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# MGM v. Grokster: Multimillion-Dollar Questions That the Supreme Court Did Not Answer

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On June 27, 2005, the U.S. Supreme Court issued its long-awaited decision about copyright law, digital music downloads, and peer-to-peer file-sharing software in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*<sup>1</sup> Writing for a unanimous court in vacating the Ninth Circuit's decision, Justice Souter stated:

We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.<sup>2</sup>

The decision was the subject of intense media speculation and a flurry of *amici* briefs. Industry leaders and pundits on both sides of the Hollywood-versus-Silicon Valley debate eagerly awaited the court's guidance; would *Sony Corporation of America v. Universal City Studios, Inc.*,<sup>3</sup> the landmark copyright case, continue to protect manufacturers of "staple articles of commerce" from secondary copyright liability for making products that could be used to infringe? *Sony*, which shields such manufacturers so long as their devices are "capable of substantial non-infringing uses," was the principal basis for the Ninth Circuit's decision to affirm the district court's grant of summary judgment that found software manufacturers Grokster and StreamCast Networks not liable for copyright infringement.

Unfortunately for both camps, the Supreme Court failed to resolve the main question left unresolved in *Sony* and its progeny: What constitutes a "substantial" or a "commercially significant" non-infringing use? Instead, the court reversed the Ninth Circuit on the intent aspect of secondary copyright liability. The court opined that, if a copyright owner can demonstrate a technology vendor's clear intent to induce infringing use of its product, the vendor may not invoke the *Sony* defense, even if its products are capable of "substantial" or "commercially significant" noninfringing uses.

As a result, technology vendors should now take a close look at their advertising, their customer service practices, and, in some cases, their business models to protect themselves against a potential new wave of copyright litigation driven by the *Grokster*-energized music and entertainment industries. Provided that technology companies avoid "clearly expressing" an intent to induce their customer's copyright infringement, the *Grokster* decision theoretically should not deter development of new technologies that may be used to infringe copyright. Nevertheless, because *Grokster* left unanswered questions about what constitutes a protected "substantial" noninfringing use, some companies may continue to face uncertainty about their exposure to liability for illegal uses of their technology, potentially chilling development of new and beneficial products and services.

## The Case Below

Twenty-eight of the largest entertainment companies in the world sued software manufacturers Grokster, Ltd., and StreamCast Networks, Inc., seeking to hold those companies liable for the copyright infringement of the users of their respective software programs. Grokster and StreamCast had distributed free software programs that allowed computer users to share electronic files through peer-to-peer networks. These software programs enabled users' computers to communicate directly with one another and to locate and download any type of computer file, including text files, software programs, and, most notably, music and video files. Although the software programs could be used to share any type of digital file, Grokster and StreamCast conceded that much of their users' activities consisted of uploading and downloading copyrighted digital music files.

The software manufacturers moved to dismiss the plaintiffs' claims, pointing out that their software was capable of use that was not infringing, for example, the trading of personal digital files like home videos, free music files, promotional files donated to the public domain, as well as non-copyrighted or public domain works on which the copyright term has expired. Thus, under *Sony*, because the software was capable of such non-infringing uses, they were immunized from li-

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ability for infringements by users of their software. Grokster and StreamCast argued that, unlike highly centralized networks (e.g., Napster), they were merely software vendors that, after delivering their free software to the public, had no ability thereafter to control a user's access to the software or what the user chose to share. Therefore, even if they knew that their software users were trading files illegally, they had no power to do anything about it. Absent any ability to control the software or the user, they could not be held vicariously liable for subsequent infringements committed by the users of the software.

The US District Court for the Central District of California granted summary judgment for StreamCast and Grokster, but did not directly address the substantial-noninfringing-use standard of *Sony*. Instead, the district court reasoned that the:

[d]efendants distribute and support software, the users of which can and do choose to employ it for both lawful and unlawful ends. Grokster and StreamCast are not significantly different from companies that sell home video recorders or copy machines, both of which can be and are used to infringe copyrights. While Defendants, like Sony or Xerox, may know that their products will be used illegally by some (or even many) users, and may provide support services and refinements that indirectly support such use, liability for contributory infringement does not lie "merely because peer-to-peer file-sharing technology may be used to infringe plaintiffs' copyrights."<sup>4</sup>

On the issue of vicarious liability, the court opined:

While the parties dispute what Defendants feasibly could do to alter their software, here, unlike in *Napster*, there is no admissible evidence before the Court indicating that Defendants have the ability to supervise and control the infringing conduct (all of which occurs after the product has passed to end-users). The doctrine of vicarious infringement does not contemplate liability based upon the fact that a product could be made such that it is less susceptible to unlawful use, where no control over the user of the product exists.<sup>5</sup>

In reaching this conclusion, the district court recognized that StreamCast and Grokster may have been aware of the likelihood of infringing uses by their software, but the court chose to exercise restraint and defer to Congress to provide a studied legislative foundation to redress the plaintiffs' claims:

The Court is not blind to the possibility that Defendants may have intentionally structured their businesses to avoid secondary liability for copyright infringement, while benefiting financially from the illicit draw of their wares. While the Court need not decide whether steps could be taken to reduce the susceptibility of such software to unlawful use, assuming such steps could be taken, additional legislative guidance may be well-counseled. To justify a judicial remedy, however, Plaintiffs invite this Court to expand existing copyright law beyond its well-drawn boundaries. As the Supreme Court has observed, courts must tread lightly in circumstances such as these:

"The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme. Sound policy, as well as history, supports our consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the raised permutations of competing interests that are inevitably implicated by such new technology. In a case like this, in which Congress has not plainly marked our course, we must be circumspect in construing the scope of rights created by a legislative enactment which never calculated such a calculus of interests."<sup>6</sup>

However, in ruling in favor of StreamCast and Grokster, the district court specifically limited its ruling to the questions presented by the parties, that is, did the then-current versions of StreamCast and Grokster's peer-to-peer software provide a basis for secondary liability for infringement by software users? In ruling for the defendants, the court stated:

Because Plaintiffs principally seek prospective injunctive relief, the Court at this time considers *only whether the current versions of Grokster's and StreamCast's products and services subject either party to liability*. This Order does not reach the question whether either Defendant is liable for damages arising from past versions of their software, or from other past activities. Additionally, it is important to reiterate that the instant motions concern only the software operated by Defendants StreamCast (the Morpheus software) and Grokster (the Grokster software). Defendant Sharman Networks, proprietor of the Kazaa.com

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website and Kazaa Media Desktop, is not a party to these Motions. Accordingly, the Court offers no opinion in this Order as to Sharman's potential liability.<sup>7</sup>

Thus, the court acknowledged that its ruling was based upon only the specific versions of software then used by the moving defendants.<sup>8</sup> The record does not reflect the complete history of the software versions, but discovery revealed that Grokster was, at the time of the motions, based upon the proprietary FastTrack software licensed by Sharman Networks and sharing a common base of users with the popular KaZaa software. By contrast, StreamCast's Morpheus software was then based upon the less popular Gnutella open source protocol, common to programs such as Limewire, Hotline, and Carracho.<sup>9</sup>

The Ninth Circuit Court agreed with the district court, reasoning that, in the face of rapidly developing technologies, courts should exercise restraint in imposing secondary liability for illegal uses of new technologies, concluding:

As to the question at hand, the district court's grant of partial summary judgment to [Grokster and StreamCast] is clearly dictated by applicable precedent. The Copyright Owners urge a re-examination of the law in the light of what they believe to be proper public policy, expanding exponentially the reach of the doctrines of contributory and vicarious copyright infringement. Not only would such a renovation conflict with binding precedent, it would be unwise. Doubtless, taking that step would satisfy the Copyright Owners' immediate economic aims. However, it would also alter general copyright law in profound ways with unknown ultimate consequences outside the present context.

Further, as we have observed, we live in a quicksilver technological environment with courts ill-suited to fix the flow of internet innovation. The introduction of new technology is always disruptive to old markets, and particularly to those copyright owners whose works are sold through well established distribution mechanisms. Yet, history has shown that time and market forces often provide equilibrium in balancing interests, whether the new technology be a player piano, a copier, a tape recorder, a video recorder, a personal computer, a karaoke machine, or an MP3 player. Thus, it is prudent for courts to exercise caution before restructuring liability theories for the pur-

pose of addressing specific market abuses, despite their apparent present magnitude.

Indeed, the Supreme Court has admonished us to leave such matters to Congress. In *Sony-Betamax*, the Court spoke quite clearly about the role of Congress in applying copyright law to new technologies. As the Supreme Court stated in that case, "The direction of Art. I is that Congress shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress."<sup>10</sup>

The Ninth Circuit's opinion also echoed the district court's observation that the scope of the ruling on the defendants' motions for summary adjudication was limited, stating that:

[r]esolution of these issues does not end the case. As the district court clearly stated, its decision was limited to the specific software in use at the time of the district court decision. The Copyright Owners have also sought relief based on previous versions of the software, which contain significant—and perhaps crucial—differences from the software at issue. We express no opinion as to those issues.<sup>11</sup>

In short, both the district court and the Ninth Circuit recognized that the software-manufacturer defendants presented a limited question on summary adjudication as to whether the then-current versions of their software could subject them to liability based upon infringements by software users. Unequivocally, both courts agreed that copyright law did not currently authorize such an extension of liability to such technology providers.

### **The Supreme Court Opinion**

The US Supreme Court analyzed the question very differently. The Supreme Court vacated and remanded the Ninth Circuit's opinion that the defendants were entitled to summary judgment of non-infringement. While the court indicated that *Sony* is still-viable law, it determined that the Ninth Circuit's reading of *Sony* was too broad:

The Ninth Circuit has read *Sony's* limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for the third parties' infringing use of it; it read the rule as being this broad,

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even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had specific knowledge of infringement at a time at which they contributed to the infringement, and failed to act upon that information.

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This view of *Sony*, however, was error, converting the case from one about liability resting on imputed intent, to one about liability on any theory.<sup>12</sup>

Instead, the Supreme Court explained that:

*Sony's* rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from common law.<sup>13</sup>

Notably, the majority did not further address the scope of *Sony*; in fact, it reversed the Ninth Circuit without further reliance upon or reference to *Sony*.

Instead, the Supreme Court refocused on the defendants' intent in distributing their software products. The court determined that unlike *Sony*, which according to the court, sold the Betamax recorder to the general public without commentary on how the machine could be used,<sup>14</sup> the record was "replete" with evidence that the *Grokster* defendants "acted with a purpose to cause copyright violations by use of software suitable for illegal use."<sup>15</sup>

The Supreme Court discussed three salient hallmarks of that intent.

First, the court found evidence that each defendant showed itself aiming to satisfy a known demand for tools which could be used to infringe plaintiffs' copyrights (i.e., the former users of the now-infamous (pre-Roxio<sup>16</sup>) Napster file-sharing service). This was shown by the facts that (1) the defendants' "internal documents make constant reference to Napster"; (2) some of defendants' software was distributed through a Napster-compatible program (the legacy OpenNap software, the legality of which was not before the Court) to the community of Napster users; (3) the design of defendant StreamCast's advertising campaigns, containing messages like "When the lights went off at Napster . . . where did the users go?";<sup>17</sup> and, surprisingly, (4) the fact that the name *Grokster* evokes (because the court assumed it to be derived from) the name *Napster*.

Second, the Supreme Court pointed out that neither of the defendants "attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software." Below, the Ninth Circuit had treated the defendants' decision not to try to filter out copyrighted content as irrelevant because the defendants did not have an independent duty to do so. However, the Supreme Court reasoned that, where there is other evidence of an intent to induce infringement, the decision not to develop filtering technology "underscores [defendants'] intentional facilitation of their users' infringement." Thus, technology developers face a surprising and potentially troubling result: A developer's failure to independently develop and implement copyright-infringement thwarting mechanisms in those products capable of being used as infringement tools may be used against the vendor, and a court may infer the developer's complicity in infringing uses of the product.

Third, the Supreme Court noted that the defendants made money by selling space for ads directed to the software user's computer screens (i.e., the defendants sold banner ads). Because such ad-related profits increased when software users increased, the Supreme Court reasoned that the defendants had an incentive to spread their software to the greatest number of users possible. Because a large number of users of the defendants' software infringed music copyrights, the court inferred that the defendants thereby sought to induce the infringement itself.

Based on this analysis, the Supreme Court concluded that the defendants' "unlawful objective is unmistakable" and remanded the case with the comment that "reconsideration of MGM's motion for summary judgment [of infringement] will be in order."<sup>18</sup>

### What Was Not Decided

The unanimous decision did not resolve what is perhaps the most interesting and potentially wide-ranging question: the *Sony* issue of what constitutes "substantial" non-infringing uses. The two concurring opinions engaged in a spirited written debate on this issue, a debate that may have the greater impact on a wide variety of technology companies. The concurrences propose very different treatments of a critical defense that has protected technology companies from secondary copyright-infringement liability for at least the past 20 years.

Under the substantial-noninfringing-use defense first adopted in the 1984 *Sony* case, a technology company that makes a product that can be used to infringe copyright cannot be held liable for such infringements if that the product has "substantial noninfringing uses."

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Previous cases have found that products that are used for infringing purposes as much as 90 percent of the time are nevertheless protected by the *Sony* doctrine because the 10 percent noninfringing use is “substantial.”

Adapted from patent law, the substantial-non-infringing-use doctrine has protected companies both large and small, ensuring that emerging technologies that can initially be used to infringe copyrights (e.g., Sony’s Betamax video recorder) are not terminated in their nascency but are permitted to survive long enough to develop non-infringing uses that may eventually inure to the benefit of the copyright industry that originally shunned them.<sup>19</sup>

In the first concurrence, Justice Ginsberg, joined by the Chief Justice and Justice Kennedy, attacked the sufficiency of the defendants’ evidence showing that their software was capable of substantial non-infringing uses. Most significantly, the Ginsberg plurality appeared to suggest that substantial non-infringing uses should be assessed based on the current quantity of non-infringing uses, rather than on the quality of non-infringing uses (and the possibility that non-infringing uses can be developed in the future) as suggested by both the district court and the Ninth Circuit. Justice Ginsberg reasoned:

Even if the absolute number of noninfringing files copied using the Grokster and Streamcast software is large, it does not follow that the products are therefore put to substantial noninfringing uses and are thus immune from liability. The number of noninfringing copies may be reflective of, and dwarfed by, the huge total volume of files shared. Further, the District Court and Court of Appeals did not sharply distinguish between uses of Grokster’s and StreamCast’s software products (which this case is about) and uses of peer-to-peer technology generally (which this case is not about).

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Fairly appraised, the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time.<sup>20</sup>

The second concurrence, written by Justice Breyer and joined by Justices Stevens and O’Connor, opposed the view on both points. First, the Breyer concurrence compared evidence of the quantity of noninfringing uses demonstrated in the Sony record with the quan-

tity shown in the Grokster record. Justice Breyer noted that, in *Sony*, the Supreme Court had determined that approximately 9 percent of the copies made by VCR users in the early 1980s were for legitimate uses, such as time-shifting, or recording a program for personal playback at a later time. MGM’s own expert, while asserting that 75 percent of the files available through Grokster are infringing and another 15 percent are “likely infringing,” allowed that at least 10 percent of the files traded with defendants’ software were non-infringing, a figure that Justice Breyer likened to the 9 percent found to constitute “substantial” non-infringing uses in *Sony*.

Justice Breyer also took up *Sony*’s admonition that courts should address both the present and potential non-infringing future uses of any accused technology:

Importantly, Sony also used the word “capable,” asking whether the product is “capable of” substantial noninfringing uses. Its language and analysis suggest that a figure like 10%, if fixed for all time, might well prove insufficient, but that such a figure serves as an adequate foundation where there is a reasonable prospect of expanded legitimate uses over time. And its language also indicates the appropriateness of looking to potential future uses of the product to determine its “capability.”

Here the record reveals a significant future market for noninfringing use of Grokster-type peer-to-peer software. . . . As more and more uncopyrighted information is stored in swappable form, it seems a likely inference that lawful peer-to-peer sharing will become increasingly prevalent.<sup>21</sup>

Even more interestingly, the Breyer concurrence disagreed with the Ginsberg concurrence on whether the defendant itself must develop those legally significant future legitimate uses. While, as quoted above, Justice Ginsberg suggested that this case was only about the defendants’ software and not about uses of peer-to-peer technology generally, Justice Breyer wrote:

Of course, Grokster itself may not want to develop these other noninfringing uses. But *Sony*’s standard seeks to protect not the Groksters of this world (which in any event may be liable under today’s holding), but the development of technology more generally.<sup>22</sup>

Justice Breyer’s concurrence went on to explore (1) whether the Sony rule has worked to protect the emergence of new technology over the past 20 years (yes), (2) whether a modification to Sony weakens that



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protection (probably yes), and (3) whether any new or necessary copyright benefits outweigh the damage to new technology caused by a weakening of *Sony* (undecided). As a result, Justice Breyer argued that his reading of *Sony* should remain the standard to protect emerging technologies against stifling claims of secondary copyright liability. Thus, with the justices splitting on the *Sony* interpretation (three for a weakened rule, three for a continued strong rule, and three undecided), the stage is set for a future decision directly addressing the scope of the *Sony* doctrine.<sup>23</sup>

### What Happens Next?

While the decision constitutes a nominal victory for the music and movie studios, it does not sound the death knell of either peer-to-peer file sharing or, even, the *Grokster* defendants themselves. Procedurally, the Supreme Court's decision means only that StreamCast and *Grokster* now must go back to the district court and proceed toward trial. In other words, the Supreme Court's ruling allowed the entertainment industry to dodge a crippling summary judgment bullet and pry open the courtroom doors for another chance to get to a jury.

Yet, it is likely that the plaintiffs, emboldened by the ruling in their favor, will promptly move to stop StreamCast and *Grokster*, either with a motion for preliminary injunction or summary judgment, peppering their moving papers with the Supreme Court's analysis. However, whether the district court will apply the new intent test in the way urged by the Supreme Court remains to be seen. Indeed, the district court considered the very same evidence and arguments that the Supreme Court found so damning, but found such evidence insufficient to warrant a finding of liability. For example, the district court observed:

As an initial matter, the record indicates that Defendants have undertaken efforts to avoid assisting users who seek to use their software for improper purposes. More critically, technical assistance and other incidental services are not "material" to the alleged infringement. To be liable for contributory infringement, "[p]articipation in the infringement must be substantial. The authorization or assistance must bear a direct relationship to the infringing acts, and the contributory infringer must have acted in concert with the direct infringer. Here, the technical assistance was rendered after the alleged infringement took place, was routine and non-specific in nature, and, in most cases, related to use of other companies' software (e.g., third-party media player software)."<sup>24</sup>

As the ultimate trier of fact, the district court will be entitled to substantial deference by appellate courts should the district court engage in further findings of fact. Given that the district court had already considered, and dismissed, the very same facts that the Supreme Court found so persuasive, the further proceedings on this issue should be very interesting.

### What Does the Decision Mean for Technology Companies?

There is no doubt that *Grokster* gives copyright owners an advantage in the ongoing Hollywood-versus-Silicon Valley struggle between the rights of copyright holders to protect against infringement of their works and the freedom of technology companies to innovate without fear of being shuttered by an infringement lawsuit. In *Grokster*, the Supreme Court provided copyright owners with a means to hold technology companies liable for infringement committed by product-users, a means that is not subject to the *Sony* substantial-noninfringing-use defense. It is likely that copyright holders will capitalize on this second prong of liability by bringing an increasing number of lawsuits against technology developers in the coming months and years. Wielding the ability to seek discovery of their adversaries' internal discussions about marketing, potential copyright infringement, distribution models, and business plans—all of which after *Grokster* may constitute evidence of a "clear expression or other affirmative steps taken to foster infringement"—aggressive copyright holders may seek to rifle through a technology company's files in hopes of discovering some modicum of evidence reflecting awareness of or compliance in product-user infringement.

Technology industry trade groups are already predicting a chilling effect from the ruling. The Consumer Electronics Association, the nation's largest electronics trade group and organizer of the enormous Consumer Electronics Show held each year to showcase its 2,000 members' products and services, predicts dire consequences from the decision:

The immediate impact of today's ruling is twofold: massive uncertainty and the likelihood of massive legal bills. The Court has done little to provide a clear path for legitimate innovators and manufacturers to avoid lawsuits related to copyright infringement over legitimate products and services.

With this ruling the Supreme Court has handed a powerful new tool to litigious content creators to stop innovation. Innovators must now

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consider new murky legal rules and potentially overwhelming legal costs before bringing their product to market—or even moving forward with an innovative idea. It is essentially a “full employment act” for plaintiff’s attorneys and a guarantee for further lawsuits.

While the Court appears to have sought to narrowly tailor this decision to protect technological development and provide some guidance to promote innovation, the intent test established under this ruling stands as a heavy burden. Content creators may potentially find any act as an ‘infringement to induce’ and shut down a new product or service with the threat of a lawsuit. Who knows how many innovative products and services now face a premature death as the result of this ruling?

After *Grokster*, technology companies will be faced with a dilemma in developing new products or services that may be used as tools by copyright infringers. Their dilemma is whether to continue to engage in open and frank discussions of the possible uses of developing technology (including possible copyright infringement by users) and risk creating evidence of awareness and complicity or stifle that internal debate and risk destroying the creative exchange that often leads to innovative and profitable new products. The only truly safe approach may be to have *Grokster* training sessions to school marketing and customer service personnel, as well as engineers and developers, in what might or might not constitute an unlawful intent. Sadly, the *Grokster* decision may cause companies to post attorneys in every internal meeting in which major marketing or product development decisions are made that could affect a product user’s ability to infringe.

Technology companies should also consider providing training to customer service representatives. The Supreme Court found that StreamCast had “respond[ed] affirmatively to requests for help in locating and playing copyrighted materials,” which the court relied on to establish culpability. Yet, the evidence cited was merely a garden-variety communication between a user and a customer service representative about how to use the file-sharing software. Companies thus should be aware that the otherwise innocuous actions of their customer service operators could be interpreted as encouraging copyright infringement simply because they assisted a user using the product to infringe. Therefore, although it might add several expensive minutes to each customer inquiry, customer service representatives may now need to be more aware of whether a user is using a product for illegal purposes before dispensing product-use advice.

Equally troubling is the logical leap that the Supreme Court made in concluding that, by marketing to Napster users (or other users of soon-to-be-accused technology tools), a company implicitly possesses an intent that those users infringe with the company’s technology. If a technology company marketed software products and services to the 50 million Napster users, it should now be aware that such actions could be construed by courts as intending to encourage its users to infringe. While it has been said that one is judged by the company one keeps, technology companies now need to be aware that they might now be judged by the acts of those to whom they hope to sell their consumer software and electronics products.

Technology companies also should be prepared to respond to requests by copyright owners and the trade groups that represent them demanding that existing and future products be modified to thwart infringing uses. Because *Grokster*’s decision not to try to implement copyright-filtering software was one of three factors leading to the Supreme Court’s decision, the development or implementation of filtering technology may be well-counseled if feasible.

Finally, the decision should cause technology companies to take a much closer look at their advertising messages. Clever edgy ads, like Apple’s “Rip, Mix, Burn—It’s Your Music” campaign of the late-1990s, may, in and of themselves, be construed as clear expressions of intent to induce infringement.<sup>25</sup>

## Conclusion

Some have opined that the *Grokster* decision stands only for the obvious proposition that technology companies shouldn’t actively encourage users of their products to infringe copyrights. A deeper read shows that the Supreme Court established a precedent that is subject to abuse by copyright holders, which may chill development of technology or require technology developers to expend unreasonable development time and effort implementing technology to protect the copyrights of others.

Seeking perhaps to reach a result favoring copyright protection, the Supreme Court relied on precious little evidence in concluding that *Grokster* and StreamCast were “bad actors,” “intending” that users of their products infringe the copyrights of others. The court acknowledged that each individual fact relied on—a one-off customer service email, a never-used advertising slogan, failure to implement technology-based filtering mechanisms (which were, and apparently still are, unavailable), recognition that 50 million digital music fans (former Napster users) are an important marketing audience, and deriving revenue from in-

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fringing uses—when taken alone, would not support a finding of inducement. However, apparently the whole of such independent facts is far more significant than the sum of its parts, as those same facts, according to the court, “viewed in the context of the entire record,” would support a finding of inducement. Indeed, the court, perhaps recognizing the potential chilling effect of this new standard of liability, repeatedly cautioned against drawing an inference of illegal intent from the existence of any single similar fact. For example, the court hedged its analysis in footnote 12 and elsewhere, stating: “Of course, 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.”

Yet, despite the Supreme Court’s cautionary language, it seems that *Grokster* is subject to abuse by copyright holders who are now armed with a tool to force technology companies to alter or cease product development or face crippling lawsuits. Copyright holders may now inject their own interests into a company’s normal business considerations by notifying, for example, the makers of a digital .mp3 player that it must “develop” (Justice Breyer’s own expression) copyright infringement prohibiting technology, regardless of whether such technologies are available or even feasible. Facing such a threat, a development team might engage in a frank discussion of whether and to what extent their users might use the product to infringe and might (or might not) be surprised to learn that many or even most of the uses of the product involve illegal recording or transmission of copyrighted files. Combine such a product development decision with an edgy advertising campaign, which, by chance, is directed to the most likely users of the product—fans of digital music (many of whom, it has been rumored, trade files illegally online)—and you have the recipe for shuttering any technology company alive today.<sup>26</sup>

It appears that the Supreme Court is saying that, so long as a copyright holder can point to some marketing slogan, customer service involvement, internal memo, or other indicia (no matter how *de minimis*) of a subjective intent to facilitate use of a product to infringe copyright, then the simple fact that the manufacturer failed to develop filtering tools (which may, of course, be prohibitively expensive and, at any rate, likely highly ineffective) adds “significance” to the evidence of intent to induce. Given the possibility that hundreds of thousands of infringements on a given misused device would not be unreasonable, no company, no matter how large,

could withstand a worst case scenario of liability for all infringements by users of the company’s device, making any company caught in the crosshairs of an inducement lawsuit extremely vulnerable to the copyright holder’s demands. These demands could be far-reaching and include, for example, demands to design in copyright protection technology, to alter marketing messages or strategy, or to abandon a product development initiative altogether.

While one might argue that such an intrusive posture from the music and entertainment industry is not likely, consider the fact that the copyright industry has been lobbying Congress heavily for the past three years to impose *criminal penalties* on technology companies that fail to develop police-ware to stop any infringements committed using a given product and to exempt the copyright industry from liability for hacking into computers to destroy allegedly infringing files (as well as potentially a host of other data on the computer). Thus, in the eyes of a copyright industry that has itself proven to resemble the most Orwellian characters that its members have concocted in their own creative imaginations, imposing civil liability for such “crimes” would constitute but a gentle measure indeed.

## Notes

1. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, No. 04-480, 2005 U.S. LEXIS 5212 (June 27, 2005).
2. *Id.* at \*1.
3. *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).
4. *M.G.M. v. Grokster*, 259 F. Supp. 1029, 1045-1046 (C.D. CA 2003).
5. *Id.* at 1043.
6. *Id.* at 1046 (internal citations omitted).
7. *Id.* at 1033 (emphasis added).
8. Though StreamCast used the Gnutella protocol at the time that the motions were filed, it (like Grokster) had previously licensed the FastTrack protocol from Sharman Networks. Prior to FastTrack, StreamCast had distributed an open-source version of the Napster client known as OpenNap. However, StreamCast did not move for summary adjudication regarding the OpenNap system, and the district court therefore declined to rule on StreamCast’s potential liability relating to OpenNap.
9. A protocol is a common language that allows various programs to communicate with one another. In the open source Gnutella protocol, the language is open and therefore available to any programmer who wishes to create an application using the common language, meaning that anyone with sufficient programming skills to create a file-sharing program could build a Gnutella-based peer-to-peer application that is capable of joining the network of other peer-to-peer



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- file-sharing applications. By contrast, the FastTrack network used a proprietary (or closed) protocol not publicly available, meaning that only other FastTrack-speaking applications could join the FastTrack network.
10. *M.G.M. v. Grokster*, 380 F.3d 1154, 1166-1167 (9th Cir. 2004) (internal citations omitted).
  11. *Id.* at 1166.
  12. *Grokster*, No. 04-480, 2005 U.S. LEXIS 5212,\*36-37.
  13. *Id.* at \*37-38.
  14. The Supreme Court's logic is ironic because it distinguished Sony's sale of the Betamax recorder (which Universal and Walt Disney accused of facilitating copyright infringement by virtue of its ability to tape television programs) because "[t]here was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping." *Id.* at \*31-32. In fact, the industry did accuse Sony of encouraging copyright infringement: "Since petitioners' advertisements, brochures and instruction manuals unquestionably cause, urge, encourage and aid VTR purchasers to infringe respondents' copyrights, petitioners are liable by analogy to [patent law] notwithstanding their claim that VTRs are staple articles of commerce . . . . [P]etitioners' advertisements "exhort" Betamax purchasers to record "favorite shows," "movies," "classic movies" and "novels for television" and to "build a library." "(brief of Respondents Universal Studios and Walt Disney Productions). The *Sony* court ultimately held that most of these uses were, in fact, protected fair use because of the doctrines of "time-shifting" and "space-shifting"—which the *Sony* court recognized for the first time in the *Sony* decision. Yet, at the time *Sony* distributed those manuals and brochures, *Sony* of course could not have known that the court would invent these novel fair use doctrines. Thus, it seems that Sony's *mens rea* was no better than was StreamCast's and Grokster's in marketing to Napster users—both intended to develop and market products which could be used both for infringing and non-infringing uses.
  15. *Id.* at \*44.
  16. After Napster was shut down by Ninth Circuit opinions requiring it to install copyright-infringement thwarting technologies, it was salvaged from bankruptcy by Roxio, which has subsequently re-launched the service as an industry-approved online music distributor.
  17. After StreamCast considered, but abandoned, this ad campaign, the Ninth Circuit determined that Napster facilitated its users copyright infringement because it could control its users access to the Napster network and could restrict the transfer of files which were known to be protected by copyright. Napster had argued that it could not be responsible for the acts of its users, which were, Napster argued unsuccessfully, protected by the copyright doctrine of fair use. Most of these legal questions were eventually resolved against Napster and in favor of the music studios, but not until some time after StreamCast began marketing for Napster users. According to the court's logic, then, StreamCast pos-
  - essed the *mens rea* to "facilitate and promote" copyright infringement *before the acts it allegedly promoted were found to be infringing*.
  18. *Id.* at \*48.
  19. "But now we are facing a very new and a very troubling assault on our fiscal security, on our very economic life and we are facing it from a thing called the video cassette recorder and its necessary companion called the blank tape. And it is like a great tidal wave just off the shore. This video cassette recorder and the blank tape threaten profoundly the life-sustaining protection, I guess you would call it, on which copyright owners depend, on which film people depend, on which television people depend and it is called copyright . . . . Now, the question comes, well, all right, what is wrong with the VCR. One of the Japanese lobbyists, Mr. Ferris, has said that the VCR is the greatest friend that the American film producer ever had.  
"I say to you that the VCR is to the American film producer and the American public as the Boston strangler is to the woman home alone." Testimony of former MPAA President Jack Valenti before Congressional Subcommittee on Courts, Civil Liberties, and Administration of Justice, Apr. 12, 1982. Today, US consumers alone spend more than \$10 billion renting or purchasing VCR tapes each year. Source: Video Software Dealer's Association.
  20. *Id.* at \*59.
  21. *Id.* at \*69 (emphasis in original) (internal citations omitted).
  22. *Id.* at \*72.
  23. It is worth noting that recently retired Justice O'Connor joined the Breyer concurrence, so the future of the *Sony* doctrine may well pivot on the leanings of whomever is appointed to fill Justice O'Connor's seat on the court.
  24. 259 F.Supp. 1029, 1042 (internal citations omitted).
  25. RIAA currently takes the position that much of the "ripping, mixing, and burning" on today's computers is, in fact, infringement. If, for example, you rip your favorite tunes from several CDs, burn them onto a single disk, and give the disk away to a friend to enjoy on a long road trip, according to RIAA you've infringed the copyrights protecting the original CDs. Apple regarded its slogan so potentially inciting that it added a disclaimer to the end of its ads using the slogan: "Don't steal music." Apple, itself a significant online music distributor, was of course not promoting copyright infringement, but if this or innumerable other similar edgy slogans were adopted by less prominent companies, how would the copyright industry legal teams react? Imagine, for example, if *Grokster* had been decided before RIAA sued Diamond Multimedia Systems for its Rio .mp3 player in 1998. If Diamond had adopted the "Rip. Mix. Burn." slogan to promote the Rio, you would expect that RIAA would have cited this slogan in its efforts to shutter the Rio as evidence that Diamond "showed itself to be aiming to satisfy a known source of demand for copyright infringement." *Grokster* at \*45.
  26. Under § 504(c) of the Copyright Act, a court may levy damages of up to \$150,000 per intentional infringement of copyright.
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