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Copyright

Software distributors could be found liable for contributory copyright infringement regardless of the software's lawful uses.

Metro-Goldwyn Mayer Studios Inc. v Grokster Ltd. (2005) ___ US ___, 162 L Ed 2d 781, 125 S Ct 2764

Grokster distributes free software that allows computer users to share electronic files through peer-to-peer networks, so called because the computers communicate directly with each other, not through central servers. Although such networks can be used to share any type of digital file, recipients of Grokster's software have mostly used them to share copyrighted music and video files. Seeking damages and an injunction, a group of movie studios and other copyright holders (MGM) sued Grokster for their users' copyright infringements, alleging that Grokster knowingly and intentionally distributed their software to enable users to infringe copyrighted works in violation of the Copyright Act (17 USC §§101–810). Discovery revealed that billions of files are shared across peer-to-peer networks each month. Grokster was aware that users used their software primarily to download copyrighted files, although the decentralized networks do not reveal which files are copied, and when. Grokster sometimes learned about the infringement directly when users e-mailed questions regarding copyrighted works, and Grokster replied with guidance. However, Grokster was not merely a passive recipient of information about infringement. After the notorious file-sharing service, Napster, was sued by copyright holders for facilitating copyright infringement, Grokster promoted and marketed itself as a Napster alternative. It receives no revenue from users, but, instead, generates income by selling advertising space, then streaming the advertising to its users. As the number of users increases, advertising opportunities are worth more. There was no evidence that Grokster made any effort to filter copyrighted material from users' downloads or otherwise to impede the sharing of copyrighted files.

While acknowledging that Grokster's users had directly infringed MGM's copyrights, the District Court nonetheless granted Grokster summary judgment as to liability arising from distribution of their software. The Ninth Circuit affirmed. It read *Sony Corp. v Universal City Studios, Inc.* (1984) 464 US 417, 78 L Ed 3d 574, 104 S Ct 774, as holding that the distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. Because the Ninth Circuit found Grokster's software to be capable of substantial *noninfringing* uses and because Grokster had no actual knowledge of infringement owing to the software's decentralized architecture, the court held that they were not liable. It also held that they did not materially contribute to their users' infringement because the users themselves searched for, retrieved, and stored the infringing files, with no involvement by Grokster beyond providing the software in the first place. Finally, the court held that Grokster could not be held liable under a vicarious infringement theory because it did not monitor or control the software's use, had no agreed-on right or current ability to supervise its use, and had no independent duty to police infringement.

The Supreme 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, going beyond mere distribution with knowledge of third party action, is liable for the resulting acts of infringement by third parties using the device, regardless of the device's lawful uses. The tension between the competing values of supporting creativity through copyright protection and promoting technological innovation by limiting infringement liability is the theme of this case. Despite offsetting considerations, the argument for imposing indirect liability here was powerful, given the number of infringing downloads that occur daily using Grokster's software. When a widely shared product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, so that the only practical alternative is to go against the device's distributor for secondary liability on a theory of contributory or vicarious infringement. (Contributory liability occurs when a party knows that others are infringing and contributes to the infringing activity; vicarious liability occurs when a party profits from direct infringement while declining to exercise a right to stop or limit it.)

Nothing in *Sony* requires courts to ignore evidence of intent to promote infringement if such evidence exists. It was never meant to foreclose rules of fault-based liability derived from the common law. When evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, *Sony's* staple-article rule will not preclude liability. At common law, a copyright or patent defendant who "not only expected but invoked [infringing use] by advertisement" was liable for infringement. *Kalem Co. v Harper Bros.* (1911) 222 US 55, 62, 56 L Ed 92, 32 S Ct 20. The rule on inducement of infringement as developed in the early cases is no different today. Evidence of active steps taken to encourage direct infringement, such as advertising an infringing use or giving instructions on how to engage in an infringing use, shows an affirmative intent that the product be used to infringe, and overcomes the law's reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use. A rule that premises liability on purposeful, culpable expression and conduct does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

On the record presented, Grokster's unlawful objective was unmistakable. The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations. Three features of the evidence of intent are particularly notable. First, Grokster aimed to satisfy a known source of demand for copyright infringement, the market comprising former Napster users. Second, it made no attempt to develop filtering tools or other mechanisms to diminish the infringing activity using its software. Third, Grokster make money by selling advertising space, then by directing ads to the screens of computers using its software. The more the software is used, the more ads are sent out and the greater the advertising revenue. Because the extent of the software's use determines the gain to the distributors, the commercial outlook of their enterprise turns on high-volume use, which the record shows is infringing. This evidence alone would not justify an inference of unlawful intent, but its significance is clear in the context of the entire record. In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory requires evidence of actual infringement by recipients of the device, in this case, the software. There was evidence of such infringement on a gigantic scale. Because substantial evidence supported MGM on all elements, summary judgment for Grokster was error. On remand, the district court was urged to reconsider MGM's summary judgment motion.

COMMENT: Who should be held to account when an infringement occurs? Certainly the direct infringer, but what about the person who created the instrumentality used to infringe, the person who provided a channel through which the infringement occurred, the person who encouraged the use of the instrumentality or channel for infringing purposes, the person who, having the ability to stop the infringing activities, failed to do so? The *Grokster* case offers an opportunity to observe the struggle of the courts to establish parameters for determining when persons should be held secondarily liable for infringement based on the infringing activities of their customers.

The result in *Grokster* was driven by the facts, which showed not only that defendants had knowledge of the infringing uses being made of its peer-to-peer (P2P) technology, but that they took active steps to encourage the infringement. The court found that although prior case law had addressed an exception to theories of secondary liability for copyright infringement when the technology at issue offered "substantial noninfringing uses," that precedent had not been intended to foreclose an inquiry into fault-based liability. The *Grokster* court did just that, and, under a theory of "inducement" of copyright infringement, held that when a party has distributed a device "with the object of promoting its use to infringe copyright," that party is liable for the resulting infringing acts of third parties.

P2P file-sharing technology generally allows users to share with each other digital files, including content such as text, audio, video, and software files and other data. Although Grokster's P2P file-sharing program was claimed to have substantially noninfringing uses, the majority opinion found that the mere fact that such noninfringing uses were possible would not shield defendants from liability when there was evidence that defendants had actively encouraged the infringing uses. (There was evidence that at least one defendant had done so defiantly in response to the *Napster* case, and that it hoped to be sued and thereby draw additional publicity and additional profit and users for its service in direct proportion to the infringing conduct).

In 1984, in *Sony Corp. v Universal City Studios, Inc.* (1984) 464 US 417, 78 L Ed 2d 574, 104 S Ct 774 (the *Betamax* case), the Supreme Court had held that distributors of the Sony videocassette recorder were not secondarily liable for infringement by users of the technology because the VCR was capable of "substantial noninfringing uses." The court held that (464 US at 442, 78 L Ed 2d at 592):

> the sale of copying equipment, like the sale of other articles of commerce, did not constitute contributory infringement if the product was widely used for legitimate, unobjectionable purposes. Indeed, it needed to merely be capable of substantial non-infringing uses.

The *Betamax* court noted that the Copyright Act does not expressly provide for a finding of secondary liability for infringement committed by a third party, as compared with patent law, which expressly provides for such liability as infringers, including secondary liability for those who actively induce patent infringement. 35 USC §271(b), (c). The court further noted, however, that the absence of such express language in the Copyright Act did not preclude the imposition of such secondary liability for copyright infringement. But given the substantial noninfringing uses of the VCR, which had been shown to be primarily used for time-shifting (to allow users to watch programs at times later than when they were broadcast), and in light of the fact that it had not been shown that the distributors of the product had actual knowledge of specific instances of infringement, nor that they had failed to act on such knowledge, no secondary liability was found.

Two decades later, in the file-sharing case *A&M Records v Napster, Inc.* (9th Cir 2001) 284 F3d 1091, defendants offered a P2P service that allowed file sharing among its users. Napster offered software, a website, and servers that allowed users to (1) make files stored on individual computer hard drives available for copying by other users, (2) search for files stored on other users' computers, and (3) transfer exact copies of the contents of other users' files from one computer to another over the Internet. In that case, the Ninth Circuit discussed the *Betamax* case, which would have permitted the imposition of secondary liability if such liability rested on the distributors' "constructive knowledge" of the fact that their customers might use VCR equipment to make unauthorized copies of copyrighted material. The Ninth Circuit explained that the *Betamax* court had not imputed the requisite knowledge when the equipment in question was capable of both infringing and substantial noninfringing uses. Because Napster operated its service through its own servers and maintained a certain degree of control over the files that were traded over its network, Napster had both the right and ability to police its system and would be subject to secondary liability based on defendants' failure to exercise the right to prevent the exchange of copyrighted material.

In light of the *Napster* case, Grokster introduced a technology that offered a P2P technology that allowed file sharing without the sharing being conducted through centralized servers. The decentralized Grokster service allowed users' computers to communicate directly with each other. The defendants in the *Grokster* case, the district court, and the Ninth Circuit Court of Appeals had all relied heavily on the argument that Grokster offered substantial noninfringing uses and that because it did not operate through centralized servers, it did not have the ability to police its users and could not be secondarily liable for copyright infringement under either *Betamax* or *Napster*.

But the Supreme Court disagreed, finding that the *Betamax* case had not been intended to foreclose rules of "fault-based liability derived from the common law." Secondary liability for copyright infringement had generally been evaluated under two theories: contributory infringement and vicarious infringement. The Copyright Act explicitly refers to each of those theories but does not expressly refer to a theory of liability based on inducement.

Liability for contributory copyright infringement exists if (1) with knowledge of the infringing activity, (2) the defendant induced, caused, or materially contributed to the infringing conduct of another. The traditional test for contributory infringement had included "inducement" as one of the elements that might lead to a finding of secondary liability. The *Grokster* court significantly expanded the meaning of inducement in this context, if not elevating it to an independent theory of secondary liability altogether.

The *Grokster* court revisited the analogy to patent law that it had made in the *Betamax* case, and then took the analogy a step further, expressly adopting patent law's "inducement rule" into the arena of copyright infringement. In short, the inducement theory announced by the *Grokster* court provides that one may now be found secondarily liable for copyright infringement when (1) the defendant intended to bring about infringement, (2) the defendant distributed a device suitable for infringing use, and (3) there is evidence of actual infringement by recipients of the device.

Although the Court's decision was unanimous, Justice Souter's majority opinion and the two concurring opinions showed a significant difference of opinion among the nine Justices as to how *Betamax's* "substantial noninfringing use" test should be interpreted and applied in future cases. The majority opinion found that the *Grokster* case was "significantly different from [the *Betamax* case] and reliance on that case to rule in favor of StreamCast and Grokster was error." As the Ninth Circuit's *Grokster* decision had rested on an erroneous understanding of *Sony* with respect to an inducement theory of secondary liability, the majority opinion decided to leave "further consideration of the [Betamax] rule for a day when that may be required."

Justice Ginsburg's concurrence, joined by Justices Rehnquist and Kennedy, pressed for a different approach and argued that although the *Betamax* standard should remain intact, there could be no substantial or commercially significant noninfringing uses when products are "overwhelmingly used to infringe." Justice Breyer, in his concurrence, joined by Justices Stevens and O'Connor, disagreed, and offered support for the position that the *Betamax* standard should be modified or more strictly interpreted in light of such questions as: (1) whether the *Betamax* case has worked to protect new technology; (2) if so, whether modification or strict interpretation of that case would significantly weaken that protection; and (3) if so, whether new or necessary copyright-related benefits would outweigh any such weakening.

Although the *Grokster* decision expands the inquiry of secondary liability from the nature of the technology itself to the intent behind the distributors of such technology, it also leaves many questions unanswered. For example: How far may peer-to-peer companies go in developing new technologies? What constitutes an intention to bring about copyright infringement? What factors will be relevant to making such a determination? How should courts address the development of new technologies where users can operate products to effect copyright infringement but the companies are not shown to have the intent to bring about such infringement? And of course, it leaves open the question of which of the Justices' various approaches will carry the day as the next generations of P2P technology work their way through the courts.—*S.P.S.S. and P.M.*