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# Metro-Goldwyn-Mayer Studios v. Grokster - The Supreme Court's Balancing Act Between the Risks of Third-Party Liability for Copyright Infringement and Rewards of Innovation

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## CASENOTE

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### ***Metro-Goldwyn-Mayer Studios v. Grokster*—The Supreme Court’s Balancing Act Between the Risks of Third-Party Liability for Copyright Infringement and Rewards of Innovation**

**Karen M. Kramer†**

#### INTRODUCTION

The decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster*, 125 S. Ct. 2764 (2005) pitted the movie and music industries, owners of copyrighted works, against several defendants whose business model is to promote free trading of unlicensed works on the Internet. The decision revisited standards of third-party liability for copyright infringement by technology providers who enable sharing of unlicensed works among end users—a process decried by copyright owners as piracy. The direct trading of unlicensed, copyrighted material among end-users is known as peer-to-peer (P2P) file sharing. Although the High Court ruled in favor of the copyright owners, the decision considered and addressed a number of competing interests. The broader issue at stake in *Grokster* involves the scope of liability for technology innovators whose technology may be used for both infringing activities and noninfringing uses. In other words, where should the line be drawn between the risk of liability and the reward for innovation?

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The seed of this debate began twenty years ago in *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417 (1984), when the Supreme Court announced a doctrine protecting innovators whose technology can be used for infringing and noninfringing uses. That case concerned the manufacturer of the Betamax. In short, the *Sony* defense immunized manufacturers against third-party liability for copyright infringement when the technology at issue could be used for both legitimate and infringing purposes. However, ambiguities in how the circuit courts interpreted *Sony* in P2P cases during the past five years led the Supreme Court to grant *certiorari* in *Grokster*.

The technology provided by the *Grokster* defendants, known to the public as KaZaa, FastTrack, and Morpheus, represented the next wave of P2P technology after Napster. In July 2001, the Ninth Circuit famously slapped Napster, the company that facilitated free sharing of songs electronically over the Internet, with liability for massive infringement by end-users.<sup>1</sup> Shortly thereafter, the original Napster folded,<sup>2</sup> and new forms of P2P technology emerged in its place. Like Napster, the *Grokster* defendants offered file sharing for free. However, the Ninth Circuit found the more decentralized technology at issue in *Grokster* a fundamental difference from the architecture at issue in *Napster*. The Ninth Circuit declined to impose liability based on this key technological difference, concluding, *ipso facto*, and despite record evidence to the contrary, that the *Grokster* defendants lacked control over the infringing activity on their network.<sup>3</sup>

In a previously published article in this journal, I argued that the Ninth Circuit inappropriately discounted abundant evidence of intent to facilitate infringement: the article concluded, “[r]estoring some

1. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

2. After folding, the original Napster then sold its name at a bankruptcy auction of a subscription-based online music provider. See Amy Harmon, *Deal May Raise Napster from Online Ashes*, N.Y. TIMES, May 19, 2003, at C1; Jon Healey, *Roxio Sells Software Unit, Bets on Napster*, L.A. TIMES, Aug. 10, 2004, at C2.

3. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1163 (9th Cir. 2004). The Ninth Circuit went so far as to adopt the district court’s findings that “even if the Software Distributors ‘closed their doors and deactivated all computers within their control, users of their products could continue sharing files with little or no interruption.’” (quoting *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029, 1041 (C.D. Cal. 2003)). This finding was questionable on a record of summary judgment, when the copyright owners in fact presented evidence to the contrary. For example, the defendants had the capacity to filter unlicensed works, since they already filtered viruses and the technology defendants’ networks involved ongoing support and maintenance, rather than a one-time sale. See *Petition For Writ of Certiorari* at 18, 27, 28, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005) (No. 04-480).

focus on the intent of the actors involved makes eminent sense in sorting out contributory infringement liability in the post-Napster world.<sup>4</sup> I also argued that the Ninth Circuit placed too much emphasis on the decentralized structure of technology in assessing whether to impose third-party liability for copyright infringement, wrongly elevating the format of a technology over the intent of the inventors.<sup>5</sup> The Supreme Court's opinion embraced precisely those points. However, it did so without redefining any of the parameters of the *Sony* defense, as the interested public had anticipated.

Instead, the Supreme Court unanimously found liability based on a theory of "inducement"—a concept borrowed from patent and common law, in which evidence of intent to facilitate infringement is paramount. At the same time, the High Court unanimously declined to further clarify the triggering point for *Sony*'s immunity from liability for copyright infringement by third parties. The ruling presented the inducement theory as if it were entirely disjoined from the *Sony* defense.

In this article, I argue that the Supreme Court struck far more of a balance among competing interests than the 9-0 ruling reversing summary judgment for the technology providers suggests at first blush. I highlight how the court's treatment of certain issues, such as the obligation to use filtering technology or to reconfigure software to minimize infringement, affects various interested parties. In addition, I posit a way to tie together the *Sony* defense with the inducement theory, so that the analysis can be streamlined in future cases. In short, I propose treating *Sony* as a qualified privilege that can be defeated by evidence of intentional encouragement of infringement, the same evidence that supports an inducement claim.

Part I of this article discusses the legal landscape that provided the backdrop for the decision. It summarizes the positions advocated by the parties to the lawsuit and *amicus curiae* affected by the ruling. Part II explains the competing interests of the parties to this lawsuit and others in the technology community. Part III explains the Court's ruling and important issues the Court declined to address. Finally, Part IV offers predictions for the impact of this decision in the world of digital music and movie file sharing and other applications of P2P file sharing. It also posits a theory for connecting the *Sony* defense to

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4. Karen M. Kramer, *Intent: The Road Not Taken in the Ninth Circuit's Post-Napster Analysis of Contributory Copyright Infringement*, 21 SANTA CLARA COMPUTER & HIGH TECH. L. J. 525, 542 (2005).

5. *Id.* at 528.

the inducement theory of liability in a seamless, 2-step analysis. A close look at the Court's treatment of intent furnishes a basis for proposing that courts treat *Sony* as a qualified privilege, which can be defeated by the same type of evidence that also supports an inducement claim.

## I. THE BACKDROP OF THE DECISION

Historically, third-party liability for copyright infringement has taken one of two forms. The first, contributory copyright infringement, requires proof of: (1) knowledge of infringing activity, and (2) material contribution to it.<sup>6</sup> An outgrowth of *respondeat superior*, the second, vicarious copyright infringement, requires a showing that the defendant: (1) has a right and ability to supervise the infringing activity, and (2) has a direct financial interest in the infringing activity.<sup>7</sup> The bulk of the analysis in *Grokster* concerned contributory copyright infringement. However, by importing the issue of knowledge from contributory infringement analysis into vicarious infringement analysis's concern with control, the Ninth Circuit's decision in *Grokster*, to a large extent, conflated the two.<sup>8</sup>

The movie and music industries brought suit against *Grokster* and other technology innovators whose facilitation of trade in unlicensed works the industries claimed caused losses of between \$700 million and several billion dollars annually.<sup>9</sup> The technology used by the *Grokster* defendants—known to the public as KaZaa, FastTrack, and Morpheus—offered downloading of music and movies for free. The defendants profited by selling advertisements on the website used by file sharers. On cross-motions for summary judgment, the copyright owners in *Grokster* contended that 90% of the material traded over the defendants' networks constituted infringing, unlicensed material.<sup>10</sup>

In contrast to the *Grokster* defendants, a number of fledgling businesses have been offering licensed music and movies for a fee. For example, Apple's iTunes stands out as the most well known fee-based product. It offers songs for 99 cents that can be played on portable music players, such as iPods. More than half a dozen other fledgling businesses offer some form of digital downloading of

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6. *Napster*, 239 F.3d at 1019.

7. *Id.* at 1022.

8. *See Kramer*, *supra* note 4, at 536 n.74.

9. Petition For Writ of Certiorari at 29, *Grokster*, 125 S. Ct. 2764 (No. 04-480).

10. *Grokster*, 125 S. Ct. at 2772.

licensed movies and music for a fee to end-users.<sup>11</sup> Thus, the technology providers in *Grokster* seek to profit by offering unlicensed material for free, raking in revenue through advertisements proportional to the amount of infringing user activity, in contrast to the emerging licensed-based services.<sup>12</sup>

### A. *The Sony Betamax Decision*

The path to the Supreme Court's decision in *Grokster* began twenty years ago, in the context of home video tape recorders. In *Sony*, the Supreme Court grappled with the issue of liability for technology that is capable of being used for both infringing and noninfringing purposes. The Supreme Court determined that the sale of video tape recorders did not constitute contributory infringement. Video tape recorders were primarily used to "time-shift," or watch a show at a later time, which the Court determined to be noninfringing under the doctrine of fair use.<sup>13</sup> In light of this noninfringing use, the High Court held that the manufacturer of Betamax was not liable for contributory infringement based upon customers' infringing uses of that technology. The Court referred to this protection as the "staple article of commerce doctrine," which it borrowed from patent law.<sup>14</sup>

However, the Supreme Court inconsistently expressed when the protection should apply, setting the stage for later confusion seen in *Grokster*. In one passage, the Court suggested that the technology owner need only show the *capacity* of its equipment to be used for a noninfringing purpose in order to be protected.<sup>15</sup> In another passage, the Court suggested that the noninfringing uses must be "substantial and commercially significant" to trigger protection from contributory infringement claims.<sup>16</sup> Depending on how the language in *Sony* is parsed, a nominal or strong showing of legitimate, noninfringing uses will trigger protection from liability for contributory infringement.

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11. See *Kramer*, *supra* note 4, at 530-31.

12. For a fuller discussion of the marketplace of emerging license-based businesses, see *id.* at 527-31.

13. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 421, 443 (1984).

14. *Id.* at 440 ("The [Patent] Act expressly provides that the sale of a 'staple article or commodity of commerce suitable for substantial noninfringing use' is not contributory infringement." (citing 35 U.S.C. § 271(c) (2005))).

15. *Id.* at 442 ("Indeed, [the product] need merely be *capable* of substantial non infringing uses [to merit protection]." (emphasis added)); *id.* ("[O]ne potential use of the Betamax plainly satisfies this standard . . . ." (emphasis added)).

16. See, e.g., *id.* at 442 (holding that there is no contributory infringement where the product is *widely* used for legitimate, unobjectionable businesses); *id.* ("The question is thus whether Betamax is capable of *commercial significant* noninfringing uses." (emphasis added)).

That ambiguity left room for courts to apply the protection of *Sony* differently in the context of assessing liability in a trio of cases involving movie and music file sharing.

### *B. Napster, Grokster and Aimster*

In the wake of *Sony*, a trio of circuit court cases spawned disagreements over the scope of *Sony*'s protection for innovative technology that may be used for both infringing and noninfringing purposes: *A&M Records, Inc. v. Napster, Inc.*,<sup>17</sup> *Metro-Goldwyn-Mayer Studios v. Grokster*,<sup>18</sup> and *In re Aimster Copyright Litig.*<sup>19</sup> This section describes the key holdings in each of these cases and how they came to the forefront in the High Court's ruling in *Grokster*.

#### 1. Napster

Napster, the company that once facilitated free sharing of songs electronically over the Internet, raised the public's consciousness of the power of P2P file sharing. In *Napster*, however, the *Sony* decision played only a minor role.

To the Ninth Circuit in *Napster*, *Sony* simply meant that knowledge of copyright infringement would not be imputed to Napster merely because peer-to-peer file sharing technology may be used for that purpose.<sup>20</sup> The court instead imposed liability on Napster based on evidence of Napster's *actual* and *constructive knowledge* of infringement. Evidence of the actual knowledge credited by the District Court included:

- A document authored by a co-founder of Napster mentioning the need to remain ignorant of users' real names and IP addresses "since they are exchanging pirated music"; and
- notice by the Recording Industry Association to Napster about 12,000 infringing files.<sup>21</sup>

Evidence of constructive knowledge included Napster's promotion of the site with screen shots of infringing files.<sup>22</sup> The Ninth Circuit held that by "learn[ing] of specific infringing material

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17. *Napster*, 239 F.3d at 1004.

18. *Grokster*, 380 F.3d 1154.

19. *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003).

20. *Napster*, 239 F.3d at 1020.

21. *Id.* at 1020 n.5.

22. *Id.*

and fail[ing] to purge such material from the system,” Napster had the type of knowledge required for liability.<sup>23</sup>

The court found “material contribution” to the infringement as well. By providing the site and facilities for infringement, Napster materially contributed to the infringing activity.<sup>24</sup> Knowledge and intent to profit or facilitate infringement merged together to form a basis for the decision to grant an injunction in favor of the copyright holders, famously shutting down Napster as *the* free file sharing service.<sup>25</sup>

## 2. Grokster

The Ninth Circuit veered sharply from its analysis in *Napster* in the *Grokster* decision. Granting summary judgment to the defendant technology providers, the Ninth Circuit applied a heightened knowledge requirement that must be satisfied before liability could be imposed and be deemed outside *Sony’s* zone of protection. Unlike Napster, in *Grokster* the court ruled that copyright owners must have “specific knowledge of infringement at [the] time which they contribute[d] to the infringement and failed to act upon that information.”<sup>26</sup>

The Ninth Circuit in *Grokster* narrowly focused on the differences in the structure of the technology used by the *Grokster* defendants, in contrast to that used by Napster. Napster employed a central server, which contained an index of all songs traded on the network; all exchange of material occurred through this central index.<sup>27</sup> The *Grokster* defendants used a mix of semi-centralized and decentralized systems.<sup>28</sup>

In *Grokster*, the Ninth Circuit concluded that this more decentralized technology precluded a finding of knowledge of or control over infringement. Moreover, the court discounted evidence of active intent to facilitate infringement, including:

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23. *Id.* at 1021.

24. *Id.* at 1022.

25. *See supra* note 2. After the ruling, the original Napster folded and sold its name at a bankruptcy auction to what is now a subscription, license-based business.

26. *Grokster*, 380 F.3d at 1162 (internal quotations omitted).

27. *See Napster*, 239 F.3d at 1011-13 (providing a detailed description of Napster’s architecture).

28. *See Grokster*, 380 F.3d at 1158-59. Under a semi-centralized system, the system designates certain computers as supernodes that serve as the indexing servers. Under the decentralized system, each user maintains her own index of files available for sharing.



- Thousands of notices of infringement that identified millions of infringing files and the names of users distributing them,<sup>29</sup>
- the defendants' purposeful reengineering of the system after the onset of the lawsuit to discontinue login and registration information,<sup>30</sup> and
- the defendants marketing of themselves as the next Napster or Alternative to Napster Network – an effort to capitalize on Napster's reputation for providing licensed music free of charge.<sup>31</sup>

### 3. Aimster

*Aimster* also involved a lawsuit against a free file swapping service. The technology at issue involved a centralized system similar to Napster, although the nature of the technology did not factor heavily into the court's reasoning. In his opinion, Judge Posner posited that *Sony* should be understood as providing a balancing approach: the court should weigh the magnitude of the harms of infringement against the value of the technology.<sup>32</sup> In particular, the Seventh Circuit condemned the defendant's "[w]illful blindness" as a form of actionable knowledge of infringing activity.<sup>33</sup> The Seventh Circuit analogized the technology at issue to aiding and abetting copyright infringement.<sup>34</sup> In contrast to the Ninth Circuit in *Grokster*, the *Aimster* decision held that the defendant's ability to engineer a program differently to prevent customers from infringing "is a factor to be considered" in determining a defendant's liability for infringing uses of its product.<sup>35</sup> In that case, an encryption feature used by the defendant to hide songs being copied by users of the system evidenced "willful blindness," which the court equated with knowledge of infringing activity.<sup>36</sup>

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29. See MGM Plaintiffs-Appellants Opening Brief at 28, *Grokster*, 380 F.3d 1154 (Nos. 03-55894 & 03-56236).

30. *Id.* at 13.

31. *Id.* at 10.

32. *Aimster*, 334 F.3d at 649-50.

33. *Id.* at 650.

34. *Id.* at 651.

35. *Id.* at 648-49.

36. *Id.* at 650.

## II. COMPETING INTERESTS

The entire purpose of copyright law, as noted in the *Sony* decision, is to strike a balance between a creator's incentive for reward and the public's benefit in receiving the information.<sup>37</sup> The litigants hotly contested how the balance should be struck. Numerous *amici* briefs weighed in on the topic. This section summarizes the positions advocated by the parties to the suit as well as other technology providers who would be directly affected by the lawsuit. These parties differed over how certain factors should be weighed in assessing liability, in particular: feasibility of alternative design structures to minimize infringement, the purpose of the technology, profit motive, and the role of the technology provider in offering technical support. Understanding the standpoints promoted by the parties, with their competing interests, lays the foundation for appreciating the balance struck by the final ruling in *Grokster*.

### A. Copyright Owners

The copyright owners argued that the Ninth Circuit imposed too high of a burden for imposing liability. They argued that the dual requirements of knowledge and ability to stop infringing activity at the time of its occurrence were unprecedented.<sup>38</sup> Allowing immunity under *Sony* when technology has the capacity to be used for noninfringing purposes, copyright owners argued, set too a low standard for copyright protection.<sup>39</sup> They repeatedly argued that the *Sony* defense should not apply where a product or service is "primarily used for infringement."<sup>40</sup> The copyright owners also pointed to the mass of evidence demonstrating obvious intent to facilitate infringement on the part of the technology defendants – an emphasis that both contributed to the atmospherics and established a basis for liability on a theory that defendants engaged in conduct that induces, "encourages or assists infringement."<sup>41</sup>

The copyright owners pointed to the defendants' profit motive and ongoing role in providing maintenance and support as factors

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37. See *Sony*, 464 U.S. at 442.

38. Brief for Motion Picture Studio and Recording Company Petitioners at 19, *Grokster*, 125 S. Ct. 2764 (No. 04-480).

39. *Id.*

40. Brief for Motion Picture Studio and Recording Company Petitioners at 27-29, 31-32, *Grokster*, 125 S. Ct. 2764 (No. 04-480).

41. See *id.* at 7-12, 19.

supporting liability for infringement.<sup>42</sup> In addition, the copyright owners argued that the *Grokster* defendants had methods in place for policing infringement that they chose not to employ. As examples, they pointed first to the fact that defendants already had filters for viruses, which could be used to filter trading of unlicensed works.<sup>43</sup> Second, copyright owners also emphasized the manner in which the defendants had disabled its login system after the onset of the lawsuit, a mechanism that could also have been used to help police infringement.<sup>44</sup> Moreover, the copyright owners argued that the defendants' use of encryption and anonymity made the users feel safe to infringe.<sup>45</sup>

### *B. The Defendant Technology Providers*

In their merits briefs, the defendant technology providers argued that *Sony* should be interpreted broadly as offering protection whenever a product is "capable of noninfringing uses."<sup>46</sup> The defendants further claimed that inquiry into the profit motive might unduly discourage investment in products.<sup>47</sup> "To condemn a profit motive would, in fact, paralyze investment in any product with potential infringing uses," they reasoned.<sup>48</sup> Furthermore, defendants resisted an interpretation that would inquire into whether a product may be configured or redesigned to reduce infringement.<sup>49</sup> Defendants argued against an inquiry into ability to redesign to reduce infringement, because they believed such an inquiry would stifle innovation: "Anyone contemplating a new product, or investing in the development of one, would face the real prospect that one or more copyright owner[s] . . . would sue . . . over how the product might have been designed differently."<sup>50</sup> The technology providers also unsuccessfully maintained that claims of infringement based on specific acts of inducement were not before the court.<sup>51</sup>

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42. See, e.g., *id.* at 44, 46; *id.* at 26.

43. *Id.*

44. *Id.* at 25-26.

45. *Id.* at 25.

46. Brief for Grokster and Streamcast Respondents at 27, *Grokster*, 125 S. Ct. 2764 (No. 04-480).

47. *Id.* at 29.

48. *Id.*

49. *Id.* at 30.

50. *Id.* at 30-31.

51. *Id.* at 33-34.

### C. Other Technology Providers and Interest Groups

A coalition of representatives of other key technology providers of content, including Google, Yahoo!, Apple Computer, and Microsoft, filed an *amicus brief* setting forth their own opinion of the balance that should be struck between fostering technological innovation and protecting intellectual property. This brief contended that the Ninth Circuit's analysis erred by focusing on knowledge instead of conduct.<sup>52</sup> However, at the other extreme, the Seventh Circuit's balancing approach in *Aimster* would disproportionately favor copyright owners, unless the amount of infringement approximated zero, they argued.<sup>53</sup> Without articulating a specific standard, this group thought that mere knowledge of potential or actual infringement should be insufficient to constitute liability. The group also advocated that, to avoid chilling the creative process, certain factors should not be weighed in assessing infringement: (1) whether a company profits indirectly from infringing use, (2) the purpose for which the technology was designed or created, (3) the mere fact that a vendor maintains an ongoing relationship with infringers by providing customer support for the technology, and (4) design decisions (e.g., reconfiguration to protect a user's anonymity).<sup>54</sup>

## III. THE SUPREME COURT'S RULING

Although in one sense the Supreme Court handed the copyright owners a decisive victory by unanimously reversing summary judgment in favor of the technology providers, other aspects of the Court's decision actually favored the interests of other affected constituencies, such as technology innovators.

### A. The Inducement Theory

First and foremost, the High Court agreed with the copyright owners that the defendant technology companies had acted egregiously, "with a purpose to cause copyright violations by use of software suitable for illegal use."<sup>55</sup> The High Court distinguished the intent to facilitate infringement on the part of these technology

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52. Brief of Digital Media Ass'n, NetCoalition, Center for Democracy and Technology Ass'n of Am. as Amici Curiae in Support of Neither Party at 20-22, *Grokster*, 125 S. Ct. 2764 (No. 04-480).

53. *Id.* at 22-25.

54. *Id.* at 16-19.

55. *Grokster*, 125 S. Ct. at 2781.

providers from the intentions of the manufacturer and distributor of the Betamax. The Court wrapped these concerns into a theory of liability based on inducement. In particular, the Supreme Court pointed to three indicia of culpable intent:

- 1) Each company courted copyright infringers as its market, often making references in internal documents and advertising to Napster.<sup>56</sup>
- 2) No parties attempted to develop filtering tools or other mechanisms to diminish infringement; the Supreme Court concluded that the Ninth Circuit was wrong to dismiss such evidence as irrelevant.<sup>57</sup>
- 3) The technology providers derived advertising revenue from the high volume of infringing use.<sup>58</sup>

Based on these three factors, the Court concluded, “[T]he unlawful objective [was] unmistakable” and actionable under a common law theory of inducement.<sup>59</sup> This evidence of intent satisfied the standard for inducement of infringement for purposes of summary judgment.<sup>60</sup>

Later in the opinion, the Court shed some light on the standard for satisfying the inducement theory in other cases. “If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from . . . statements and actions” showing an illegal objective.<sup>61</sup> Third-party liability for copyright infringement could be found based on “clear expression or other affirmative steps taken to foster infringement.”<sup>62</sup>

The Supreme Court imported the theory of inducement of copyright infringement from patent law, much as it had derived the original *Sony* defense from the “staple article of commerce” doctrine grafted from patent law.<sup>63</sup> Essentially, the Court gave a name to and blessed a doctrine for capturing the issue of intent and the alleged bad acts encouraging infringing activity, such as those evidenced by the *Grokster* defendants.<sup>64</sup> Unlike in *Sony*, where the primary purpose of the Betamax was time-shifting or fair use, here the Court found that

56. *Id.*

57. *Id.*

58. *Id.* at 2782.

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.* at 2770.

63. *Id.* at 2779 n.10.

64. *Id.* at 2782.

the main function of the product at issue was to assist in infringing activity. In support of this, the copyright owners had submitted abundant evidence of statements and actions demonstrating intent to facilitate infringement.<sup>65</sup>

### *B. The Sony Defense*

Ironically, the majority failed to reach consensus in clarifying the many aspects of the *Sony* decision that led *Grokster* to the High Court in the first place. Perhaps most notably, *Sony* remains a viable defense, as acknowledged in the majority opinion authored by Justice Souter:

We do not revisit *Sony* further, as MGM requests, to add a more quantified description of the point of balance between protection and commerce . . . . It is enough to note that the Ninth Circuit's judgment rested on an erroneous understanding of *Sony* and leave further consideration of the *Sony* rule for a day when that may be required.<sup>66</sup>

However, in two separate concurring opinions, Justices split over whether *Sony* should be interpreted more narrowly, as advocated by the copyright owners, or more broadly, as advocated by the technology providers.<sup>67</sup> Justices Breyer, Stevens, and O'Connor would have found the *Sony* protection satisfied on the record before the Ninth Circuit, thereby precluding a finding of contributory copyright infringement, although liability would still have been found under the inducement theory.<sup>68</sup> These Justices gave great weight to the wording in *Sony* that a product need only be "capable of substantial noninfringing use."<sup>69</sup> They found an adequate record of "significant future market for noninfringing uses of *Grokster*-type-peer-to-peer software."<sup>70</sup>

Yet Justice Ginsburg, the Chief Justice, and Justice Kennedy ruled that the Ninth Circuit should have interpreted the *Sony* defense more narrowly and therefore not ruled out claims of contributory copyright infringement on a motion for summary judgment.<sup>71</sup> These Justices favored the language in *Sony* requiring proof of "a reasonable

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65. *Id.*

66. *Id.* at 2778-79.

67. *See supra* notes 39-54.

68. *See Grokster*, 125 S. Ct. at 2787 (Breyer, J., concurring).

69. *See id.* at 2789 (Breyer, J., concurring).

70. *Id.*

71. *Id.* at 2783 (Ginsburg, J., concurring).

prospect that substantial or commercially significant noninfringing uses were likely to develop.”<sup>72</sup> They found this standard not satisfied based on the record developed in the case.

Thus, the exact permutations of the *Sony* defense—and therefore its ramifications for contributory and vicarious copyright infringement—remain open questions.<sup>73</sup>

#### IV. THE HIGH TECH, HIGH WIRE BALANCING ACT AND ITS IMPLICATIONS

The Supreme Court’s ruling truly resembled a balancing act. The copyright holders did not get everything they sought, nor did the precedent leave P2P users and technology providers without meaningful alternatives. Part A of this section discusses how the High Court resolved particularly sensitive issues and sets forth predictions on how this will affect the future of P2P file sharing and related e-commerce. Part B of this section proposes a method for harmonizing the inducement rule and the *Sony* doctrine. Although the Court purported to leave *Sony* intact and distinct from the inducement theory, the two concepts nevertheless remain entangled in parts of the Court’s analysis. This section argues that, consistent with the Court’s ruling in *Grokster*, *Sony* can be viewed as a qualified privilege. That qualified privilege can be defeated by evidence of culpable intent or inducement.

##### *A. The Balances Struck and Predictions About Their Effect*

In finding inducement as the more viable basis for liability, the High Court effectively focused on the actions and expressions of intent of the technology providers. In so doing, the High Court condemned what it considered bad conduct, rather than bad technology. This approach has several implications.

A ruling of this nature gives the music and entertainment industry a powerful sword to pierce and destroy commercial entities that promote trading of infringing material. Thus, the next *Grokster* that seeks to profit from massive trading of unlicensed works does so at great peril. This threat of liability will allow the fledgling, licensed-based businesses, such as Apple’s iTunes, RealNetworks’ Rhapsody, Microsoft’s MSN music, and Music Match, to compete

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72. *Id.* at 2786.

73. *Id.* at 2782.

more fairly in the market.<sup>74</sup> At the same time, hosts of open-source P2P file sharing technologies that do not redound to the profit of any commercial entity remain available options for end-users sufficiently sophisticated to use the technology.<sup>75</sup> Many of those open source codes are unbranded and thus may not attract a large following. One notable exception is BitTorrent, a popular open source code technology that is used for file sharing without profit to its inventor.<sup>76</sup> Its founder, Bram Cohen, does not charge any fee for this service, although he has recently started to accept donations on his site.<sup>77</sup>

The music and movie industries may benefit from a reduction in trade of unlicensed material, simply because of the Supreme Court's denunciation of the trading of unlicensed material. While some people may always want to get something for free, plenty of others may feel that they would rather pay a nominal fee for materials and be safe from potential wrongdoing or liability. On the other hand, to have an impact on the segment of dedicated file-swappers whose attitudes remain impervious to change, the music and movie industries may feel greater pressure to pursue individual end-users of open source P2P technologies.<sup>78</sup>

Although the High Court focused on actions rather than technology, it struck a nerve for many parties in addressing the issue of filtering and design configuration. The High Court ruled that one factor evidencing culpable intent on the part of the technology providers was that "neither party attempted to develop filtering tools or other mechanisms to diminish infringing activity using their software."<sup>79</sup> One of the *amicus briefs*, submitted in support of neither party, attested to the viability of filtering tools and digital watermarking to help prevent infringement.<sup>80</sup> The Court's statement could be read as a mandate for innovators to consider infringing uses and investigate prevention methods. However, in footnote twelve, the

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74. See *Kramer*, *supra* note 4, 530-31 (describing some of the fledgling, license-based businesses).

75. See SourceForge, <http://www.sourceforge.net> (last visited Oct. 4, 2005) for a list of hundreds of open source options that facilitate P2P file sharing.

76. See Seth Schiesel, *File Sharing's New Face*, N.Y. TIMES, Feb. 12, 2004, at G1.

77. *Id.*

78. Both the music and movie industries have instituted an aggressive, ongoing campaign of suing infringers directly. See, e.g., David McGuire, *Studios Step Up Fight Against Online Piracy*, Washingtonpost.com, Dec. 14, 2004, <http://www.washingtonpost.com/wp-dyn/articles/A63900-2004Dec14.html>.

79. *Grokster*, 125 S. Ct. at 2781.

80. See Brief Amici Curiae of Audible Magic Corp., Digimarc Corp., and Gracenote in Support of Neither Party, *Grokster*, 125 S. Ct. 2764 (No. 04-480).



High Court backed away from such a mandate, stating that “failure to take affirmative steps to prevent infringement,” in the absence of other evidence of intent, would be an insufficient basis for liability, as it would “tread too close to the *Sony* safe harbor.”<sup>81</sup>

Accordingly, the degree of obligation on the part of software technology providers to implement design measures, such as filtering, can be expected to be debated heavily in subsequent decisions. The High Court’s stance on this subject ultimately remained wishy-washy: coupled with other evidence of bad intent, the obligation to minimize infringement is strong. Yet in isolation, the mere failure to implement filtering or other mechanisms to reduce infringement cannot serve as a basis for liability. It seems likely that the Supreme Court in *Grokster* took the technology providers to task in part because the companies allegedly had in place mechanisms to filter out unwanted material like viruses, which, according to the copyright owners, could have also been used to stop infringing activity.<sup>82</sup> The technology providers also disabled login and user information that could have allowed tracking of user activity and to police infringing activities.<sup>83</sup> In the Supreme Court’s mind, these defendants were “bad actors,” and their resistance to reconfiguring design to minimize infringement further evidenced this point.

The High Court’s ruling minimized the risk of liability for a technology provider who merely provides ongoing technical support that may be used for infringing purposes. “Mere knowledge of infringing [activity], potential or actual infringing [activities]” would not be enough to impose liability.<sup>84</sup> “Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability themselves.”<sup>85</sup> Thus, on the question of weight assigned to technical support, the High Court’s ruling discounted the argument of the copyright owners in favor of other interested parties.

On the issue of profit, the High Court squarely sided with copyright owners over the defendants and other affected technology providers in assessing how this factor should be weighed: “Here, evidence of the distributors’ words and deeds going beyond

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81. *Grokster*, 125 S. Ct. at 2781 n.12.

82. See Brief For Motion Pictures Studio and Recording Co. Petitioners, *supra* note 38, at 9-12.

83. See *id.*

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

85. *Id.*

distribution as such shows a purpose to cause *and profit from* third-party acts of copyright infringement.”<sup>86</sup>

The High Court’s decision also provides some guidance to content providers like Yahoo! and Google who would like to enter the market for distribution of movies, music, and books. Recently, Yahoo! introduced a fee-based music service.<sup>87</sup> Google introduced a controversial tool for searching whole books that have been scanned without a license.<sup>88</sup> The safe harbor provisions of the Digital Millennium Copyright Act (DMCA) provide a certain amount of protection to Internet Service Providers like Yahoo! and Google.<sup>89</sup> However, the more they partner with and profit from digital media sharing materials, the more they too will be affected by the implications of *Grokster*.

### B. Linking *Sony* and Inducement into a 2-Step Analysis

Undoubtedly to the relief of many in the technology P2P communities, the High Court did not eviscerate *Sony* protections. However, the failure to clarify its scope will continue to create some controversy in the courts. In fact, one set of amicus briefs filed by law professors argued that “the only thing worse than striking a wrong balance between [innovation and free access to materials] is . . . leaving them without a clear idea of the standards that govern their relationship.”<sup>90</sup> Although the Supreme Court declined to directly address the impact of its decision on *Sony*, its discussion of intent at various points inevitably implicated *Sony*.<sup>91</sup>

It seems unnecessarily fractured to talk about the *Sony* defense to third-party liability of infringement on one hand, and liability for inducement on the other. One way of harmonizing these theories is to view *Sony* (however defined) as a qualified privilege to create technology that may be used for both infringing and noninfringing

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86. *Id.* at 2782 (emphasis added).

87. Jon Healy, *Yahoo Offers Subscription Service for Online Music*, L.A. TIMES, May 11, 2005, at A1.

88. See Burt Helm and Hardy Green, *Google This: “Copyright Law” The search giant’s plans to scan whole books have publishers steaming*, BUSINESS WEEK, June 6, 2005.

89. 17 U.S.C. §512.

90. Brief In Support of Issuance of Writ of Certiorari by Amici Curiae Law Professors at 7, *Grokster*, 125 S. Ct. 2764 (No. 04-480).

91. See *Grokster*, 125 S. Ct. at 2782; For example, the Court wrote, “in the absence of other evidence of intent, a court would be unable to find contributory infringement liability merely based on a failure to take affirmative steps to prevent infringement, if the device otherwise was capable of substantial noninfringing uses. Such a holding would tread too close to the *Sony* safe harbor.” *Id.* at 2781 n.12.

purposes. It presumptively immunizes technology innovators from liability for infringing uses of technology that are sometimes unforeseen or secondary to the purpose of the invention. Such a privilege may be overcome by a showing of bad intent, or what the High Court defined as “clear expression” or “other affirmative steps” taken to foster infringement<sup>92</sup> that the court wrapped in the label of “inducement.”

## CONCLUSION

The Supreme Court’s embrace of the inducement doctrine introduces a method for capturing and weighing evidence of intent to facilitate infringement. Although a seemingly strong victory for the copyright owners, the High Court’s ruling in fact struck a balance on issues such as the design decisions and import of ongoing technical support. The weight assigned to profit and marketing efforts in assessing liability will be a useful tool for the music and movie industries’ battle against those companies seeking to profit from facilitating free trading of unlicensed material. Furthermore, it will even the playing field for emerging, licensed based businesses. The language encouraging filtering and design configuration to minimize infringement will likely increase the market for these anti-piracy technologies, to the point where their usage may become the norm. However, the ruling will still leave open channels for P2P exchanges of unlicensed material through open source mechanisms uncontrolled by a profit-driven, commercial entity. By declining to officially rule on the permutations of *Sony*, the Court left the lower courts to choose varying standards. This article’s proposed rule of treating *Sony* as a qualified defense could facilitate less fractured analyses in cases to come.

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92. See *id* at 2770, 2782.