

MGM v. Grokster

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On June 27, 2005, the United States Supreme Court held in *MGM v. Grokster* that the distributors of peer-to-peer software could be liable for infringements committed with their software. The Supreme Court reached this conclusion by importing the concept of active inducement from the U.S. Patent Act. At the same time, the Court affirmed its 1984 ruling in *Sony v. Universal* that the distributor of a product used to infringe will not incur liability by virtue of the act of distribution so long as the product is capable of a substantial noninfringing use.

Background

Peer-to-peer (P2P) software, such as the software distributed by Grokster and StreamCast, enables users to download music and other copyrighted works from the Internet without authorization. The entertainment industry in the United States claims that this file trading has significantly harmed its revenues, and that the harm will only worsen as Internet technology improves. Accordingly, the entertainment industry launched a litigation campaign against the distributors of the software. In the early rounds of the campaign, the entertainment industry succeeded in shutting down the file sharing services run by Napster and Aimster, when the courts found the distributors of the Napster and Aimster software liable for secondary copyright infringement.

In the *Grokster* case, however, the entertainment industry met with defeat both in the trial court and in the U.S. Court of Appeals for the Ninth Circuit. Relying on the Supreme Court's *Sony* decision, both the trial court and the appellate court found that the defendants' P2P software was capable of substantial noninfringing use. The courts reached this conclusion notwithstanding evidence submitted by the plaintiffs that over 90% of the files traded by defendants' software were infringing.

The Supreme Court agreed to hear the case, provoking a torrent of friend of the court briefs offering a wide range of interpretations of *Sony*. The plaintiffs' primary argument was that *Sony* did not protect a technology if its predominant use was infringing. By contrast, the defendants argued for a more literal interpretation of "capable of substantial noninfringing use," focusing in particular on the word "capable." Many technology companies agreed with defendants that *Sony* should be read literally, contending that the "bright-line" *Sony* standard encouraged investment in innovative technologies by limiting exposure to infringement liability.

While much of the briefing centered on the interpretation of *Sony*, the plaintiffs and some technology companies argued that the case could be decided on the basis of altogether different theory: active inducement. A form of secondary liability in the U.S. Patent Act, active inducement concentrates on the defendant's conduct rather than his technology.

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During the oral argument several Justices – particularly Justice Sandra Day O’Connor – expressed interest in the inducement theory.

The Court’s Opinion

Justice David Souter, writing for a unanimous Court, held that “one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.” In other words, the Court adopted the active inducement theory.

In reversing the Ninth Circuit’s decision in favor of Grokster and StreamCast, Justice Souter pointed towards the ample evidence that both Grokster and StreamCast had deliberately encouraged infringement via their products. “The record is replete with evidence that from the moment Grokster and StreamCast began to distribute their free software, each one clearly voiced the objective that recipients use it to download copyrighted works, and each took active steps to encourage infringement,” wrote Justice Souter. In particular, StreamCast’s advertising clearly marketed the product as a device to download copyrighted files for free, and the software included an option which allowed users to search for obviously copyrighted “Top 40” songs. Similarly, “Grokster distributed an electronic newsletter containing links to articles promoting its software’s ability to access popular copyrighted music.”

Justice Souter ruled that the Ninth Circuit had misunderstood *Sony* as rendering this evidence irrelevant so long as the software was capable of noninfringing uses. According to Justice Souter, the possibility that the software might have substantial noninfringing uses did not shield the companies from their behavior that encouraged infringement.

Justice Souter wrote that a distributor’s mere knowledge of infringing potential or actual infringement would not be enough to subject the distributor to liability. Nor would ordinary acts incidental to product distribution, such as offering technical support or product updates. Instead, inducement liability requires a showing of “purposeful, culpable expression and conduct;” that is, “statements or actions directed to promoting infringement.” The distributor must intend and encourage the product to be used to infringe. Inducing acts include advertising an infringing act or instructing how to engage in infringing use.

Justice Souter drew a clear distinction between the facts in *Sony* and the facts here: “*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.”

Justice Souter discussed three factors which together provided enough evidence to send the case back to a lower court for further proceedings: (1) “[E]ach company showed itself

to be aiming to satisfy a known source of demand for copyright infringement;” (2) Neither company made any attempt to develop filtering tools or any other mechanism which might reduce the infringing use of their products. (3) Because the products’ profitability relied upon the sale of advertising to users during the operation of the products, the companies’ commercial livelihood depended upon encouraging high-volume copyright infringement. The opinion makes clear that none of these three factors alone directly proves inducement, and further explains regarding filtering technology that “in the absence of other evidence of intent, a court would be unable to find contributory infringement liability.” However, these three factors taken together should have provided enough evidence for the lower courts to have allowed the case to go to trial, and should have prevented a finding of summary judgment in favor of Grokster and StreamCast.

Because Justice Souter’s opinion found potential liability on the grounds that Grokster and StreamCast induced infringement, it avoided the issue of whether the companies’ products had substantial noninfringing uses. Nonetheless, the Court affirmed that Sony still provides a strong defense to developers and distributors of technology. It absolves from liability the “selling of an item with substantial lawful as well as unlawful uses,” even where the distributor understands that some of the products will be misused. Thus, Sony “leaves breathing room for innovation and a vigorous commerce.”

Justice Souter explained that this case required the balancing of the “values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement.” In his view, the active inducement rule “does nothing to compromise legitimate commerce or discourage innovation having a lawful premise.” Thus, technology manufacturers may still innovate and design new products, even if those products may be used to infringe on copyright, so long as a substantial noninfringing use exists for the product, and the manufacturer does not actively encourage the use of the product for infringing copyright.

The Concurring Opinions

Although Justice Souter’s opinion did not interpret the *Sony* standard, this issue was discussed by two separately filed concurring opinions.

Justice Ginsburg, joined by Chief Justice Rehnquist and Justice Kennedy, wrote to explain her view that in addition to liability through inducement, Grokster and StreamCast might also be liable because their products did not have substantial noninfringing uses. Explaining her view that liability need not be dependent upon a showing that the product in question had no use other than copyright infringement, Justice Ginsburg stated that “[t]he Ninth Circuit went astray . . . [in] conclud[ing] that Grokster’s and StreamCast’s proffered evidence met *Sony*’s requirement that ‘a product need only be *capable* of substantial noninfringing uses.’” The evidence, as stated in the record, “was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop

over time.” According to Justice Ginsburg, a reasonable court might find that a product capable of some noninfringing use might still not satisfy the *Sony* test.

Justice Ginsburg’s opinion regarding the standard for judging substantial noninfringing use was vociferously disputed by Justice Breyer, in an opinion joined by Justices Stevens and O’Connor. Justice Breyer rejected Justice Ginsburg’s stricter test for the *Sony* standard, describing how “[t]he additional risk and uncertainty would mean a consequent additional chill of technological development.” Even though he estimated that only 9% of Grokster’s and StreamCast’s use was of a noninfringing nature, Breyer still held that this was sufficient under the Sony test. “Sony’s rule is strongly technology protecting,” said Justice Breyer. “The rule deliberately makes it difficult for courts to find secondary liability where new technology is at issue . . . unless the product in question will be used almost exclusively to infringe copyrights (or unless they actively induce infringements as we today describe).”

It is worth noting that even Justice Ginsburg’s stricter test is significantly more lenient than that advocated by the entertainment companies.

Conclusion

The *Grokster* decision almost certainly will launch a thousand law review articles. The Court clearly attempted to balance the values of “supporting creative pursuits” and “promoting innovation in new communication technologies.” But whether it succeeded will depend on how the lower courts apply the new active inducement rule.