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MGM v. Grokster: Adopting Patent Law's Active Inducement Doctrine and Shifting the Focus to Actions of Alleged Indirect Infringers

IN *METRO-GOLDWYN-MAYER STUDIOS, INC. v. GROKSTER, LTD.*,¹ the United States Supreme Court considered whether distributors of a device capable of “both lawful and unlawful use” are liable for the infringing acts of their technology users.² The Court adopted Patent Law’s active inducement standard for secondary liability³ and unanimously held that a distributor who actively encourages and promotes copyright infringement is liable for the infringing acts of third-party users of its product.⁴ By shifting the focus away from the technology and to the intent and conduct of alleged infringers, *Grokster* provides copyright holders with sufficient protection of their rights while avoiding undue interference with the innovation process. Unlike the contributory infringement standard proposed in *Sony Corporation of America v. Universal City Studios, Inc.*,⁵ the newly adopted intent-based standard provides copyright holders with clearer guidance for establishing a secondary liability claim of infringement. The active inducement standard also protects innovation by imposing a higher burden on copyright owners, requiring them to prove intent to prevail on their infringement claims. Therefore, the Court’s holding provides a well-balanced approach that punishes those who actively encourage infringement while, concurrently, safeguarding the rights of those who develop technologies for substantially noninfringing uses.

I. THE CASE

Plaintiffs are motion picture studios, music publishers, and songwriters (collectively “MGM”) who own the copyrighted materials that were exchanged without

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1. 125 S. Ct. 2764 (2005).

2. *Id.* at 2770.

3. Patent Law’s active inducement standard, as codified in 35 U.S.C. § 271(b), states that “[W]hoever actively induces infringement of a patent shall be liable as an infringer.” *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1468 (Fed. Cir. 1990).

4. *Grokster*, 125 S. Ct. at 2770.

5. 464 U.S. 417 (1984), *reh’g denied*, 465 U.S. 1112 (1984).

MGM v. GROKSTER

authorization using defendants' software.⁶ Defendants, Grokster, Ltd. ("Grokster") and StreamCast Networks, Inc. ("StreamCast"), distribute free software that enables computer users to share electronic files, including digital music and motion pictures through "peer-to-peer" ("P2P") networks.⁷ Grokster and StreamCast generate their revenue from sale of advertising space on their respective networks.⁸ Because the cost of advertising is directly linked to the site traffic, Grokster's and StreamCast's revenue increases as their user-base expands.⁹

In many respects, Grokster and StreamCast operate in a similar fashion to Napster.¹⁰ As with Napster, the users of defendants' software can download the file-sharing program from defendants' numerous servers.¹¹ Unlike Napster, however, defendants do not offer a centralized indexing system of available file names.¹² Instead, each Grokster and StreamCast user maintains his or her own catalogue of files and, upon request from another user, shares the requested content through the P2P network.¹³ Although defendants' software allows users to share any type of digital file, for example, public domain and other authorized copyrighted works, the majority of the files exchanged consist of unauthorized copyrighted works, including those of the plaintiffs.¹⁴ Defendants claim that while "potential noninfringing uses of their software are infrequent in practice . . . they are significant in

6. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154, 1158 (9th Cir. 2004), *cert. granted*, 543 U.S. 1032 (2004), *vacated*, 545 U.S. 913 (2005).

7. *Id.* P2P networks do not employ central servers that hold all of the available files for the users to access. *Id.* Instead, each computer user makes his or her files available to every other user in the P2P network. *Id.* As a result of the decentralized nature of P2P networks a particular software program must provide a method of indexing the available files to allow the users to access it. *Id.* Thus, "an index of files available for sharing is a critical component of P2P file-sharing networks." *Id.*

8. *Grokster*, 125 S. Ct. at 2774.

9. *Id.*

10. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 259 F. Supp. 2d 1029, 1032 (C.D. Cal. 2003), *aff'd*, 380 F.3d 1154 (9th Cir. 2004), *cert. granted*, 543 U.S. 1032 (2004), *vacated*, 545 U.S. 913 (2005). Similar to Grokster and StreamCast, Napster provided on-line services and free software that enabled its users to (a) store digital music files on their individual computers and make them available for copying by other Napster users; (b) search for music files stored on other users' computers; and (c) exchange exact copies of the files with other Napster users through the P2P network. A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1011 (9th Cir. 2001), *aff'd*, 284 F.3d 1091 (9th Cir. 2002). In contrast to Grokster and StreamCast, however, Napster maintained a centralized index of file names available for downloads on its own servers. *Id.* at 1012. Additionally, Napster provided technical assistance to its users for the "indexing and searching of MP3 files." *Id.* at 1011.

11. *Id.*

12. *Grokster*, 380 F.3d at 1159. Under StreamCast's "decentralized" index model, the software transmits a search request to all network users, a search of individual index files is administered, and the results are routed back to the requesting user. *Id.* Grokster, on the other hand, uses a "supernode" model where "a number of select computers on the network are designated as indexing servers." *Id.* Under Grokster's system a user requesting a file connects to a "supernode" which in turn searches its index and delivers the results to the requesting party. *Id.*

13. *Id.* at 1158.

14. *Grokster*, 125 S. Ct. at 2770. Plaintiffs claim that "over 90% of the files exchanged [using defendants'] software . . . involve[d] copyrighted material, 70% of which is owned by [plaintiff] Copyright Owners." *Grokster*, 380 F.3d at 1158. While defendants contest the actual figure, they "concede the infringement in most downloads." *Grokster*, 125 S. Ct. at 2772.

kind.”¹⁵ It is undisputed that defendants failed to take any action to prevent further infringement.¹⁶ Likewise, defendants were not “mere passive recipients of information about infringing use” as each company “took active steps to encourage infringement.”¹⁷

MGM filed suit against Grokster and StreamCast in the United States District Court for the Central District of California, alleging that defendants were liable for vicarious and contributory copyright infringement because they “knowingly and intentionally distributed . . . software [that would allow] users to reproduce and distribute [unauthorized] copyrighted works in violation of the Copyright Act.”¹⁸ The district court, while acknowledging that the users of defendants’ software infringed on plaintiffs’ copyrights, nevertheless granted partial summary judgment in favor of Grokster and StreamCast, holding that the defendants were not secondarily liable because they lacked “actual knowledge of specific acts of infringement.”¹⁹ The United States Court of Appeals for the Ninth Circuit affirmed the district court’s decision holding that the defendants’ activities did not constitute contributory or vicarious copyright infringement.²⁰

In determining defendants’ liability, the Ninth Circuit applied the two well-established theories of secondary liability: contributory and vicarious copyright infringement.²¹ The Ninth Circuit held that a product developer is liable under the theory of contributory infringement if (1) it knows about direct infringement, and (2) materially contributes to the infringing acts of its product users.²² On the element of knowledge, the Ninth Circuit held that the level of knowledge required depended on whether the product was “[c]apable of substantial or commercially significant noninfringing uses.”²³ Relying on its interpretation of *Sony*,²⁴ the Ninth

15. *Id.*

16. *Id.* Both defendants had notice of direct infringement from the users themselves. Users often contacted Grokster and StreamCast with questions about playing copyrighted files they had downloaded using defendants’ software, and the defendants have responded with guidance and technical support. *Id.* Additionally, Plaintiffs notified defendants of “8 million copyrighted files that could be obtained using their software.” *Id.* Yet neither defendant made any effort to “filter copyrighted material from users’ downloads” or to “block anyone from continuing to use its software to share copyrighted files.” *Id.* at 2774.

17. *Grokster*, 125 S. Ct. at 2772. The evidence demonstrated that defendants sought to capture the former Napster audience and took active steps to promote infringement. First, defendants designed their software to make it compatible with Napster’s OpenNap program and to “leverage Napster’s 50 million user base.” *Id.* at 2773 (internal quotations omitted). Second, defendants promoted their products and services as Napster alternatives and substitutes. *Id.* Third, Grokster sent Napster users “newsletters promoting its ability to provide particular, popular copyrighted materials.” *Id.* Fourth, Grokster’s name was a clear “derivative of Napster.” *Id.* Finally, defendants business models show that their software was designed with intent to facilitate downloads of copyrighted works. *Id.* at 2774. As both companies derive their revenue from sales of advertising space, the higher the volume of users, the greater the infringement, and the greater the revenue. *Id.*

18. *Id.* at 2771.

19. *Id.* at 2774.

20. *Grokster*, 380 F.3d at 1160.

21. *Id.*

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

23. *Grokster*, 380 F.3d at 1161.

Circuit reasoned that if the product at issue was capable of substantial noninfringing uses, then the plaintiff would have to show the defendant's "[r]easonable knowledge of specific infringing files."²⁵ Conversely, if the defendant's software was *not* capable of significant lawful uses, the plaintiff would then have to show that the defendant had "constructive knowledge of infringing activities" of their software users.²⁶

The Ninth Circuit found that based on the "declarations" of certain authors and artists who either approved the distribution of their copyrighted works via the defendant's software or used the software to distribute "public domain" works, defendant's "software was [in fact] capable of substantial noninfringing uses."²⁷ Despite plaintiffs' showing that only ten percent of the uses of defendant's software were noninfringing, the Ninth Circuit reasoned that the large number of total files exchanged meant that ten percent constituted a significant number of noninfringing uses.²⁸ As the defendant's software was capable of substantial noninfringing uses, the Ninth Circuit held that plaintiffs had to show that the defendant had actual knowledge of specific infringement in order to prevail on their contributory infringement claim.²⁹ The Ninth Circuit concluded that because of Grokster's and StreamCast's "decentralized" indexing system, defendant lacked actual knowledge of specific infringement.³⁰

On the issue of material contribution, the Ninth Circuit held that "defendants [did not] materially contribute" to the infringing activities of their software users because they did not provide "access . . . to offending files or indexes . . . rather it was the users of the software who, by connecting to each other over the internet, created the network and provided access."³¹ As for plaintiff's claim for vicarious infringement, the Ninth Circuit did not find liability because Grokster and StreamCast "did not monitor or control the use of the software, had no agreed-upon right or . . . ability to supervise its use, and had no independent duty to police infringement."³² Because of the circuit split over the standard of liability for aiding in copyright infringement, the Supreme Court granted certiorari to decide whether Grokster and StreamCast, as "distributor[s] of a product capable of both lawful and unlawful uses," were secondarily liable for the infringing acts of their users.³³

24. 464 U.S. 417 (1984).

25. *Grokster*, 380 F.3d at 1161.

26. *Id.*

27. *Id.*

28. *Id.* at 1162.

29. *Id.*

30. *Id.* at 1163.

31. *Id.*

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

33. *Id.* at 2770.

II. LEGAL BACKGROUND

Although the Copyright Act³⁴ does not explicitly recognize the possibility of secondary liability, courts have relied on common law doctrines of contributory and vicarious infringement to assess the liability of technology providers for infringing uses of their technology. The first significant Supreme Court decision that addressed the theory of contributory copyright infringement was *Sony Corporation of America v. Universal City Studios, Inc.*,³⁵ where the Court declined to hold Sony liable for contributory infringement for the distribution of its Betamax video recorders because it was “capable of substantial noninfringing uses.”³⁶ As technology evolved and gave rise to new questions in copyright law, the lower courts began to diverge on their interpretation of the *Sony* standard. In *A&M Records, Inc. v. Napster, Inc.*,³⁷ the Ninth Circuit interpreted the *Sony* standard to mean that the technology provider could be held liable for contributory infringement if he knew or should have known about copyright infringement among its users.³⁸ The Seventh Circuit, in the *Aimster Copyright Litigation*,³⁹ took a slightly different approach and held that under the *Sony* standard Aimster’s failure to show possible noninfringing uses of its technology imputed knowledge on the defendant and served as evidence of its liability.⁴⁰ These conflicting interpretations among the circuits left the issue ripe for the Supreme Court’s review.

A. Application of Secondary Liability Theories in the Copyright Arena Before the Advent of File-Sharing Technology

Since 1984, federal courts have applied the *Sony* standard to all copyright infringement cases involving the manufacturing and distribution of dual-use technologies, and most recently to P2P file-sharing software.⁴¹ In *Sony*, motion picture studios sued Sony for contributory and vicarious copyright infringement stemming from Sony’s development and distribution of the Betamax video tape recorders (“VTR”), forerunner to VCRs.⁴² Relying on the “staple article . . . of commerce” safe-harbor

34. The Copyright Act provides protection to “[o]riginal works of authorship fixed in any tangible medium of expression.” 17 U.S.C. § 102 (a) (2002). The Act grants “exclusive rights” to copyright owners to use and authorize the use of their work in five qualified ways, including “reproduction of the copyrighted work in copies.” 17 U.S.C. § 106 (2002).

35. 464 U.S. 417 (1984).

36. *Id.* at 442.

37. 239 F.3d 1004, 1011 (9th Cir. 2001).

38. *Id.* at 1021–22.

39. 334 F.3d 643 (7th Cir. 2003), *cert. denied sub nom.*, *Deep v. Recording Indus. Ass’n of Am., Inc.*, 540 U.S. 1107 (2004), *reh’g denied*, 543 U.S. 1180 (2005).

40. *Id.* at 653.

41. Christine Pope, *Unfinished Business: Are Today’s P2P Networks Liable for Copyright Infringement?*, 2005 DUKE L. & TECH. REV. 22, *2–3 (2005).

42. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 420 (1984), *reh’g denied*, 465 U.S. 1112 (1984).

from patent law,⁴³ the Court held that Sony's sale of Betamax recorders did not constitute contributory copyright infringement because Betamax was a product "capable of substantial noninfringing uses."⁴⁴

Before applying its newly adopted standard to the facts in *Sony*, the Court recognized that copyright law grants copyright holders the "'exclusive' rights to use and to authorize the use of [their] works in five qualified ways, including reproduc[ing] the copyrighted work[s]."⁴⁵ The Court stated that under the Copyright Act, those who violate copyright holders' exclusive rights would be deemed infringers.⁴⁶ The Court also noted, however, that because copyright law repeatedly changes, courts must find a balance between "a copyright holder's legitimate demand for effective—not merely symbolic—protection of the statutory monopoly" and the public's competing interest in the free flow of information.⁴⁷ In adopting patent law's contributory infringement theory of liability, which includes the staple-article of commerce safe-harbor, the Court attempted to strike this important balance.

Although the Court recognized that consumers used Betamax recorders to create libraries of copyrighted programs and to fast-forward through commercials while watching an earlier taped program, both of which are infringing acts, the majority of Betamax owners used the technology for so-called "time-shifting" purposes, that is, recording a television program for viewing at a more convenient time.⁴⁸ When used for the latter purpose, the Court found it noninfringing because it was substantially "private" and "noncommercial" in nature.⁴⁹ It reasoned that non-commercial "time-shifting" of copyrighted programs does not violate copyright law because: (1) many copyright owners, including producers of "sports, religious, and educational" programs, allowed such "time-shifting" of their broadcasts;⁵⁰ and (2) unauthorized time-shifting did not cause significant harm to the plaintiffs.⁵¹ The Court concluded that because the quantity of authorized uses substantially outweighed unauthorized time-shifting, and because plaintiffs had suffered no actual harm in terms of their copyrighted work's value, Sony could not be liable for contributory infringement.⁵² Therefore, even though Sony's technology was occasion-

43. *Id.* at 440. The Patent Act states that the "sale of a staple article or commodity of commerce suitable for substantial noninfringing use" is not contributory infringement. 35 U.S.C. § 271(c) (2003).

44. *Sony*, 464 U.S. at 456.

45. *Id.* at 433 (quoting relevant parts of the Copyright Act, 17 U.S.C. § 106 (2002)).

46. *Id.* (referring to the Copyright Act, 17 U.S.C. § 501(a) (2002)).

47. *Id.* at 442.

48. *Id.* at 423 (quotation in the original).

49. *Id.* at 449. The Court reasoned that if Betamax was used "to make copies for commercial or profit-making purposes" such use would "presumably be unfair and in violation of the copyright law." *Id.*

50. *Sony*, 464 U.S. at 444–45 (quotation in the original).

51. *Id.* at 450.

52. *Id.* at 446–47. At least "7.3% of all Betamax use[s]" involved recording programs that had the express authorization of the copyright holders. *Id.* at 424. Whereas plaintiffs owned only 10% or less of the market share in television programming. *Id.* at 443.

ally used for unlawful purposes, the fact that it was capable of substantial noninfringing uses absolved Sony of liability.

Over the last twenty years, *Sony* guided courts in determining liability in indirect copyright infringement cases.⁵³ The recent technological advances, however, including the invention of MP3 players and P2P file-sharing networks, have transformed the copyright landscape and have caused the courts to reinterpret and apply *Sony* to particular violations in each case.⁵⁴ Specifically, the Ninth and Seventh Circuits have based liability on different interpretations of *Sony* in their respective evaluations of indirect copyright infringement claims involving file-sharing technologies.

B. Applying Sony to P2P File-Sharing Software: Napster's and Aimster's Divergence

In 1999, major record companies and music publishers sued Napster, an Internet service that facilitated the transmission and exchange of copyrighted music files through P2P networks, for contributory and vicarious copyright infringement.⁵⁵ The Court of Appeals for the Ninth Circuit affirmed the preliminary injunction against Napster and held that under *Sony*, plaintiffs would likely prevail on their contributory infringement claim because Napster had “actual knowledge [of] specific infringing” acts by its software users and failed to take any steps to prevent the infringing activity.⁵⁶ The Ninth Circuit also found that Napster could be liable for vicarious infringement because it failed to “police” its users’ infringing activities and “financially benefit[ed] from the continuing availability of infringing files on its system.”⁵⁷

On the element of knowledge for the plaintiff’s contributory infringement claim, the Ninth Circuit reasoned that based on an internal communication by one of Napster’s co-founders,⁵⁸ and warnings from the recording association regarding “12,000 infringing files” on Napster’s network, Napster had direct notice of specific infringing uses.⁵⁹ As to material contribution, the Ninth Circuit concluded that Napster did in fact materially contribute to its users’ infringing activities because it “provid[ed] ‘the site and facilities’ for direct infringement.”⁶⁰

53. Pope, *supra* note 41, at *3.

54. Maria Termini, *Time-Shifting in the Internet Age: Peer-to-Peer Sharing of the Television Content*, 38 COLUM. J.L. & SOC. PROBS. 415, 425 (2005).

55. *Napster*, 239 F.3d at 1011.

56. *Id.* at 1022.

57. *Id.* at 1024.

58. *Id.* at 1020. The record shows that in one of the internal communications, a Napster cofounder mentions the “need to remain ignorant of users’ real names and IP addresses” because the users were exchanging pirated materials. *Id.* at 1020 n.5 (internal quotations omitted). The Ninth Circuit found that this statement, along with other evidence pointing to defendants’ knowledge of direct infringement was sufficient to impose contributory liability. *Id.* at 1021.

59. *Id.* at 1020 n.5–1021.

60. *Id.* at 1022 (quoting *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996)).

Next, the Ninth Circuit analyzed plaintiff's vicarious infringement claim. As to the first element, whether Napster received a direct financial benefit from its users' infringing activities, the Ninth Circuit reasoned that even though Napster had not yet received any revenue, its "future revenue directly depend[ed] on 'increases in its user base'" and, thus, on the amount of infringing activity.⁶¹ Finally, in assessing whether Napster had the right and the "ability to supervise its users' [infringing activities]," the court held that Napster had both the ability to terminate its infringing users' accounts, as well as block access to infringing content.⁶² It then concluded that "[t]urning a blind eye to detectable acts of infringement for the sake of profit gives rise to liability."⁶³ Therefore, the Ninth Circuit interpreted *Sony* to mean that a defendant could be liable for contributory infringement if it "knew or had reason to know" of infringing activities of its technology's users.⁶⁴

In *Aimster Copyright Litigation*,⁶⁵ owners of popular copyrighted music sued John Deep and his corporation, alleging that Deep's "'Aimster' Internet service" contributorily and vicariously infringed their copyrights.⁶⁶ Like Napster, Aimster facilitated the swapping of digitally encoded copyrighted music through its P2P file-sharing software.⁶⁷ Aimster users relied on America Online's ("AOL") Instant Messenger service ("AIM") to exchange music files.⁶⁸ To connect to chat rooms that enabled such file-sharing, users first downloaded Aimster's software.⁶⁹

The Seventh Circuit applied *Sony* and held that the recording industry would likely prevail on its contributory infringement claims, and affirmed the preliminary injunction against Aimster.⁷⁰ The court rejected defendants' argument that it was immune from liability under *Sony* because it lacked actual knowledge of direct infringement, finding that "[w]illful blindness" constituted such knowledge in copyright law.⁷¹ The court reasoned that Aimster not only had knowledge but also assisted in infringement and financially benefited as a result.⁷²

61. *Id.* at 1023 (quoting *A&M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 902 (N.D. Cal. 2000), *aff'd*, 284 F.3d 1091 (9th Cir. 2002)).

62. *Id.*

63. *Id.* (citing *Fonovisa*, 76 F.3d at 261).

64. *Id.* at 1021-22.

65. 334 F.3d 643 (7th Cir. 2003).

66. *Id.* at 645.

67. *Id.* Aimster provides its users with (a) free "proprietary software," which users can use to download copyrighted files; (b) a "server [that] collects and organizes information obtained from the users but does not make copies of swapped files;" and (c) "Club Aimster" that users can join to swap "top 40" songs. *Id.* at 646 (quotations in the original). Similar to Napster, Aimster provides a "Search For" feature that allows a particular user to search through the files of other users on the network to locate the desired music and either download it on to his or her computer or copy it onto a CD. *Id.*

68. *Id.* at 646.

69. *In re Aimster Copyright Litig.*, 334 F.3d 643, 646 (7th Cir. 2003), *cert. denied sub nom.*, *Deep v. Recording Indus. Ass'n of Am., Inc.*, 540 U.S. 1107 (2004), *reh'g denied*, 543 U.S. 1180 (2005).

70. *Id.* at 651.

71. *Aimster*, 334 F.3d at 650.

72. *Id.* at 652.

After concluding that plaintiffs made a sufficient showing of infringing activity, the court shifted the burden to Aimster to demonstrate that its service had “substantial noninfringing uses.”⁷³ The court also “qualified just how likely a user [was] to use Aimster service in [a] non-infringing manner,” thereby adding “a new requirement” that was absent from *Sony*.⁷⁴ Because Aimster failed to produce any evidence of noninfringing use of its services, the court found it could not rely on *Sony*’s staple-article of commerce safe-harbor as a defense to contributory infringement.⁷⁵ The court discussed a number of potential noninfringing uses of Aimster but dismissed them because Aimster failed to present evidence that anyone utilized its software in those ways.⁷⁶

Although the Seventh and Ninth Circuits ultimately reached the same result, both holding technology providers liable for facilitating copyright infringement, both courts are split over their interpretations of the standard of liability for aiding copyright infringement. Specifically, the circuits diverged in their interpretations of what constituted “substantial noninfringing use,” as well as the evidentiary requirements the defendants would have to meet to gain protection as a staple-article of commerce. The confusion among the circuits prompted the Supreme Court to revisit *Sony*’s old standard and develop an alternative theory of secondary liability that more effectively addresses these novel issues in copyright law.

III. THE COURT’S REASONING

In *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*,⁷⁷ the Supreme Court, in a unanimous decision delivered by Justice Souter, held that “one who distributes a device with the object of promoting use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”⁷⁸ Before applying its newly adopted active inducement standard to the facts of the instant case, the Court addressed the applicability of the contributory and vicarious liability doctrines that guided the district court and the Ninth Circuit decisions.⁷⁹ The Court reaffirmed that although the Copyright Act does not specifically provide for secondary liability, the common law doctrines of contributory and vicarious infringement are well-settled in the law.⁸⁰ The Court found that given the magnitude of infringing activity and the impracti-

73. *Id.*

74. Sally L. Parker, *The Past, Present, and Future of Protecting One’s Copyright in the Digital Age*, 5 CHI.-KENT J. INTELL. PROP. 28, 42 (2005).

75. *Aimster*, 334 F.3d at 653.

76. *Id.* at 652–53.

77. 125 S. Ct. 2764 (2005).

78. *Id.* at 2780.

79. *Id.* at 2774–75.

80. *Id.* at 2776. “One infringes contributorily by intentionally inducing or encouraging direct infringement, and . . . vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.” *Id.* (citations omitted).

cability of enforcing copyright holders' rights against each individual direct infringer, "[t]he argument for imposing indirect liability in this case" is particularly compelling.⁸¹

The Court then turned to *Sony*, its most recent precedent on secondary liability for copyright infringement.⁸² It noted that there was no evidence in *Sony* that the manufacturer had expressed an objective to facilitate copyright infringement through use of its VTRs or took any affirmative steps to increase profits through unlawful uses of its product.⁸³ Therefore, the Court held that where a case, like *Grokster*, presents evidence of intent or specific conduct "directed to promoting infringement," nothing in *Sony* would preclude liability.⁸⁴ Moreover, the Court reasoned that the Ninth Circuit erroneously expanded *Sony* by holding that distributors whose product was "capable of substantial lawful use," could "*never* be held contributorily liable" for the infringing acts of their users.⁸⁵ Likewise, the Court found that the lower courts ignored all the evidence of the defendants' intent to cause infringement.⁸⁶

After addressing the gaps in the Ninth Circuit's application of *Sony*, the Court adopted Patent Law's active inducement theory of indirect infringement, codified in 35 U.S.C. § 271(b) and adopted in numerous cases, which states that "[e]vidence of 'active steps . . . taken to encourage direct infringement,' such as advertising an infringing use . . . show an affirmative intent that the product be used to infringe."⁸⁷ The Court noted that not all acts constitute evidence of intent to actively induce infringement.⁸⁸ As in *Sony*, the Court here reasoned that "mere knowledge" of potential or actual infringement would not be enough to impose secondary liability, and neither would "ordinary acts incident to product distribution, such as offering customers technical support."⁸⁹

The Court concluded that liability for inducement would only arise when there was evidence of "purposeful, culpable expression and conduct."⁹⁰ Applying its newly adopted inducement standard to the facts of the instant case, the Court highlighted several factors probative of defendants' intent to induce copyright infringement.⁹¹ First, it found that each defendant promoted itself as a Napster substitute and made its software compatible with Napster's in order to capture Napster's market share.⁹² Second, the Court observed that neither defendant tried to devise "fil-

81. *Id.*

82. *Id.* at 2776-77.

83. *Grokster*, 125 S. Ct. at 2777.

84. *Id.* at 2779.

85. *Id.* at 2778 (emphasis added).

86. *Id.*

87. *Id.* at 2779 (internal citation omitted).

88. *Id.* at 2780.

89. *Id.*

90. *Id.*

91. *Id.* at 2781.

92. *Id.*

tering tools or other mechanisms” to reduce further infringement.⁹³ Lastly, it noted that both Grokster and StreamCast designed their business models in such a way that their revenue from advertising sales was directly linked to the volume of infringing uses.⁹⁴ Based on these factors, the Court found that Grokster’s and StreamCast’s “unlawful objective [was] unmistakable.”⁹⁵ Therefore, the Court concluded that defendants’ unlawful intent coupled with their efforts to facilitate and encourage copyright infringement could render them indirectly liable for copyright infringement.⁹⁶ The Court then reversed the Ninth Circuit’s decision and remanded the case for reconsideration of plaintiff’s motion for summary judgment considering its newly adopted active inducement theory.⁹⁷

Justice Ginsburg, joined by Justices Rehnquist and Kennedy, wrote a concurring opinion and agreed with the Court’s decision to vacate the Ninth Circuit’s decision, finding that it “misapplied” *Sony*.⁹⁸ Justice Ginsburg, however, emphasized the need for a stricter interpretation of *Sony*, which would require defendants to produce concrete evidence of “substantial noninfringing uses” to escape liability under *Sony*.⁹⁹ In criticizing the lower courts’ reliance on “anecdotal” and hearsay evidence to support their conclusions, Justice Ginsburg reasoned that the record failed to support the defendants’ proposition that their software had “substantial noninfringing uses” and, thus, was immune from liability under *Sony*.¹⁰⁰ Instead, the record clearly demonstrated that Grokster’s and StreamCast’s software was used overwhelmingly for infringing purposes.¹⁰¹

Justice Breyer, joined by Justices Stevens and O’Connor,¹⁰² also concurred with the Court’s ruling that a distributor, whose technology is capable of both lawful and unlawful uses, could be liable if it actively promoted infringement.¹⁰³ Addition-

93. *Id.*

94. *Id.* at 2781–82.

95. *Id.* at 2782. In adopting a new standard, the Court did not overrule or modify the *Sony* decision. Instead, the Court distinguished this case from *Sony* because the evidence in each case offered “a different basis of liability.” *Id.* at 2782. The Court reasoned that *Sony* was a case where there was no evidence of wrongful intent or inducement, and therefore it did not provide a safe-harbor for defendants who had acted with an improper purpose. *Id.* Justice Souter added that because of the substantial evidence in MGM’s favor on “all elements of inducement,” summary judgment in favor of the defendants was inappropriate. *Id.*

96. *Id.* at 2781–82.

97. *Id.*

98. *Id.* at 2783. (Ginsburg, J., joined by Rehnquist and Kennedy, JJ., concurring).

99. *Id.* at 2786. Justice Ginsburg argued that there was a “genuine issue as to [a] material fact” not only with respect to Grokster’s and StreamCast’s liability under the active inducement theory but also for contributory infringement, and therefore summary judgment in favor of the defendants was inappropriate. *Id.* at 2783 (quotation in the original).

100. *Id.* at 2785–86.

101. *Id.* at 2786. Justice Ginsburg concluded that “[i]f, on remand, the case is not resolved . . . in favor of MGM” on the premises of active inducement, then the District Court should revisit the record and “reconsider . . . its interpretation of *Sony*[.]” *Id.* at 2787.

102. *Id.* (Breyer, J., joined by Stevens and O’Connor, JJ., concurring).

103. *Id.*

ally, Justice Breyer supported the Court's decision not to "revisit" *Sony*.¹⁰⁴ Justice Breyer wrote separately, however, to emphasize his disagreement with the other concurring Justices that the Ninth Circuit's decision to grant summary judgment in favor of defendants on the basis of *Sony* lacked "adequate legal support."¹⁰⁵ The Justice reasoned that "[w]hen measured against *Sony's* underlying evidence and analysis," the record in this case clearly demonstrates that defendants' software passed muster under *Sony* because it was "capable of substantial . . . noninfringing uses."¹⁰⁶ In rejecting Justice Ginsburg's proposition to modify the *Sony* standard, Justice Breyer found it unnecessary to impose a heavier evidentiary burden on the defendants.¹⁰⁷ The Justice also reasoned that such an alteration would undercut the protection *Sony* affords to inventors and entrepreneurs.¹⁰⁸

IV. ANALYSIS

A. *Why Doesn't Sony Always Help? A Circuit Split Warrants the Supreme Court's Clarification*

Applying *Sony* to factually similar cases, the Ninth Circuit's *Grokster* and the Seventh Circuit's *Aimster* decisions rendered divergent results. The Ninth Circuit in *Grokster* held that P2P file-sharing software distributors, Grokster and StreamCast, were not contributorily or vicariously liable for their users' acts of direct infringement because their products were capable of substantial noninfringing uses.¹⁰⁹ The Ninth Circuit placed the burden of proving that Grokster and StreamCast had "reasonable knowledge of specific infringement" on copyright holders, and concluded that "constructive knowledge" could not be imputed to the software distributors.¹¹⁰ The Seventh Circuit in *Aimster*, on the other hand, shifted the burden of showing actual instances of noninfringing uses to the defendants.¹¹¹ Whereas the Seventh Circuit focused on the *probability* of noninfringing uses,¹¹² the Ninth Circuit fo-

104. *Id.* (quotations in the original).

105. *Id.*

106. *Id.* at 2788–89. Justice Breyer argued that as in *Sony*, the evidence in this case was mainly based on generalized declarations of witnesses, which included statements of copyright owners who had authorized distribution of their works using the defendants' software. *Id.* at 2789. Additionally, Justice Breyer reasoned that there was "a significant future market for noninfringing uses of Grokster-type [P2P] software." *Id.* at 2789.

107. *Id.* at 2791.

108. *Id.* at 2792. Justice Breyer concluded that, in its present form, *Sony* properly balanced copyright holders' right for "effective . . . protection of the[ir] statutory monopoly" and the interests of technology developers and the society in free flow of information. *Id.* at 2791. Justice Breyer found that the standard in *Sony* was "dear," "strongly technology protecting," "forward looking," and "mindful of the limitations" imposed on judges in matters concerning technological development. *Id.* at 2791–92.

109. *Grokster*, 380 F.3d at 1160.

110. *Id.* at 1162.

111. *Aimster*, 334 F.3d at 651.

112. Pope, *supra* note 41, at 17.

cused on the *capability* of substantial noninfringing uses.¹¹³ The disagreement among the Circuits shows that *Sony* was either unclear, or outdated, or both.¹¹⁴

Although the newly adopted intent-based standard more keenly addresses the current technological landscape and better fits the factual scenario of *Grokster*, the Court should have nonetheless clarified *Sony* and resolved the circuit split. The *Grokster* decision presented “unmistakable”¹¹⁵ evidence of the defendants’ intent to cause infringement. If a similar case arises in the future where copyright holders could produce evidence of wrongful intent, it would make sense that plaintiffs should be able to bypass traditional secondary liability standards (i.e., contributory and vicarious infringement) and proceed directly under the active inducement theory.¹¹⁶ If, however, copyright holders are unable to make a clear showing of intent, and decide to proceed under the theory of contributory infringement, courts will likely apply the *Sony* standard. In doing so, courts will need to determine whether a defendant’s technology is a staple-article of commerce in order to gain the protection of *Sony*’s safe-harbor. The *Grokster* decision, however, offers no guidance to lower courts as to how the staple-article of commerce safe-harbor should be applied in the context of newly emerging technology. Courts will still continue to grapple with “how much [actual or potential] use” is substantially noninfringing, and whether to focus on the mere *capability* of noninfringing uses or the probability of such uses.¹¹⁷ Given the unresolved ambiguities still surrounding *Sony*, courts are likely to steer away from applying *Sony* and, where possible, apply the active inducement standard instead.

The Court, nevertheless, was correct not to apply *Sony* to the instant case and to adopt a new liability standard, because both the underlying technology and the product distributors’ behavior in *Grokster* and *Aimster* markedly differed from that in *Sony*. Moreover, the P2P networks are decentralized in nature, therefore, when infringement occurs using this technology, copyright holders face the challenging task of identifying the perpetrators and obtaining redress.¹¹⁸

Although, under *Sony*’s holding, copyright holders could initiate actions against technology developers for indirect infringement, the developers could avoid liability by showing that their technology is *capable* of “substantial noninfringing uses” and that they lack knowledge of specific infringing conduct. Under the Court’s

113. Parker, *supra* note 74, at 43.

114. See John Tehranian, *The High Court in Cyberspace: MGM v. Grokster, Digital Copyright and Secondary Infringement Theories*, 47 ORANGE COUNTY LAW. 22, 25 (2005) (proposing that the Supreme Court “clarify . . . the level of noninfringing use [required] to shield companies from secondary copyright liability” under the *Sony* standard).

115. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, 125 S. Ct. 2764, 2782 (2005).

116. William Sloan Coats et al., *Pre- and Post-Grokster Copyright Infringement Liability for Secondary and Tertiary Parties*, 842 PRACTICING L. INST. 221, 244 (2005).

117. Pope, *supra* note 41, at 25, 29.

118. Stephen W. Feingold et al., *Secondary Liability After MGM v. Grokster*, 13 METROPOLITAN CORP. COUNS. 1, 12 (Sept. 2005).

newly adopted active inducement theory, however, liability can still attach if technology developers take active steps to encourage infringement. Therefore, the Court's new standard no longer allows alleged indirect infringers "to turn a blind eye" to their technology's infringing uses.¹¹⁹ Also, technology developers cannot claim that they lacked the ability to control their network's content when such "inability stem[med] [from their] willful desire to divest [themselves] of such control."¹²⁰ Although there is no guarantee that copyright holders will prevail, *Grokster* provides all copyright holders additional means for seeking redress for violations of their copyrights.

B. The New Standard Does Not Place an Undue Burden on Technological Innovation

The fear raised by some that *Grokster* imposes an undue burden on technological development, or discourages the dissemination of information, lacks merit.¹²¹ In reaching its decision, the *Grokster* Court remained "mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential."¹²² The Court did not focus on the legality of the P2P networks but rather on the intent and conduct of the defendants.¹²³ Finding the defendants' intent "unmistakable,"¹²⁴ the Court reasoned that such wrongful intent combined with defendants' unlawful conduct could make defendants liable. Thus, the Court appropriately placed the blame on the malicious conduct of technology developers rather than on the technology itself. Moreover, the *Grokster* decision preserved Sony's safe-harbor applied to technologies with "substantial noninfringing uses."¹²⁵

Under *Grokster*, "businesses [can] continue to develop new technologies" provided they do not encourage their users to violate the copyright law.¹²⁶ Therefore, it is reasonable to infer from *Grokster* that P2P file-sharing software and similar technologies remain perfectly legal. This is a legitimate finding because, as the Court pointed out, file-sharing technologies can and have been used for legitimate, non-infringing purposes. For example, universities, business, and government entities use P2P file-sharing software for added efficiency and "a more stable platform on which information can be shared [without being susceptible] to the types of attacks that a centralized server faces."¹²⁷

119. Pope, *supra* note 41, at 30.

120. Tehranian, *supra* note 114, at 26.

121. Parker, *supra* note 74, at 45 (suggesting that the *Grokster* decision unduly attacks technology creators and "slows innovation" instead of solving piracy problems).

122. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, 125 S. Ct. 2764, 2780 (2005).

123. Feingold et al., *supra* note 118.

124. *Grokster*, 125 S. Ct. at 2782.

125. Feingold et al., *supra* note 118.

126. *Id.*

127. Parker, *supra* note 74, at 43.

Additionally, P2P file-sharing software provides a “platform” for users to engage in free speech and dissemination of ideas.¹²⁸ As in *Sony*, here the Court was unwilling to allow copyright holders to prevent infringement at the expense of denying noninfringing users the benefits of new technologies.¹²⁹ By punishing “bad actors like Grokster and StreamCast”¹³⁰ for their intentional wrongful conduct rather than focusing on the legality of the technology, the Court provided requisite redress to copyright holders while, concurrently, avoiding undue interference with vital technological development.

C. The Newly Adopted Active Inducement Standard Provides Clearer Guidance to the Lower Courts

The active inducement standard provides clearer guidance to the lower courts than *Sony* as the courts attempt to determine liability for indirect copyright infringement in the context of P2P file-sharing technologies. Unlike the vague *Sony* standard that created confusion among the courts, the *Grokster* holding requires plaintiffs to prove two specific elements, (1) direct infringement, and (2) intent to induce such infringement, in order to recover under the active inducement theory.¹³¹ Although the Court does not specifically define what constitutes bad intent, it provides a factor-based approach that lower courts can use to determine bad intent.¹³² This approach is particularly effective as it allows courts to weigh factors differently as the facts of each case change. Therefore, the Court’s holding can be applied to other cases involving inducement, and is not narrowly tailored to the facts of this case.

D. Future Implications Post-Grokster

Since the Supreme Court’s pronouncement of *Grokster*, many legal scholars are eager to know the role the decision will play in future indirect copyright infringement cases, especially those involving file-sharing technology.¹³³ Given the questions that remain unresolved after the *Grokster* decision, like those regarding the proper interpretation and application of *Sony*, future plaintiffs are likely to first proceed under the active inducement theory and, alternatively, plead contributory copyright infringement. To establish liability under the active inducement theory, plaintiffs must prove that: (1) the defendant took “active steps” with intent to cause infringement, and (2) the users of defendants’ technology did in fact engage in

128. *Id.* at 44.

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

130. Coats et al., *supra* note 116, at 243.

131. *Grokster*, 125 S. Ct. at 2779–80.

132. Coats et al., *supra* note 116, at 243.

133. See Mark F. Schultz, *Will BitTorrent Go the Way of Grokster?*, 2 SCI. TECH. LAW. 4 (2006) (discussing the implications of *Grokster* on the next-generation file sharing programs). See also Coats, *supra* note 115, at 242–46 (addressing the unresolved questions that remain after *Grokster* and *Grokster*’s implication for contributory and vicarious infringement).

MGM v. GROKSTER

infringing activity.¹³⁴ In cases involving P2P technology, as is typically the case, proving intent will be the more difficult of the two elements.¹³⁵ However, since intent can be established through circumstantial evidence, copyright holders with legitimate infringement claims will most likely be able to meet this requirement by showing that the conduct and activities of the alleged infringers in developing and marketing their technology would rise to the level of active inducement. Courts will then need to examine the alleged infringers' business models, marketing and promotional strategy, willingness and capability of installing filtering and monitoring mechanisms, and other affirmative conduct, in order to determine whether sufficient evidence of wrongful intent exists. Although it is currently unclear as to how many of these factors must be present for a court to find wrongful intent, one may reasonably conclude that the more closely an alleged infringer's behavior resembles that of *Grokster* and *StreamCast*, the more likely a court is to find liability under the active inducement standard.

This is not to say, however, that *Grokster* favors copyright holders or offers them an automatic victory. In fact, some might argue that *Grokster* makes it more onerous for copyright holders to obtain redress because it requires them to conduct more extensive discovery and incur greater legal expenses in order to successfully prove intent.¹³⁶ While *Grokster* may appear unreasonably burdensome at first, it actually benefits all parties involved. By setting the burden of proof higher and requiring copyright holders to prove intent, *Grokster* will likely deter frivolous claims that would unduly interfere with the innovation process. The newly adopted standard also favors copyright holders because it offers clearer guidelines for those with legitimate claims to seek a legal remedy when their rights are violated. Therefore, in contrast to what some scholars may argue, *Grokster* successfully maintains a delicate balance between innovation and copyright protection.

V. CONCLUSION

Grokster's message could not be any louder or clearer: innovators should continue to develop new technologies but they must do so with a lawful intent. In devising a new standard for liability, the Court in *Grokster* provided an alternative mechanism under which copyright holders could seek redress against technology developers and distributors that infringed on their intellectual property rights by proving unlawful intent. The new standard appropriately focuses on the infringers' conduct and intent rather than the technology itself. Thus, the Court appropriately pre-

134. *Grokster*, 125 S. Ct. at 2781–82. See *Manville Sales Corp. v. Paramount Sys., Inc.*, 917 F.2d 544, 553 (Fed. Cir. 1990) (discussing the active inducement theory of liability as applied in patent law). See also *Hewlett-Packard*, 909 F.2d at 1468.

135. Coats et al., *supra* note 116, at 243; Feingold, *supra* note 118.

136. Feingold et al., *supra* note 118 (suggesting that "*Grokster* actually raised the bar for secondary liability.").

KRISTINE GRIGORIAN

serves the balance advanced in *Sony*, of ensuring protection for copyright holders while avoiding unnecessary intrusion into technological innovation.