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BROKEN RECORD: REVISITING THE FLAWS IN SONY'S FAIR USE ANALYSIS IN LIGHT OF THE GROKSTER DECISION

By David L. Wardle*

I. INTRODUCTION

In 1984, the United States Supreme Court dramatically altered the evolution of American entertainment in the controversial case of *Sony Corp. of America v. Universal City Studios, Inc.*¹ In a 5-4 decision, the Court held that off-the-air recording of copyrighted television programs does not violate U.S. copyright laws.² This past summer, the Court raised the specter of the *Sony* decision when it unanimously held, in *MGM Studios, Inc. v. Grokster, Ltd.*,³ that the “staple article of commerce” defense that shielded Sony, supplier of the Betamax videotape recorder (VTR), from contributory copyright infringement liability in *Sony* would not shield Grokster and StreamCast, suppliers of digital file sharing software, from contributory copyright infringement liability in *Grokster*. The Court attempted to reconcile the inconsistent outcomes of the *Grokster* and *Sony* cases by noting that the *Grokster* defendants acted with intent to induce copyright infringement, while no such intent had been attributed to the defendants in *Sony*.⁴ This distinction has caused some to ask, “Does this new opinion mean that if Sony’s heart had not been pure, we would have lost the VCR?”⁵

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1. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) [hereinafter *Sony III*].

2. Brooks Boliek, *Fast Forward: The Betamax Case Remains a Benchmark for Lawmakers Confronting New Technologies*, HOLLYWOOD REP., June 23, 2005, at S-1.

3. *MGM Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) [hereinafter *Grokster III*].

4. See *id.* at 2726 (“[T]his case is significantly different from *Sony* Here, evidence of the distributors’ words and deeds . . . shows a purpose to cause and profit from third-party acts of copyright infringement.”); *id.* 2777 (“There was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping.”).

5. Wendy J. Gordon, Prof., Boston Univ., Remarks at the Meeting of the Boston Bar Ass’n:

The difference between the *Sony* and *Grokster* cases cannot be wholly explained by a difference in the defendants' hearts, pure or otherwise. Under the standard articulated in *Grokster* for finding intent to induce infringement, the *Sony* Court could have held that it was Sony's intent to induce copyright infringement but for the Court's own finding that off-the-air recording of copyrighted television programs is a fair use of copyrighted material. What really explains the inconsistent outcomes of the *Sony* and *Grokster* cases is the fact that the Supreme Court's fair use analysis in *Sony* is flawed.

II. COPYRIGHT LAW FRAMEWORK

Article 1, Section 8, clause 8 of the United States Constitution empowers Congress "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."⁶ The government grants authors and inventors limited monopoly rights, in the form of copyrights⁷ for artistic expressions and patents⁸ for inventions, thereby creating an incentive for authors and inventors to benefit the public with their contributions to the arts and sciences.⁹ Although these limited monopoly rights directly benefit copyright and patent holders, the objective of intellectual property law is improvement of public welfare, not compensation of authors and inventors.¹⁰

MGM v. Grokster: What It Holds and What It All Means (June 29, 2005).

6. U.S. CONST. art. I, § 8, cl. 8.

7. 17 U.S.C. § 102 (2000) ("Copyright protection subsists, in accordance with [the Copyright Act], in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.").

8. 35 U.S.C. § 101 (2000) ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of [the Patent Act].")

9. *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'"), *overturned on other grounds by statute as stated in* *Fabrica, Inc. v. El Dorado Corp.*, 697 F.2d 890, 892-93 (9th Cir. 1983).

10. *See* H.R. REP. NO. 2222-60, at 7 (1909) (stating that copyright laws are intended primarily for the public benefit); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) ("The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.").

A. The Incentive to Create Has Increased as the Scope and Duration of the Limited Monopoly Rights Granted to Copyright Holders Have Expanded.

Striking the proper balance between providing public access to articles of “Science and useful Arts”¹¹ and providing the incentives necessary to induce private individuals to create such public goods is difficult. When Congress enacted the first federal copyright statute in 1790, it only protected the rights of authors to print, reprint, publish, and vend maps, charts, and books for an initial term of 14 years, renewable for another 14 year term if the author was still living.¹² Today, the Copyright Act (“Act”) grants authors exclusive rights to reproduce, distribute, perform, display, and propound derivatives of their creations.¹³ Copyright protection now extends to literary, musical, dramatic, pictorial, graphic, and sculptural works, pantomimes and choreography, motion pictures and other audiovisual works, sound recordings, and architectural works.¹⁴ Under the present scheme, a copyright lasts for the term of the author’s life plus 70 years. In the case of anonymous works, copyrights extend 95 years from publication or 120 years from creation, whichever expires first.¹⁵

B. Courts Recognize a Privilege of Fair Use to Prevent Overreaching by Copyright Holders.

As early as 1841, courts began excepting certain “justifiable” uses of copyrighted works from the statutory monopoly granted to the copyright holder, even though these uses fell within the scope of the copyright holder’s exclusive rights under a literal reading of the Copyright Act.¹⁶ In *Folsom v. Marsh*,¹⁷ Justice Joseph Story, writing for the Federal Circuit Court in Massachusetts,¹⁸ recognized a “fair and bona fide abridgment”

11. U.S. CONST. art. I, § 8, cl. 8.

12. See Act of May 31, 1790, ch. 15, 1 Stat. 124 § 1 (repealed 1802).

13. See 17 U.S.C. § 106 (2000).

14. See *Id.* § 102.

15. See *Id.* § 302.

16. See *Sony III*, *supra* note 1, at 475 n.27 (Blackmun, J., dissenting) (discussing the genesis of the fair use defense in American jurisprudence).

17. *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841).

18. See Arthur E. Sutherland, *Introduction to JOSEPH STORY, COMMENTARIES ON THE CONSTITUTION OF THE UNITED STATES*, http://www.constitution.org/js/js_001.htm (last visited July 19, 2005) (“The work of the Supreme Court itself was much lighter in 1811 than it is now, but the individual justices were then required to go on circuit in various parts of the United States, where, as circuit justices, they presided over trials in the circuit courts and heard appeals from the federal district courts. Thus Story not only sat on the Supreme Court in Washington several months each year, but he also held circuit courts in New Hampshire, Massachusetts . . . and Rhode Island.”).

exception that allowed a reviewer to “fairly cite largely from the original work, if his design be really and truly to use the passages for the purposes of fair and reasonable criticism.”¹⁹ In determining the reasonableness of the reviewer’s purpose, Justice Story considered such factors as “the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.”²⁰ This judicially created “privilege of fair use”²¹ was codified by Congress as Section 107 of the Copyright Act in 1976.²² Congress “intended to restate the [then existing] judicial doctrine of fair use, not to change, narrow, or enlarge it in any way.”²³

Section 107 states that “the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.”²⁴ In determining whether or not a use is “fair,” a court must consider the following non-exclusive list of factors, which closely resembles the list of factors considered by Justice Story in 1841:

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.²⁵

C. Secondary Liability for Copyright Infringement May Be Imposed to Protect the Incentive to Create.

Another judicially developed doctrine impacting copyright law is secondary liability for copyright infringement. While the Copyright Act itself does not impose liability on indirect infringers, the courts have taken the position that the absence of express secondary liability language in the

19. *Folsom*, 9 F. Cas. at 344.

20. *Id.* at 348.

21. *See* Lawrence v. Dana, 15 F. Cas. 26, 61 (C.C.D. Mass. 1869).

22. 17 U.S.C. § 107 (2000).

23. *Sony III*, *supra* note 1, at 447–48 n.29 (quoting H.R. REP. No. 94-1476, at 66 (1976); *see also* William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1662–63 (1988).

24. 17 U.S.C. § 107.

25. *Id.*

statute does not preclude the imposition of liability for copyright infringement on certain parties who have not directly engaged in infringing activity.²⁶ Common law secondary liability concepts that courts have applied to copyright cases include vicarious liability for infringement and contributory infringement.

1. Vicarious Liability May Be Imposed on One Who Profits from Copyright Infringement and Declines to Exercise a Right to Prevent Such Infringement.

One vicariously infringes a copyright by “profiting from direct infringement while declining to exercise a right to stop or limit it.”²⁷ The Ninth Circuit Court of Appeals has explained the concept of vicarious liability as “an ‘outgrowth’ of respondeat superior,” because, “[i]n the context of copyright law, vicarious liability extends beyond an employer/employee relationship to cases in which a defendant ‘has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.’”²⁸ For those who profit from infringement that is within their purveyance to police, liability may not be avoided simply by turning a blind eye to the infringement.²⁹ However, without the right and ability to supervise infringing activity, no obligation to police arises.

2. Contributory Liability May Be Imposed on One Who Knowingly Enables or Encourages Copyright Infringement by Others.

One contributes to copyright infringement by “intentionally inducing or encouraging direct infringement.”³⁰ Like vicarious liability, the concept of contributory liability holds one accountable for the copyright infringement of another. One oft-cited statement of the contributory infringement rule is that “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct

26. *Sony III*, *supra* note 1, at 435; *see also Grokster III*, *supra* note 3, at 2776 (“doctrines of secondary liability emerged from common law principles and are well established in the law” (citing *Sony III*, *supra* note 1, at 486 (Blackmun, J., dissenting))).

27. *Grokster III*, *supra* note 3, at 2776 (citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963)).

28. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001) (quoting *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996)).

29. *Id.* at 1023.

30. *Grokster III*, *supra* note 3, at 2776 (citing *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

of another, may be held liable as a 'contributory' infringer."³¹

For the purposes of contributory infringement, knowledge of infringement may be actual or constructive.³² Where constructive knowledge arises solely from the distribution of a "staple article or commodity of commerce,"³³ the defendant may rebut a presumption of knowledge with a showing that the article is capable of some substantial, noninfringing use.³⁴ Inducement of infringement may be found where one "distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement."³⁵ One is found to cause infringement when one is "in a position to control the use of copyrighted works by others and [authorizes] the use without permission from the copyright owner."³⁶ Material contribution to infringement occurs when one provides the means for infringing activity, such as a "site and facilities."³⁷

III. EXAMINING THE *GROKSTER* CASE

A. A Look at the Grokster and StreamCast Software Used to Make Unauthorized Copies of Copyrighted Works.

The copyright infringement at issue in *Grokster* was facilitated by technology that operated in a manner "conceptually analogous" to the technology that was the subject of an earlier case from the same circuit, *A & M Records, Inc. v. Napster, Inc.*³⁸ Because of the close factual relationship between the two cases,³⁹ it is instructive to have some familiarity with *Napster* before examining *Grokster*.

31. *Gershwin*, 443 F.2d at 1162.

32. See *Sony III*, *supra* note 1, at 487 (Blackmun, J., dissenting) ("[A] finding of contributory infringement has never depended on actual knowledge of particular instances of infringement; it is sufficient that the defendant have reason to know that infringement is taking place.").

33. *Id.* at 440; see *infra* note 137.

34. See *Sony III*, *supra* note 1, at 440–42.

35. *Grokster III*, *supra* note 3, at 2770.

36. *Sony III*, *supra* note 1, at 437 & n.18 (contrasting the "dance hall cases" where secondary liability was not imposed on account of a defendant's lack of control of others' use of copyrighted works).

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

38. *Id.* at 1004.

39. See *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1032 (C.D. Cal. 2003) [hereinafter *Grokster I*] ("Although novel in important respects, both the *Grokster* and *Morpheus* platforms operate in a manner conceptually analogous to the *Napster* system"), *aff'd*, 380 F. 3d 1154 (9th Cir. 2004), *vacated*, 125 S. Ct. 2764 (2005).

1. *Napster.*

In the fall of 1998, Shawn Fanning, an 18-year-old student from Harwick, Massachusetts, started college at Northeastern University in Boston with the intention of studying computer science.⁴⁰ Bored with his schoolwork, Fanning began looking for new programming challenges.⁴¹ One of his roommates regularly downloaded digital copies of his favorite music from the Internet, but was frustrated with the unreliability of the websites providing music files.⁴² It was difficult to locate websites that offered downloadable music files, and those websites that did provide music files were not well maintained.⁴³ Intrigued by his roommate's dilemma, Fanning set out to devise a real-time system for locating digital audio files in MP3⁴⁴ format on the hard drives of other computers connected to the Internet.⁴⁵

Fanning's idea was to have several Internet users list MP3 files that they were willing to share on an indexing computer accessible to other Internet users.⁴⁶ He created a software program—utilizing peer-to-peer (“P2P”) file sharing technology—that allowed users to connect and share MP3 files stored on one another's computers.⁴⁷ Fanning dubbed the program “Napster,” and introduced the program to friends, who received the program enthusiastically. With the help of his uncle, Fanning formed a company and released the Napster software to the public in the summer of

40. *Utah's Digital Economy and the Future: Peer-to-peer and Other Emerging Technologies Hearing Before the S. Comm. on the Judiciary* (2000) (testimony of Shawn Fanning, Founder, Napster, Inc.) http://judiciary.senate.gov/testimony.cfm?id=199&wit_id=273 (last visited Oct. 14, 2005).

41. *See id.*

42. *Id.*

43. *Id.*

44. In 1987, the Moving Picture Experts Group developed an audio file format known as “MPEG-3,” or “MP3.” The MP3 file format compresses digital audio files. The compressed files have lower audio quality than a regular compact disc, but they have become the standard for transmitting music over the Internet because they require minimal disk space, memory, and transmission time. Most MP3 files are created by consumers, who copy the files off of compact discs in a process called “ripping.” *See* Brief of Defendant-Appellant at 8, *Napster, Inc. v. A & M Records, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (Nos. 00-16401 & 00-16403), <http://news.findlaw.com/cnn/docs/napster/napster/brief0818.pdf> (last visited Oct. 15, 2005).

45. *See Utah's Digital Economy and the Future: Peer-to-peer and Other Emerging Technologies Hearing Before the S. Comm. on the Judiciary* (2000) (testimony of Shawn Fanning, Founder, Napster, Inc.) http://judiciary.senate.gov/testimony.cfm?id=199&wit_id=273 (last visited Oct. 14, 2005).

46. *See id.*

47. *Id.*

1999.⁴⁸ With word of his new program spreading quickly, Napster's client base soon grew to several million users.

Although P2P technology can facilitate sharing of almost any type of file, Napster's primary attraction was that it enabled users to swap digital copies of music files for free. However, not everyone welcomed this new method of obtaining free music. The copyright owners of much of the music asserted that their exclusive rights to copy and distribute the music were being infringed by file sharing Napster users. Record companies—owners of the copyrights to most popular music—sued Napster for copyright infringement, claiming that nearly ninety percent of the music files shared on Napster were pirated.⁴⁹ They characterized Napster as “a business created to facilitate the anonymous theft of music,” and presented evidence that music file sharing through Napster led to decreased music sales. Napster's service was ultimately shut down after the Ninth Circuit Court of Appeals affirmed the district court's findings that record companies had “demonstrated a likelihood of success on the merits of [their] contributory copyright infringement claim.”⁵⁰ The court held Napster had knowingly and materially contributed to the infringing activity of its users by indexing shared files and hosting file searches on its servers.⁵¹

2. *Grokster* is Conceptually Analogous to *Napster*.

Just as Napster's legal woes were threatening to put an end to digital music file swapping, a number of new entities introduced their own P2P platforms on the Internet. These entities offered the free exchange of not only copyrighted music, but also copyrighted movies and other digital media, each marketing itself as “the next Napster.” Three of these entities—Grokster, Ltd., StreamCast Networks, Inc., and KaZaa BV (“KaZaa”)—soon found themselves the targets of lawsuits. A default judgment was entered against KaZaa, whose founders developed “FastTrack,” the technology originally used by all three defendants.⁵² Grokster and StreamCast successfully defended themselves against the plaintiffs' suit in Central District of California and in the Ninth Circuit Court of Appeals before receiving an adverse ruling from the United States

48. *Id.*

49. See Respondent's Brief at 5, *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001) (Nos. 00-16401 & 00-16403) (Nov. 27, 2000).

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

51. *Id.*

52. See *MGM Studios, Inc. v. Grokster Ltd.*, 380 F.3d 1154, 1159 (9th Cir. 2004) [hereinafter *Grokster II*], *vacated*, 125 S. Ct. 2764 (2005).

Supreme Court.⁵³

The facts of *Grokster* are similar to those of *Napster*; Grokster and StreamCast both distributed free software to users who downloaded the software onto their own computers from servers operated by the defendants.⁵⁴ Once installed, both Grokster's FastTrack-based "Grokster" software and StreamCast's "Morpheus" software, based on "Gnutella" open source code, enabled users to search networks of shared digital files while simultaneously making the user's own shared files available to other users of the same network.⁵⁵ As with the Napster system, the exchange of digital files occurred directly from one user's computer to another's computer.⁵⁶

The critical distinction between the facts of *Grokster* and *Napster* is that the Napster network was centralized and operated by Napster, whereas in *Grokster* the FastTrack and Gnutella networks were decentralized.⁵⁷ Because of this decentralization, users of Grokster and Morpheus software could continue sharing files through the FastTrack and Gnutella networks, respectively, even if Grokster and StreamCast deactivated all computers within their respective control. Conversely, if Napster deactivated its computers, its users would be unable to share files through the Napster network.⁵⁸ Despite the fact that Grokster and StreamCast did not provide the "site and facilities" for illicit file swapping, the Supreme Court nonetheless found "substantial evidence in [the plaintiff's] favor" on the contributory infringement claim.⁵⁹ The Court found the *Grokster* defendants possessed "unmistakable" intent to induce copyright infringement.⁶⁰

B. Grokster and StreamCast Could Be Held Liable for Contributory Copyright Infringement.

Grokster and StreamCast could be held liable for contributory copyright infringement because their own knowledge and actions made

53. See *Grokster III*, *supra* note 3, at 2782–83.

54. *Grokster I*, *supra* note 39, at 1032.

55. See *id.*

56. See *id.*

57. See *id.*

58. See *id.* at 1041 ("If either Defendant closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption." In contrast, "[i]f Napster deactivated its computers, users would no longer be able to share files through the Napster network.").

59. See *Grokster III*, *supra* note 3, at 2782.

60. See *id.*

them answerable for the direct copyright infringement of those who used Grokster and Morpheus software.⁶¹

1. Users of Grokster and Morpheus Software Used the Software to Commit Acts of Direct Copyright Infringement.

A claim of direct copyright infringement must be supported by two elements: ownership and infringement.⁶² The complainant must first establish that it holds a valid copyright, and then demonstrate that one of the exclusive rights granted by that copyright has been infringed.⁶³ In the *Grokster* case, Grokster and StreamCast settled the question of ownership by conceding that the plaintiffs owned the rights to the sound recordings that were the subject of the complaint.⁶⁴ The *Grokster* defendants also conceded that, like the users of the Napster software before them, at least some of the users of Grokster and Morpheus software engaged in activity that violated two of the plaintiffs' exclusive rights in their sound recordings—the right of reproduction and the right of distribution.⁶⁵ Significantly, it was undisputed by the plaintiffs that there were also “substantial noninfringing uses” for Grokster and Morpheus software.⁶⁶

2. Grokster and StreamCast Could Be Held Liable for the Infringing Activity of Grokster and Morpheus Software Users.

Having established that users of Grokster and Morpheus software directly infringed the plaintiffs' copyrights, the *Grokster* plaintiffs brought claims of secondary liability under both vicarious liability and contributory infringement theories.⁶⁷ Ultimately, the plaintiffs obtained a favorable

61. See *id.* at 2782 (“[I]n addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement by recipients of the device . . .”).

62. See *Grokster I*, *supra* note 39, at 1034.

63. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001) (“Plaintiffs must satisfy two requirements to present a *prima facie* case of direct infringement: (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106.”).

64. *Grokster I*, *supra* note 39, at 1034.

65. *Id.* at 1034–35 (“[I]t is undisputed that at least some of the individuals who use Defendants' software are engaged in direct copyright infringement of Plaintiff's copyrighted works. . . . Just as in *Napster*, many of those who use Defendants' software . . . infringe Plaintiffs' rights of reproduction and distribution.”).

66. See *id.* at 1036.

67. *Id.* at 1034.

ruling from the Supreme Court on the contributory infringement claim.⁶⁸ The Supreme Court declined to address MGM's vicarious liability claim.⁶⁹

In order for one party to be vicariously liable for the direct copyright infringement of another, it must have both a financial interest in the infringing activity and the ability to police that activity.⁷⁰ The trial court in *Grokster* found that Grokster and StreamCast had a clear financial interest in the copyright infringing conduct of the users of their software; the defendants derived substantial advertising revenue from the operation of websites that drew visitors looking to trade copyrighted sound recordings using the defendants' software.⁷¹ Because Grokster and StreamCast lacked the ability to supervise the infringing conduct of the users of their software, the trial court found that vicarious liability could not be imposed,⁷² a finding that was affirmed by the Ninth Circuit Court of Appeals.⁷³ Nevertheless, the Supreme Court ruled that Grokster and StreamCast could be contributorily liable for the infringing activity of their users because they knew of and induced such activity.⁷⁴

In contrast to vicarious liability, contributory liability requires knowledge of the infringing activity, and inducement, causation, or material contribution to the infringing activity.⁷⁵ The first element, knowledge, was easily established in the *Grokster* case. The evidence showed that: (1) "both Defendants marketed themselves as 'the next Napster'," ⁷⁶ (2) the defendants' executives had used the software to search for digital copies of copyrighted sound recordings, (3) the plaintiffs had repeatedly notified the defendants of the infringing use of their software, and (4) the defendants were otherwise aware of the infringing use being made of their software.⁷⁷ This evidence supported, at the very least, constructive knowledge that Grokster and Morpheus software was used to

68. *Grokster III*, *supra* note 3, at 2782.

69. *Id.* at 2776 n.9; *but see MGM II*, *supra* note 52, at 1164–66 (stating that the vicarious liability claim was not met because the third element—"the right and ability to supervise"—was not satisfied).

70. *Grokster II*, *supra* note 52, at 1164–66; *Grokster III*, *supra* note 3, at 2776 ("One . . . infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.").

71. *Grokster I*, *supra* note 39, at 1043–44.

72. *See id.* at 1045 (stating that the court found no admissible evidence indicating the defendants' ability to supervise and control the infringing conduct).

73. *See Grokster II*, *supra* note 52, at 1166.

74. *See Grokster III*, *supra* note 3, at 2782.

75. *Sony III*, *supra* note 1, at 487.

76. *See Grokster I*, *supra* note 39, at 1036.

77. *See id.*

infringe on copyrights.⁷⁸

The Supreme Court ultimately held that evidence presented in the *Grokster* case also supported a finding that Grokster and StreamCast “acted with a purpose to cause copyright violations by use of software suitable for illegal use.”⁷⁹ Of the evidence presented in the case, the Court highlighted three features in particular that proved Grokster and StreamCast acted with actual intent to induce copyright infringement. First, the defendants attempted to “satisfy a known source of demand for copyright infringement, the market comprising former Napster users.”⁸⁰ Second, they intentionally facilitated the copyright infringing activity of others by providing software that enabled infringement without taking preventative steps to curtail the known infringing uses.⁸¹ Third, both companies operated on business models that depended on high-volume use of their respective software.⁸² In light of these considerations, the Court declared the defendants’ unlawful objective to be “unmistakable.”⁸³ Having found that Grokster and StreamCast not only knew of the infringing use of Grokster and Morpheus software, but also induced users to put the software to such use, the Supreme Court declared there was “substantial evidence in [the plaintiffs’] favor” to support a contributory infringement claim.⁸⁴

IV. AN EXAMINATION OF THE SONY CASE IN LIGHT OF THE *GROKSTER* DECISION

A. Sony Distributed Equipment That Was Used to Make Unauthorized Copies of Copyrighted Works.

As early as 1965, Sony Corporation of America began manufacturing videotape recorders (“VTRs”) that could be used together with other equipment to record and replay televised broadcasts of audiovisual material.⁸⁵ Sony eventually developed a line of Betamax VTRs that

78. See *id.* at 1037 (“Defendants clearly know that many if not most of those individuals who download their software subsequently use it to infringe copyrights.”).

79. *Grokster III*, *supra* note 3, at 2781.

80. *Id.*

81. See *id.*

82. See *id.* at 2781–82. “Since the extent of the software’s use determines the gain to the distributors, the commercial sense of their enterprise turns on high-volume use, which the record shows is infringing.” *Id.* at 2782.

83. *Id.* at 2782.

84. *Id.*

85. See *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 435 (C.D. Cal.

contained all of the components necessary for recording television broadcasts without requiring additional equipment.⁸⁶ Some Betamax VTRs were also equipped with timers, which allowed the user to record a telecast when not physically present at the time of broadcasting, or even while watching television on another channel.⁸⁷ Betamax VTRs were capable of pausing, fast forwarding, and rewinding the recorded material on the cassette tape.⁸⁸ These features enabled the user to both avoid recording an undesired segment of a televised program and avoid watching an undesired program segment during playback.⁸⁹ Use of the Betamax VTR was not limited to the recording of telecasts; the Betamax was also capable of recording signals from a video camera, which could be played back on a monitor.⁹⁰ This allowed the user to create his or her own audiovisual material, such as home movies, for playback on a television monitor.⁹¹

None of the Betamax machines or promotional materials contained any warnings about copyright infringement.⁹² However, a booklet of operating instructions distributed with each Betamax VTR sold included the following warning: "Television programs, films, videotapes and other materials may be copyrighted. Unauthorized recording of such material may be contrary to the provisions of the United States copyright laws."⁹³ Sony had no contact with Betamax users after the point of sale.⁹⁴

In 1976, Universal City Studios and Walt Disney Productions, two studios that had produced programs recorded off-the-air by private individuals using Sony's Betamax line of VTRs, filed a lawsuit against Sony to enjoin its sale of the Betamax VTR. Although television viewers were invited to enjoy the network telecast of programs produced by Universal and Disney free of charge,⁹⁵ Universal and Disney derived revenue from the licensing of audiovisual programs to networks for television broadcast.⁹⁶ The networks, in turn, derived their revenue

1979) [hereinafter *Sony I*] (noting that Sony also manufactured the other equipment used to record and play the broadcasts, including the special tape), *rev'd*, 659 F.2d 963 (9th Cir. 1981), *rev'd* 464 U.S. 417 (1984).

86. *See id.*

87. *Id.*

88. *Id.*

89. *See id.* at 435-36.

90. *Id.* at 436.

91. *See Sony I*, *supra* note 85, at 436.

92. *Id.*

93. *Id.*

94. *See id.* at 460.

95. *See id.* at 442.

96. *See id.* at 433-35.

primarily from advertisers who paid to have commercials telecast with programming produced by companies like Universal and Disney.⁹⁷ The advertising fees that the networks received from the advertisers and the licensing fees that the studios in turn received from the networks were "influenced substantially by the size . . . of the audience which the programs . . . [were] expected to reach."⁹⁸ Independent audience measuring services measured the reach of a telecast but did not include any measure of videotape recording or playback in their calculation of telecast reach.⁹⁹ At the time of the lawsuit, Universal and Disney were also selling audiovisual recordings of some of their copyrighted works for home viewing.¹⁰⁰

Although the trial court was unpersuaded, Universal and Disney argued that allowing VTR users to make unauthorized recordings of their telecast programs would harm the studios in at least two significant ways.¹⁰¹ First, allowing VTR users to record telecasts of the studios' copyrighted works for later viewing could reduce the live viewership that supported the advertising fees relied on by the networks for revenue.¹⁰² Second, allowing VTR users to make unauthorized copies of the studios' copyrighted works would reduce demand for authorized copies of the same, thereby interfering with the studios' entry into the burgeoning home video market.¹⁰³ On appeal, the Ninth Circuit agreed with the plaintiffs' claim that Sony, as the manufacturer of the VTRs, was liable for contributory copyright infringement.¹⁰⁴ However, the Supreme Court reversed the Ninth Circuit decision, holding that off-the-air recording for home use was not an infringement.¹⁰⁵ The Court refused to hold Sony liable for the direct copyright infringement of Betamax users.¹⁰⁶

97. See *Sony I*, *supra* note 85, at 440.

98. *Id.* at 440-41.

99. See *id.* at 441 (noting that Nielsen and Arbitron, the two audience measuring services, had the capability of measuring "information with respect to videotape recorder usage," but neither measured such data at the time of the trial).

100. See *id.* at 433-34.

101. *Id.* at 466-67.

102. See *id.* at 466 (noting that the court labels this the time-shifting claim).

103. See *Sony I*, *supra* note 85, at 467 (noting that the court labels this as another time-shifting claim).

104. See *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 975-76 (9th Cir. 1981) [hereinafter *Sony II*], *rev'd*, 464 U.S. 417 (1984).

105. *Sony III*, *supra* note 1, at 456 ("The Betamax is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondents' copyrights.").

106. See *Grokster III*, *supra* note 3, at 2777 ("Although Sony's advertisements urged consumers to buy the VCR to 'record favorite shows' or 'build a library' of recorded

B. If the Court Had Found the Challenged Use of Sony's Betamax VTR to Constitute Infringement, Sony Could Have Been Liable for Contributory Copyright Infringement Under the Grokster Standard.

Sony, Grokster, and StreamCast all faced claims of secondary liability for copyright infringement. While Grokster and StreamCast faced adverse rulings,¹⁰⁷ the Court ruled in favor of Sony.¹⁰⁸ Although the *Grokster* and *Sony* cases are factually similar, the Court distinguished the *Sony* case based on its application of the contributory infringement rule.¹⁰⁹ However, the Court's definitive finding was that the use of VTRs to make unauthorized copies of televised audiovisual material for personal consumptive use did not infringe the copyrights held by the owners.¹¹⁰

1. Sony Was Not Vicariously Liable for the Copyright Infringement of VTR Users.

The trial court in *Sony* correctly applied the vicarious liability standard. This standard requires evidence of a financial benefit derived from the infringing use and a right and ability to control that use.¹¹¹ The Court found that Sony had no financial interest in the VTR's use because Sony derived the same financial benefit from the sale of a VTR whether or not it was put to infringing use.¹¹² Yet, the Court may draw the same conclusion for both Grokster and StreamCast. While their advertising revenue directly correlated to the number of individuals who downloaded Grokster and Morpheus software, the financial benefit was the same whether used for lawful or unlawful purposes.¹¹³

programs . . . neither of these uses was necessarily infringing") (citations omitted) (quoting *Sony III*, *supra* note 1, at 459).

107. See *id.* at 2782 ("There is substantial evidence in MGM's favor on all elements of inducement . . .").

108. *Sony III*, *supra* note 1, at 456 ("Sony's sale of [the Betamax] to the general public does not constitute contributory infringement of respondents' copyrights.").

109. See *Grokster III*, *supra* note 3, at 2782 ("[T]his case is significantly different from *Sony* *Sony* dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course Here, evidence of the distributors' words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement.").

110. See *Sony III*, *supra* note 1, at 456.

111. See *Sony I*, *supra* note 85, at 461 ("Vicarious liability can be imposed when a party has the 'right and ability to supervise the infringing activity and also has a direct financial interest in such activities.'") (quoting *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)).

112. *Id.*

113. See *Grokster I*, *supra* note 39, at 1043, 1044 ("[T]he users . . . can and do choose to

In *Grokster*, the trial court found that many Grokster and Morpheus software users downloaded the defendants' software specifically because it could be put to an infringing use. Consequently, the infringing activity was a source of revenue to the defendants. Therefore, they had a financial interest in the infringing use of the software they distributed.¹¹⁴ The Court confirmed that Grokster and StreamCast were secondarily liable because their commercial success was contingent upon their software's high-volume use.

Because Sony's revenue was derived directly from product sales rather than advertising, it derived a financial benefit solely from the sale of its VTRs.¹¹⁵ Assuming the Betamax use was infringing, Sony would have a financial interest in the infringing use under the *Grokster* and *StreamCast* holding. However, the court in *Sony* said, "Selling a staple article of commerce . . . technically contributes to any infringing use subsequently made thereof, but this kind of 'contribution,' if deemed sufficient as a basis for liability, would expand the theory beyond precedent and arguably beyond judicial management."¹¹⁶

Regardless of whether Sony benefited from an infringing use of the Betamax VTR, Sony was not liable for vicarious copyright infringement because it lacked the right and ability to control how consumers used its VTRs.¹¹⁷ The only meaningful contact that Sony had with its VTR users ended at the point of sale.¹¹⁸ Without more, Sony was not secondarily liable for the direct copyright infringement of Betamax users on a vicarious infringement theory.¹¹⁹

employ it for both lawful and unlawful ends. . . . The more individuals who download the software, the more advertising revenue Defendants collect.").

114. *See id.* ("The ability to trade copyrighted songs and other copyrighted works certainly is a 'draw' for many users of Defendants' software. . . . And because a substantial number of users download the software to acquire copyrighted material, a significant proportion of Defendants' advertising revenue depends upon the infringement. Defendants thus derive a financial benefit from the infringement.").

115. *See Sony I, supra* note 85, at 435 ("[The Betamax] recorders range in price from approximately \$875-\$1000. Sony also manufactures and sells tape cassettes for the various Betamax models. . . . The price for [a] 3-hour tape is approximately \$21.").

116. *Id.* at 461.

117. *See id.* ("Here defendants have neither the right nor the ability to control Betamax purchasers' use of the machines in their homes . . .").

118. *Sony III, supra* note 1, at 438 ("The only contact between Sony and the users of the Betamax that is disclosed by this record occurred at the moment of sale.").

119. *See id.* at 439 ("If vicarious liability is to be imposed on [Sony] in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that [its] customers may use that equipment to make unauthorized copies of copyrighted material. There is no precedent in the law of copyright for the imposition of vicarious liability on such a theory. The closest analogy is provided by the patent law cases to which it is appropriate to refer because of

2. Sony Could Have Been Liable for Contributory Copyright Infringement.

If the *Sony* court determined that making unauthorized off-the-air recordings of copyrighted television programs with a Betamax VTR was an infringing activity, it could have held Sony liable for contributory copyright infringement. The court could have based this on a material contribution theory and almost certainly on an inducement of infringement theory.

The district court found that Sony was not liable for contributory infringement because it lacked sufficient knowledge of the infringing use of its Betamax VTR.¹²⁰ The court came to this conclusion even though: (1) national advertisements for the Betamax encouraged prospective purchasers to “record favorite shows,” “build a library,” and record “novels for television” and “classic movies”;¹²¹ (2) Betamax salesmen made off-the-air recordings of the plaintiffs’ copyrighted works and replayed the same as part of their sales pitch;¹²² and (3) Betamax operating instructions conceded that unauthorized recording of telecasts “may be contrary to the provisions of the United States copyright laws.”¹²³ However, if unauthorized off-the-air recording for home use had been determined to be infringement, Sony’s clear knowledge of this would have satisfied the knowledge element for contributory copyright infringement.

As recognized in the *Sony* dissent, constructive knowledge of direct infringement satisfies the knowledge element for contributory copyright infringement. The dissent stated that mere reason to know of direct infringement was sufficient.¹²⁴ To its credit, the trial court in *Sony* assumed in its analysis that Sony had constructive knowledge of the VTR’s use to

the historic kinship between patent law and copyright law.”).

120. See *Sony I*, *supra* note 85, at 459 (“This court agrees with defendants that their knowledge was insufficient to make them contributory infringers.”).

121. See *id.* at 436.

122. See *id.* at 439 (stating that a private investigator hired by plaintiffs observed demonstrations of live television recording at multiple retail stores. Plaintiffs owned copyrights to some of the programs recorded and replayed as part of these demonstrations.).

123. See *id.* at 436 (“The Betamax operating instructions . . . include a warning about possible copyright infringement. On page 17 of the instruction booklet the following language appears: ‘Television programs, films, videotapes and other materials may be copyrighted. Unauthorized recording of such material may be contrary to the provisions of the United States copyright laws.’ The Betamax machine and this accompanying booklet are delivered to the purchaser in a sealed box.”).

124. See *Sony III*, *supra* note 1, at 487–88 (Blackmun, J., dissenting) (“[A] finding of contributory infringement has never depended on actual knowledge of particular instances of infringement; it is sufficient that the defendant have reason to know that infringement is taking place.” (citing *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399 (S.D.N.Y. 1966))).

record copyrighted programs.¹²⁵ However, it also determined that even if Sony knew that users were copying copyrighted works, it could not have known, nor was it responsible for knowing, that such copying violated any copyrights.¹²⁶ As pointed out in the *Sony* dissent, unwitting infringers are not exempt from infringement liability.¹²⁷ Therefore, if such copying was infringement, Sony's uncertainty of its legality would not absolve it of liability. Moreover, Sony expressed awareness of the potential illegality of such copying in the text of the Betamax operating instructions.¹²⁸

Knowing that Betamax users were copying copyrighted programs, Sony could only have been unaware that such activity was infringing if it had not known that such copying was unauthorized.¹²⁹ It is implausible to presume that all consumers who were encouraged by Betamax advertisements to copy their favorite television programs would individually obtain authorization from the copyright holders. However, the court found that Sony's knowledge of copying did not equate to knowledge of infringement because it found that unauthorized off-the-air copying of copyrighted works for personal consumptive use was not infringement.¹³⁰ If the court had characterized such use as infringing, its acknowledgement that Sony was aware of such use would have presumably translated into recognition that Sony had knowledge of direct infringement by Betamax users.

125. *Id.* at 426.

126. *See Sony I, supra* note 85, at 460 ("Plaintiffs assert, however, that these defendants knew it was likely that people would use the Betamax to record copyrighted works and that this constitutes constructive knowledge. Even assuming that such probability were both accurate and sufficient to create 'constructive knowledge' of the recording of copyrighted works, these defendants could not know that this was an infringing activity. . . . [T]his court finds that home use recording is not an infringement. Even if this finding were incorrect, defendants could not be held responsible for knowing otherwise.").

127. *See Sony III, supra* note 1, at 489 (Blackmun, J., dissenting) ("Section 504(c)(2) of the 1976 Act provides for a reduction in statutory damages when an infringer proves he 'was not aware and had no reason to believe that his or her acts constituted an infringement of copyright,' but the statute establishes no general exemption for those who believe their infringing activities are legal."); *see also Sony II, supra* note 104, at 975 ("[T]he knowledge element is clearly satisfied. The corporate appellees 'know' that the Betamax will be used to reproduce copyrighted materials. In fact, that is the most conspicuous use of the product. That use is intended, expected, encouraged, and the source of the product's consumer appeal. The record establishes that appellees knew and expected that the Betamax's major use would be to record copyrighted programs off-the-air.").

128. *See Sony I, supra* note 85, at 436.

129. *See Sony III, supra* note 1, at 463 (Blackmun, J., dissenting) ("[T]here can be no question that under the [Copyright] Act the making of even a single unauthorized copy is prohibited.").

130. *See Sony I, supra* note 85, at 460 (holding that home use recording is not an infringement).

Sony materially contributed to the challenged use of the Betamax VTR. However, neither the trial court nor the Supreme Court addressed the material contribution element of the plaintiffs' contributory infringement claim in much detail. This was because their mutual conclusion on a very detailed analysis of Sony's affirmative defense rendered the point moot.¹³¹ Further, the appellate court failed to give a detailed analysis of the material contribution element of the contributory infringement claim. Instead, the court summarily stated that "[t]here [was] no doubt that appellees [had] met the other requirements for contributory infringement—inducing, causing, or materially contributing to the infringing conduct of another."¹³² The only express analysis of the material contribution element of the studios' contributory infringement claim is in the *Sony* dissent. The *Sony* dissent found home television viewers were only able to record copyrighted programs off-the-air with the aid of a VTR. Thus, the dissent reasoned that Sony materially contributed to the infringing activity of Betamax users by supplying consumers with the means to record copyrighted programs off-the-air and by encouraging them to do so.¹³³

3. The Staple Article of Commerce Defense Should Not Have Shielded Sony from Liability for Contributory Copyright Infringement.

At the intersection of new technology and existing copyright is a collision of incentives; holding the innovator liable to the artist will reduce the incentive for technical innovation, while allowing the innovator to facilitate infringement will reduce the incentive for artistic expression.¹³⁴

131. See *id.* at 460–61 (“It is also doubtful that these defendants have met the other requirement for contributory infringement: inducement or material contribution to the infringing activity,” without other analysis, other than to reject the idea that “[s]elling a staple article of commerce” is a material contribution to infringing use of that article.); see also, *Sony III*, *supra* note 1, at 440 (No material contribution other than to recognize that contributory infringement can be “predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe.”). The Court also discussed and rejected two other possible theories of contributory infringement liability: control, where “the ‘contributory’ infringer was in a position to control the use of the copyrighted works by others and had authorized the use without permission from the copyright owner” and inducement, where a contributory infringer “intentionally [induces] its customers to make infringing uses of . . . copyrights.” *Id.* at 437, 439 n.19.

132. *Sony II*, *supra* note 104, at 975–76.

133. *Sony III*, *supra* note 1, at 490 (Blackmun, J., dissenting) (“It is only with the aid of the Betamax or some other VTR, that it is possible today for home television viewers to infringe copyright by recording off-the-air. . . . Under the circumstances, I agree with the Court of Appeals that if off-the-air recording is an infringement of copyright, Sony has . . . materially contributed to the infringing conduct of Betamax owners.”).

134. See *Grokster III*, *supra* note 3, at 2775 (reasoning that there is tension between “values

The “staple article of commerce” doctrine allows courts to balance these competing interests by declining to impose secondary liability on product distributors on the basis of product sales alone. Imposition of such liability would have a chilling effect on innovation of products that are otherwise capable of substantial noninfringing uses.¹³⁵

Sony materially contributed to the challenged use of its Betamax VTRs because its knowledge of the use of the machine by consumers was treated as constructive knowledge of the manner in which the product was being used.¹³⁶ However, the court ruled that knowledge of infringing use would not be imputed to Sony based on Betamax distribution alone if the Betamax VTR was capable of substantial noninfringing use.¹³⁷ There are two valid reasons why a charge of contributory infringement should not be predicated entirely on the sale of an article of commerce that is capable of substantial noninfringing use.¹³⁸ First, it is not fair to impute knowledge of an infringing use to one who distributes a product capable of a legitimate use; the likelihood that the distributor had actual knowledge of an infringing use is less likely where the article distributed has no legitimate use.¹³⁹ Secondly, although decreasing illegal use has social benefits,¹⁴⁰ restricting public access to a device capable of lawful use may do more harm than good.¹⁴¹

of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off.” The concern that “digital distribution of copyrighted material threatens copyright holders as never before” must be weighed against the concern that “imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies.”).

135. See *Sony III*, *supra* note 1, at 442 (“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.”).

136. See *generally id.*

137. See *generally id.*

138. See *id.* at 441–42 (stating, as the “staple article of commerce doctrine,” the rule that “[a] sale of an article which though adapted to an infringing use is also adapted to other and lawful uses, is not enough to make the seller a contributory infringer.” (quoting *Henry v. A. B. Dick Co.*, 224 U.S. 1, 48 (1912), *overruled on other grounds*, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 517 (1917))).

139. See *Grokster III*, *supra* note 3, at 2779 (The law is “reluctan[t] to find liability when a defendant merely sells a commercial product suitable for some lawful use”).

140. See *id.* at 2777 (“[W]here an article is ‘good for nothing else’ but infringement, there is no legitimate public interest in its unlicensed availability” (quoting *Canada v. Michigan Malleable Iron Co.*, 124 F. 468, 489 (6th Cir. 1903))).

141. See *Sony III*, *supra* note 1, at 440, 44 (“When a charge of contributory infringement is predicated entirely on the sale of an article of commerce that is used by the purchaser to infringe a

In *Sony*, the Supreme Court found that home recording of televised programs for private viewing at a time other than the time of the original broadcast, a practice known as “time-shifting,” qualified as a substantial noninfringing use.¹⁴² Time-shifting was held to be a “substantial” use because the record reflected that time-shifting was the VTR’s principal use. Additionally, time-shifting was held to be a “noninfringing” use because, although the audiovisual material recorded from live television broadcasts was generally copyrighted, some of the copyright holders did not object to the recording.¹⁴³ In any event, the Court determined that off-the-air copying was a “fair” and not an infringing use.¹⁴⁴

If the *Sony* court had determined that unauthorized time-shifting of copyrighted television programs was an infringing use of the Betamax VTR, it could have rejected Sony’s staple article of commerce defense. The Supreme Court conceded in *Grokster*, “[O]f all the taping actually done by Sony’s customers, only around 9% was of the sort the Court referred to as authorized.”¹⁴⁵ The other 91% of Betamax recordings were for purposes the Court characterized as either infringing or of uncertain legality.¹⁴⁶ Such facts raise the question: what amount of noninfringing use

patent, the public interest in access to that article of commerce is necessarily implicated.” But “to deprive the public of the very tool or article of commerce capable of some noninfringing use would be an extremely harsh remedy . . .”).

142. See *id.* at 442 (“[O]ne potential use of the Betamax plainly satisfies [the substantial noninfringing use] standard, however it is understood: private, noncommercial time-shifting in the home.”).

143. See *Grokster III*, *supra* note 3, at 2788 (stating that 9% of VTR recordings were owned by those who did not object to the recording).

144. See *Sony III*, *supra* note 1, at 442 (stating that time-shifting satisfies the substantial noninfringing use standard).

145. See *Grokster III*, *supra* note 3, at 2788 (Breyer, J., concurring) (“The Court had before it a survey . . . showing that roughly 9% of all VCR recordings were of the type—namely, religious, educational, and sports programming—owned by producers and distributors testifying on Sony’s behalf who did not object to time-shifting.”). In fact, no evidence was presented that any VTR recording had been expressly authorized. See *Sony III*, *supra* note 1, at 494 n.45 (Blackmun, J., dissenting) (“The only witness at trial who was clearly an exclusive copyright owner and who expressed no objection to unauthorized time-shifting was the owner of the copyright in *Mister Rogers’ Neighborhood*. But the Court cites no evidence in the record to the effect that anyone makes VTR copies of that program. The simple fact is that the District Court made no findings on the amount of authorized time-shifting that takes place.”). However, this point is moot, because the staple article of commerce defense requires that an article “*merely be capable of substantial noninfringing uses.*” *Id.* at 442 (emphasis added). Therefore, the fact that no time-shifting had actually been authorized is irrelevant.

146. See *Grokster III*, *supra* note 3, at 2787 (Breyer, J., concurring) (explaining that the “buyer could use the machine for infringing purposes as well Or, the buyer might use the machine to record copyrighted programs under circumstances in which the legal status of the act of recording was uncertain.”).

qualifies such use as "substantial"?¹⁴⁷ One concurring opinion in the *Grokster* case, joined by Justice Stevens who authored the majority's 1984 *Sony* opinion, suggested that "a figure like 10% . . . serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time."¹⁴⁸ However, the majority in *Grokster* avoided answering the question of how much use constitutes "substantial" use.¹⁴⁹ Moreover, in *Sony*, the Supreme Court expressly based its decision on the findings that: (1) a substantial number of copyright holders would not object to time-shifting¹⁵⁰ and (2) there was no demonstrable evidence of harm to the studios.¹⁵¹ The Court did not rest its decision upon a finding that 10% is a substantial amount of use.¹⁵² If the *Sony* majority had accepted the studios' argument that time-shifting was an infringing use and that they were being deprived of the ability to exploit a substantial market for their copyrighted works,¹⁵³ the Court could have concluded that 9% noninfringing use was not "substantial" enough to support a staple article of commerce defense and held Sony liable for contributory copyright infringement.¹⁵⁴

147. *See id.* at 2778 ("The parties and many of the *amici* in this case think the key to resolving it is the *Sony* rule and, in particular, what it means for a product to be 'capable of commercially significant noninfringing uses.'" (quoting *Sony III*, *supra* note 1, at 442)).

148. *See id.* at 2789 (Breyer, J., concurring).

149. *See id.* at 2778-79 ("Assuming . . . 10% to be [*Grokster* and *Streamcast*'] noninfringing use, MGM says this should not qualify as 'substantial,' and the Court should quantify *Sony* to the extent of holding that a product used 'principally' for infringement does not qualify. . . . It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and to leave further consideration of the *Sony* rule for a day when that may be required.").

150. *See id.* at 2788.

151. *Sony III*, *supra* note 1, at 456 ("[R]espondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works.").

152. *See Sony III*, *supra* note 1, at 456 ("[T]he record and findings of the District Court lead us to two conclusions. First, Sony demonstrated a significant likelihood that substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers.").

153. *See id.* at 485 (Blackmun, J., dissenting) ("[T]he Studios and their *amici* demonstrate that the advent of the VTR technology created a potential market for their copyrighted programs. That market consists of those persons who find it impossible or inconvenient to watch the programs at the time they are broadcast, and who wish to watch them at other times. These persons are willing to pay for the privilege of watching copyrighted work at their convenience, as is evidenced by the fact that they are willing to pay for VTRs and tapes; undoubtedly, most also would be willing to pay some kind of royalty to copyright holders. The Studios correctly argue that they have been deprived of the ability to exploit this sizable market.").

154. *See id.* at 490 (Blackmun, J., dissenting) ("Under the circumstances, I agree with the Court of Appeals that if off-the-air recording is an infringement of copyright, Sony has . . . materially contributed to the infringing conduct of Betamax owners.").

4. Sony Induced the Challenged Use of the Betamax VTR.

Regardless of whether the Court had accepted Sony's staple article of commerce defense, if the Court had held unauthorized time-shifting to be an infringing use, it could have held Sony liable for inducement of infringement under the rule articulated in *Grokster*: "[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties."¹⁵⁵ In attempting to distinguish *Grokster* from *Sony*, the *Grokster* Court notes that "*Sony* did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe"¹⁵⁶ Indeed, the *Sony* Court did state, "Sony certainly does not 'intentionally induc['] its customers to make infringing uses of respondents' copyrights"¹⁵⁷ However, like its fair use analysis, the Supreme Court's inducement analysis in *Sony* is flawed.

Further attempting to distinguish *Grokster* from *Sony*, the *Grokster* Court explains that inducement liability requires that the requisite intent to induce be demonstrated by objective expression and conduct, not merely subjective knowledge.¹⁵⁸ In *Grokster*, the evidence was damning. StreamCast's chief technology officer had expressly stated that, as a promotional tactic, the company had set a goal to come in conflict with the law.¹⁵⁹ Moreover internal correspondence between StreamCast executives manifest an objective to make more copyrighted songs available on the Morpheus network than on rival file sharing networks.¹⁶⁰ *Grokster* went so far as to send users a newsletter touting its ability to provide specific copyrighted songs.¹⁶¹ In its legal analysis of these facts, the *Grokster* Court highlighted three characteristics of the defendants' expression and conduct that, combined, made them liable for inducement of infringement: (1) "each company showed itself to be aiming to satisfy a known source of

155. *Grokster III*, *supra* note 3, at 2780.

156. *Id.*

157. *See Sony III*, *supra* note 1, at 439 n.19.

158. *See Grokster III*, *supra* note 3, at 2780 ("[M]ere knowledge of infringing potential or of actual infringing uses would not be enough hereto subject a distributor to liability. Nor would ordinary acts incident to product distribution . . . support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct . . .").

159. *See id.* at 2773 (discussing StreamCast's promotional campaign to capture Napster's customers, exploit the illegal uses of its software, and "get in trouble with the law and get sued" in order to garner media attention).

160. *Id.* at 2773-74.

161. *Id.* at 2774.

demand for copyright infringement,”¹⁶² (2), “neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their [products],”¹⁶³ and (3) “the extent of the [product]’s use determines the gain to the distributors.”¹⁶⁴ The same could be said of Sony.

As conceded by the Supreme Court in *Grokster*, “The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations.” Although the *Sony* Court cursorily determined that Sony did not intentionally induce its customers to make copyright infringing use of its Betamax VTR, Sony clearly induced its customers to put the Betamax to its challenged use. National advertisements for the Betamax encouraged consumers to “record favorite shows,” “build a library,” and record “novels for television” and “classic movies.” Betamax salesmen recorded and played back copyrighted programs from live telecasts as part of their sales pitch,¹⁶⁵ even though the operating instructions distributed with each Betamax sold expressly stated that such recording “may be contrary to the provisions of the United States copyright laws.”¹⁶⁶ Sony’s promotional activities catered to a consumer that wanted to record copyrighted television programs. The Ninth Circuit Court of Appeals held that the challenged Betamax use was “intended, expected, encouraged and the source of the product’s consumer appeal.”¹⁶⁷ Before the Supreme Court, the dissent found that advertisement of the Betamax’s capacity to record copyrighted programs supported its determination that Sony had induced copyright infringement.¹⁶⁸ Although Sony sought to appeal to consumers who wanted to record copyrighted television programs, the *Sony* majority determined that this pool of consumers was not a source of demand for copyright infringement because it found home recording of copyrighted television programs to be a fair, noninfringing use of copyrighted works.¹⁶⁹

Grokster never blocked anyone from using its software, even after copyright holders warned the company about infringing use of its

162. *Id.* at 2781.

163. *Id.*

164. *Id.* at 2782.

165. See *Sony I*, *supra* note 81, at 439 (explaining that plaintiffs hired a private investigator who observed demonstrations of live television recordings at multiple retail stores.).

166. See *id.* at 436.

167. See *Sony II*, *supra* note 103, at 975 (“The corporate appellees ‘know’ that the Betamax will be used to reproduce copyrighted materials. In fact, that is the most conspicuous use of the product. That use is intended, expected, encouraged, and the source of the product’s consumer appeal.”).

168. See *Sony III*, *supra* note 1, at 489–90 (Blackmun, J., dissenting).

169. *Id.* at 456.

software.¹⁷⁰ StreamCast rejected a company's offer to monitor copyright infringing use of Morpheus software and took action to prevent would-be monitors from accessing its network.¹⁷¹ Even though Grokster and StreamCast were aware of the copyright infringing uses of their software, neither made an effort to diminish such use.¹⁷² Similarly, Sony made no effort to inhibit use of its Betamax VTR to record copyrighted works off-the-air. A distinguishing characteristic of the Betamax VTR was that it contained, in one machine, all of the components necessary to record television programs off the air.¹⁷³ VTRs had been available for years prior to the *Sony* case, but VTR owners who wished to record a telecast had to purchase a separate tuning device that would enable the VTR to pick up television signals.¹⁷⁴ The studios did "not object to the sale of VTR's without tuners."¹⁷⁵ Therefore, an obvious solution to the conflict between Sony and the studios would have been for Sony to remove the tuner from its Betamax VTR. However, Sony did not remove the tuner from its Betamax VTR, and made no indication it intended to do so.¹⁷⁶ In fact, Sony buried a concession on page seventeen of the Betamax instruction booklet that unauthorized off-the-air recording "may be contrary to the provisions of the United States copyright laws."¹⁷⁷ Moreover, Sony did not attach to its Betamax VTRs the plate it had attached to the back of pre-Betamax VTRs, which stated: "This videotape recorder is not to be used to record copyrighted works."¹⁷⁸ Sony did not attempt to diminish off-the-air recordings of copyrighted works with the Betamax VTR.

The Supreme Court found it significant that Grokster and StreamCast generated revenue by selling advertising space, and that advertising revenues increased as the number of Grokster and Morpheus users increased.¹⁷⁹ The Court determined that demand for copyright

170. *Grokster III*, *supra* note 3, at 2774.

171. *Id.* at 2774.

172. *Id.* at 2772.

173. See *Sony I*, *supra* note 84, at 435 (Noting that "[t]hree components are required to record off-the-air and play back on the average television set: (a) the videotape recorder; (b) the tuner; and (c) the radio frequency adapter" and that, "even without Betamax machines, a person could assemble a system for off-the-air recording after purchasing the components separately[.]" but that "Betamax machines contain all three components.").

174. *Sony III*, *supra* note 1, at 458 n.1 (Blackmun, J., dissenting).

175. See *id.* at 492 n.42 (Blackmun, J., dissenting).

176. See *id.* at 458 n.1 (noting that, in addition to selling the Betamax VTR, Sony sold VTRs without built-in tuners).

177. *Sony I*, *supra* note 84, at 436.

179. *Id.*

179. *Grokster III*, *supra* note 3, at 2774 ("Grokster and StreamCast receive no revenue from users Instead, both companies generate income by selling advertising space As the

infringement enabling software was translating into dollars for Grokster and StreamCast.¹⁸⁰ While the fact that “the commercial sense of their enterprise turns on high-volume use” was not, in and of itself, sufficient to justify an inference of unlawful intent, taken together with the rest of the evidence in the case, the Court found the *Grokster* defendants’ “unlawful objective” to be “unmistakable.”¹⁸¹

Although Sony derived its revenue from direct sales rather than advertising, the commercial sense of Sony’s enterprise depended on high-volume use of its product. Sony pitched off-the-air recording of copyrighted telecasts as a selling point in its promotion of the Betamax VTR.¹⁸² Consequently, off-the-air recording of copyrighted telecasts became the product’s principal use.¹⁸³ Clearly, consumers were purchasing Betamax VTRs to record copyrighted programs and Sony was profiting from sales of the VTRs that enabled such copying.¹⁸⁴ If the Court had found off-the-air recording for home use to be copyright infringement, it would be apparent that Sony profited from that infringing use of its Betamax.¹⁸⁵

C. The Supreme Court’s Fair Use Analysis in Sony Is Flawed.

From the foregoing analysis, we see that the difference in the outcomes of the *Sony* and *Grokster* decisions has less to do with the defendants’ intentions than with the Supreme Court’s finding in *Sony* that unauthorized off-the-air recording of copyrighted audiovisual material for

number of users of each program increases, advertising opportunities become worth more.”).

180. *Id.* (“Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking a free Decameron, and Grokster and StreamCast translated that demand into dollars.”).

181. *Id.* at 2782.

182. *See Sony I*, *supra* note 81, at 439 (noting that Betamax salesmen recorded copyrighted telecasts in their demonstrations of Betamax recording); *id.* at 436 (noting that national advertising encouraged Betamax consumers to “record favorite shows”).

183. *See Sony III*, *supra* note 1, at 421 (“[Findings of the District Court] reveal that the average member of the public uses a VTR principally to record a program he cannot view as it is being televised and then to watch it at a later time.”).

184. *See id.* at 486 (Blackmun, J., dissenting) (“From the Studios’ perspective, the consequences of home VTR recording are the same as if a business had taped the Studios’ works off the air, duplicated the tapes, and sold or rented them to members of the public for home viewing. . . . [T]he commercial benefit accrues to the manufacturer and distributors of the Betamax.”).

185. *See Grokster III*, *supra* note 3, at 2777 (“Although Sony’s advertisements urged consumers to buy the VCR to ‘record favorite shows’ or ‘build a library’ of recorded programs . . . neither of these uses was necessarily infringing”) (citations omitted) (quoting *Sony III*, *supra* note 1, at 459).

home use was a fair use of copyrighted material.¹⁸⁶ However, the Court's fair use analysis in *Sony* is flawed. If the Court had applied the fair use statute in a manner consistent with its literal meaning, it would not have held the challenged use of the Betamax VTR in *Sony* to be a fair use.

Section 107 of the Copyright Act expressly states that the list of factors used to determine whether a use is a fair use is not exclusive.¹⁸⁷ Nevertheless, the *Sony* Court confined its fair use analysis to consideration of the four factors listed in Section 107: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion of the copyrighted work used; and (4) the effect of the use upon the potential market for or value of the copyrighted work.¹⁸⁸ An analysis of the facts of *Sony*, using only these four factors, does not justify a finding that unauthorized off-the-air recording of copyrighted works for home use is a fair use.

1. The Commercial Purpose and Non-Transformative Character of the Challenged Use in *Sony* Do Not Support a Finding That It Is a Fair Use.

Sir Isaac Newton attributed his professional success as an inventor to the fact that he "stood on the shoulders of giants." The fair use doctrine is meant to allow authors to "stand on the shoulders" of their intellectual predecessors without fear of liability for copyright infringement. It "acts as a form of subsidy—albeit at the first author's expense—to permit the second author to make limited use of the first author's work for the public good."¹⁸⁹ The incorporation of elements of a copyrighted work into a subsequent work, which "stands on the shoulders" of the original, serves the ultimate goal of copyright law: advancement of public welfare through promotion of the useful arts.¹⁹⁰ For this reason, the fair use doctrine excepts transformative uses from liability.¹⁹¹ Its purpose is to encourage production of derivative works, not mere substitutes for existing works.

There is nothing transformative about time-shifting; time-shifting is

186. *Id.* at 2788.

187. 17 U.S.C. § 107 (2000).

188. *See id.*

189. *Sony III*, *supra* note 1, at 478 (Blackmun, J., dissenting) (citing Latman Fair Use Study 31 and Wendy J. Gordon, *Fair Use as Market Failure: A Structural Analysis of the Betamax Case and its Predecessors*, 82 COLUM. L. REV. 1600, 1630 (1982)).

190. U.S. CONST. art. I, § 8, cl. 8.

191. Courts commonly refer to uses that incorporate elements of a copyrighted work into a work with a "further purpose or different character" as "transformative." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994); *see, e.g., A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001).

completely “intrinsic” in character.¹⁹² It involves generating an identical copy of the original work; the fact finder in *Sony* conceded that the recordings were put to the same use as the original: private consumption. The time-shifter stands in the shoes, not on the shoulders, of the studio. Clearly, the non-transformative character of time-shifting cuts against a finding of fair use.¹⁹³

Time-shifting is not a fair use because of the Betamax user’s purpose for time-shifting. Section 107 of the Copyright Act states that works that use copyrighted material for “criticism, comment, news reporting, teaching . . . scholarship, or research” are exempt from copyright infringement liability.¹⁹⁴ This section also asks whether a given use has a “commercial” purpose or a “nonprofit educational” purpose;¹⁹⁵ commercial uses are considered presumptively unfair.¹⁹⁶ The phrase “fair use” speaks to the defense’s genesis as an exception to copyright infringement liability for purposes of “fair and bona fide abridgment” in works of literary criticism.¹⁹⁷ Time-shifting in *Sony* was not done for the purpose of criticism, comment, news reporting, teaching, scholarship, research, or nonprofit education.

The purpose of the time-shifting was to facilitate private consumption of television programs at different times from their original telecasts.¹⁹⁸ The *Sony* Court correctly acknowledged that VTR-enabled copying of copyrighted works for a “profit-making purpose” would be presumptively unfair.¹⁹⁹ However, it wrongly determined that substitution of an unauthorized recording of a studio’s copyrighted work for the original did not cut against a finding of fair use. The simple explanation for this bizarre

192. See Pamela Samuelson, *Fair Use for Computer Programs and Other Copyrightable Works in Digital Form: The Implications of Sony, Galoob and Sega*, http://www.sims.berkeley.edu/~pam/papers/sony_galoob.htm (last visited Aug. 11, 2005) (“An intrinsic use merely consumes the work in the same way as if a copy had been purchased.”).

193. See *Harper & Row Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 550 (1984) (“[T]he fair use doctrine has always precluded a use that ‘supersede[s] the use of the original.’” (quoting *Folsom v. Marsh*, 9 F. Cas. 342, 345 (C.C.D. Mass. 1841))).

194. 17 U.S.C. § 107 (2000).

195. *Id.*

196. *Sony III*, *supra* note 1, at 451 (“[E]very commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright . . .”).

197. *Folsom*, 9 F. Cas. at 344–45 (“[U]se of the most important parts of the work, with a view, not to criticise [sic], but to supersede the use of the original work . . . will be deemed in law a piracy.”).

198. See *Sony I*, *supra* note 84, at 466.

199. See *Sony III*, *supra* note 1, at 449 (“If the Betamax were used to make copies for a commercial or profit-making purpose, such use would presumptively be unfair.”).

result was that the Court accepted the trial court's characterization of time-shifting use as "noncommercial."²⁰⁰ This was clear error.

In a separate decision issued the year after the *Sony* decision, the Supreme Court explained that "[t]he crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price."²⁰¹ Time-shifting exploits the studios' copyrighted material without paying the "customary price."²⁰² Home-use copies of some of *Sony's* movies were available for purchase on Laser Disc at the time of the *Sony* case, although it is unclear from the record whether any of the specific titles that the defendants had copied were among those available on Laser Disc.²⁰³ Therefore, the studios were concerned that time-shifting would negatively impact the market for authorized recordings of their copyrighted works.²⁰⁴ If Betamax users were time-shifting to avoid purchasing authorized recordings of the studios' copyrighted works, then their use of copyrighted works was commercial.

Even if no home-use copies of the time-shifted programs were available for purchase at the time of the *Sony* case, time-shifters still sought to exploit the studios' copyrighted works without paying the "customary price."²⁰⁵ Even though the Court characterized network television broadcasts as "free,"²⁰⁶ the studios did not offer viewers television with no strings attached. Time is money and what was required of viewers for the

200. See *id.* ("[T]he District Court's findings plainly establish that time-shifting for private home use must be characterized as a noncommercial, nonprofit activity.")

201. *Harper & Row*, 471 U.S. at 562.

202. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001) (rejecting the fair use defense where "repeated and exploitative unauthorized copies of copyrighted works were made to save the expense of purchasing authorized copies").

203. See *Sony I*, *supra* note 81, at 434 ("Within the past year, Disney has also offered some of its theatrical motion pictures for sale on videodisc.")

204. *Sony III*, *supra* note 1, at 483 (Blackmun, J., dissenting) ("The Studios have identified a number of ways in which VTR recording could damage their copyrights. VTR recording could reduce their ability to market their works in movie theaters and through the rental or sale of prerecorded videotapes or videodiscs").

205. See *Eldred v. Ashcroft*, 537 U.S. 186, 248 (2003) (Breyer, J., dissenting) ("[Copyright law] imposes upon the public certain expression-related costs in the form of (1) royalties that may be higher than necessary to evoke creation of the relevant work, and (2) a requirement that one seeking to reproduce a copyrighted work must obtain the copyright holder's permission. The first of these costs translates into higher prices that will potentially restrict a work's dissemination. The second means search costs that themselves may prevent reproduction even where the author has no objection . . . [T]hese costs are, in a sense, inevitable concomitants of copyright protection").

206. See *Sony III*, *supra* note 1, at 449 ("[T]ime-shifting merely enables a viewer to see such a work which he had been invited to witness in its entirety free of charge").

benefit of free television, was the price of their attention so that networks, studios, and advertisers could count their viewership.²⁰⁷ In turn, advertising rates were computed based on viewerships.²⁰⁸ Ultimately, the advertising fees that the networks received determine the fees networks paid to the studios to license their copyrighted works.²⁰⁹ Therefore, Betamax users were time-shifting to save the expense of having to watch television programs at their regularly scheduled times. Thus, both the character and the purpose of time-shifting cut against a finding of fair use.

2. The Creative Nature of the Copyrighted Material in *Sony* Cuts Against a Finding of Fair Use.

Creative works are “closer to the core of intended copyright protection” than fact-based works.²¹⁰ Therefore, the law affords greater protection to dramatic works than to merely informative works.²¹¹ The creative nature of the works in the *Sony* dispute, including movies such as “Frankenstein,” “The Mummy,” “Wolfman,” and “Psycho,” and several episodes of the “New Mickey Mouse Club,” does not support a finding that time-shifting was a fair use. However, rather than conceding that the creative nature of the studios’ copyrighted works does not support a fair use defense, the Supreme Court accepted the district court’s conclusion that the most important aspect of the nature of the materials involved was that they were telecast over public airwaves to individual homes free of charge.²¹² The fact that copyright holders authorized use of their copyrighted works without pecuniary remuneration says nothing about the nature of the copyrighted works. Like the district court, the Supreme Court simply ignored the fact that the creative nature of the works being recorded cut against a finding that time-shifting is a fair use.²¹³

207. See *Sony I*, *supra* note 81, at 440–41 (discussing the broadcasting industry and ratings).

208. See *id.*

209. See *id.*

210. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1016 (9th Cir. 2001) (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994)).

211. *Sony III*, *supra* note 1, at 455 n.40 (“Copying a news broadcast may have a stronger claim to fair use than copying a motion picture.”); see *Harper & Row, Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 563 (1984) (“The law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy.”).

212. *Sony III*, *supra* note 1, at 425.

213. *Id.* at 496 (Blackmun, J., dissenting) (“The second factor—‘the nature of the copyrighted work’—strongly supports the view that time-shifting is an infringing use.”).

3. There Was No Fair Use of the Copyrighted Works Because Betamax Users Copied Television Programs in Their Entirety.

According to the district court in *Sony*, “[T]he more substantial the taking from the copyrighted work, the less likely it is that the fair use defense will be available.”²¹⁴ The Supreme Court in *Sony* also stated that “the fact that the entire work is reproduced” ordinarily has the effect of “militating against a finding of fair use.”²¹⁵ Nevertheless, even though time-shifting involved reproducing a copyrighted work in its entirety, both courts rejected the obvious conclusion that the amount of the portion used did not support a finding of fair use.²¹⁶ Instead, the *Sony* Court did not consider this factor’s impact because Betamax users were invited to view the works at no cost during their scheduled broadcast.²¹⁷

It is irrelevant that time-shifters could have freely viewed the copyrighted works that they recorded during scheduled telecasts. Prospective television viewers were offered a “limited license” to perform, on his or her own home television set, a studio’s copyrighted work in exchange for their attention to the program during the scheduled telecast. If viewers rejected that offer, they had no right use the studios’ works.²¹⁸

214. *Sony I*, *supra* note 81 at 454.

215. *Sony III*, *supra* note 1, at 449–50; *see also* *Campbell v. Acuf-Rose, Inc.*, 510 U.S. 569, 591 (1994) (“[W]hen a commercial use amounts to mere duplication of the entirety of an original, it clearly ‘supersede[s] the objects,’ of the original and serves as a market replacement for it, making it likely that cognizable market harm to the original will occur.” (citation omitted) (citing *Sony III*, *supra* note 1, at 451.)).

216. *Sony III*, *supra* note 1, at 449–50 (“[W]hen one considers . . . that time-shifting merely enables a viewer to see [a copyrighted audiovisual] work which he had been invited to witness in its entirety free of charge, the fact that the entire work is reproduced, *see* § 107(3), does not have its ordinary effect of militating against a finding of fair use.”).

217. *Id.*

218. The Uniform Commercial Code articulates the effect of a viewer’s time-shifting of a telecast on “negotiations” between the studios and the television viewer. Official Comment 3 to U.C.C. § 2-206 explains, “[A]n expression of acceptance,” in this case, a viewer’s tuning in to a regularly scheduled television program, “can operate as an acceptance (i.e., create a contract) even though it contains terms that are not identical to those in the offer. This rule applies, however, only to an expression of acceptance that is not only seasonable but also ‘definite.’ A purported expression of acceptance containing additional or different terms,” in this case, such as a proposal to watch the program at a time other than during its scheduled broadcast, “would not be a ‘definite’ acceptance when the offeree’s expression clearly communicates to the offeror the offeree’s unwillingness to do business unless the offeror assents to those additional or different terms. This is not a definite acceptance since the offeree’s expression makes it clear that the offeree is not ‘accepting’ anything; but rather that the offeree is indicating a willingness to do business only on the offeree’s terms and that the offeree is awaiting the offeror’s assent to those terms. . . . In a situation in which the offer clearly indicates that the offeror is unwilling to do business on any terms other than those contained in the offer, and the offeree responds with an expression of acceptance that contains additional or different terms, a court could also conclude

Moreover, even if a court held that a studio forfeited its exclusive right to perform that copyrighted work by inviting the public to view it during a scheduled telecast, the invitation to view the work was not an invitation to copy it.²¹⁹ Time-shifters not only violated studios' exclusive right of performance by replaying a copyrighted work after the original broadcast, but they also violated studios' exclusive rights of reproduction by recording the copyrighted work. The fact that time-shifters copied studios' copyrighted programs in their entirety factor cuts against a finding that time-shifting is a fair use.

4. The Fair Use Defense is Unavailable Because the Challenged Use Impaired the Studios' Ability to Exploit the Market for Home-Use Recordings of Their Copyrighted Works.

According to the courts, the most important statutory factor when conducting a fair use analysis is the effect of time-shifting upon the potential market for, or the value of, the studios' copyrighted works.²²⁰ It is unreasonable to expect courts to be clairvoyant and fault them for making a determination about harm to a potential market that later proves to be wrong. However, the *Sony* Court can be faulted for (1) giving disproportionate weight to a factor loaded with uncertainty while the other three factors cut against fair use, and (2) failing to give adequate consideration to the evidence presented by the studios.

Harm to a potential market is very difficult to prove.²²¹ For that reason, as the district court in *Sony* acknowledged, "in the ordinary case,"

that the offeree's response does not constitute a definite expression of acceptance." U.C.C. § 2-206 cmt. 3 (2004).

219. *Sony III*, *supra* note 1, at 497 n.49 (Blackmun, J., dissenting) ("An invitation to view a showing is completely different from an invitation to copy a copyrighted work.").

220. *See Harper & Row Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 566-67 ("This last factor is undoubtedly the single most important element of fair use. 'Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied.'" (quoting 1 Nimmer § 1.10[D] at 1-87)); *see also Sony III*, *supra* note 1, at 450-54, 456 (discussing the "harm" factor of the fair use analysis). Whereas only one paragraph of the Supreme Court's *Sony* decision is devoted to consideration of the other three factors collectively, its analysis of harm spans four pages of the opinion. Moreover, harm is identified with authorized copying as one of the two reasons that the Court gave for accepting Sony's staple article of commerce defense. *Id.*

221. *See Sony III*, *supra* note 1, at 482 (Blackmun, J., dissenting) ("Proof of actual harm, or even probably harm, may be impossible in an area where the effect of a new technology is speculative, and requiring such proof would present the 'real danger . . . of confining the scope of an author's rights on the basis of the present technology so that, as the years go by, his copyright loses much of its value because of unforeseen technical advances.'" (quoting Register's Supplementary Report 14)).

irreparable harm is presumed when the copyright holder's 'right to exclusive use of copyrighted material is invaded.'"²²² Considering that time-shifters infringed the studios' exclusive reproduction and performance rights, the studios should have been, at least, afforded a presumption of harm.²²³ However, the district court in *Sony* insisted that *Sony* was "not the 'ordinary' copyright case," because the studios allowed their copyrighted works to be telecast for public viewing without charge, thereby denying the studios the benefit of that presumption. Accordingly, rather than leaving it to Sony to rebut a presumption of harm to the studios, the Supreme Court shifted to the studios the evidentiary burden of demonstrating "that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works."²²⁴

The district court in *Sony* was presented with compelling evidence of harm to the potential market for the studios' copyrighted works. Executives from both studios testified that future VTR use "would decrease the value of their copyrights in a number of ways."²²⁵ The court made no conclusive finding that VTR use would not cause the studios future harm.²²⁶ The demand for copies of the studios' copyrighted works indicated that the VTR had increased the value of the studios' limited monopoly rights.²²⁷ The Supreme Court implicitly conceded this point when it stated that a time-shifter does not harm the studio because "no live viewer would buy a prerecorded videotape if he did not have access to a VTR."²²⁸ However, the *Sony* majority did not recognize that the plaintiffs had demonstrated harm "simply by showing that the value of their copyrights would *increase* if they were compensated for the copies that are used in the new market."²²⁹ Instead, the majority cited the public demand for copies of the studios' copyrighted works as justification for violating

222. *Sony I*, *supra* note 81, at 464 (quoting *Am. Metro. Enters. of N.Y., Inc. v. Warner Bros. Records, Inc.*, 389 F.2d 903, 905 (2d Cir. 1968)).

223. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994) ("Since fair use is an affirmative defense, its proponent would have difficulty carrying the burden of demonstrating fair use without favorable evidence about relevant markets.")

224. *Sony III*, *supra* note 1, at 456.

225. *Sony I*, *supra* note 81, at 440.

226. Though it did find that "[h]arm from time-shifting is speculative and, at best, minimal," and that "[n]o likelihood of harm was shown at trial," the district court stopped short of finding that time-shifting would *in fact* have no effect on the potential market for or value of the studios' copyrighted works. Of course, the court has no crystal ball that would enable it to make such a conclusive finding either way. See *Sony I*, *supra* note 81, at 467-68.

227. *Sony III*, *supra* note 1, at 498 (Blackmun, J., dissenting).

228. *Id.* at 450 n.33.

229. *Id.* at 498 (Blackmun, J., dissenting) (emphasis in original).

the studios' exclusive monopoly rights in favor of public access.²³⁰

The argument that studios suffered no harm because VTR use created the market for recordings is flawed in two respects. First, Sony did not object to sales of VTRs without television tuners. Instead, the demand for copies of the studios' copyrighted works, authorized or unauthorized, existed independently of the VTR's capacity to record off-the-air. Second, and more importantly, "the fact that a given market for a copyrighted work would not be available to the copyright holder were it not for the infringer's activities does not permit the infringer to exploit that market without compensating the copyright holder."²³¹

In 1984, it was difficult to know how pervasive the home video industry would become.²³² However, the home video industry was not "unmentioned in *Sony*."²³³ *Sony's* dissent noted the studios' argument that the studios were being deprived of the ability to exploit the "sizable market" consisting of "those persons who find it impossible or inconvenient to watch the programs at the time they are broadcast, and who wish to watch them at other times."²³⁴ The *Sony* dissent clearly noted that "[a] VTR owner who has taped a favorite movie for repeated viewing will be less likely to rent or buy a tape containing the same movie."²³⁵ Even the district court acknowledged that "prerecorded discs of special programs or movies will compete with the Betamax recording."²³⁶

D. The Inconsistency in the Grokster and Sony Decisions Is Attributable in Part to Litigation Strategy Decisions and Policy Considerations.

While the *Sony* and *Grokster* cases are similar in many respects, there

230. *Id.* at 454 ("The District Court's conclusions are buttressed by the fact that to the extent time-shifting expands public access to freely broadcast television programs, it yields societal benefits."); *Sony I*, *supra* note 81, at 454 (citation omitted) ("This increase in access is consistent with the First Amendment policy of providing the fullest possible access to information through the public airwaves.").

231. *Sony III*, *supra* note 1, at 485 (Blackmun, J., dissenting) (citing *Iowa State Univ. Research Found., Inc. v. Am. Broad. Cos.*, 621 F.2d 57 (2d Cir. 1980)).

232. See Hilary Potkewitz, *Digital Verité: Studios See More Money in DVDs Than Theaters*, L.A. BUS. J., Aug. 29–Sept. 4, 2005, at 1 (quoting movie industry analyst Harold Vogel of Vogel Capital who states, "[Y]ou don't make money in the [theatrical] release anymore—you make most of your money on the DVD Even a reasonably successful picture makes most of its real money on television and in DVD, as opposed to the theatrical release.").

233. *Grokster III*, *supra* note 3, at 2790 (Breyer, J., concurring) ("There may be other now-unforeseen noninfringing uses that develop for peer-to-peer software, just as the home-video rental industry (unmentioned in *Sony*) developed for the VCR.").

234. *Sony III*, *supra* note 1, at 485 (Blackmun, J., dissenting).

235. *Id.* at 483 n.35 (Blackmun, J., dissenting) (emphasis added).

236. *Sony I*, *supra* note 81, at 467.

are important differences as well. These distinctions may have affected the contributory infringement analysis of either case, but more importantly, they underscore policy considerations and litigation strategy decisions that may partly explain the difference in the outcomes of the two cases.

1. The *Sony* Defendants Argued That Off-The-Air Recording of Copyrighted Works for Home Use Was Not an Infringement of Copyright, Whereas the *Grokster* Defendants Conceded That Downloading Digital Copies Violated Copyrights.

Unlike in *Sony* where the Court found time-shifting to be a fair use, the *Grokster* Court held otherwise because *Grokster* and StreamCast conceded that most file swapping constitutes a copyright infringement.²³⁷ Conversely, *Sony* vigorously insisted that time-shifting, the primary use of its Betamax VTR, was not copyright infringement. Despite the fact that *Sony* clearly encouraged consumers to record copyrighted audiovisual works off-the-air as a strategy to sell the Betamax VTR, time-shifting came before the courts as an issue of first impression.²³⁸ *Sony* ultimately succeeded in convincing a majority of the Supreme Court that it did not know that off-the-air recording of copyrighted works for home-use violated copyrights even though the evidence suggested otherwise.²³⁹ On the other hand, the file swapping at issue in *Grokster* was the subject of the high-profile *Napster* case, of which *Grokster* and StreamCast were clearly aware.²⁴⁰ Moreover, the *Grokster* defendants conceded that a substantial portion of *Grokster* and *Morpheus* software use constituted infringement.²⁴¹ While defendants in both cases may have had the “object of promoting [a

237. *Sony III*, *supra* note 1, at 454–55; *Grokster III*, *supra* note 3, at 2772.

238. See *Sony I*, *supra* note 81, at 447 (“In this case, new technology has spawned a copyright question of first impression.”).

239. See *id.* at 436 (In the Betamax instruction booklet *Sony* conceded that unauthorized recording of television programs “may be contrary to the provisions of the United States copyright laws.”).

240. See *Grokster I*, *supra* note 39, at 1032 (“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).”); see also *Grokster III*, *supra* note 3, at 2773 (“An internal e-mail from a company executive stated: ‘We have put this network in place so that when *Napster* pulls the plug on their free service . . . or if the Court orders them shut down prior to that . . . we will be positioned to capture the flood or their 32 million users that will be actively looking for an alternative.’”).

241. See *Grokster I*, *supra* note 39, at 1038 (“Here, it is undisputed that Defendants are generally aware that many of their users employ Defendants’ software to infringe copyrighted works.”).

device's] use to infringe copyright,"²⁴² the *Sony* defendants denied having such an objective, whereas the *Grokster* defendants all but conceded it.

2. Whereas Defendants in Both Cases Violated Copyright Holders' Exclusive Right of Reproduction, the *Grokster* Defendants Violated Right of Distribution.

One significant difference between the *Grokster* and *Sony* cases, virtually unmentioned in the *Grokster* decision, is that the file swapping at issue in *Grokster* involved violation of the copyright holder's exclusive right of distribution as well as the exclusive right of reproduction that was at issue in *Sony*.²⁴³ This issue was not addressed in the *Grokster* decision because *Grokster* and StreamCast conceded that the primary use of their software was infringing.²⁴⁴ The VTR does not implicate the right of distribution because it does not function as a means to distribute pirated works. File swapping software use is exponential and increases each online user's access to pirated works every time a new user logs on to the network. Because *Grokster* and *Morpheus* users violated the additional right of distribution, the harm to the author's incentive was greater in *Grokster* than in *Sony*.

3. The *Sony* Court's Decision Was Influenced by the Consideration of Economic Incentives.

Perhaps the most compelling support for legalized time-shifting is the argument that authors have sufficient incentive to create in spite of time-shifting. The Supreme Court has held that, "[w]hen technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of [its] basic purpose."²⁴⁵ The basic purpose of the Copyright Act is not to enrich authors but rather, to advance public welfare

242. *Grokster III*, *supra* note 3, at 2770 ("[O]ne who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.").

243. *See Grokster I*, *supra* note 39, at 1034-35 ("[M]any of those who use Defendants' software do so to download copyrighted media files, including those owned by Plaintiffs, and thereby infringe Plaintiffs' rights of reproduction and distribution.") (citation omitted). While the district court did not expressly acknowledge that *Grokster* and *Morpheus* users were also violating the right of performance, it is clear from the record of the *Grokster* and *Napster* cases that *Grokster* and *Morpheus* users were downloading music files for the purpose of replaying them, presumptively for personal consumptive use. *See id.*

244. *Grokster III*, *supra* note 3, at 2772 ("Grokster and StreamCast concede the infringement in most downloads, and it is uncontested that they are aware that users employ their software primarily to download copyrighted files . . .") (citation omitted).

245. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

in useful arts through the talents of authors.²⁴⁶ In theory, the limited monopoly rights granted to authors should not exceed the very minimum necessary to motivate authors to creative action.

One consideration that appears to have influenced the Court's decision in *Sony* was the financial health of the studios. The court noted that, "copyright holders in the television industry have come to expect substantial financial reward."²⁴⁷ In its discussion of harm to the studios, the district court noted that Universal and Disney had been very successful in 1978, stating "[i]t was Disney's eleventh consecutive year of increased profit and the most profitable year in history for Universal Pictures' Theatrical Division. Universal's television revenues had increased steadily over the three years prior to trial and Disney received its highest television income in 1978."²⁴⁸

The *Sony* court concluded that the evidence at trial did not indicate that the "denial of monopoly power over home-use recording would significantly dissuade authors and producers from creating audiovisual material for television."²⁴⁹ Rather, the *Sony* court was concerned that, if time-shifting were restricted, "[p]ersonal economic incentive could surpass what is necessary for encouragement and actually work against the public by decreasing access."²⁵⁰ However, to violate a copyright holder's limited monopoly rights anytime the social value of dissemination outweighs the detriment to the copyright holder would be to deprive copyright holders of rights in their copyrighted works, precisely when they encountered those who could afford to pay for them.

Therefore, courts should base their decisions in copyright infringement cases on a balancing of economic incentives only if the literal terms of the Copyright Act are ambiguous.²⁵¹ For this reason, the *Grokster* Court was justified in restricting online file swapping even though the incentive it protected by doing so was probably greater than the minimum necessary to spur advancement in the useful arts.²⁵² Similarly, because the

246. *Mazer v. Stein*, 347 U.S. 201, 219 (1954); see *Sony III*, *supra* note 1, at 432 ("[T]he ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good." (quoting *Aiken*, 422 U.S. at 156.)).

247. *Sony I*, *supra* note 84, at 452.

248. *Id.* at 439–40.

249. *Id.* at 469.

250. *Sony I*, *supra* note 84, at 447.

251. See *Aiken*, 422 U.S. at 156.

252. *Grokster III*, *supra* note 3, at 2794 (Breyer, J., concurring) ("Much of the actual flow of revenue to artists—from performance and other sources—is stable even assuming a complete displacement of the CD market by peer-to-peer distribution. . . . It would be silly to think that music, a cultural form without which no human society has existed, will cease to be in our world

literal terms of the Copyright Act are straightforward with respect to off-the-air recording of copyrighted works for personal consumptive use, it is clear that the time-shifting in *Sony* violated the copyright holder's exclusive rights of reproduction and performance. Based on the four factors in Section 107 alone, there was no reason to find that time-shifting was not a fair use of copyrighted material. Nevertheless, the *Sony* Court's decision was clearly influenced by considerations of economic incentive.

4. The *Sony* Court's Decision Was Influenced by Privacy Concerns.

Another consideration that clearly influenced the *Sony* Court's decision was invasion of privacy. The district court in *Sony* paid particular attention to the legislative history of the Copyright Act and cited at length to Congressional committee hearings, floor debates, and reports from the Copyright Office.²⁵³ Of particular interest to the district court was its perception that the Copyright Office had taken the position that off-the-air recording at home was not copyright infringement because it was concerned about people's right to privacy in their homes.²⁵⁴ The district court distinguished *Sony* on the grounds that no prior cases dealt with the specific issue of "copying within a private home using signals beamed over public airwaves."²⁵⁵ While traditionally the courts have categorized the use of copyrighted material as either "transformative" or "intrinsic,"²⁵⁶ the district court characterized time-shifting as neither "transformative" nor "intrinsic," but rather, "private."²⁵⁷ Its determination that "[b]ecause the use occurs within private homes, enforcement of a prohibition would be

[because of illegal file swapping]." (quoting Yochai Benkler, *Sharing Nicely: On Shareable Goods and the Emergence of Sharing as a Modality of Economic Production*, 114 YALE L.J. 273, 351-52 (2004))). *Id.* ("[N]early 70% of musicians believe that file sharing is a minor threat or no threat at all to creative industries." (quoting Mary Madden, Artists, Musicians, and the Internet, Pew Internet & Am. Life Project 21 (Dec. 5, 2004), http://www.pewinternet.org/pdfs/PIP_Artists.Musicians_Report.pdf)).

253. See *Sony I*, *supra* note 81, at 443-46.

254. See *id.* at 446 ("The [Copyright] Office was an active participant in drafting, promoting and explaining the legislation for Congress and always maintained that home-use recording is not an infringement. . . . As Ms. Ringer testified, home recording simply cannot be controlled. Nobody is going into anyone's home to prevent it.").

255. See *id.* at 449.

256. Courts commonly refer to uses that incorporate elements of a copyrighted work into a work with a "further purpose or different character" as "transformative." See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001); *Campbell v. Accuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994). Uses identical to the original are referred to as "intrinsic." See Samuelson, *supra* note 192 ("An intrinsic use merely consumes the work in the same way as if a copy had been purchased.").

257. See *Sony I*, *supra* note 81, at 454 ("Here, the use is not only noncommercial but also private.").

highly intrusive and practically impossible”²⁵⁸ clearly impacted the Court’s decision.

Although the *Sony* Court acknowledged 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,”²⁵⁹ its ultimate decision did not apply that principle in the way that the *Grokster* Court did because it rejected Grokster and StreamCast’s defense to a contributory copyright infringement claim.²⁶⁰ Ironically, Justice Breyer’s concurring opinion in *Grokster* noted that there was a recent influx in traditional infringement suits against private individuals as an alternative to pursuing distributors of copying devices.²⁶¹ It appears that, in its zeal to protect individual privacy, the *Sony* Court created a legal framework that has ultimately resulted in the very invasion of privacy that its decision was calculated to avoid.

V. CONCLUSION

While *Grokster* differs from *Sony* in significant respects, the difference in the outcomes of the two cases is not a result of Sony having a pure heart. The Court’s acceptance of a substantial noninfringing use defense in *Sony*, and rejection thereof in *Grokster*, has not so much to do with a difference in the defendants’ subjective intent as it does with the Court’s own determination that off-the-air recording of copyrighted television programs is a fair, noninfringing use of copyrighted material.

258. *Id.*

259. See *Sony III*, *supra* note 1, at 442.

260. *Grokster III*, *supra* note 3, at 2776 (recognizing that “[w]hen a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.”).

261. See *id.* at 2794 (Breyer, J., concurring) (noting that “since September 2003, the Recording Industry Association of America (RIAA) has filed ‘thousands of suits against people for sharing copyrighted material.’” (quoting Leslie Walker, *New Movement Hits Universities: Get Legal Music*, WASH. POST, Mar. 17, 2005, at E1.)); *Id.* (stating that the “number of people downloading files fell from a peak of roughly 35 million to roughly 23 million in the year following the first suits” and “38% of current downloaders report downloading fewer files because of the suits.” (citing Lee Rainie, et al., *Pew Internet & Am. Life Project* 2, 4, 6, 10 (Apr. 2004), www.pewinternet.org/pdfs/PIP_Filesharing_April_04.pdf)).

