

An Overview of *MGM Studios Inc. v. Grokster, Ltd.*

by Lori Ploeger, Matthew D. Brown, and Orion Armon

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This article provides an overview of *MGM Studios Inc. v. Grokster, Ltd.*, in which the U.S. Supreme Court adopted an inducement theory of contributory copyright infringement liability and preserved the previously articulated “substantial noninfringing use” doctrine in certain circumstances.

Column Editors:

Nathaniel T. Trelease, *WebCredenza, Inc., Denver*—(720) 937-9930, ntrelease@webcredenza.com; Jim Brogan, *Cooley Godward, LLP, Broomfield*—(720) 566-4190, jbrogan@cooley.com; Wayne Stacy, *Cooley Godward, LLP, Broomfield*—(720) 566-4000, wstacy@cooley.com

About The Authors:

This month's article was written by Lori Ploeger, Palo Alto, California, a partner with Cooley Godward LLP—(650) 843-5123, lploeger@cooley.com; Matthew D. Brown, San Francisco, California, an associate with Cooley Godward LLP—(415) 693-2188, brownmd@cooley.com; and Orion Armon, Broomfield, Colorado, an associate with Cooley Godward LLP—(720) 566-4119, oarmon@cooley.com. With others at the firm, the authors wrote an amicus curiae brief on behalf of emerging technology companies in the *MGM Studios Inc. v. Grokster, Ltd.* case before the U.S. Supreme Court. The authors gratefully acknowledge the collaborative assistance of Michael Traynor, senior counsel with Cooley Godward LLP.

The U.S. Supreme Court recently issued its much anticipated decision in *MGM Studios Inc. v. Grokster, Ltd.*¹ The Court vacated the Ninth Circuit's earlier judgment upholding summary judgment in favor of the defendants² and remanded the case for reconsideration of the plaintiffs' motion for summary judgment and possibly a trial.

The *Grokster* decision clarifies, 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, fails to provide guidance on a number of difficult issues, and is likely to increase the complexity of litigating cases involving allegations of secondary liability.

This article provides an overview of the *Grokster* decision, highlighting the legal uncertainties that exist as a result of the Court's application of the inducement doctrine, and the Court's limited discussion of the safe harbor established in its earlier decision in *Sony Corp. of America v. Universal Studios, Inc.*³ The article also discusses how *Grokster* could affect developers, manufacturers, and distributors of products that consumers might use for purposes of copyright infringement.

Background of Grokster

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. This 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, thus allowing a direct file transfer from one personal computer to another. The network is decentralized. Unlike Napster, another file-sharing service that had been sued earlier for facilitating copyright infringement, neither Grokster nor StreamCast acts as an intermediary in the file-sharing process.

MGM Studios Inc. and other copyright owners from the movie and music industries (collectively “MGM”) sued Grokster and StreamCast for contributory and vicarious copyright infringement. MGM claimed that the defendants intentionally distribute software to enable users to unlawfully share copyrighted works, such as movies and songs.

Grokster and StreamCast defended by invoking the “substantial noninfringing use” safe harbor established by the U.S. Supreme Court in *Sony*. 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, focusing on the contributory infringement issue, granted summary judgment in favor of Grokster and StreamCast. Relying on *Sony*, the court concluded that there was no contributory infringement as a matter of law, because the defendants' software could be and was being used for substantial noninfringing uses.

The Ninth Circuit, also relying on *Sony*, affirmed. The court 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 distributor has actual knowledge of specific instances of infringement and fails to take preventive action. The Supreme Court granted *certiorari*.

U.S. Supreme Court Decision

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."⁴ The Court explained that "[t]he 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."⁵ 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."⁶

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 Act⁷ does not address these secondary liability doctrines, they are well established in the common law. The Court declared the inducement rule to be "a sensible one for copyright."⁸

Adopting the inducement rule in this case, the Court held that a party distributing 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. The Court rejected the Ninth Circuit's broad reading of *Sony*, but preserved the *Sony* safe harbor in certain circumstances, and declined to revisit *Sony* further as MGM requested.

Elaborating on the limits of the inducement doctrine, 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. The *Sony* rule was not, however, intended to displace other theories of secondary liability, including inducement of infringement. In *Grokster*, contrasted with *Sony*, there was substantial evidence that the defendants intended their products to be used for infringing purposes and took active steps to encourage infringement.⁹

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 proceed with claims for damages and equitable relief.

Concurring Opinions: Debate Over Sony

Although the Court declined to revisit *Sony* because of the evidence of Grokster's 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, advanced a narrower interpretation of the *Sony* safe harbor, whereas Justice Breyer, joined by Justices Stevens and O'Connor, endorsed a broader interpretation.

Justice Ginsburg's opinion suggests that three members of the Court believe that defendants must satisfy a relatively heavy evidentiary burden to earn *Sony*'s shelter. Justice Breyer found no reason to narrow or modify the *Sony* rule. That rule, according to Justice Breyer, provides 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 of 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, the narrow holding in *Grokster* confirms what many already suspected: The *Sony* safe harbor does not protect those who make a product that is capable of infringing and noninfringing uses, and who affirmatively and repeatedly encourage users to infringe. The case does, however, reshape the contours of the debate between copyright holders and developers of new technology and will undoubtedly influence strategic choices and litigation. Although the full impact of this decision may not be known for years, several preliminary observations and predictions may be made.

Sony's Contours Remain Somewhat Undefined

In *Grokster*, 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, there is disagreement regarding the limits and applications of the *Sony* decision, 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, it is uncertain how the Court might rule in a future case involving different technology and corporate conduct.

Difficult Cases to Come

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 raise more difficult 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, other cases may address the circumstances under which and to what extent it is proper to examine product design as an indicator of culpable intent. Additionally, in cases involving inducement, courts will grapple with remedies questions, including the appropriate scope of injunctive relief and measure of damages.

Finally, 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 an infringe-

ment, and has the 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.

Complex Litigation Likely

Although it is somewhat difficult to predict, *Grokster* may embolden some copyright holders to become more aggressive in filing lawsuits alleging secondary infringement based on inducement theories. *Grokster* will likely increase the complexity of litigating inducement cases. 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.

Conclusion

In the wake of the *Grokster* decision, questions abound with respect to the meaning and limits of the *Sony* rule and the application of the active inducement theory adopted by the Court. These ques-

tions will be tested in future litigation and ultimately resolved by a differently comprised U.S. Supreme Court. In the meantime, existing copyright holders and technological innovators will struggle to understand the interplay between *Sony* and *Grokster* and what those cases mean for their businesses.

NOTES

1. 125 S. Ct. 2764 (2005). The slip opinion is available at <http://www.supremecourtus.gov/opinions/04pdf/04-480.pdf>.

2. *MGM Studios Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004).

3. 464 U.S. 417 (1984).

4. *Grokster*, 125 S. Ct. at 2775.

5. *Id.*

6. *Id.* (citing *amicus curiae* brief filed by authors of this article on behalf of emerging technology companies).

7. 17 U.S.C. §§ 101 *et seq.*

8. *Grokster*, 125 S. Ct. at 2780.

9. *See Id.* at 2772-74, 2780-82 (discussing evidence of inducement in record, such as defendants' advertisements, internal communications, affirmative assistance with product downloading, and expressed intent to satisfy known source of demand for infringement). ■