



COMPUTER LAW

BY RICHARD RAYSMAN AND PETER BROWN

'MGM v. Grokster': Finding Another Theory of Secondary Liability

For much of the past decade, the owners of rights to music, films and other intellectual property have attempted to protect their interests against the tidal wave of copying facilitated by an increasing number of Internet services and technologies.

Their successes have been mixed, without a clear directive to lower courts by the U.S. Supreme Court. A film industry-backed action started in the U.S. Court of Appeals for the Ninth Circuit finally drew the interest of the Court.

In the last day of its term, the Court ruled unanimously in *Metro-Goldwyn-Mayer, Inc. v. Grokster Ltd.*, 545 US— (2005), that distributors of file-sharing software that facilitates copyright infringement “on a gigantic scale” may be liable for infringement by the users of the software. The Court remanded the case for further proceedings, to determine whether the plaintiffs can satisfy the new “active inducement” standard for secondary copyright liability by proving that the defendants distributed the file-sharing software “with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement.” Slip opinion at 19.

This article will examine the new inducement standard for secondary liability announced by the Court, as well as the implication the new standard may have for both copyright owners and distributors of technology.

The Case Below

MGM v. Grokster involved consolidated cases brought by a coalition of music publishers, songwriters and motion picture



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studios against Grokster Ltd. and Streamcast Networks Inc., the distributors of peer-to-peer (P2P) file-sharing software (“Grokster” and “Morpheus,” respectively) that enables computer users to easily exchange digitized music, video, software and motion pictures files over the Internet. The industry plaintiffs did not claim that the distributors themselves infringed the plaintiffs’ copyrights (direct liability) but rather that the distributors were liable for the unlawful copying and distribution of their copyrighted works by users of the software (secondary liability).

MGM v. Grokster is not the first time that content owners have sued distributors of peer-to-peer file-sharing software on theories of secondary liability. In two recent cases, similar industry coalitions of content owners succeeded in shutting down the *Napster*¹ and *Aimster*² file-sharing systems. Citing classic formulations of secondary liability for copyright infringement, the appellate courts in both cases found that the operators of those systems had knowledge of their users’ infringing activity and the ability to control that activity because their systems operated via centralized servers that contained indexes of files being traded on the network.

Mindful of the results in those cases, the distributors of the Grokster and Morpheus software set about, quite openly, to engineer around the technological features of the Napster and Aimster systems that the courts focused on in finding liability. Both Grokster and Morpheus were designed to operate without a centralized server or indexing system.

Thus, the distributors reasoned, they would have neither knowledge of any infringement on the part of the users nor any ability to control what was being traded on the system and, consequently, no secondary liability.

Both the trial and appellate courts sanctioned the distributors’ approach, ruling that because the vendors had no knowledge of specific infringing files being traded and no ability to control file-sharing, they could not be held secondarily liable for infringement. See *MGM v. Grokster*, 380 F3d 1154 (9th Cir. 2004). The courts also concluded that the software was capable of “substantial non-infringing use,” thus bringing it under the safe harbor carved out by the Supreme Court 20 years ago in *Sony Corp. of America v. Universal Studios Inc.*, 464 US 417 (1984).

In their briefs before the Supreme Court, the parties in *MGM v. Grokster* continued to focus on the workings of the file-sharing technology and its potential for non-infringing uses, debating issues of knowledge and control on the part of the distributors, and the relative degrees of infringing and non-infringing uses. Among the issues hotly contested were how to apply Sony’s “substantial non-infringing use” rule, raising questions such as: If 90 percent of the use of a technology is infringing, is 10 percent non-infringing use “substantial”? If the majority of the use of a new technology is infringing, must a court look to the potential for non-infringing use over time?

How the technology worked, and the extent of its legitimate uses, was not, however, what the Supreme Court ultimately focused on in deciding the case.

Active Inducement

In a bluntly worded opinion authored by Justice David Souter, the Court stated that the parties and the courts below had their eye on the wrong ball. How a technology works, and whether it is capable of substantial non-infringing uses is irrelevant, the Court said, “where evidence goes beyond a product’s

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characteristics or the knowledge that it may be put to infringing uses, and show statements or actions directed to promoting infringement." In fashioning an "active inducement" rule for secondary liability, the Court referenced cases recognizing common-law liability for inducement of infringement of both copyright and patent, and the active inducement ruled codified in patent law at 35 USC §271(b). *Id.* at 17-18.

Looking at the record as a whole on the motion for summary judgment below, the Court concluded that the distributors' "principal object was use of their software to download copyrighted works." *Id.* at 8. The opinion then detailed numerous steps that the software distributors had taken to encourage others to commit copyright infringement, including: the software distributors' efforts to encourage former users of the defunct Napster system to use their alternative software; the lack of any effort to use available technology to diminish infringing uses; and the generation of advertising revenue based upon high-volume use of the system. "The unlawful objective," the Court said, "is unmistakable." *Id.* at 23. Among the actions the Court found relevant were the design and development of the product (particularly in relation to the Napster system), the advertising and promotional efforts and materials, the statements of company executives, the corporate business model, responses to questions from users and the provision of support to users seeking to locate and play copyrighted materials.

The Court was careful to distinguish those situations that would not result in secondary liability. Mere knowledge of potential infringement or actual infringing uses, for example, would be insufficient to subject a distributor to liability, and even "ordinary acts" incident to product distribution (e.g., offering customers technical support or product updates) would not create secondary liability. *Id.* at 19.

The Sony-Betamax Debate

As the Court itself noted, the parties, the courts below, and the many amici that filed briefs in the case expected the outcome to turn on the Sony rule, and they argued various theories of expansion, contraction and interpretation of that rule. Justice Souter's majority opinion noted that reconsideration of the Sony rule was unnecessary in light of the overwhelming evidence of active infringement, and could be left "for a day when that may be required." *Id.* at 17. But neither the majority opinion, nor the two concurring opinions to which a total of six Justices signed on, could resist commenting on the reasoning laid out

in Sony. Instead, they seized the opportunity to stake out positions on the application of Sony. These discussions suggest how the Justices may view future cases involving technology that has both infringing and non-infringing uses ("dual-use technology").

Writing for the Court, Justice Souter stated that the Ninth Circuit had read the Sony rule too broadly, as if it swallowed up other theories of secondary liability. According to the majority opinion, the Sony rule "limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product," even where the distributor knows in fact that the product will be used for infringing purposes. *Id.* Where there is other evidence of such intent, i.e., statements or actions from which a "patently illegal objective" may be inferred, the Sony safe harbor does not preclude liability. Thus, a maker or distributor of a product may be secondarily liable for infringement even if the product is "capable of substantial lawful use." But exactly how much daylight there is between mere knowledge that a product may be used for infringing purposes and actionable intent, the majority opinion resolutely refused to say. This suggests that the ultimate inquiry, regardless of how a technology works and regardless (perhaps) of the extent of its capability for lawful use, is the intent of the maker or distributor. Given the Court's decision, the active inducement rule may overshadow the Sony rule in the future.

The two concurring opinions authored by Justice Stephen Breyer and Justice Ruth Bader Ginsburg represent different views of the Sony rule. Justice Breyer, with whom Justices John Paul Stevens and Sandra Day O'Connor joined, concluded that the Ninth Circuit correctly applied the Sony rule, which he articulates as allowing imposition of secondary liability on new technology only if "the product in question will be used almost exclusively to infringe copyrights." Slip opinion at 10 (J. Breyer, concurring).

Justice Ginsburg, with whom Chief Justice William H. Rehnquist and Justice Anthony Kennedy agreed, concluded that the Ninth Circuit erred in upholding the grant of summary judgment in favor of the defendants, and disputed that Sony provides the bright-line test articulated by Justice Breyer. Justice Ginsburg cited numerous instances of lower court interpretations of Sony that involved a weighing of the magnitude of infringing and non-infringing uses. Slip opinion at 3, n. 1 (J. Ginsburg, concurring). The focus of Justice Ginsburg's concurrence was on the summary judgment record before the lower court; she suggested that in order to prevail on summary judgment,

in light of the evidence showing that the software was "overwhelmingly used to infringe," the defendants should have produced sufficient evidence "to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time." Slip opinion at 7-8 (J. Ginsburg, concurring).

So, although the result in *MGM v. Grokster* was unanimous with respect to the application of the inducement rule, at least six justices are divided on issues concerning the application of the Sony rule, most significantly, the relative balance of infringing and non-infringing uses that may keep a technology within the Sony safe harbor. After *MGM v. Grokster*, the Sony rule remains, but so too does the question: "What, if any, changes might the Court make to the rule in a future case that squarely presents an issue requiring application of the rule?"

Conclusion

Copyright owners were rightfully buoyed by the opinion in *MGM v. Grokster*, as the decision provides an important new (or perhaps, rediscovered) avenue for protecting their intellectual property rights, particularly in the most egregious cases in which makers and distributors of technology are purposefully and provably seeking to profit on the infringing acts of users. In cases in which an active inducement cause of action is pleaded, relevant discovery is likely to extend beyond product design and the weighing of infringing and non-infringing uses, to encompass corporate decision-making and product strategy.

Makers and distributors of dual-use technology will find in the majority opinion a helpful "what not to do" list of the most problematic practices that should be avoided in product placement and marketing. While the Sony safe harbor is still available, makers and distributors will want to remain well inside that rule, making certain that their "statements and actions" fall on the right side of the inducement rule.

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1. The Napster decisions are often referred to as "Napster I" and "Napster II." "Napster I" addressed substantive issues, including contributory and copyright infringement and fair use. *A & M Records, Inc. v. Napster, Inc.*, 114 F.Supp.2d 896 (N.D. Cal. 2000). "Napster II" essentially was the appellate court's decision to uphold the lower court's order shutting down the Napster service. *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

2. *In Re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003).