facilities for organizing, viewing and playing media files, and for communicating with other users.[17]

StreamCast's software was even more decentralized.[18]

MGM and its co-plaintiffs own copyrights in a large number of entertainment files[19] which are transferred using P2P networks. Grokster's software allows its users to create a decentralized network which does not rely on a central server to maintain a master copy, or even list, of files on the network.[20] MGM does not allege that Grokster directly infringes its copyrights, but does allege that the network created by the use of the Grokster software enables copyright infringement on a massive scale,[21] and that Grokster should therefore be held liable for secon-

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17. *Grokster*, 259 F. Supp. 2d at 1032-33.

18. Certain versions of StreamCast's Morpheus product prior to March 2002 were, like Grokster today, based on the FastTrack technology. However, the current iteration of StreamCast's Morpheus is distinct in important respects from Grokster's software . . . Morpheus is based on the open-source Gnutella peer-to-peer platform . . . . Gnutella is a 'true' peer-to-peer network, featuring even more decentralization than FastTrack. A user connects to the Gnutella network (comprised of all users of Gnutella-based software, including not only Morpheus but that distributed by companies such as 'LimeWire,' 'BearShare,' 'Gnucleus' and others) by contacting another user who is already connected. This initial connection is usually performed automatically after the user's computer contacts one of many publicly available directories of those currently connected to the Gnutella network.

Id. at 1041.

19. The term "entertainment files" is used herein to include audio and video files of the type owned by plaintiffs (principally those embodying music, movies and television shows), although P2P technology can be used to facilitate the identification and transfer of any type of file.

20. *Grokster*, 380 F.3d at 1163.

21. *Id.* at 1159. The Petition for certiorari asserts that the Register of Copyrights has described the scale of infringement as "mind boggling" (citing the Statement of the Honora-

dary copyright infringement.[22]

Grokster argued, the district court found,[23] and the Ninth Circuit affirmed,[24] that Grokster did not materially contribute to the primary infringement[25] and that the software was being used to transfer a commercially significant number of noninfringing files, which were either in the public domain or the owners of which had authorized distribution[26] and therefore could not subject Grokster to contributory liability under *Sony*.[27] With respect to vicarious liability, the district court found, and

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ble Marybeth Peters, Register of Copyrights, Before the Senate Comm. on the Judiciary, 108th Cong. (Sept. 9, 2003), available at http://www.copyright.gov/docs/regstat090903.html, and that "[m]ore than 2.6 billion infringing music files are downloaded each month" (citing Lev Grossman, *It's All Free*, Time, May 5, 2003), "and between 400,000 and 600,000 copies of motion pictures are unlawfully downloaded each day" (citing MPAA figures). MGM Petition at 8. The Petition further asserts "record sales over the past three years are down 31%, and sales of the top 10 selling albums have dropped nearly 50%" and "conservative estimates of lost sales of music alone range from $700 million to several billion dollars annually." *Id.* The Petition also predicts that "petitioners stand to lose billions more as computers become faster, as user 'bandwidth' grows, and as more consumers become aware of, or emboldened to use, the infringing services Grokster and StreamCast maintain." *Id.*

22. The Complaint alleges,

> [a] tremendous amount of copyright infringement takes place on and through Defendants' network every day. These infringements occur, inter alia, whenever one of their users, without authorization of the copyright owner, uses Defendants' network to download a copyrighted content file from another user's computer or makes copyrighted content files available for such unlawful downloading. Such acts constitute unauthorized reproduction and distribution and result in unauthorized copies.

Complaint at 10, ¶ 51, *Grokster*, 259 F. Supp. 2d 1029 (No.'s CV 01-08541-SVW, CV 01-09923-SVW). The acts complained of are committed, not by Grokster, but by the users of its software. Secondary liability is imposed on a party other than the one actually committing the infringing act. The principles of secondary liability for copyright infringement include contributory liability and vicarious liability, and are discussed *infra* at Part III(C); the defenses to secondary liability are discussed *infra* at Part III(D). For a general review of secondary liability copyright cases, *see Liability as "Vicarious" or "Contributory" Infringer Under Federal Copyright Act*, 14 A.L.R. Fed. 825.

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

24. *Grokster*, 380 F.3d 1154.

25. *Id.* at 1163.

26. *Id.* at 1160-61. For example, public domain works were distributed through Project Gutenberg. *See* http://www.gutenberg.org/howto/p2p-howto (accessed Jan. 6, 2005). In addition, "thousands of other musical groups" had authorized free Internet distribution of their works. *Grokster*, 380 F.3d at 1161. The lower court record also contained evidence of permitted distribution of works by Grammy nominee Janis Ian, who credited P2P sharing of her music for increased CD sales (Joint Excerpts of Record Vol. 2, pp. 387-90), bands Phish, Pearl Jam, the Dave Matthews Band and John Mayer that had authorized free P2P sharing of live concert recordings (JER vol. 3, pp. 654-51).

27. *Id.* at 1160-62. In its earlier decision in *A&M Records, Inc. v. Napster*, 239 F.3d 1004 (9th Cir. 2001), the Ninth Circuit had interpreted *Sony* as allowing secondary liability for the distribution of a product capable of substantial noninfringing uses if the distributor

the Ninth Circuit affirmed, that "the sort of monitoring and supervisory relationship that has supported vicarious liability in the past is completely absent in this case."[28]

MGM and Grokster agree that the critical authority on secondary copyright infringement is *Sony*, the 1984 Supreme Court case which held that Sony's marketing of video tape recorders did not render it liable for secondary copyright infringement even though its machines were widely used to copy copyrighted works. They differ, however, on interpretation and the difference is highlighted by two statements contained within *Sony* itself. *Sony* held:

> We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible. The staple article of commerce doctrine must strike a balance between a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce. *Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.*
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> The question is thus whether the Betamax[29] is capable of commercially significant noninfringing uses. In order to resolve that question, we need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement. Rather, we need only consider whether on the basis of the facts as found by the District Court a significant number of them would be noninfringing. Moreover, in order to resolve this case we need not give precise content to the question of how much use is commercially significant. 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

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knew or should have known that specific infringing files were available on their system, and failed to act to prevent "viral" distribution of those files. *See Grokster*, 380 F.3d at 1162 n.7.

28. *Id.* at 1165. The court also rejected MGM's "blind eye" theory — that by failing to design its system to prevent infringing uses, Grokster was "turning a blind eye" to infringement that it knew existed, and should not be able to avoid liability simply by failing to see it. *Id.* The "blind eye" theory was accepted in *In re Aimster Copyright Litigation*, 334 F.3d 643, 650 (7th Cir. 2003) ("[w]illful blindness is knowledge in copyright law") (citing *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987)).

29. *Betamax* was Sony's brand of videotape recorder. It used a proprietary format videotape (the Beta format) which was incompatible with the competing VHS format. Ultimately, Sony adopted the VHS standard and abandoned the manufacture of Beta format tapes and videotape machines capable of playing Beta format tapes.

> 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.[30]

In MGM's view, the critical language is "commercially significant noninfringing uses."[31] In Grokster's view, the critical language is "Indeed, it need merely be capable of substantial noninfringing uses."[32]

These competing interpretations of *Sony* are each reflected in a Circuit Court decision. As summarized in the amicus brief of the AIPLA,[33]

> Relying on its interpretation of *Sony* in *A&M Records v. Napster*, 239 F.3d 1004 (9th Cir. 2001), the Ninth Circuit held in the case at bar that 'if a defendant could show that its product was capable of substantial or commercially significant noninfringing uses, then constructive knowledge of the infringement could not be imputed. . . , the copyright owner would be required to show that the defendant had reasonable knowledge of specific infringing files.' *Metro-Goldwyn-Mayer, Inc. v. Grokster*, 380 F.3d 1154, 1160-61 (D.C. Cal. 2004) [sic[34]]. In contrast, the Seventh Circuit, in *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003), stated that a defendant must present evidence of actual noninfringing uses. 'As should be evident from our earlier discussion the question is how probable are [the noninfringing uses]. It is not enough as we have said, that a product or service be physically capable, as it were, of a noninfringing use.' *Aimster*, 334 F.3d at 651.[35]

As framed by MGM, the issue for the Supreme Court is "whether the Ninth Circuit erred in concluding. . .that the Internet-based 'file sharing' services Grokster and StreamCast should be immunized from copyright liability for . . . copyright infringement[s] that occur on their services. . . ."[36] As framed by Grokster, the issue is "[w]hether the district court and Ninth Circuit correctly concluded that Congress, rather than the courts, should decide whether and how to expand the scope of the statutory copyright monopoly to reach new technologies that have substantial noninfringing uses."[37] Under either formulation, any liability of

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30. *Sony*, 464 U.S. at 442 (emphasis added).

31. MGM Petition at 18.

32. "The lower courts here applied the clear rule that *Sony v. Universal* established: so long as the technology in question is 'merely . . . capable of substantial noninfringing uses,' secondary liability will not lie against the developer, manufacturer or distributor of the technology." Respondents' Brief in Opposition at 20, *Grokster* (U.S. Nov. 8, 2004) (No. 04-480) (hereinafter, "Brief in Opposition").

33. Amicus Curiae Brief of the American Intellectual Property Law Association in Support of Neither Party, *Grokster* (No. 04-480) (hereinafter, "AIPLA Brief").

34. The correct court is the United States Court of Appeals for the 9th Circuit.

35. AIPLA Brief at 2-3.

36. MGM Petition at i ("Question Presented").

37. Brief in Opposition at i ("Question Presented").

the service providers[38] is for secondary infringement and must therefore involve analysis of the issue of liability of the individuals who actually transfer entertainment files.[39]

The stakes are high: Petitioners and supporting amici cite reports that "[e]very day, ordinary people download billions of files: blockbuster movies, cable TV shows, music, video games, software, and nearly every kind of copyright-protected material available in digital form;"[40] "[h]undreds of thousands of motion pictures and television programs are available free of charge for unauthorized downloading on peer-to-peer networks;"[41] and "there were more than 45,000 copies of the movie *Finding Nemo* available for unlawful file-sharing even *before* that movie was released for the home video market[42] in November 2003. Illegal copies of virtually every new release—and even some films that have yet to debut in theaters—[are] turning up on the Internet."[43]

While *Sony* does contain language which creates this theoretical ambiguity in how to apply the appropriate test,[44] an exploration of the nature of a purchaser's rights and application of a hitherto ignored section

38. The term "service providers" is used herein in a broad sense, to include those who provide services which facilitate file transfers (including, for example, providers of P2P software) as well as the technically-defined "Internet Service Providers" of the Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (Oct. 28, 1998).

39. Secondary copyright liability requires a primary copyright infringement, committed by a third party. *Grokster*, 380 F.3d at 1160 (with respect to contributory infringement); *Id.* at 1164 (with respect to vicarious infringement); *Matthew Bender & Co., Inc. v. West Publg. Co.*, 158 F. 3d 693 (2d Cir. 1998). *See also infra* n. 86.

40. Brief of *Amici Curiae* Office of the Commissioner of Baseball, National Basketball Association, American Society of Media Photographers, Professional Photographers of America, Directors Guild of America, Writers Guild of America (West), Screen Actors Guild, Association of American Publishers, Association of American University Presses, Producers Guild of America, Graphic Artists Guild, Entertainment Software Association, Video Software Dealers Association, Interactive Entertainment Merchants Association and Author's Guild of America in Support of Petition for a Writ of Certiorari at 4, *Grokster* (No. 04-480) (hereinafter, "Industry Supporting Brief") (citing Kenneth Terrel & Seth Rosen, *A Nation of Pirates*, U.S. News & World Report, July 14, 2003, at 40).

41. Industry Supporting Brief at 4 (citing *AFMA Strikes Deal to Curb Internet Piracy, TV Meets the Web,* Mar. 12, 2002, *available at* 2002WL 4473600; Jefferson Graham, *Online Trading of TV Episodes Grows*, USA Today, May 20, 2004, at B3).

42. Examples such as this would not be covered by the analysis presented in this article, which is predicated on rightful possession of a copy of the underlying work; if the work has not yet been released to the public, this requirement could not be met and the uploading or downloading of a file embodying the work would not be protected under either the implied license theory or the "obsolescence" provisions of 17 U.S.C. § 117 (discussed *infra* at Part V).

43. Industry Supporting Brief at 4.

44. As discussed in Section III(D) *infra*, the *Sony* opinion offers at least four potential standards. Footnote 96, *infra*, suggests one way of reconciling the standards, but reconciliation is unnecessary in this particular case.

of the Copyright Statute[45] indicates that the assumptions which make this ambiguity relevant to the case under review are flawed, and the perceived ambiguity is theoretical only. Stripped of the incorrect assumption, each test leads to the same conclusion: software which facilitates P2P file transfers over the Internet does not give rise to secondary liability.

III. COPYRIGHT PRINCIPLES

A. THE COPYRIGHT OWNER'S EXCLUSIVE RIGHTS

MGM's complaint is based on copyright infringement. Section 106 of the Copyright Act grants copyright owners the following rights:

> Subject to §§ 107 through 122, the owner of copyright. . .has the exclusive rights to do and to authorize any of the following:
> (1) to reproduce the copyrighted work in copies or phonorecords;
> (2) to prepare derivative works based upon the copyrighted work;
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
> (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.[46]

A 'copy' includes any material object (other than a phonorecord[47]) "in which a work is fixed by any method now known or later developed, from which the work can be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or device."[48]

"Anyone who violates any of the exclusive rights of the copyright owner as provided by §§ 106 through 122. . . is an infringer of the copyright,"[49] and is subject to injunctive relief,[50] liability for damages (which may include the infringer's profits),[51] impoundment of infringing items[52]

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45. 17 U.S.C. § 117.
46. 17 U.S.C. § 106.
47. "Copies" and "phonorecords" are treated separately; the reproduction and distribution of both "copies" and "phonorecords" are specifically provided for in 17 U.S.C. §§ 106 (1) and (3).
48. 17 U.S.C. § 101.
49. 17 U.S.C. § 501(a).
50. 17 U.S.C. § 502.
51. 17 U.S.C. § 504.

and, in appropriate cases, costs and attorneys fees.[53]

B. THE LIMITATIONS

As the statute itself makes explicit,[54] the rights granted by § 106 are not absolute: they are granted subject to the exceptions created by §§ 107-122. Three of those exceptions are relevant to the pending question of secondary liability. In addition, the Audio Home Recording Act of 1992[55] prohibits bringing a copyright infringement action based on certain non-commercial copying by consumers.

1. *Fair Use*

Section 107 of the copyright statute[56] explicitly recognizes and codifies the judicially developed[57] doctrine of fair use, which permits certain uses of what would otherwise be a copyright owner's exclusive rights. Section 107 lists several examples of fair use[58] and the factors to be used in evaluating whether a use is "fair" or not: (1) the purpose and character

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52. 17 U.S.C. § 503. Interestingly, Section 503 provides for the impoundment and destruction of not only the infringing items, but also of certain items useful in the production of infringing items:

> the court may order the impounding, on such terms as it may deem reasonable, of all copies or phonorecords claimed to have been made or used in violation of the copyright owner's exclusive rights, *and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced.*

Id. (emphasis added). Of course, these facilities for infringement must be owned or under the control of the infringer.

53. 17 U.S.C. § 505.

54. 17 U.S.C. § 106 provides *"[s]ubject to §§ 107 through 122*, the owner of copyright under this title has the exclusive rights" listed therein. *Id.* (emphasis added).

55. 17 U.S.C. §§ 1001-1010.

56. 17 U.S.C. § 107.

57. The doctrine was recognized in *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841), although held not to protect the copying of 319 pages of George Washington's letters from the 7,000 page Writings of President Washington. Justice Story commented, however, that "[i]f it had been the case of a fair and *bona fide* abridgement of the work of the plaintiffs, it might have admitted of a very different consideration." *Id.* at 349. Even in the simpler times of the 1930's, the competing interests and intense fact-specificity of fair use analysis prompted the Second Circuit to characterize the doctrine as "the most troublesome in all of copyright." *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939).

58. Statutory examples of fair use include criticism, news reporting, teaching, scholarship and research. The factors to be considered are:

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

17 U.S.C. § 107. None of the examples appear to apply *per se* to Internet file transfers as a group, although specific transfers may fall within these categories.

of the use including its commercial nature, (2) the nature of the copyrighted work, (3) the proportion of the work that is taken, and (4) the economic impact of the use.[59] *Sony* found in-home taping of broadcast television programs for time-shifting to be fair use, and therefore not an infringement of the copyright owners' exclusive rights.[60] In cases involving computer software, it has been held that fair use requires ownership of a copy of the work.[61]

2. *The "First Sale" Doctrine*

One of the exclusive rights granted by §106 of the Copyright Act is the right of distribution.[62] However, once a copyright owner has placed a copy in commerce, the lawful owner of that copy[63] may resell or otherwise transfer it.[64]

3. *Section 117*

The relevant[65] subsections of 17 U.S.C. § 117 are as follows:

§ 117. Limitation on exclusive rights: computer programs

(a) Making of additional copy or adaptation by owner of copy. Notwithstanding the provisions of § 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

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59. 17 U.S.C. § 107.

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

61. *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1993); *Sega Enterprises Ltd. v. MAPHIA*, 857 F. Supp. 679, 687 (N.D. Cal. 1994).

62. 17 U.S.C. § 106(3) secures the exclusive right "to distribute copies or phonorecords . . .to the public by sale or other transfer of ownership, or by rental, lease, or lending." However 17 U.S.C. § 109 (to which § 106 is subject), permits the lawful owner of an embodiment of a copyrighted work to transfer that copy. There is also a specific provision which restricts commercial rental or lending of phonorecords or computer programs. 17 U.S.C. § 109(b)(1).

63. In the field of personal computer software, where the copyrighted work is often distributed under a "shrink-wrap" or "click-to-accept" license, an issue arises whether there is a "first sale." This issue is not analyzed since the music industry has not adopted a license model. It should be noted, however, that under general contract principles, whether a transaction is a license or sale is not controlled by the title one party chooses to characterize it.

64. 17 U.S.C. § 109.

65. Subsections (c) and (d) relate to repair of machines containing copyrighted software.

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

(b) Lease, sale, or other transfer of additional copy or adaptation. Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease, sale, or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.[66]

4. *The Audio Home Recording Act of 1992 ("AHRA")*

The AHRA was enacted to deal with the perceived threat of digital audio recording technology, which permitted serial reproduction of music files without significant loss of sound quality. The AHRA requires that devices capable of making digital copies of music incorporate copy controls,[67] and imposes royalties on manufacturers, distributors and importers of such devices and the media for digital copying,[68] but protects noncommercial consumer copying of music (both digital and analog) from suit for copyright infringement.[69] In *Recording Industry Association v. Diamond Multimedia Systems*,[70] the RIO digital music player was held not to be covered by the copy control requirements since it acquired music files from the hard drive of a user's computer and a computer hard drive did not meet the definitional requirements of the Act.[71] Illogical as it may seem, although the Act insulates personal copying of both digital and analog files, it is possible under this reading that files transferred over the Internet are (within the meaning of the statute) neither digital nor analog, and therefore not covered by the protection of § 1008. The AHRA was argued as a defense to secondary liability in *Aimster* and dis-

66. 17 U.S.C. § 117.

67. 17 U.S.C. § 1002.

68. 17 U.S.C. §§ 1003-1005.

69. 17 U.S.C. § 1008 provides:

> No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.

Id. The main purpose of this section was "to ensure the right of consumers to make analog or digital audio recordings of copyrighted music for their private, noncommercial use." *Recording Industry Assn. of America v. Diamond Multimedia Systems*, 180 F.3d 1072, 1079 (9th Cir. 1999) (quoting S. Rep. 102-294 (1992)).

70. *Diamond Multimedia Systems*, 180 F.3d 1072 (9th Cir. 1999).

71. The Ninth Circuit held that music files stored on a computer hard drive were not "digital music recording" because the act excluded files stored in material objects "in which one or more computer programs are fixed." *Id.* at 1076.

missed without serious analysis.[72]

C. Secondary Liability

Unlike the patent statute, which provides remedies not only against direct infringers, but also against secondary infringers (those who induce infringement and those who supply certain articles in aid of infringement),[73] the copyright statute does not explicitly impose liability for general secondary infringement.[74]

However, the judicially-created concept of secondary copyright liability was recognized by the Supreme Court at least as early as 1911[75] and, as the *Sony* court held in 1984, "the absence of such express language in the copyright statute does not preclude the imposition of liability. . . on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a

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72. *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 650 (N.D. Ill. 2002). *See* discussion *infra* Part V(B)(2).

73. 35 U.S.C. § 271 provides:

> (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent.
>
> (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
>
> (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

Id.

74. "The Copyright Act does not expressly render anyone liable for infringement committed by another. In contrast, the Patent Act expressly brands anyone who 'actively induces infringement of a patent' as an infringer, 35 U.S.C. 271(b), and further imposes liability on . . . 'contributory infringers,' 271(c)." *Sony*, 464 U.S. at 434-35. The Copyright Statute does impose secondary liability in one particular circumstance: 17 U.S.C. § 905(3), which was enacted after the *Sony* decision, prohibits inducing or knowingly causing infringement of semiconductor designs.

75. *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911). Kalem produced a motion picture film based on the copyrighted book, Ben Hur, then sold copies of the films (but did not publicly exhibit the film itself). The defendants maintained that the still photographs embodied in the individual frames of the film were not infringing (and the court assumed this was correct), and that it was others who displayed the photographs in sequence so as to produce an exhibition (which constituted infringement under the 1891 Copyright Act then in force). The Supreme Court affirmed the lower court's ruling of infringement, and held that the infringing dramatic reproduction of the story was "the most conspicuous purpose for which they could be used, and the one for which especially they were made." *Id.* at 63.

species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another."[76]

Secondary liability theory presents an attractive option from the copyright owner's perspective as an efficient mechanism of enforcement, allowing a copyright owner to pursue a large collection of infringements through suit against parties who are more easily identified, more easily sued, and more likely to be able to satisfy a monetary judgment.[77]

Thus, distributors of file-sharing software (such as Grokster) are, if not mere surrogates for individual file sharers, at least a more convenient and economical target.[78] As MGM alleges, "if the Ninth Circuit's decision stands... petitioners will be left with only the ... option of suing 'a multitude of individual infringers.'"[79] In the view of Amici Commissioner of Baseball et. al., this "is precisely why the doctrine of secondary copyright liability has emerged. As the court in *Aimster* observed, 'Recognizing the impracticability or futility of a copyright owner's suing a mul-

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76. *Sony*, 464 U.S. at 435 (footnotes omitted). *See also* AIPLA Brief:

> The concept of secondary liability is well recognized in virtually every area of the law. While the Copyright Act does not explicitly provide that one party can be held liable for the infringement committed by another, secondary liability for copyright infringement in the form of contributory or vicarious liability has been imposed by the Courts under certain circumstances.

Id. at 2.

77. "Even if content providers detect infringement, they often go uncompensated because the costs of pursuing compensation outweigh the expected recovery or because the infringer cannot be found. Understandably, content providers wish to deter infringements and ensure compensation for those infringements that do occur." Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 Geo. L. J. 1833, 1835 (2000). In addition, it may be politically more attractive to sue a contributory infringer rather than sue the direct infringers (who may, for example, be customers or potential customers, who may be more sympathetic defendants than the contributory infringers, or who may be numerous and in a position to influence legislation.)

78. *See In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003), *cert. denied sub nom. Deep v. Recording Industry Assn. of America, Inc.*, 540 U.S. 1107 (2004):

> [r]ecognizing the impracticability or futility of a copyright owner's suing a multitude of individual infringers 'chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem,' ... the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor.

Id. at 645-646 (quoting Randal C. Picker, *Copyright as Entry Policy: The Case of Digital Distribution*, 47 Antitrust Bull. 423, 442 (2002)).

79. MGM Petition at 14 (citing *Aimster*, 334 F.3d at 645). However, the Industry Supporting Brief notes that although

> [t]he Ninth Circuit's decision provides copyright owners with only one, highly unsatisfactory option for seeking redress for the millions of acts of copyright infringement that are facilitated by Respondents' services— copyright owners can file lawsuits against individual infringers ... [d]uring the past year, record companies have filed copyright infringement actions against more than 6000 individual infringers.

Industry Supporting Brief at 15.

titude of individual infringers, the law allows a copyright holder to sue a contributor to the infringement instead.'"[80]

Secondary liability for copyright infringement can be divided into two categories: contributory infringement and vicarious infringement.[81]

"Contributory infringement" liability is imposed upon "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another."[82]

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80. Industry Supporting Brief at 17. (citations omitted). These *Amici* further argue that the decision of the Ninth Circuit "improperly deprives copyright owners of the ability to rely upon the secondary liability doctrine. In doing so, it effectively deprives copyright owners of any viable means to redress countless acts of infringement." *Id.*

81. Both the Petition in Opposition and the amicus brief of certain law professors point out judicial confusion between the requirements for contributory liability and those for vicarious liability.

> The more troubling inconsistency, however, is the conflation of the elements of contributory and vicarious liability into a baffling mishmash that calls for clarification by this Court." In *Napster*, for example, the Ninth Circuit held that "if a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system" it is a *contributory* infringer. 239 F.3d at 1021. A defendant's ability to control and curtail infringement, however, has traditionally been an element of *vicarious* liability, not part of the contributory liability analysis .... The *Grokster* court compounded this confusion when it viewed the defendant's inability to control the infringement — again, traditionally a vicarious liability factor — as dispositive of the contributory infringement claim.

Brief by *Amici Curiae* Law Professors in Support of Issuance of Writ of Certiorari at 2, *Grokster* (No. 04-480). The Seventh Circuit is kinder: "the Court [treated] vicarious and contributory infringement interchangeably." *In re Aimster Copyright Litigation*, 334 F.3d 643, 655 (7th Cir. 2003) (citing *Sony* at 435 and n.17). Respondents Grokster, Ltd. and StreamCast Networks, Inc. stated,

> In their eagerness to make this case a vehicle for overturning *Sony v. Universal,* Petitioners have failed to address this independent ground for the Ninth Circuit's ruling. With respect to vicarious liability, both lower courts found absolutely no evidence in the record to suggest that Respondents had any ability to supervise or control the infringing activities of those who use their software. Pet. App. 17a-20a. Under the principles uniformly applied in the circuits, this defect is necessarily fatal to Petitioners' vicarious liability claim. *See e.g., A&M v. Napster,* 239 F.3d at 1022; *RCA/Ariola Intl. v. Thomas & Grayston Co.*, 845 F.2d 773, 781-82 (8th Cir. 1988); *Gershwin Publishing v. Columbia Artists Mgt.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

Brief in Opposition at 20. In the view of the Ninth Circuit, *Sony* does not apply to vicarious liability. *A&M v. Napster*, 239 F.3d at 1022. Brief Amici Curiae of Senators Hatch and Leahy In Support of Neither Party, *Grokster* (U.S. Jan. 24, 2005) (No. 04-480) states that *Sony* "explicitly and deliberately left aside liability based on inducement." *Id.* at 13 (citing *Sony*, 464 U.S. at 429, n.19).

82. *Gershwin Publg. Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (footnote omitted). Columbia Artists Management ("CAMI") promoted a local community concert association that in turn sponsored a concert in which copyrighted musical compositions were performed without permission. The District Court granted summary judgment against CAMI, stating that by "organizing, supervising and controlling" the local association, and by "knowingly participating" in the association's infringing

"Vicarious liability" for copyright infringement is imposed upon a party who, while not directly committing infringement, facilitates infringement by another whom the vicariously liable party has "the right and ability to supervise [which] coalesce[s] with an obvious and direct financial interest in the exploitation of copyrighted materials. . . ."[83]

Note that, definitionally, both types of secondary infringement require the existence of an underlying primary infringement; *Sony* adds the requirement that the activity giving rise to secondary infringement have no "significant"[84] noninfringing use.

D. Secondary Defenses/The Sony Doctrine[s]

There are obvious factual defenses which may be raised to secondary copyright liability: in the case of vicarious liability, the defendant may show lack of control over the primary infringer or lack of financial benefit from the infringement; in the case of contributory liability, the defendant may show that it did not facilitate the infringement. In either case, the defense is based on undercutting one of the specific elements of the specific type of secondary liability.

Since both types of secondary liability are predicated on an underlying primary infringement, a demonstration that the alleged primary activity does not constitute infringement[85] would also be a complete

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activity, CAMI caused the infringement. *Gershwin Publg. Corp. v. Columbia Artists Management, Inc.*, 312 F. Supp. 581, 583 (S.D.N.Y. 1970). The Second Circuit affirmed:

> [w]ith knowledge that its artists included copyrighted compositions in their performances, CAMI created the audience as a market for those artists. CAMI's pervasive participation in the formation and direction of this association and its programming of compositions presented amply support the district court's finding that it 'caused [the] copyright infringement.'

Columbia, 443 F.2d at 1162-63 (quoting 312 F. Supp. at 583).

83. *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963) (holding a department store vicariously liable for copyright infringement by its record sales concessionaire). *See also Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929) (dance hall vicariously liable for copyright infringement committed by the orchestra it had hired); *KECA Music, Inc. v. Dingus McGee's Co.*, 432 F. Supp. 72 (W.D. Mo. 1977) (cocktail lounge vicariously liable for infringement by musicians who played background music). *Cf. Artists Music, Inc. v. Reed Publg, Inc.*, 31 U.S.P.Q.2d 1623 (S.D.N.Y. 1994) (landlord that received the same rent regardless of the profits earned by its tenant and could not control the infringing activity on the premises held not to be vicariously liable for infringement by its tenant).

84. There are arguably at least four readings of the standard set forth in *Sony*. *See infra* n. 97 and accompanying text. The choice of the term "significant" is a matter of convenience and not meant to reflect a conclusion as to which reading is correct.

85. Secondary copyright liability requires a primary copyright infringement, committed by a third party. *Grokster*, 380 F.3d at 1160 (with respect to contributory infringement); *Id.* at 1164 (with respect to vicarious infringement); *Matthew Bender & Co., Inc. v. West Publg. Co.*, 158 F. 3d 693 (2d Cir. 1998) (the plaintiff must establish the primary infringing activity as part of its case against the secondary defendant). *See also A&M*

defense to secondary liability.[86]

In *Sony*, the Supreme Court established an additional limit on the imposition of secondary liability, similar to the statutory safe harbor which insulates distributors of staples of commerce[87] from patent infringement.[88] In that case, it was shown that Sony knew that its videotape recorder would, in addition to being used for playing home movies (which were not alleged to infringe plaintiffs' copyrights), also be used for "time shifting" (recording a television program for playback at a later time),[89] and that viewers of the time-shifted playbacks would likely use the fast-forward feature of the machine to skip commercials.[90] It was

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Records v. Napster, 114 F. Supp. 2d 896, 911 ("to prevail on a contributory or vicarious copyright claim, a plaintiff must show direct infringement of a third party") (citing *Sony*, 464 U.S. at 434); *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 648 (N.D. Ill. 2002) ("[a]s a threshold matter, Plaintiffs must demonstrate that Aimster's end users are themselves engaged in direct copyright infringement"); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1034 (C.D. Cal. 2003) ("[a]s a threshold matter, in order to find either contributory or vicarious infringement liability, Plaintiffs must demonstrate that Defendants' end-users are themselves engaged in direct copyright infringement") (citing *Napster*, 239 F.3d 1004 at 1013 n.2). *Aimster* holds, at least in summary proceedings, that once evidence of infringing uses has been shown, the burden of production shifts to the defendant to demonstrate that its service has substantial noninfringing uses. *In re: Aimster Copyright Litigation*, 252 F. Supp. 2d at 652.

86. It has been argued unsuccessfully that Internet file transfers are, as a class, a "fair use" and therefore neither infringing nor a proper basis for imposing secondary liability in *A&M Records v. Napster*, 114 F. Supp. 2d 896 (N.D. Cal. 2000). The court held that all four statutory factors weighed against finding fair use. *Id.* at 912-913. Of particular interest, the court found, as to the first factor (whether the use is commercial or for non-profit educational purposes) that "although downloading and uploading MP3 music files is not paradigmatic commercial activity, it is also not personal use in the traditional sense." *Id.* at 912.

87. 35 U.S.C.§ 271(c) provides:

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

Id. (emphasis added).

88. In the case of patent infringement, unlike copyright infringement, the liability of the provider of a facility would either be primary or secondary depending on which type of activity was involved. The patent statute includes active inducement within the definition of infringer. *See* U.S.C. § 271(b) ("[w]hoever actively induces infringement of a patent shall be liable as an infringer"), *but see* 35 U.S.C. § 271(c) ("[w]hoever offers to sell. . .a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be. . .for use in an infringement of such patent, and not a staple article. . .of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer").

89. *Sony*, 464 U.S. at 423.

90. *Id.*

also established that Sony knew that some users would keep some of the recorded programs rather than erase them to reuse the tape.[91] Nonetheless, the Court held that time-shifting was a fair use (and hence not infringing) because it enlarged the audience for the recorded programs,[92] and that Sony was not liable for contributory infringement because "the sale of . . . 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."[93]

Thus, under *Sony*, a secondary defendant need not show that *all* uses of its facilities[94] are noninfringing, but only that some lesser, but substantial, subsets are.

Prior to *Sony*, the imposition of secondary liability was typically in the context of an identifiable primary infringement, and the issue was whether a party who had not personally committed the identified infringement should also be liable. In the Sony cases, the courts were invited to impose secondary liability for unidentified, but statistically likely, primary infringement.[95] While the Supreme Court held that there was not evidence of sufficient primary infringement to justify finding secondary liability in the case *sub judice*, it did (in what is arguably dictum) leave open the possibility of a finding of secondary liability based on the assumption of widespread primary infringement related to the defendant's activities. Unfortunately, the *Sony* Court's opinion is susceptible to at least four readings of the standard, all contained within two consecutive paragraphs of the opinion:

> [T]he sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement (1) if the product

91. *Id.* at 459.

92. *Id.* at 442.

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

94. Meaning anything which contributed to the infringement at a level which would, in the absence of a defense, create secondary liability for copyright infringement. In *Sony*, the facility was a product (the videotape recorder produced and marketed by Sony); in *Napster*, *Aimster* and *Grokster*, the facility might be viewed as a product (software) or a service (provision of services useful in establishing a network). The cases do not indicate that the result should be different for a product or a service and, as the P2P cases show, it may not even always be possible to determine whether a particular facility is a product or a service.

95. As originally filed, the complaint in *Sony* did name an individual defendant, William Griffiths ("a client of plaintiffs' law firm"). He originally had planned to build a library, but that proved too expensive. He had a library of approximately 100 tapes, including tapes he would have recorded over but for the request of plaintiff's counsel to keep them. Griffiths consented to be a defendant, and plaintiffs waived any claim for damages against Griffiths. *Universal City Studios v. Sony Corp. of America,* 480 F. Supp. 429, 436-37 (C.D. Cal. 1979). More importantly, the remedy sought was not only for the specific identified acts of infringement admitted by Mr. Griffiths, but for the assumed widespread additional acts of infringement committed by others like him.

> is widely used for legitimate, unobjectionable purposes. Indeed, (2) it need merely be capable of substantial noninfringing uses. The question is thus whether the Betamax is (3) capable of commercially significant noninfringing uses. In order to resolve that question, we need not explore *all* the different potential uses of the machine and determine whether or not they would constitute infringement. Rather, we need only consider whether on the basis of the facts as found by the District Court a (4) significant number of them would be noninfringing.[96]

Subsequent cases have considered the argument that widespread, but not completely identified, infringement could support secondary liability for the provider of a facility of the infringement, with a split in the circuits over the correct reading of the *Sony* standard. The Seventh Circuit, in *Aimster*[97] found secondary infringement for facilitating P2P file sharing, while the Ninth Circuit, in the case now before the Supreme Court, found the activities insufficient to impose secondary liability.[98]

Under any reading of *Sony*, the critical question for providers of P2P facilities is whether significant[99] file transfers are executed by specific individuals who have the right to send or receive those specific files in the specific circumstances (as opposed to some privileged class of users or

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96. *Sony*, 464 U.S. at 442 (numbering added to identify the possible ways to read the standard). One logical interpretation is that there are not four inconsistent standards, but rather that readings (1) and (4) are determinations of whether the specific facts of the Betamax case fit the standard set in readings (2) and (3), with reading (2) being the broad standard and reading (3) being a specific statement of the broad standard in the context of the case before the Court.

97. *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003), cert. denied sub nom. *Deep v. Recording Industry Assn. of America, Inc.*, 540 U.S. 1107 (2004). Aimster was not a primary infringer,

> because copies of the songs reside on the computers of the users and not on Aimster's own server, Aimster is not a direct infringer of the copyrights on those songs. Its function is similar to that of a stock exchange, which is a facility for matching offers rather than a repository of the things being exchanged. . . .

In re Aimster Copyright Litigation, 334 F.3d at 646-47.

98. As noted *supra*, there are factual differences between the cases.

99. The choice of "significant" is meant to refer to whatever the appropriate reading of the *Sony* standard may be. Even knowing the appropriate standard, however, *Sony* does not indicate how to determine significance — a large number of users, a large percentage of users, users with a large dollar value of files, or users with the right to share a large percentage of the total dollar value of files are some possibilities. The *Sony* majority specifically declined to attempt to quantify what was meant by "commercially significant." *Sony*, 464 U.S. at 442. It is difficult even to determine the degree of noninfringing use in *Sony* itself. Survey evidence of record indicated that 7.3% of all Betamax use was to record sports programs, and that the owners of the copyrights in those programs did not object; the survey also indicated that 75.4% of owners used their machines for time-shifting (which, of course, is not the same as a finding that 75.4% of the uses of the machines were for time-shifting), a use which the Court found to be "fair use" and therefore not infringing, and that 57.9% of the interviewees in the survey had no plans for viewing their recorded program more than once (again, not the same as a finding that 57.9% of the programs were not going to be watched more than once). *Id.* at 424 n.4.

exempt class of files). However, given judicial variation in applying *Sony*, it is not surprising that the principal defenses against allegations of secondary infringement have fallen into two categories: arguments that there was insufficient control or financial interest to establish secondary liability at all, and arguments that a fair use right to transfer files insulated all file transfers and therefore also insulated those who produced software or provided services which facilitated file transfers from liability.

Inquiry into the possibility that a large number of the files transferred using P2P are not infringing for case-specific reasons has been overlooked. There is, however, a potentially large class of users entitled to transfer copyrighted[100] files without payment to, or permission from, copyright owners. These users may be entitled to do so for two reasons: they may be authorized by the copyright owners[101] or their actions may be beyond the scope of the copyright monopoly.[102]

To evaluate this possibility and its potential impact on secondary liability, it is first necessary to identify the underlying assumptions that have been made in the cases to date.

IV. THE UNDERLYING ASSUMPTIONS

The cases to date begin with the assumption that files being transferred fall into one of four categories:

- works which are in the public domain;[103]
- works which are not in the public domain, but which the copyright owner has explicitly authorized to be shared;[104]
- works which are not in the public domain, not explicitly authorized for sharing, but the sharing of which is fair use;[105] or
- works which are not in the public domain, not explicitly authorized to be shared, and not subject to the fair use defense.

It has, to date, been assumed[106] that the transfer of a work which

100. Under current law, any newly created entertainment file is copyrighted; the term "copyrighted" file is used herein to mean a file as to which the copyright (a) has not expired, or (b) has been dedicated to the public domain.

101. *I.e.*, licensed, either explicitly or implicitly. *See* discussion *infra* Part V(A).

102. *See* discussion *infra* Part V(B).

103. A work may be in the public domain either because it is not copyrightable, because the copyright has expired or because the copyright owner has dedicated the work to the public, in its entirety or as to specified uses.

104. Examples in the record included works by Janis Ian, Phish, Pearl Jam, the Dave Matthews Band and John Mayer. *See supra* n. 26.

105. Fair use is an exception to a copyright owner's exclusive rights, codified in 17 U.S.C. § 107. *See* discussion *supra* Part III(B)(1).

106. Or conceded by the defendant. *See In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 648 (N.D. Ill. 2002) ("Defendants, in their brief and at oral argument, do not dispute that unauthorized copying of copyrighted works occurs on the Aimster system by Aim-

falls into the last category (whether downloading or uploading) is per se a copyright infringement (and therefore "counts against" service providers that facilitate such transfers in determining the "significance" of non-infringing uses and therefore compliance with the *Sony* standard for avoiding secondary liability for copyright infringement).

The Seventh Circuit made that assumption in *Aimster*:

> Teenagers and young adults who have access to the Internet like to swap computer files containing popular music. If the music is copyrighted, such swapping, which involves making and transmitting a digital copy of the music, infringes copyright.[107]

The Ninth Circuit made that assumption in *Recording Industry Assn. of America v. Diamond Multimedia Systems*:[108]

> By most accounts, the predominant use of MP3 is the trafficking in illicit audio recordings. . . . Various pirate websites offer free downloads of copyrighted material, and a single pirate site on the Internet may contain thousands of pirated audio computer files.[109]

The MGM Petition implicitly makes that assumption.[110] According to the MGM Petition, the case presents the issue of the applicability of secondary liability to "Internet services such as Grokster and StreamCast, whose overwhelming use is for the unauthorized distribution of copyrighted works to millions of users for free."[111] The assertion that "Petitioners also produced evidence that 'over 90%' of the material on respondents' services was infringing"[112] must have assumed that transfers of files in which plaintiffs held copyrights were infringing transfers, since there was no evidence of the identity of the individuals making the transfer or their ownership of embodiments which might have given them authority to make such transfers.

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ster's end users"); *Grokster* at 1160 ("The Copyright Owners assert, without serious contest by the Software Distributors, that the vast majority of the files are exchanged illegally in violation of copyright").

107. *In re Aimster Copyright Litigation*, 334 F.3d 643, 645 (7th Cir. 2003), *cert. denied sub nom.*; *Deep*, 540 U.S. 1107 (2004).

108. *Recording Industry Assn. of America v. Diamond*, 180 F.3d 1072 (9th Cir. 1999).

109. *Id.* at 1074.

110. The Complaint itself specifically alleges

> [a] tremendous amount of copyright infringement takes place on and through Defendants' network every day. These infringements occur, *inter alia*, whenever one of their users, without authorization of the copyright owner, uses Defendants' network to download a copyrighted content file from another user's computer or makes copyrighted content files available for such unlawful downloading. Such acts constitute unauthorized reproduction and distribution and result in unauthorized copies.

Complaint at 10, ¶ 51.

111. MGM Petition at 12 (Reasons for Granting the Petition).

112. MGM Petition at 9, n.7.

The amicus brief of the Commissioner of Baseball, et. al. makes the same assumption:

> "Every day, ordinary people download billions of files: blockbuster movies, cable TV shows, music, video games, software, and nearly every kind of copyright-protected material available in digital form." Kenneth Terrel & Seth Rosen, *A Nation of Pirates*, U.S. News & World Report, July 14, 2003, at 40, *available at* 2003 WL 2022009.
>
> There is no dispute that such unauthorized filesharing constitutes copyright infringement, committed by millions of people "who are ignorant or more commonly disdainful of copyright and in any event discount the likelihood of being sued or prosecuted for copyright infringement." *Aimster*, 334 F.3d at 645.[113]

Even the cited[114] "Statement of the Honorable Mary Beth Peters, Register of Copyrights, Before the Senate Committee on the Judiciary, 108th Cong. (September 9, 2003)" assumes that the sharing of files is largely unauthorized and therefore an infringement.

Thus, there is a widespread belief that infringement on P2P networks is massive, grounded in statistical evidence and based on expert studies—direct infringement has been treated as a fact that can be assumed (or beyond challenge by the secondary defendant) and the focus has been on the degree of noninfringing activity, the nature of facilitation and the degree of control exercised by the secondary defendant. The belief must be based on the following subsidiary assumptions:

1. The works being transferred are the subject of valid, subsisting copyrights;
2. there are a large number of transfers of these works;
3. the transfers are without permission of the copyright owner (i.e., unlicensed); and

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113. *Supra n.* 40, Industry Supporting Brief at 3.

114. Cited, for example, in Brief Amicus Curiae for Recording Artists' Coalition and Don Henley, Glen Frey, Joe Walsh, Timothy B. Schmit ("the Eagles"), Kix Brooks & Ronnie Dunn ("Brooks & Dunn"), Natalie Maines, Martie Maquire, Emily Robison ("the Dixie Chicks"), Bonnie Raitt, Sheryl Crow, Phil Vasser, "Mya" Harrison, Kenneth "Babyface" Edmonds, Bill Kreutzman & Micky Hart (of "the Grateful Dead"), Jimmy Buffett, Patty Loveless, Stevie Nicks (of "Fleetwood Mac"), and Gavin Rossdale (of "Bush") in support of Petitioners (November 8, 2004) at 4, in Industry Supporting Brief (p. 2). As the Register of Copyrights has observed, "the most important issue facing our copyright system today [concerns] new services that employ peer-to-peer technology to create vast, global networks of copyright infringement." citing *Hearing on S. 2560, the International Inducement of Copyright Infringements Act of 2004. Before the Senate Comm. on the Judiciary,* 108th Cong. 1 (2004) (statement of the Hon. Marybeth Peters, Register of Copyrights, U.S. Copyright Office), *at* http://www.copyright.gov/docs/regstat072204.html; Brief of Amicus Curiae Progress and Freedom Foundation in Support of Petitioners at 13-14; and in the record ("it is apparent that an overwhelming number of their customers are using it for . . . copying and distributing copyrighted works" pet app 62a and "such infringement is occurring on a mind-boggling scale" pet app 66a).

4. the transfers are prohibited by the Copyright Act, i.e.,
   a. they fall within the scope of the rights conferred on the copyright owner by § 106 of the Copyright Act, and
   b. they are not privileged by §§ 107-122 or immunized by § 1008 of the Copyright Act.

Assumptions 1 and 2 are purely factual assumptions which may be tested. All parties appear to agree with these factual assumptions and have had ample opportunity to test them. Therefore, there appears no reason to question them. Assumptions 3 and 4, however, involve legal conclusions. Thus, even accepting the assumption that there are a very large number of transfers of copyrighted files, the belief that infringement (as opposed to transfers) is widespread is worth examining.

V. ANALYSIS OF THE ASSUMPTIONS

A. License Assumptions

It is tautological that there can be no infringement, primary or secondary, if the use is licensed. One of the underlying assumptions is that the transfer of files is unlicensed. It cannot be disputed that not all owners of copyrighted entertainment files have granted explicit licenses to transfer music and motion picture files over the Internet for free,[115] but that is not a complete answer to the question. A complete answer must also consider the rights that consumers acquire when they buy a video or audio tape, CD or DVD.[116] The analysis begins by explicitly noting the distinction between the physical medium and the entertainment encoded in the medium. Then, focusing on the encoded entertainment, it examines analogous models from the patent law and from the application of copyright law to computer software.

1. *What is Owned, What is Licensed?*

It is important to avoid confusing the ownership of the physical copy (i.e., the medium-specific embodiment which the owner has purchased; for example, a music CD), with the license to enjoy the entertainment encoded on the physical medium (for example, a song recorded on the music CD). There is an explicit statutory distinction between ownership of a copyright (the bundle of rights conferred by 17 U.S.C. §§ 106-122) and ownership of an embodiment of the copyright (for example, a music CD).[117]

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115. Certainly the plaintiffs in *Grokster* have not, although the record indicates that many copyright owners have. *See supra* n. 26.

116. Or whatever other format or medium might embody the entertainment files.

117. "Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied." 17 U.S.C. § 202.

Purchasers of CDs do not acquire the copyright in the music embodied in the CD, but they certainly acquire something more than mere ownership of the physical medium in which the copyrighted music has been embodied. At a minimum, they also acquire a license to enjoy the embodied music under some circumstances for some period of time.

Do they acquire only the right to enjoy the embodied copyrighted work, only in the purchased medium, only for as long as the medium survives and only for as long as there are devices available to decode the medium and render it perceptible to humans (i.e., a "medium-limited" license); or do they acquire the right to enjoy the copyrighted work in perpetuity (i.e., a "medium-independent" license)?

A few examples will illustrate why the question has practical consequences. If a lawfully acquired audio music tape breaks, may the owner repair the tape? If, instead, the tape wears out from repeated play, may the owner create a substitute tape (either from the original or from another copy) without paying a second royalty? Would the purchaser of a Beta Videotape[118] have the right to transfer that videotape to VHS format or to a CD or DVD format in order to be able to view its content on current production model machines? In each of these cases, if the license were medium-dependent, the user's rights would terminate[119] and the user would need to purchase another copy of the work, whereas if the license were medium-independent, the user would not.[120]

This issue is particularly important in light of Congress' recent extension of the term of copyright.[121] Given the past rate of technological advance, it is unlikely that the current methods for distributing video

118. Beta videotapes were compatible with Sony's *Betamax* videotape recorder, but incompatible with competing VHS recorders. Sony no longer produces Beta-compatible recorders, producing instead VHS recorders.

119. There are arguable differences among the examples. For example, repairing a broken tape does not create a new copy or a derivative work. The worn out tape is a more complicated question and may depend on when and how the copy is made. If the replacement copy is not used until the original is discarded, in one sense the total number of copies in existence has not changed. All examples involve the question whether the license is perpetual.

120. Depending on the terms of the license, the supplier might even be obligated to provide a replacement.

121. The 1998 Sonny Bono Copyright Term Extension Act, 112 Stat. 2827, extended the term of existing and future copyrights by approximately twenty years. The constitutionality of the extension was challenged, but upheld, in *Eldred v. Ashcroft*, 537 U.S. 186 (2003). In dissent, Justice Stevens noted that in the past 80 years only one year's worth of copyrighted material (that copyrighted in 1923) had fallen into the public domain. *Id.* at 242. Justice Breyer noted that the term of many copyrights was extended to 95 years or the life of the author plus 70 years, and calculated that the extension translated into about $400 million per year of royalties, or "several billion extra royalty dollars" over the term of the extensions. *Id.* at 248-49. The Breyer dissent also notes the systemic costs imposed by the need to locate the owners of copyrights so as to seek permissions for this extended period

and audio will be available anywhere but in museums when today's copyrights expire. Thus, if the license is medium-dependent, it is likely that consumers will need to purchase multiple copies of the same work in order to continue to enjoy it.[122]

There do not appear to be any cases directly posing these questions, but closely related questions have been explored and may serve as models for analyzing the entertainment file issue:

- the general question of the rights of the purchaser of a physical object embodying a protected work[123] (the so-called "first sale" doctrine),
- the repair/reconstruction issue in patent law, and
- the question of the copyright rights of holders[124] of copies of software, particularly in cases arising in the early era of consumer software, when software was distributed on fragile media and the possibility of damage to the media was significant.

The general presumption is that a license is perpetual[125] unless the parties indicate otherwise.[126] Is there a special rule with respect to en-

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and, based on Congressional Research Service estimates, projects that "still-in-copyright works (of little or no commercial value) will eventually number in the millions." *Id.* at 250.

122. If the copyright term were shorter, i.e., more closely related to the pace of technological advancement, then the consumer would not need to purchase an additional license, so long as the medium wore out or became obsolete after the copyright term expired.

123. Under 17 U.S.C. § 109,

> [n]otwithstanding the provisions of § 106(3) [the section which grants the copyright owner the exclusive right to distribute], the owner of a particular copy or phonorecord lawfully made . . . or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord

17 U.S.C. § 109(a); and

> [n]otwithstanding the provisions of § 106(5) [the section which grants the copyright owner the exclusive right to display publicly], the owner of a particular copy lawfully made . . . or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy publicly.

17 U.S.C. § 109(c).

124. "Holders" is used to avoid prejudging the issue of whether the software has been purchased or merely licensed. A large number of computer programs are distributed under a 'shrink-wrap' or 'click-to-accept' license, although in a context which is more typically a sale transaction. Cases where the issue of ownership is important have recognized the principle that it is the nature of the transaction, and not the name assigned by one party, which determine whether the transaction is a sale or license. *Telecomm Technical Services, Inc. v. Siemens Rolm*, Inc., 66 F. Supp. 2d 1306, 1325 (N.D. Ga. 1998). To date, most music is sold in a traditional sale transaction, so the issue has not arisen with respect to music.

125. Technically, the cases hold that the license is for the term of the copyright (or patent), but this is in effect a perpetual license since once the copyright or patent expires there is no longer a need for the license.

126. *Fitch v. Shubert*, 20 F. Supp. 314 (S.D.N.Y. 1937) ("[i]n the analogous case of license under a patent, it is a rule of construction that a license without expressed limit as to time is a license for the unexpired life of the patent") *Id.* at 315-16 (citing *St. Paul Plow-Works v. Starling*, 140 U.S. 184 (1891)). As the case was at the preliminary injunction

tertainment files, which provides for a medium-limited license, i.e., that it only extends to the particular medium on which the file is delivered, and that it expires upon the first to occur of (a) the medium wearing out, or (b) the medium becoming obsolete?[127]

While no evidence was presented on the issue of the expectations of purchasers of entertainment files, it would seem inconsistent with the concept of ownership of entertainment works if the purchaser of a videotaped or audiotaped work lost the right to enjoy the work simply because the machinery necessary to play it became obsolete and no longer available. Early advertisements for phonographs and records emphasized the value of owning a record: the music would be "yours for keeps."[128]

In addition, medium-limited licenses open the possibility for a potentially troublesome business model. Although Sony undoubtedly planned to have its Beta format survive and become the dominant videotape format, a side-effect of the disappearance of the Beta format was increased sales of videotapes: consumers with libraries of Beta format tapes would need to purchase additional copies of the same performances in the VHS format in order to maintain their libraries. If licenses are medium-limited, it would certainly be possible to build a business model around periodically planned obsolescence of certain formats in order to create new demand for pre-existing entertainment, and the incentive to do so would be great.[129]

Thus, the general construction (that the license is perpetual and not medium-dependent) appears more in keeping with purchasers' expectations. While the only precedent available is in analogous areas, it too supports the concept of a medium-independent license: patent law recog-

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stage, the Court observed that the rule was subject to "the expressed intention of the parties" which might be established to be a limited license at trial. *Id. See also TV Globa v. Brazil Up-Date Weekly*, 50 U.S.P.Q.2d (BNA) 1478 (1999) ("in the case of copyrighted works, 'where an assignment or license does not expressly prescribe the period or term of its duration, it will generally be construed (in the absence of evidence of a contrary intent) to be effective for the duration of the then existing copyright term of the work") (citing *Nimmer & Nimmer, Nimmer on Copyright* § 10.10(F) at 10-98 (1998)).

127. For example, to one degree or another, Beta videotapes, reel-to-reel tapes, 8-track cassettes, 78 LPs, 45s, 33s, player piano rolls, and wax recordings.

128. *See e.g.*, RCA Victrola ad, National Geographic Magazine (National Geographic Society) Vol. LXXV No. Two, February 1939 at 275: "The World's Greatest Artists are Yours for Keeps on Victor Records. *They'll thrill you with the music you love whenever you desire*" (emphasis in original). Note that the issue is not whether the advertising is an offer in the contractual sense, but rather, what the advertisement indicates are the reasonable expectations of the music purchasers.

129. The attraction of the model would be the low cost of the new sales (the work has already been created, and copyright rights obtained — all that needs to be done is convert the format, and make copies in the appropriate medium, i.e., the cost of materials).

nizes a right to repair a patented item without infringing the patent,[130] and copyright law recognizes the right of the owner of computer software to make derivative works in order to keep the software compatible with current machines.

2. *The Patent Law Repair/Reconstruction Model*

Although patent principles are not directly applicable to the copyright realm, the Supreme Court has looked to patent law for guidance in appropriate areas.[131]

Among the similarities between the two areas of law is the grant of a limited monopoly: a patent owner has a set of exclusive rights,[132] similar to those of a copyright owner.[133] In addition, in both areas, the owner of a product embodying the intellectual property right obtains ownership of the product plus a license to use the embodied intellectual property with respect to that product.

The patent law issue comparable to the copyright question of repairing damaged media or replacing an obsolete format is known as the "repair/reconstruction" issue. Simply put, the owner of a patented product may extend the useful life of the product by repairing certain unpatented components which are subject to wear-and-tear, although it is an infringement of the patent to "reconstruct" the patented product. In *Aro Mfg. Co. v. Convertible Top Replacement Co.*,[134] Convertible Top Replacement Company was the licensee under a patent which covered a mechanism for supporting and sealing a flexible convertible top. The mechanism typically lasted as long as the car, but the fabric top wore out in about three years.[135] Aro manufactured replacement fabrics designed to fit convertibles which used the patent controlled by Convertible Top Replacement Company. The trial court found the replacement fabric constituted infringement and contributory infringement,[136] the Court of Appeals affirmed, and the Supreme Court granted certiorari. The Supreme Court noted that the fabric itself was not patented and therefore

130. While recognizing that "there are substantial differences between the patent and copyright laws," the *Sony* court looked to patent law as analogous authority for secondary liability for copyright infringement and also for the defense that distribution of staples of commerce having significant noninfringing uses could not be the basis for such liability. *Sony*, 464 U.S. at 442.

131. *See Sony*, 464 U.S. at 442.

132. The relevant rights are the right to prevent others from making, using or marketing the claimed invention. 35 U.S.C. § 271.

133. The rights set forth in 17 U.S.C. § 106, subject to the reservations in 17 U.S.C. §§ 107-122. *See* discussion *supra* Parts III(A) and III(B).

134. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961).

135. *Id.* at 339.

136. On the theory that the car owner was the infringer, and Aro supplied the means for infringement.

Aro could not be a direct infringer. Further, although Aro knew that the fabric would be used by car owners to repair the patented mechanism,[137] the Court held that Aro was not liable for contributory infringement because the repair by the car owner was not a direct infringement, citing with approval Learned Hand's distillation of the law: "The [patent] monopolist cannot prevent those to whom he sells from . . . reconditioning articles worn by use, unless they in fact make a new article."[138] The Court concluded "[m]ere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property."[139]

If the pattern seems similar to the analysis of copyright contributory infringement in *Sony*, recall that the *Sony* court developed its theory by analogy to the patent statute.[140]

A damaged or worn out music tape presents precisely the same physical issue as a damaged or worn out convertible top. In both cases, the underlying, protected technology would continue to function but for the failure of an unprotected component.[141]

If the patent law "repair/reconstruction" principle were applied to the copyright context, it would lead to the conclusion that an owner of a physical embodiment of a licensed copyrighted work could, without permission of the copyright owner and without infringing the copyright, repair the (uncopyrighted) physical object in order to extend the useful life of the licensed component (i.e., the right to enjoy the embodied copyrighted work). This in turn would lead to two results:

(1) The license would be medium-independent (since the owner would have the right to repair the medium and therefore extend the useful life of the copyrighted work beyond the life of the original medium); and

137. In fact, it is hard to imagine any other practical use for the specially cut fabric.

138. *Aro Mfg.*, 365 U.S. at 343 (citing *U.S. v. Aluminum Co. of America*, 148 F.2d 416, 425 (2d Cir. 1945).

139. *Id.* at 346. Although holding against Aro, an entirely consistent result was reached in Aro v. Convertible Top Replacement Co., 377 U.S. 476 (1964), where the Court held that Aro was a contributory infringer for supplying replacement fabric to certain other owners of convertibles. The critical factual distinction between the two *Aro* cases was the fact that in the first, the owners of the cars were licensees under the patent (and therefore had the right to repair, thereby giving Aro the right to supply the repair part), whereas in the second, the convertibles themselves had been manufactured without a license from Convertible Top Replacement Co. Thus, the owners had no right to use, much less repair, the patented mechanism; the owners were infringers and Aro was held to have facilitated the owners' infringement.

140. *Sony*, 464 U.S. at 439.

141. The medium in which the music is embodied is not copyrighted; the music is. The fabric convertible top is not patented; the combination of components is.

(2) one who facilitated the extension of the useful life of the license would not be a contributory infringer because there would be no primary infringement.

3. *The Software Damage / Obsolescence Model*

In the early days of personal computers, Congress specifically recognized two issues which have analogs in the entertainment file context: the fragility of the medium in which computer software was typically distributed, and the rapid development and lack of standardization of computer systems.

In an effort to adapt the copyright law to the development of personal computer software, Congress created the Commission on New Technological Uses ("CONTU"), and directed it to recommend changes to the statute. CONTU reported:

> Because of a lack of complete standardization among programming languages and hardware in the computer industry, one who rightfully acquires a copy of a program frequently cannot use it without adapting it to that limited extent which will allow its use in the possessor's computer. The copyright law, which grants to copyright proprietors the exclusive right to prepare translations, transformations, and adaptations of their work, should no more prevent such use than it should prevent rightful possessors from loading programs into their computers. *Thus, a right to make those changes necessary to enable the use for which it was both sold and purchased should be provided.* The conversion of a program from one higher-level language to another to facilitate use would fall within this right, as would the right to add features to the program that were not present at the time of rightful acquisition.[142]

Congress enacted a revised § 117 of the Copyright Act,[143] which provides in part:

> it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation . . . provided:
>
> (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or
>
> (2) that such new copy or adaptation is for archival purposes only . . . . [144]

Thus, in the context of computer software, embodied in a fragile, limited-life medium, and intended to be used on a machine which potentially could become obsolete while the software remained useful, Congress effectively denied the copyright owner the right to restrict the

142. Final Report of the National Commission on New Technological Uses of Copyrighted Works (July 31, 1978) (hereinafter, "CONTU Final Report") (emphasis added).

143. 17 U.S.C. § 117.

144. 17 U.S.C. § 117(a).

consumer to a medium-dependent license; the consumer was given the right (without permission of the copyright owner) to create backup copies to protect against damage to the medium which carried the software and the right to adapt the software to survive the obsolescence of the machine which "played" it.

Adapting a computer program in order to allow it to run under a newer operating system was held, by virtue of § 117, not to be infringement in *Aymes v. Bonelli.*[145] Copying software for the specific purpose of analyzing it so as to create a computer program that would facilitate allowing owners of software to make backup copies was held not to be infringing in *Vault v. Quaid,*[146] even though the defendant knew that the product would also be used to make infringing copies of software.

It might be argued that, having acted to protect software consumers and having failed to act to protect entertainment consumers against the same risks, Congress has made the decision to deny entertainment consumers these protections. However, as discussed *infra* at (V)(B)(3), not only do the special provisions relating to computer software provide guidance, they also can be read to apply literally to entertainment files.

B. Coverage Assumptions

Infringement is the exercise of a right granted the copyright owner, without permission. If there is a license, there is permission. The lack of a license does not, however, result in infringement unless the exercise is of a right exclusively reserved to the copyright owner.

Closely related to the argument that owners of entertainment media have perpetual, medium-independent, licenses to enjoy the embodied copyrighted works, are three specific exclusions from the copyright owners' rights, each of which could provide an independent reason why potentially large classes of Internet file transfers are not infringements of copyright:

- fair use;
- the special treatment accorded to personal copying of music under AHRA; and
- the special treatment accorded to owners of copies of computer software under 17 U.S.C. § 117.

1. *Fair Use*

The argument that Internet file transfers are a "fair use,"[147] and

145. 47 F.3d 23 (2d Cir. 1995); accord *Krause v. Titleserv Inc.*, 402 F.3d 119 (2d Cir. 2005).

146. *Vault Corp. v. Quaid Software, Ltd.*, 655 F. Supp. 750 (E.D. La. 1987), *aff'd*, 847 F.2d 255 (5th Cir. 1988).

147. Described in discussion *supra* Part III(B).

therefore neither infringing nor a proper basis for imposing secondary liability, was unsuccessful in *A&M Records v. Napster*,[148] the court holding that all four statutory factors weighed against finding fair use.[149] Of particular interest, as to the first factor (whether the use is commercial or for non-profit educational purposes), the court noted that "although downloading and uploading MP3 music files is not paradigmatic commercial activity, it is also not personal use in the traditional sense."[150]

Given the finding that Napster maintained a centralized file listing the files available for transfer, it was appropriate to consider fair use "in gross." However, in P2P cases where the only role of the accused secondary infringer is to provide software which enables the creation of the P2P network, the appropriate test, under *Sony*, requires evaluations at the user level. Thus, the focus in decentralized P2P cases should be on whether a significant number of transferees and transferors would have a fair use right to transfer files,[151] a determination that cannot be made without knowledge about the individuals involved. Fair use transfers would be "noninfringing" and therefore would count favorably toward the determination of "significant noninfringing uses" of the secondary defendant's product.

2. *The AHRA Issue*

An AHRA-based defense was raised in *Aimster*. The defendant contended that all personal copying of music files was protected by 17 U.S.C. § 1008. The court held that "[w]hile Defendants do not elucidate this argument in their brief, they apparently believe that the ongoing, massive, and unauthorized distribution and copying of Plaintiffs' copyrighted works by Aimster's end users somehow constitutes 'personal use.' This contention is specious and unsupported by the very case on which Defendants rely. . . . The difference is akin to a owner of a compact disc making a copy of the music onto a tape for that owner's sole use while away from home versus the owner making thousands of copies of the compact disk onto a tape for distribution to all of his friends."[152]

The issue with respect to secondary liability is subtly different from the one addressed by the court: it is not whether every use is noninfringing but rather whether there are significant noninfringing uses. Thus,

148. 114 F. Supp. 2d 896 (N.D. Cal. 2000).

149. *Id.* at 912-13.

150. *Id.* at 912.

151. A threshold requirement for application of the fair use defense that has been imposed in computer software cases is that the party engaged in the file transfer have rightful possession of a copy of the work being transferred. *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1993); *Sega Enterprises Ltd. v. MAPHIA*, 857 F. Supp. 679, 687 (N.D. Cal. 1994).

152. *In re Aimster Copyright Litigation*, 252 F. Supp. 2d 634, 650 (N.D. Ill. 2002).

the court appears to have placed too heavy a burden on Aimster. To use the court's own analogy, if a significant number of users transferred files for their own sole use while away from home (an activity that would, in the court's own view, have been protected by AHRA), this should have been sufficient to satisfy the *Sony* standard for insulation against secondary liability even if other users made copies for distribution to their friends.

The AHRA has also been raised in defense of direct infringement cases filed against individuals,[153] but these cases have not yet resulted in a reported decision.

3. *Are Digital Music Files Software?*

An additional new issue would arise if entertainment files were "computer software" under the copyright act and therefore subject to § 117. In that case, not only would the owner have a license to transfer or reformat if necessary to preserve the right to enjoy the embodied work (under contract principles), but would also have a safe harbor for such transfers under the copyright statute itself.

If applicable to entertainment files, § 117 would provide an independent and sufficient reason why the assumption that transfer of copyrighted files without permission is, *per se*, infringement would be incorrect.

The copyright statute does not provide *sui generis* protection for "entertainment files."[154] They are protected under the general coverage definitions of § 106 and as such are subject to the restrictions imposed by §§ 107-122.

Section 117(a)(1) of the Copyright Act[155] provides that it is not an infringement of copyright for "the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program," provided that it is created "as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner."

Section 117 was enacted to address a theoretical[156] concern that the

153. For example, Answer, Affirmative Defense 8, *Sony v. Scimeca* (Civ. Ac. 03-5757) (D. N.J. 2004) *at* http://www.eff.org/IP/P2P/RIAA_v_ThePeople/Sony_v_Scimeca/20040114_answer.php.

154. Unlike, for example, semiconductor maskworks, which are accorded explicit protection under 17 U.S.C. §§ 901-14, including protection against secondary infringing activities. 17 U.S.C. § 905(3).

155. 17 U.S.C. § 117(a)(1).

156. Absent § 117, in theory the owner of the copyright in software could sell a CD (or, at the time of the enactment of § 117, a floppy disk) embodying the software, then sue the purchaser for copyright infringement when the purchaser installed the software(thereby making a copy, prohibited by 17 U.S.C. § 106(1)) or when the purchaser ran the software

use of computer software, by its nature, involved making copies of the software which would have been infringing.[157]

If entertainment files[158] are "computer programs" within the meaning of the copyright statute,[159] then the owner of a lawful copy of an entertainment file (for example, music embodied in a CD) would have the right, under § 117, to make copies and adaptations required for utilization in conjunction with a machine, or by extension, necessary for the "effective" use of the file to enjoy the embodiment.[160] This would mean that owners of entertainment files could transfer the files from one format to another in order to deal with obsolescence,[161] and could make

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(which would require creating another copy, or a derivative work, in the computer's random access memory ("RAM"), prohibited by 17 U.S.C. §§ 106(1) and 106(2), respectively). Even absent § 117, there would be obvious defenses (for example, that the activities were impliedly licensed.).

157. The CONTU Report states

> Because the placement of a work into a computer is the preparation of a copy, the law should provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability. Obviously, creators, lessors, licensors, and vendors of copies of programs intend that they be used by their customers, so that rightful users would but rarely need a legal shield against potential copyright problems. It is easy to imagine, however, a situation in which the copyright owner might desire, for good reason or none at all, to force a lawful owner or possessor of a copy to stop using a particular program. One who rightfully possesses a copy of a program, therefore, should be provided with a legal right to copy it to that extent which will permit its use by that possessor.

CONTU Final Report at 13. It should be noted that the same issue would be present, in slightly simplified form, for software distributed by direct download (a technology that was not in common use at the time CONTU made its recommendations). Even assuming that the copying to the purchaser's hard drive was explicitly licensed, the execution of the program would still require the creation of a copy or derivative work in the computer's RAM in order to function.

158. The analysis of the coverage aspect of § 117 applies equally to all forms of entertainment files exchanged over the Internet: music, video, or text. There are additional issues, however, outlined *infra* note 42, which may require distinctions in the application of § 117. Since the test under *Sony* (either MGM's reading or Grokster's) only requires substantial noninfringing uses, concluding that music files meet the definition of § 117 would be sufficient for the Respondents to prevail unless the Supreme Court overrules *Sony* itself.

159. 17 U.S.C. § 101 defines "computer software" as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." 17 U.S.C. § 117 then provides the substantive user rights (or, alternatively, restrictions on the rights granted the copyright owners) associated with computer software.

160. *See Nimmer on Copyright*, § 8.08[B][1][b] ("[t]he trend is to read § 117 broadly" and "loading onto the hard drive should be viewed as 'essential' to the *optimal* utilization of the subject computer program marketed on floppies or on discs. Accordingly, that loading falls within the statutory safe harbor") (citing *DSC Communications v. Pulse Communications*, 976 F. Supp. 359, 362 (E.D. Va. 1997), *rev'd in part*, 170 F.3d 1354 (Fed. Cir. 1999), *cert. denied*, 528 U.S. 923 (1999)) (emphasis added).

161. Or simply to accommodate the format of a new machine which the user had acquired. *Aymes v. Bonelli*, 47 F.3d 23 (2d Cir. 1995); *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005) (holding that § 117 permitted the owner of a copy of a DOS-based computer

backup copies (provided they disposed of all backup copies if they disposed of the original, as required by § 117).

Thus, a critical question is whether digitally encoded entertainment files are "computer programs" or "data." While there do not appear to be any cases on the point, as anyone who has opened an e-mail attachment expecting an image file (data) and found a virus (software) will appreciate, the dividing line between data and software is by no means clear or fixed.[162]

In the Copyright Act, Congress defined a "computer program" as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result."[163] The statute does not define "data."

To be sure, Congress had no inkling that § 117 might someday apply to music file transfers; the concern of the day was the theoretical[164] violation of copyright that arguably occurred when software was run from the medium (then 5-1/4" floppy diskettes) in which it was embodied for sale to the user.[165]

Software is typically written as source code in a high-level language. This source code is typically a text file containing data which is input to a compiler which creates a binary machine-readable file, which in turn is data capable of controlling a computer through the computer's operating system software.

A digital music file is a binary, machine-readable file containing data which, when input to suitable software, instructs a machine to cause a speaker to vibrate in a pattern which creates sound.[166]

Thus, a digital music file would seem to meet the formal statutory definition of computer software. Moreover, the policy behind § 117 would seem to apply and reinforce the license argument—as new tech-

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program to incorporate the program in a Windows-based system, to correct programming errors, to change the source code to maintain the usefulness of the program, and to add capabilities).

162. The programmer's aphorism "One man's data are another man's command" appears to have originated in a 1973 presentation by C. J. Stephenson of Stanford University. C. J. Stephenson, *On the Structure and Control of Commands (One Man's Data are Another Man's Command)*, Fourth Symposium on Operating System Principles, Thomas J. Watson Research Center (NY).

163. 17 U.S.C. § 101.

164. Diligent search has uncovered no published case in which a plaintiff claimed that a lawful owner of software embodied on a floppy disk violated the plaintiff's copyright by running the program on the computer for which the software was acquired.

165. The argument being that in order to execute the software embodied on the floppy disk, a copy (or derivative work) needed to be created in the computer's RAM.

166. The machine may be a general purpose personal computer running a program to carry out these steps or a CD or DVD player, which may be thought of as a special purpose computer with embedded software designed for carrying out these specific steps.

nologies make old obsolete, the owner of the embodied work (whether software or music) should not lose the right to enjoy that work simply because the machinery which enables that enjoyment has changed—consumers did not buy prerecorded Beta videocassettes for the cassettes, they wanted the entertainment recorded on the cassettes.

While the terms of a statute are ordinarily construed according to their plain meaning,[167] it is also instructive to consider what Congress might have thought the words meant. In this case, the best evidence of Congressional intent is the Final Report of the CONTU Commission,[168] a panel created by Congress to "assist the President and Congress in developing a national policy for both protecting the rights of copyright owners and ensuring public access to copyrighted works when they are used in computer and machine duplication systems, bearing in mind the public and consumer interest."[169] Although at least one court has specifically indicated that it does not consider the CONTU report to be legislative history,[170] the Commission's proposed statutory changes[171] were enacted almost verbatim.[172]

In an interesting twist, the CONTU analysis of copyright for computer software was justified by analogy to music:

> Great changes have occurred in the construction of computers, as well as the media in which programs are recorded. Periodic progress has seen the development, utilization, and, in some cases, passage into obsolescence of bulky plug boards, punched paper cards and tape, magnetic tapes and disks, and semiconductor chips. It should be emphasized that these developments reflect differences only in the media in which programs are stored and not in the nature of the programs themselves.[173]

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167. *Circuit City Stores, Inc. v. Adams*, 532 U.S. 105 (2001).

168. *See supra* n. 142 and accompanying text.

169. CONTU Final Report at 3.

170. *Lotus Development Corp. v. Borland Intern., Inc.*, 788 F. Supp. 78, 93 (D. Mass. 1992), *rev'd on other grounds*, 49 F.3d 807 (1st Cir. 1995), *aff'd by an equally divided court*, 516 U.S. 233 (1996) (there is "no support for treating as legislative history what another person or entity says *to* Congress").

171. H.R. Rpt. No. 96-1307 Part I, 96th Cong., 2d Sess. 23 (1980).

172. *See Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1252 (3d Cir. 1983) ("we can consider the CONTU Report as accepted by Congress since Congress wrote into law the majority's recommendations almost verbatim"). *See also Midway Mfg. Co. v. Strohon*, 564 F. Supp. 741, 750 (N.D. Ill. 1983) ("the CONTU Report reflects the Congressional intent"). The one change is from the Commission's recommended "rightful possessor" to "owner" in the introductory phrase of § 117(a)(2). *Cf.* CONTU Final Report at 12 with 17 U.S.C. § 117(a)(2).

173. There may be an argument that in the case of music and video, not only the media but also the content is different (higher density media allow higher fidelity reproductions). However, the transfer from an earlier, lower fidelity, version to a higher fidelity medium cannot transfer any more information than was present in the original.

> The evolution of these media is similar to that of devices for playing recorded music. Circuit boards may be compared to music boxes, and punched paper tape to piano rolls, while magnetic disks and tapes store music and programs in a form which, when passed over a magnetic head, cause minute currents to flow in such a way that desired physical work is accomplished.[174]

The CONTU Commission, of course, did not foresee the closing of the circle, when music would be stored on CDs from which sound would be extracted, not by passing a magnetic medium over a magnetic head, but by reading a binary, machine-readable, file and, with the aid of a computer, controlling an acoustic speaker. However, since software protection was justified by CONTU as analogous to music, it is reasonable to apply the same principles to digital music files as to other forms of software.

4. *The P2P Intermediary*

If the owner has the right to transfer files to a new, undamaged, medium or to a new, non-obsolete medium, one issue remains: assuming the owner may (whether by license construction or by statutory exemption from infringement) create a new file for certain purposes, may the owner do so using third party assistance? Specifically, may the owner do so using the P2P network as an intermediary?

A similar question was raised in *Micro-Sparc, Inc. v. Amtype Corp.*,[175] where the defendant offered, as a service to purchasers of a magazine which contained printouts of computer source code, a disk with the identical source code, ready for loading into a computer. Under 17 U.S.C. § 117, the purchasers of the magazine had the right to copy the source code into their computers as an essential step to using the software; the issue presented was whether the purchasers could authorize the defendant to produce the machine-readable intermediate on their behalf. In a questionable decision,[176] the court held that while owners of copies of the magazine could type the code into a computer, they could not purchase a computer-readable copy of the same code from a third party. However, as noted in *Vault v. Quaid*,[177] the decision appears to go beyond the statutory limitations. As noted in *Foresight Resources Corp. v. Pfortmiller*,[178] *Micro-Sparc* is a "comparatively narrow interpre-

174. CONTU Final Report at 10.

175. 592 F. Supp. 33 (D. Mass. 1984).

176. The court appears to read the words "or authorize" out of the statute. *See also Hogan Systems, Inc. v. Cybresource Intern., Inc.*, 158 F.3d 319 (5th Cir. 1998) (holding that a licensee could hire a contractor to do on its behalf what the license permitted the licensee to do directly).

177. 847 F.2d 255, 266 (5th Cir. 1988).

178. 719 F. Supp. 1006 (D. Kan. 1989).

tation" and "the weight of the more recent cases and scholarly commentary is on the side of reading § 117 broadly, in conformity with the apparent intent of the Commission."[179]

If, as *Micro-Sparc* suggests, the § 117 copying and adaptation rights must be carried out personally and directly by the entertainment file owners without third party assistance, then owners of entertainment files may not use P2P networks to obtain copies of files they already own and any such transfers would count "against" the P2P facility providers in the *Sony* "substantial noninfringing use" calculation.

However, *Aimster* is at least receptive to the argument that a P2P intermediary may be used in the exercise of at least some rights of the owner of the entertainment file. Although granting a preliminary injunction against Aimster, the court did so because "Aimster has presented no evidence of offsetting noninfringing uses,"[180] and provided a list of categories of evidence that might have been acceptable.[181] Of particular interest is the fifth suggested category:

> Someone might own a popular-music CD that he was particularly fond of, but he had not downloaded it into his computer and now he finds himself out of town but with his laptop and he wants to listen to his CD, so he uses Aimster's service to download a copy. This might be a fair use rather than a copyright infringement, by analogy to the time shifting approved as fair use in the *Sony* case.[182]

While dictum, this suggests that what may be done directly may also be done through the P2P intermediary. If there is no restriction on how the owner may obtain copies (either to replace damaged media or to transfer the file to other formats), then such transfers would count in favor of the P2P facility providers in the secondary liability calculation of significance.[183]

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179. *Id.* at 1009-10 (citations omitted).

180. *In re Aimster Copyright Litigation*, 252 F. Supp. 2d at 655.

181. *Id.* at 652-53.

182. *Id.* at 562. The Court characterizes the transfer in this hypothetical case as "fair use" by analogy to the time-shifting use in *Sony*. An alternative route to the same result would be that it is a use within the implied license granted to the purchaser of the CD. *See* discussion *supra* Part V(A)(1). Yet a third path would be to hold the hypothetical transfer protected by the AHRA, although that would place the decision in conflict with *Recording Indus. Assn. v. Diamond Multimedia Systems. See supra* n. 70 and accompanying text.

183. While not covering all users, there was survey evidence introduced in *Napster*, which indicated that "almost half of college-student survey respondents previously owned less than ten percent of the songs they have downloaded" and that "about sixty-nine percent owned less than a quarter." *Napster*, 114 F. Supp. 2d 896 at 916. While the survey evidence was offered in support of the argument that Napster was being used largely for purposes other than making copies for personal use, the evidence does show widespread (although not majority) use that appears to fall within a category thought permissible in *Aimster*.

VI. CONCLUSION

The analysis presented here would not have been relevant in *Sony*: it was not likely that a user of a Betamax for library building could establish the defense offered here since the Betamax did not represent a new technology for enjoying a performance which the user already had the right to enjoy by virtue of having purchased a license. Betamax users were recording off the air programs (protected by the time-shifting fair use decision of the Supreme Court); they could not have previously (i.e., pre-broadcast) owned a license to these programs because no earlier technology allowed home users to do so. Similarly, the argument would not reach uses such as first run films since it depends on the recipient of the shared file having a pre-existing right to enjoy the entertainment encoded on the file (and therefore a right to transfer to a new technology). However, under *Sony*, it is not necessary for the defendants to justify all uses of their technology.

Unless the Supreme Court decides to overturn *Sony*, or divines a third interpretation which the parties have not argued, it does not matter which of the two interpretations of *Sony* is chosen. Under either, there is no secondary liability for copyright infringement unless a substantial degree of primary liability, linked to the alleged secondary infringer, has been established. The record in *MGM v. Grokster*, as the decisions in all prior "file-sharing" cases, is based on the assumption that primary infringement is widespread. That assumption does not withstand scrutiny.

It is possible to identify at least a core of permissible transfers which have not, to date, been considered in *Sony's* "substantial" equation (downloads by individuals who already own a copy of the file, and autologous uploads, for the purpose of transferring an owned copy to another format or location). If this is not enough to conclude that suppliers of the software which makes these transfers possible is protected under *Sony*, it is certainly enough to establish that the determination cannot be made without specific fact-finding as to the underlying transfers.