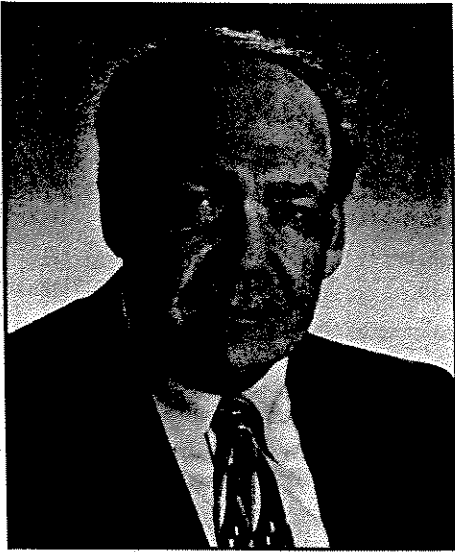


Supreme Court Report: *Metro-Goldwyn-Mayer Studios Inc. et al. v. Grokster, Ltd., et al.* 125 S.Ct. 2764 (2005)



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THE GROKSTER CASE: WHAT THE HIGH COURT DECIDED AND DIDN'T DECIDE ABOUT SONY

THE AUTHOR USUALLY does a column reporting on developments on intellectual property cases through Ninth Circuit decisions. On rare occasions, such as this, where the Supreme Court decides a leading intellectual property case, this column is devoted to a Supreme Court decision.

By now, all have heard of the *Grokster* case, following the earlier Ninth Circuit decision in the *Napster* case.¹ While *Napster* dealt with a centralized method for the sharing of files, the *Grokster* and *Morpheus* software programs, which were made available by the defendants here, for no charge on the Internet, allow computer users to share electronic files

through peer-to-peer networks. These are decentralized networks which allow users to communicate directly and share files with each other, rather than through central servers, as was the case with *Napster*. While such networks can be used to share all types of digital files, the evidence showed they were principally used to share copyrighted music and video files.

The suit was brought by a group of music and other copyright holders for copyright infringement, alleging indirect liability in that the defendants intentionally distributed their free software knowing it was being used for infringing copyrighted works, in violation of the Copyright Act.

Discovery in the case revealed that millions, if not billions, of files are shared across peer-to-peer networks, and that defendants knew that the public used their software to download copyrighted music and video files. The evidence in the record indicated that the defendants had as their objective the distribution of such software to be used to download copyrighted works. Further, that defendants actually encouraged infringement when the *Napster* service was enjoined or converted to a paid system and quickly leapt into the market, touting their software as a *Napster* alternative.

In *Grokster*, the District Court for the Central District of California granted summary judgment to the defendants, finding that they did not directly infringe because their software was capable of substantial noninfringing use, in reliance on *Sony Corp. of America v. Universal*

City Studios, Inc., 464 U.S. 417 (1984). The Ninth Circuit affirmed under *Sony*, which it interpreted as holding that if the distribution of a commercial product was capable of substantial noninfringing uses, there could be no liability for contributory infringement, or vicarious liability, unless the defendants had actual knowledge of specific instances of infringement and failed to act on that knowledge to stop such infringement. The Court of Appeals found the defendants' programs were capable of substantial noninfringing uses and, because the defendants did not have actual knowledge of specific infringement (as a result of the decentralized nature of the peer-to-peer software), affirmed the grant of summary judgment. The Supreme Court went on to find that while there may have been direct infringement by the user of the software, the defendants could not be liable for it under a vicarious infringement liability theory because they did not direct or control the software's use, had not agreed upon right to engage in such use, and had no independent duty or obligation to police the use of their software.

The case drew worldwide attention because of the application of the *Sony* case, decided by the Supreme Court twenty years earlier, the continuing debate as to the application of *Sony*, and the effect the decision should have on the growth of emerging technologies which might be used by the public for infringing purposes.

THE MAJORITY OPINION: COMMON LAW INDUCEMENT LIABILITY

In the majority opinion for the Court, Justice Souter initially defined the issue as “under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product.” The High Court held that “one who distributes a device with the object of promoting its use to infringe copyrights, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.” The careful reader will note that the holding does not answer the question initially posed because, here the majority of the Court could deal with the facts in denying summary judgment, to note, the existence of sufficient facts to make a determination that defendants are indirectly liable for the acts of infringement by those who download copyrighted material through software delivered by defendants.

The Supreme Court acknowledged the tug between (1) supporting creative pursuits for copyright protection, and protecting the music and motion pictures of the plaintiffs, and (2) promoting innovation in new communication technologies, particularly on the Internet, by courts limiting the incidents of liability for copyright infringement by the developers of new technology.

There are no answers, but the Court acknowledged the debate and the increased tension between the two and recognized that in this case the argument for imposing indirect liability was a powerful one, given the large number of infringing downloads of copyrighted material that the evidence showed occurred every day using StreamCast’s or Grokster’s software. Since suing to enforce rights against the downloaders among the members of the public getting music and movies for free is impossible to enforce, the Court said

that the only practical alternative was for the copyright owners to go against the distributor of the copying devices and/or software for secondary liability on a theory of contributory or vicarious infringement.

In *Sony*, the Court dealt with the issue of Sony’s secondary liability from the distribution of the commercial product, the Betamax video tape recorders, the VCRs. After a trial on the merits, the *Sony* Court concluded that the evidence showed that the principal use of the VCR was for “time-shifting” or taping a program for later viewing at a more convenient time, which the Court found to be a fair, not infringing, use.

In that case, there was no evidence that *Sony* expressed any intention or encouragement of copyright infringement or taken any steps to increase its profits from unlawful taping, although there certainly was evidence that such unlawful taping of copyrighted works was taking place. The High Court held that there was no copyright infringement under the only conceivable basis for imposing liability, contributory copyright infringement, since the VCR was “capable of commercially significant noninfringing uses.”

The Supreme Court in *Grokster* noted that the Ninth Circuit had gone too far and misinterpreted *Sony* to mean that whenever a product is capable of substantial lawful use the producer of the product can never be held to be contributorily liable for third parties’ infringing use of it. The Ninth Circuit read the *Sony* rule as being so broad as to apply even when an actual purpose to cause infringing use is shown by evidence independent of the design and distribution of the product. Because the Ninth Circuit found the defendants’ software capable of substantial lawful use, it then concluded, based upon its reading of *Sony*, that neither company could be held liable since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

This was error. The Supreme Court held that this view of *Sony* would erroneously displace other theories of secondary liability in particular, inducement to infringe. The Court noted that nothing in *Sony* requires a court to ignore evidence of intent to infringe, and that its decision in *Sony* was never meant to foreclose rules of fault-based indirect liability under the common law. Thus, where the evidence goes beyond knowledge of a product’s characteristics, and knowledge that it may be put to infringing uses, and shows actual statements or actions directed to promoting infringement, *Sony*’s “staple article of commerce rule” should not preclude liability. The Ninth Circuit was in error in having applied *Sony* to grant summary judgment to the defendants. Ironically, the Court adopted the doctrine of inducement to infringe, principally from the patent law, just as the Court in *Sony* had adopted the staple-article rule. The Court therefore held that “one who distributed 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.”

The Court was “mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies” and noted some safe harbor caveats to its opinion. First, “mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves.”

As the Court noted, its inducement rule premises liability on what it termed “purposeful, culpable expression and conduct,” which the Court said would not compromise legitimate commerce or discourage innovation having a foundational lawful purpose.

Finally, in applying the theory of inducement to infringe, the Court decided the issue whether the plaintiffs' evidence was sufficient to withstand summary judgment, by analyzing the evidence to determine whether the defendants communicated an inducing message to their market of software users. The Court concluded that the record was replete with evidence that Grokster and StreamCast, unlike *Sony*, "acted with a purpose to cause copyright violations by use of software suitable for illegal use."

To support this evidence of intent, the Court noted that each of the defendants showed itself to be aiming to satisfy a known source of demand for copyright infringing works, *i.e.*, "the market comprising former Napster users." Both had hyped through word and deed their serving as a substitute for supplying illegal downloading through Napster, if Napster was enjoined or began charging users for downloads. Secondly, the Court noted that "neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software."

The Ninth Circuit had treated their failure to develop such tools as irrelevant, because it said defendants lacked an independent duty to monitor their users' activity, but the High Court found otherwise, noting that such evidence underscored their intentional facilitation of their users' infringement.

Finally, the Court noted a third factor, which itself would not justify an inference of unlawful intent, but did so in the context of the record: that the defendants made money based upon volume, according to their own business plan, by selling advertising space and directing ads to the screens of computers employing their software. The more their software was used, the more ads would be sent out, and the greater would be their advertising revenue. Thus, the commercial value of the defendant's enterprise turned on high volume use, which the record showed was

infringing, in order to support their business plan to make money from the "free" distribution of peer-to-peer software.

Finally, the court noted that in order to find liability under for indirect inducement infringement, there needed to be evidence of *actual* infringement by recipients of the software. Here, there was no issue, since there was clear "evidence of infringement on a gigantic scale."

In summary, the majority of the Court found that it did not need to go into the applicability of *Sony*, since that case dealt with a claim of liability solely upon distributing a product with alternative lawful and unlawful users, with only knowledge by Sony that some users would follow the unlawful course. Whereas in this case, the evidence of the defendants' words and deeds went well beyond distribution, to show "a purpose to cause and profit from third party acts of copyright infringement."

Since there were cross motions for summary judgment, the court said that on remand the district court should consider the content owner plaintiffs' motion for summary judgment, in light of the substantial evidence in the copyright owner's favor on all elements of inducement to infringe.

CONCURRING OPINIONS: BALANCING THE INTERPRETATION AND EFFECT OF *SONY*

The concurring opinions attempt to answer the question posed as to the applicability of the *Sony* decision and the weight to be given to the fact that the peer-to-peer software being distributed by the defendants is a staple article of commerce and has substantial noninfringing uses. The Ninth Circuit read *Sony* to give determinative weight to this fact, based upon the evidence of the peer-to-peer software being used, albeit in small part, for distributing noninfringing, non-copyrighted or licensed works, and found this to absolve the defendants, notwithstanding the strong evidence of knowledge-

able intent. The majority opinion side-stepped the application of *Sony*, finding it unnecessary to consider in view of the clear willful inducement to infringe under common law legal principles, so that the fact that the software was or could also be used for legitimate purposes was not determinative.

The majority opinion, in which all justices concurred, found this to be an easy case to decide on its facts, which clearly indicate both defendants' willful culpability in their knowledge and encouragement of the use of their programs for infringing purposes, and their clear cultivation of such infringing uses. While the lower court had interpreted *Sony* to elevate the fact that the distributed software had substantial noninfringing uses to a greater importance, all members of the Supreme Court disagreed and adopted the historic, common law approach to indirect liability based on defendants' knowledge, intent, and inducing activities.

The majority opinion, while favorable to the copyright owners, fails to give guidance to the weight to be given *Sony* in future cases when (1) knowledge and intent are not so clearly defined, and/or (2) the next crop of defendants provides, for example, screening tools or cooperation in avoiding the use of their technology for infringing purposes, while it widely exists.

The concurring opinions, by Justices Ginsburg and Breyer, however, illustrate that the Court clearly was aware of the issue, and failed to draw a majority for deciding it, but provide guidance as to at least their views as to the applicability of *Sony*, particularly within the intellectual debate as to the careful balance between protecting copyright owners, while at the same time not stifling the creativity and use of new technologies within the digital world. While neither position was able to garner a majority, the debate is democracy and the judicial system at its best, providing guidance as to the views of several of the Justices as to the applicability of *Sony*

here, and dictum fodder for consideration in future cases. All members of the Court agree that the mere existence of substantial noninfringing uses, defined in a way to give some meaning to the word "substantial," would be insufficient to provide a defense in all cases, but that the courts must weigh knowledge, intent, substantiality, practicality, and the extent of use the noninfringing uses in assessing infringement under the copyright laws. In most cases, this would appear to eliminate the ability for summary judgment to be used as a vehicle for deciding most of these future cases.

JUSTICE GINSBURG: DISSECTING AND INTERPRETING *SONY*

Justice Ginsburg wrote a separate concurring opinion to clarify why she concluded that the Court of Appeals both misperceived and misapplied the Court's holding in *Sony*.

Justice Ginsburg noted that indirect liability for the infringing acts of others in the copyright context can take place under two separate, but overlap-

tees use to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant' noninfringing uses."

While patent laws (35 U.S.C. § 271(b) and (c)) codify inducement liability and contributory liability in the patent law, they are not codified in copyright law. In *Sony*, based upon an enlightened full trial record, the Court analogized to patent law and referenced the insufficiency of the sale of a staple article of commerce to result in contributory infringement, holding in the oft-quoted language, "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses."

In Justice Ginsburg's view, the Ninth Circuit went astray from *Sony*, where there was clear evidence of substantial noninfringing uses, such as private, non-commercial time-shifting, when it concluded, as had the district court, that the

not dispute this, a point which Justice Ginsburg found to be "to say the least, dubious."

While the noninfringing use in *Sony* was clear, Justice Ginsburg found that here it was not, and, indeed, the evidence was varied and disputed. Most of the evidence had come from anecdotal evidence of the value of peer-to-peer technology generally, which was not really what the case was about, instead of evidence regarding the specific use of Grokster's and StreamCast's software, which was an issue in the case, where there was substantial evidence of a huge volume of file sharing, and limited or disputed noninfringing uses. To some extent, this may depend upon the number of uses, or the percent of use, but, in any event, there was overwhelming use of these defendants' peer-to-peer software for infringing purposes. Thus, under the *Sony* standard, in Justice Ginsburg's view the evidence failed to establish the substantial noninfringing use to meet the *Sony* test for determining contributory infringement.

JUSTICE BREYER'S CONCURRING OPINION: ADEQUATE LEGAL SUPPORT FOR *SONY* HERE

While concurring with the majority opinion finding copyright inducement liability under the facts here, Justice Breyer wrote separately, in large part to confirm the standard in *Sony*, as he viewed it, and affirm the Court of Appeals' conclusion that under *Sony* there was support for summary judgment on the contributory infringement issue in Grokster's favor. Emphasizing *Sony's* language that "the legal question in a particular case as 'whether [Sony's VCR] is *capable of commercially significant noninfringing uses*' (while declining to give 'precise content' to these terms)." *Sony*, 464 U.S. at 442 (emphasis added.)

Justice Breyer emphasized that in *Sony* the Court found the magnitude of authorized programming "significant," and that the Court had noted the "significant

In summary, the majority of the Court found that it did not need to go into the applicability of *Sony*, since that case dealt with a claim of liability solely upon distributing a product with alternative lawful and unlawful users, with only knowledge by *Sony* that some users would follow the unlawful course. Whereas in this case, the evidence of the defendants' words and deeds went well beyond distribution, to show "a purpose to cause and profit from third party acts of copyright infringement."

ping theories: "actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develops) or on distributing a product that distribu-

defendants' software was being used, and could be used for substantial noninfringing purposes. The district court had actually gone so far as to say that plaintiffs did

potential” for future authorized copying, and that on the basis of such evidence the Court found that the VCR created a significant market for noninfringing uses. Justice Breyer went on to note that in his view *Grokster* passed *Sony*'s test, that is, whether the company's product was capable of substantial or commercially significant noninfringing uses.

Working through the numbers, Justice Breyer concluded that they were roughly approximate to some of the numbers in *Sony*, emphasizing that *Sony* used the word “capable” asking whether the product was capable of substantial noninfringing uses, which allowed for consideration of future expanding noninfringing uses rather than limiting the evidence to a review of the past, where, perhaps based upon the defendants' promotion, the software may have been more significantly used for infringing purposes. Justice Breyer noted that there was “a significant future market for noninfringing uses of *Grokster*-type peer-to-peer software. Such software permits the exchange of *any* sort of digital file whether that file does, or does not, contain copyrighted material.”

Justice Breyer noted that legitimate noninfringing uses were already being made of peer-to-peer networks for many purposes, including: public domain files, historical archives, digital photos, open content works, (such as creating comments), and that more were on the horizon.² Justice Breyer sees *Sony*'s standard as protecting the development of new technology and found *Sony*'s rule to be appropriate. Justice Breyer finds *Sony*'s rule clear, so as to sufficiently assure entrepreneurs who develop new technology that they will be shielded from copyright liability as they bring valuable new technologies to the market.

Emphasizing the reference to “capacity for noninfringing use,” Justice Breyer noted that *Sony*'s rule protects technology and is forward looking, and is mindful of the limitations facing judges where matters of technology are concerned. He

finds as evidence of this, the fact that there have been relatively few contributory infringement suits in the twenty years since *Sony*.

More difficult was the question of whether a modification of the *Sony* rule, or a strict interpretation, as Justice Breyer found in Justice Ginsburg's concurring opinion, would weaken the law's ability to protect new technologies. Under Justice Breyer's interpretation of Justice Ginsburg's concurring opinion, substantially more concrete evidence of noninfringing use would need to be produced to earn the shelter of the *Sony* decision. Justice Breyer believes that this higher evidentiary standard would undercut *Sony* and chill technological development.

Finally, in balancing a positive copyright protection versus technology-related losses, Justice Breyer found this legislative-like balancing to be difficult. If anything, Justice Breyer suggested that the law disfavored equating the two different losses and should lean in favor of protecting technology. As he noted, under *Sony* “the producer of a technology which *permits* unlawful copying does not himself *engage* in unlawful copying—a fact that makes the attachment of copyright liability to the creation, production, or distribution of the technology an exceptional thing.”

Justice Breyer thus saw no need for changing *Sony*. Acknowledging that it was not clear whether an unmodified *Sony* rule would lead to a significant diminution in the amount or quality of creative work produced, he noted that there was substantial uncertainty, and the extent to which unauthorized copying diminishes industry revenue was unclear. He also noted the development by copyright holders of new technology to help curb unlawful infringement, such as digital watermarking and digital fingerprinting, while advances in technology have also discouraged unlawful copying by making lawful copying available inexpensively. Pointing to licensed music services, such as Apple's iPod music store

and Wal-Mart.com's offering of licensed music downloads for 88 cents per song, Justice Breyer referenced the increasing use of lawful services as perhaps indicating that there was a decreasing evidence of copyright infringement by users of peer-to-peer software.

Accordingly, Justice Breyer concluded that there was no need for modifying *Sony* or interpreting its standard more strictly, as he saw in Justice Ginsburg's concurring opinion. Justice Breyer said that the added risk of stricter interpretation would impose added risks to technological innovation, and concluded that *Sony* should be read broadly in considering noninfringing uses and therefore, he would affirm the Ninth Circuit's decision on the issue of contributory copyright infringement.

PROLOGUE

The lengthy opinion, summarized here, of the several Justices will likely decide *Grokster*'s and *StreamCast*'s fate, but the concurring opinions provide a glimpse into the future debate, where less culpable manufacturers and developers of new technology are challenged where their products are easily used for infringing purposes. No doubt the debate will continue into the future. ©

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Endnotes

1. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).
2. The author notes with humor that following the Supreme Court decision, several supporters of Justice Breyer's view, distributed copies of the opinion itself over peer-to-peer networks, to make their point.