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The Supreme Court Decision in *MGM v. Grokster*:

The Court adopts an inducement theory of contributory copyright infringement liability and preserves the *Sony* "substantial noninfringing use" doctrine in certain circumstances

The United States Supreme Court recently issued its much-anticipated decision in *MGM Studios, Inc. v. Grokster, Ltd.*,[1] a case in which attorneys from Cooley Godward's Intellectual Property Litigation and Internet Law practice groups filed an amicus curiae ("friend of the court") brief on behalf of emerging technology companies.[2] The Court vacated the Ninth Circuit's judgment[3]—which had upheld summary judgment in favor of the defendants—and remanded the case for reconsideration of the plaintiffs' motion for summary judgment and possibly a trial. The decision clarified to some degree the Court's approach to balancing the competing values of supporting creative pursuits through copyright protection and promoting innovation in new technologies by limiting secondary liability for copyright infringement. But the decision leaves undefined the precise contours of a critical "safe harbor" for developers and distributors of new products and services, defers many difficult issues for resolution in future cases, may lead to increased litigation, and will likely make it more complex to litigate cases involving allegations of secondary liability.

Background

Grokster, Ltd. and StreamCast Networks, Inc. are distributors of free software products that enable users to share files through peer-to-peer (often called "P2P") networks. The Grokster and StreamCast peer-to-peer file-sharing software facilitates the process of querying a network of users for a file and returning query results to the computer that requested the file so that a direct file transfer from one personal computer to another is possible. The network is decentralized. Unlike Napster, another file-sharing service that had earlier been sued for facilitating copyright infringement, neither Grokster nor StreamCast acts as an intermediary in the file-sharing process.

MGM and other copyright owners from the movie and music industries (collectively "MGM") sued Grokster and StreamCast for secondary (contributory and vicarious) copyright infringement. MGM claimed that the defendants intentionally distribute software to enable users to share unlawfully MGM's copyrighted works such as movies and songs. Grokster and StreamCast defended by invoking the "substantial noninfringing use" safe harbor established by the Supreme Court in *Sony Corp. of America v. Universal Studios, Inc.*[4] In *Sony*, the Court held that because Sony's Betamax VCR was capable of substantial noninfringing uses, Sony was not contributorily liable for infringement by VCR owners when they taped copyrighted programs for impermissible uses.

The district court, concentrating on the contributory infringement issue, granted summary judgment of noninfringement to Grokster and StreamCast. Relying on *Sony*, it concluded that there was no contributory infringement as a matter of law because defendants' software could be used, and was being used, for substantial noninfringing uses. The Ninth Circuit, also relying on *Sony*, affirmed. The Ninth Circuit interpreted the *Sony* decision to mean that distributing a commercial product capable of substantial noninfringing uses cannot give rise to liability for contributory infringement unless the product's distributor has actual knowledge of specific instances of infringement and fails to take preventive action. The Supreme Court granted MGM's petition for a writ of certiorari.

Cooley Godward's Brief on Behalf of Emerging Technology Companies

Cooley Godward filed an amicus curiae brief in the Supreme Court on behalf of nine emerging technology companies that create, market, and sell a diverse array of innovative products. We believed it was

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critical to present this perspective to the Court because the *Grokster* decision could bear on the risk calculus undertaken by technology companies and their investors in developing and marketing products and services. The brief urged the Court to preserve the *Sony* test, which presently balances the relative interests of copyright holders, existing and emerging technology companies, and the public. The brief also argued that MGM's proposed test for contributory infringement—that manufacturers be held liable for the mere sale of a product when its "primary uses" are infringing—required a complex "*ex post*" (or after-the-fact) liability analysis and, as compared to *Sony*'s simpler "*ex ante*" (or before-the-fact) test, would increase the legal uncertainty for inventors, entrepreneurs, and investors deciding whether to pursue commercialization of a new technology. We argued that copyright law should favor a test that least restricts innovation while striking an appropriate balance between intellectual property rights and other important interests and values.

The Supreme Court's Decision

Justice Souter, writing for a unanimous Court, emphasized the importance of preserving "a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement. The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing that trade-off." Citing our amicus brief, the Court recognized 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."[5]

The Court explained that one infringes copyright contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it. Although the Copyright Act does not address these secondary liability doctrines, they are well established in the common law. Applying the inducement doctrine, the Supreme Court held that a party that distributes a product 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 direct infringement by third parties using the product, regardless of the product's lawful uses. In reaching this holding, the Court rejected the Ninth Circuit's broad reading of *Sony* but preserved the *Sony* test in certain circumstances and declined to revisit *Sony* further as MGM requested.

The Court stated that in cases where there is no affirmative evidence of culpable intent, the *Sony* rule limits imputing such intent as a matter of law from the characteristics or uses of a distributed product. But *Sony* was not intended to displace other theories of secondary liability, including inducement of infringement. In *Grokster*, contrasted with *Sony*, there was substantial evidence demonstrating that the defendants intended their products to be used for infringing purposes and took active steps to encourage infringement.

The Court vacated the Ninth Circuit's judgment and remanded for further proceedings. The Court specifically instructed that MGM's summary judgment motion should be reconsidered and ruled that MGM was entitled to go forward with claims for damages and equitable relief.

The Concurring Opinions' Debate Over *Sony*

Although the Court's opinion declined to revisit *Sony* because of the evidence of Grokster and StreamCast's active inducement of infringement, six of the nine Justices, in two concurring opinions, engaged in a debate over the proper interpretation of *Sony*. Justice Ginsburg, joined by Chief Justice Rehnquist and Justice Kennedy, favors a narrower interpretation of the *Sony* safe harbor, while Justice Breyer, joined by Justices Stevens and O'Connor, favors a broader interpretation. Justice Ginsburg's opinion suggests that three members of the Court hold the view that defendants need to satisfy a relatively heavy evidentiary burden to earn *Sony*'s shelter. Justice Breyer, sounding many of the themes contained in the Cooley-authored amicus brief, found no reason to narrow or modify the *Sony* rule. That rule, according to Justice Breyer, provides the clarity that allows inventors and entrepreneurs to know, *ex ante*, that bringing valuable new technologies to market will not result in massive monetary liability. In his view, the heavier evidentiary demand that would result from Justice Ginsburg's stricter interpretation of *Sony* (and also from the modifications to the *Sony* rule sought by MGM) would increase legal uncertainty and risk, and would have a chilling effect on technological innovation.

Grokster's Implications

In many ways, *Grokster*'s narrow holding is no surprise, confirming what many already suspected—that you can lose the benefit of *Sony*'s safe harbor if you make a product capable of infringing and noninfringing uses and then affirmatively and repeatedly encourage users of your product to infringe. But the case does reshape the contours of the debate between copyright holders and developers of new technology, and will undoubtedly influence strategic choices and litigation for years to come. Although the full impact of the decision may not be known for years, it is possible to make several preliminary observations and predictions:

- ***Sony*'s contours remain somewhat undefined.** The Court unanimously rejected the Ninth Circuit's "actual knowledge of specific infringement" reading of *Sony*. It also made clear that, absent other evidence of intent, mere distribution of a product that has substantial noninfringing uses, even with knowledge of infringing uses, does not expose a distributor to contributory liability. Beyond that, clearly there is disagreement regard-

ing *Sony*'s limits and applications, as evidenced by the two concurring opinions. With Justices Scalia, Thomas, and Souter not writing or joining a concurring opinion, and with Justice O'Connor retiring, there remains a good deal of uncertainty about how the Court might rule in a future case involving different technology and corporate conduct.

- **The tough cases lie ahead.** In some respects, *Grokster* represented a relatively easy case given what the Court viewed as clear evidence of egregious intent to induce infringement. Other cases will present harder liability questions to the extent they present more balanced or nuanced fact patterns, and will likely expose gaps, conflicts, and ambiguities in the relevant legal doctrines. For example, in what circumstances and to what extent is it proper to examine product design as an indicator of culpable intent? Additionally, in cases involving inducement, courts will need to grapple with remedies questions, including the appropriate scope of injunctive relief and measure of damages. It also bears noting that the Court in *Grokster* elected not to address MGM's arguments under the vicarious liability doctrine, which allows imposition of liability when the defendant profits directly from the infringement and has a right and ability to supervise the direct infringer, even if the defendant initially lacks knowledge of the infringement. Thus, lower courts have received no additional guidance on how to apply that doctrine.

- **Litigation may increase and will likely become more complex.** One immediate result of the decision is that many technology companies whose products have or potentially have infringing uses will struggle to understand the interplay between *Grokster* and *Sony* and what those cases mean for their companies and products. Although it is somewhat difficult to predict, copyright holders may become more aggressive in filing lawsuits alleging secondary infringement based on inducement theories. Because the question of intent is highly fact-dependent and discovery rules will afford plaintiffs wide latitude to seek probative evidence, it may be more difficult for defendants to obtain resolution of cases short of going to trial.

In the wake of the *Grokster* decision, questions abound about the meaning of the *Sony* test and the application of the active inducement theory adopted by the Court. These questions will be tested by future litigation and ultimately resolved by a differently comprised Supreme Court.

Notes

1 No. 04-480, 545 U.S. __, 2005 WL 1499402, 2005 U.S. LEXIS 5212 (June 27, 2005). The slip opinion is available at http://www.supremecourtus.gov/opinions/04pdf/04-480.pdf.

2 The brief was authored by Michael Traynor and Matthew D. Brown of the San Francisco office, Lori Ploeger of the Palo Alto office, Nathan K. Cummings of the Reston office, and Orion Armon of the Colorado office.

3 380 F.3d 1154 (9th Cir. 2004).

4 464 U.S. 417 (1984).

5 No. 04-480, slip op. at 11, 2005 WL 1499402, at *9, 2005 U.S. LEXIS 5212, at *27-28.